METRO AG

725750 725753

ANNUAL REPORT 1996

Metro Wholesale	METRO	SIGMA BüroWelt	
Department Stores	GALERIA KAUFHOF	Horten	KAUFHALLE
Hypermarkets	real,-		
Food Stores & Discounters	extra	TIP	
Consumer Electronics Centers	Media Markt	SATURN	
Home Improvement Centers	Praktiker		
Furniture Centers	UNGER	ROLLER	
Computer Centers	VOBIS MICROCOMPUTER	MAXDATA	
Fashion Centers	Adler	Mac Fash	
Footwear Centers	RENO SCHUHCENTRUM		
Mail Order	oppermann	Hawesko Hanseatisches Wein- und Sekt-Kontor	
Restaurant & Catering	DINEA		
Real Estate	MGV	BSV	CMG
Others	Rungis Express	JACQUES' WEIN-DEPOT	

At a glance

METRO AG GROUP 1996 IN FIGURES

	DM million
Gross sales (incl. VAT)	62,024
Result from ordinary operations	1,062
Net income	717
Net income excl. third-party P&L shares	610
Result according to DVFA/SG	712
Return on equity after taxes	14.9%
Capital expenditure[1]	1,639
Cash flow according to DVFA/SG	1,898
Balance sheet total	20,777
Equity	4,826
Capital stock	501

For each DM 5 share of stock	DM
Earnings according to DVFA/SG	7.10
Cash dividend + bonus	
• common stock	2.00 + 2.00
• preferred stock I	2.25 + 2.00
• preferred stock II	2.25 + 2.00
Cash dividend + bonus incl. tax credit[2]	
• common stock	4.07
• preferred stock I	4.32
• preferred stock II	4.32
Cash flow according to DVFA/SG	18.93

[1] additions to tangible and intangible assets (excl. goodwill)
[2] for German resident stockholders

METRO AG GROUP PROFIT/LOSS BY DIVISION 1996

	DM million
Metro Wholesale	420.0
Department Stores	202.6
Hypermarkets	99.7
Food Stores & Discounters	61.3
Consumer Electronics Centers	240.4
Home Improvement Centers	186.9
Furniture Centers	(124.9)
Computer Centers	46.0
Fashion Centers	28.2
Footwear Centers	24.9
Mail Order	20.5
Restaurant & Catering	21.1
Real Estate	179.4
Others	69.1
Division results from ordinary operations, before goodwill amortization	**1,475.2**
less holding company's result	(219.3)
less amortization of goodwill	(193.9)
Result from ordinary operations	**1,062.0**
less income taxes	(274.5)
less other taxes	(70.3)
Net income of the Group	**717.2**

725753

Contents

METRO AG

725750 725753

Letter to the stockholders

Dear Stockholders:

Inside a record period of only 10 months following the announcement, METRO AG was formed in 1996 amid great public interest as part of a complex merger process from three different and legally independent companies. Metro stock was first listed on July 25, 1996, much earlier than expected. Thus all the essential conditions were fulfilled for tailoring the group of companies perfectly to future challenges.

In this annual report the Executive Board would like to inform you about METRO AG's first fiscal year and to present key aspects of its corporate strategy.

Fiscal 1996: satisfactory in general

The fiscal year turned out to be satisfactory even though the budgeted figures formulated by the Executive Board in March 1996 in the course of the merger were not quite achieved. At about DM 62 billion, Group sales reached the level of the preceding year. Adjusted for disposals and acquisitions, sales rose by 1.8 percent. Additionally and as part of a nongratuitous contract for services, METRO AG through Metro International Management GmbH (MIM) handles an international C&C sales volume of around DM 10.9 billion.

Consumer Electronics Centers, Department Stores and – adjusted for nonrecurrent expenses – Adler Fashion Centers performed exceptionally well. Metro Wholesale consolidated its dominant earnings position within the Group, whereas Hypermarkets and Food Stores & Discounters improved their results appreciably compared with the previous year but remain well below medium-term objectives owing to restructuring processes and start-up losses at Tip Discounters. Earnings at the Home Improvement Centers, Footwear Centers and Computer Centers were below expectations.

The Furniture Center division continues to present problems. Owing to the recessionary environment in this sector, especially in the fourth quarter, it fell well short of the targeted reduction in operating losses.

METRO AG achieved a total net income of DM 717 million for the Group. The result from ordinary operations came to DM 1,062 million.

The result according to DVFA/SG, adjusted for extraordinary expenses and income and after third-party profit shares, amounted to DM 712 million. Accordingly, earnings per share were DM 7.10.

In 1996, METRO AG came a good deal closer to its self-set profitability targets. The return on (gross) sales reached 1.7 percent, the return on equity after taxes being 14.9 percent. In this context, the Company still aims to achieve in the medium term a return on equity of a comparable magnitude even after full utilization of the existing tax loss carryovers, i.e. even when required to bear again a higher income tax burden.

In the course of the merger, the Executive Board informed you about METRO AG's future dividend policy, which will equally safeguard the stockholders' and the Company's interests. Therefore, the Supervisory and Executive Boards are proposing you a 1996 cash dividend of DM 2 + a bonus of DM 2 for the common stock, as well as one of DM 2.25 + DM 2 for the preferred stock I and II. If resolved as proposed, the tax credit for German resident stockholders amounts to DM 0.07 since most of the profit will be distributed from a low-tax equity portion ("EK 01"). The absolute sum distributed will be DM 403.4 million, DM 211.1 million being transferred to the reserves retained from earnings.

The METRO AG Group's equity ratio was 23.2 percent at the close of 1996.

METRO AG's strategic environment

Never in its history has European trade faced so many and such great challenges arising simultaneously:

As a result of drastically changing world economic conditions, consumer demand will stagnate in West European countries for years to come and even decline in some sectors. Nevertheless, those trading companies in particular that have devoted themselves to a policy of internationalization will further expand their respective market shares at domestic level.

At the same time, spending power in the newly industrialized countries including Eastern Europe will rise overproportionately in the coming decades owing to the changed global economic environment, and markets will open up to modern forms of trading. A dynamic transfer to these emerging markets of the progressive types of trading outlets found in industrialized countries has begun; in the most attractive of these the battle for first-class locations is already in full swing.

The change in customer behavior at all levels poses another great challenge. Customers are becoming more critical and demanding with regard to quality, and rising price transparency is heightening their price awareness. On the other hand, demand for a shopping experience is growing among certain target groups.

Sluggish buying potential, intensifying competition and growing price awareness among consumers are forcing the trade to take completely new rationalization measures cutting across company boundaries, measures which have assumed a specific shape within the "process chain optimization" concept.

Last but not least, the further development of multimedia products and services will have a lasting impact on the situation in the over-the-counter trade.

Strategic positioning of METRO AG

How will METRO AG position itself in this environment in future so as to bring about a sustained medium-term enhancement in shareholder value?

METRO AG's whole trading portfolio is subject to an ongoing and far-reaching optimization process. In this respect, we will continue consistently to restructure domestic outlet chains in order to fully exploit the Group's earnings potential. The Department Stores and Hypermarkets divisions provide classic examples of successfully improved cost and earnings structures in 1996.

As part of a more extensive optimization of METRO AG's portfolio, we have made a decision to sell off within a disinvestment program, certain sections of the Company or fringe activities that have repeatedly been unprofitable. In 1996, this included parts of the Food Stores & Discounters division (Bolle, Schätzlein) and, as of December 31, 1996, the sale of the wholesale delivery business of the BLV Group. The majority holding in ITC Immobilien Team Consulting GmbH as well as Mac Fash Textilhandels GmbH were disposed of in 1997. Where necessary, we shall in future continue our disinvestment policy in less promising sectors and in such areas that do not form part of our core business activities or have repeatedly generated a below-average rate of return on the capital employed.

The overriding consideration in any further development of our sales outlet concepts is the need to follow current and anticipate future customer trends. However, further developing these concepts only within the scope of national requirements is not enough. Rather, such concepts must also be capable of holding their own internationally.

At the same time, we are concentrating in the current fiscal year on continuing our restructuring programs in some divisions in addition to the speedy realization of merger synergies.

By using the most up-to-date control and logistics systems, we are striving throughout our divisions for productivity and cost leadership, the prerequisites for price leadership.

Internationalization enjoys high priority within our strategic plans. Therefore, METRO AG has been stepping up the internationalization of individual types of outlets in selected countries since mid-1996. In order to consolidate this strategic positioning, we are devoting special attention to human resources development at national and international level.

A closer dialogue with the financial community

METRO AG's investor relations activities aim to improve the transparency of corporate development through professional, open and ongoing information management. Through these efforts we would also like to enhance the relationship of mutual trust with our stockholders and institutional investors as well as with financial analysts and to allow outsiders the opportunity to assess Metro stock adequately. METRO AG will therefore continue to step up its dialogue with the capital markets in 1997.

In coping with the tasks facing us, we rely on the support and confidence of our customers, employees, stockholders and business partners. It is part of the credo of METRO AG's Executive Board to fulfill with great motivation and utmost commitment the expectations placed in the Company and its management.

Our thanks go to all our employees who tackled outstandingly and with great dedication the tasks set in fiscal 1996, which proved to be an extraordinary year.

Sincerely,

Urban

Wiegandt

Kaske

Dr. Körber

Dr. Loose

Suhr

Management Report on the METRO AG Group and METRO AG

Emergence of METRO AG as parent of the METRO AG Group

METRO AG as parent of the METRO AG Group has emerged from

- the contributions in kind made by majority stockholder Metro Vermögensverwaltung GmbH & Co KG, Düsseldorf, i.e. the contribution of its controlling interests in Saarbrücken-based Asko Deutsche Kaufhaus AG and Cologne-based Kaufhof Holding AG, as well as the major Metro Wholesale/Germany companies and several service enterprises, and from

- the subsequent mergers of Asko Deutsche Kaufhaus AG including its subsidiary, Deutsche SB-Kauf AG, and Kaufhof Holding AG into METRO AG.

Organization and structure of the METRO AG Group

METRO AG functions as a management holding company of an internationally oriented trading and services group with sales of around DM 62 billion and a workforce of some 176,500.

The Group comprises 14 operating divisions, some of which are subdivided into outlet chains, and legally independent service companies that combine functions for both the outlet chains and Group management.

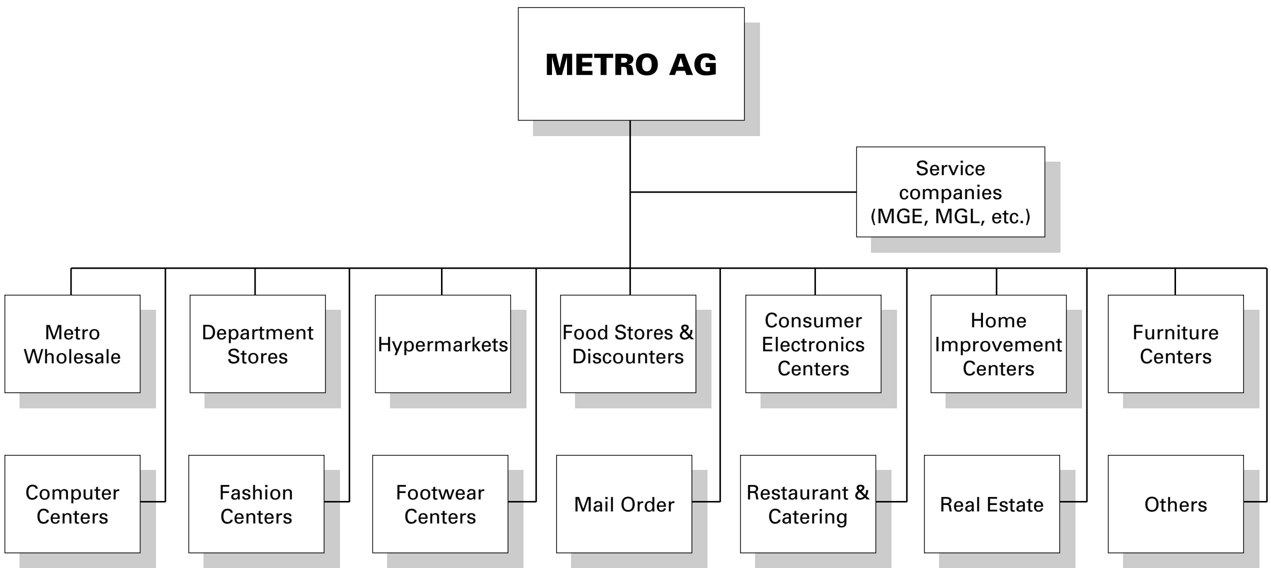
METRO AG as the Group management works out strategies and targets with the outlet chains and decides within the scope of its responsibilities on resource allocation, internationalization and ways of achieving synergies. It coordinates the divisions and outlet chains and ensures the selection and career development of well-qualified executives in the Group.

The Group's portfolio consists of the following divisions: Metro Wholesale, Department Stores, Hypermarkets, Food Stores & Discounters, Consumer Electronics Centers, Home Improvement Centers, Furniture Centers, Computer Centers, Fashion Centers, Footwear Centers, Mail Order, Restaurant & Catering, Real Estate and Others. These autonomous divisions bear responsibility for their operations.

The service companies act as know-how providers for the whole Group and are under the direct control of the Group Management. They include the following:

Metro MGE Einkauf (purchasing), Metro MGL Logistik (logistics), Metro MGI Informatik (information technology), Metro Werbegesellschaft (ad agency).

A simplified Group structure is shown below:



Group sales

The METRO AG Group achieved gross sales of about DM 62 billion in 1996. Adjusted for the disposal of small-space supermarkets (sales volume approx. DM 1 billion) and of Wenz mail-order business (DM 0.6 billion) as well as for the acquisition of 27 Spar home improvement centers (sales volume around DM 0.3 billion) and the first-time consolidation of Free Com Die Telekommunikationsgesellschaft (DM 0.2 billion), Group sales increased by 1.8 percent.

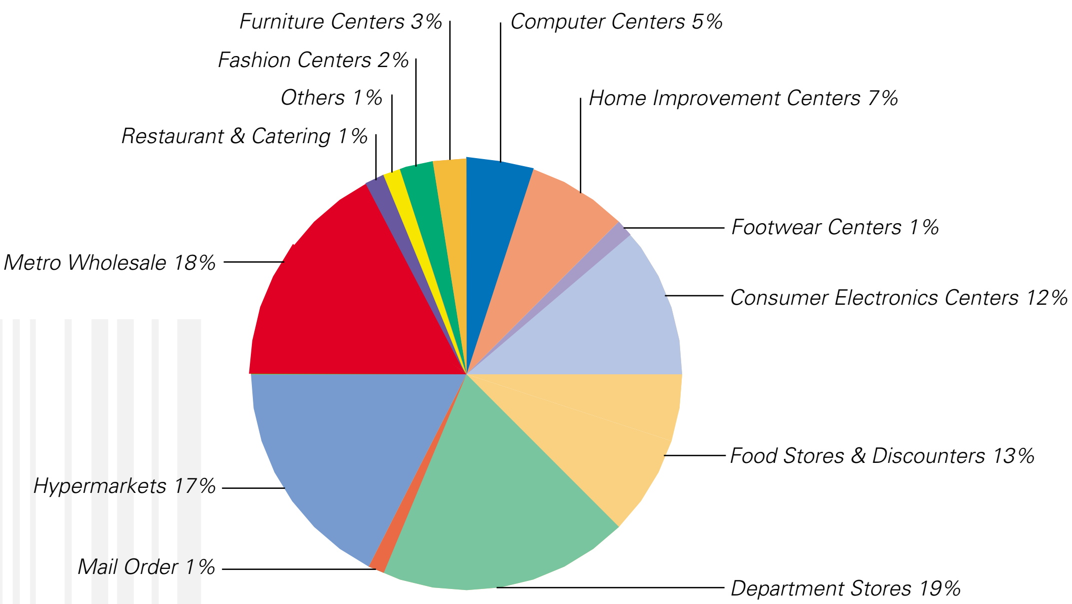
Division portfolio

Discounter sales outlets are the main focus of METRO AG's activities. The following are market leaders in Germany:

- Metro C&C Wholesale
- Media Markt/Saturn Consumer Electronics Centers
- Vobis Computer Centers
- Praktiker Home Improvement Centers
- Real Hypermarkets

Kaufhof Department Stores and Reno Footwear Centers occupy the number two position in their respective market segments in Germany.

METRO AG Group – sales breakdown



Analyses of sales and results, divisions

METRO AG Group: sales analysis 1996

	Sales (gross, in DM million) 1996	1995[1]	% change vs. 1995
METRO AG Group	**62,024**	62,029	–
thereof outside of Germany	**3,015**	2,721	10.8
Divisions			
Metro Wholesale	**11,033**	11,188[2]	(1.4)
Department Stores	**11,539**	11,737	(1.7)
Hypermarkets	**10,722**	10,736	(0.1)
Food Stores & Discounters	**7,859**	8,308	(5.4)
Consumer Electronics Centers	**7,632**	6,386	19.5
Home Improvement Centers	**4,304**	4,080	5.5
Furniture Centers	**1,704**	1,960	(13.1)
Computer Centers	**3,135**	3,085	1.6
Fashion Centers	**1,417**	1,363	4.0
Footwear Centers	**816**	918	(11.1)
Mail Order	**495**	1,092	(54.7)
Restaurant & Catering	**474**	399	18.8
Others[3]	**894**	777	15.1

[1] Not comparable with 1995 due to partly different fiscal years and different disclosures

[2] Previous year's figures adjusted for intercompany sales with other METRO AG Group companies

[3] Mainly Rungis Express, Free Com Die Telekommunikationsgesellschaft, Jacques' Weindepot and Massa-Ausbauhaus

The METRO AG Group achieved a result from ordinary operations in the period under review of DM 1,062 million.

Results from ordinary operations within the Group

	DM million
Gross sales (incl. VAT)	**62,024.1**
Division results	
Metro Wholesale	420.0
Department Stores	202.6
Hypermarkets	99.7
Food Stores & Discounters	61.3
Consumer Electronics Centers	240.4
Home Improvement Centers	186.9
Furniture Centers	(124.9)
Computer Centers	46.0
Fashion Centers	28.2
Footwear Centers	24.9
Mail Order	20.5
Restaurant & Catering	21.1
Real Estate	179.4
Others	69.1
Division results from ordinary operations before goodwill amortization	**1,475.2**
less holding company result	(219.3)
less amortization of goodwill	(193.9)
Result from ordinary operations	**1,062.0**
less income taxes	(274.5)
less other taxes	(70.3)
Net income of the Group	**717.2**

Against the background of sluggish consumer demand, Metro Wholesale generated sales of DM 11 billion (down 1.4 percent), consolidating its dominant earnings position.

Department Stores sales fell by 1.7 percent to DM 11.5 billion with the difficult environment in this sector persisting, although favorable profit levels were achieved.

Taking into account declining sales in southern Germany owing to the continuing conversion of stores to the Real marketing concept, Hypermarkets achieved virtually unchanged sales of DM 10.7 billion. The disposal of small supermarkets (Bolle, Schätzlein) led to a 5.4-percent decrease in sales to DM 7.9 billion in the Food Stores & Discounters division. The results were satisfactory in general given the background of absorbed restructuring expenses.

Consumer Electronics Centers saw sales climb strongly to DM 7.6 billion (up 19.5 percent) thanks to targeted expansion. Even on a same-space basis, sales increased by an appreciable 6.9 percent. Profit levels were likewise encouraging.

Home Improvement Centers recorded a sales growth of 5.5 percent to DM 4.3 billion, further expanding their market position in a highly competitive sector. However, this division fell well short of profit expectations.

Inter alia owing to the close-down of unprofitable stores, sales at Furniture Centers dropped by 13.1 percent to DM 1.7 billion. Earnings suffered from a recessionary environment in this sector and continuing expenditure on restructuring.

Computer Centers achieved a sales rise of 1.6 percent to DM 3.1 billion in a market characterized by fierce price competition. Although failing to fulfill earnings expectations, the division did succeed in gaining another lead over competitors.

Fashion Centers recorded a heartening 4.0-percent rise in sales to DM 1.4 billion. Adjusted for nonrecurring costs amounting to DM 42 million for the transfer of the existing logistics center, the division's result was good.

The income generated by Metro service companies from synergy projects has been duly allocated to the annual results achieved by the divisions, all according to the originator principle.

One of the METRO AG Group's fundamental strategic goals is to expand abroad. Here, gross sales of DM 3.0 billion, up 10.8 percent, were achieved, the main sales markets being Austria, France, Switzerland, and Italy. Sales were recorded for the first time in Poland and the People's Republic of China, countries targeted for strategic expansion.

Net income of the Group and earnings according to DVFA/SG

In fiscal 1996, the Group's net income came to DM 717.2 million, the METRO AG Group thus reaping the profit expected from the merger. After deducting third-party profit shares, the Group's net income allocable to METRO AG's stockholders amounts to DM 610.4 million. Adjusted for the nonrecurring factors included in total net income, earnings per share according to DVFA/SG correspond to DM 7.10.

Annual accounts of METRO AG

METRO AG as parent company of the METRO AG Group presents a solid net-asset, financial and income position in its annual accounts as of December 31, 1996. Based on total assets of DM 9.76 billion (substantially consisting of financial assets and accounts due from Group companies), the equity ratio is 39.4 percent. Net financial indebtedness decreased from January 1, 1996, to December 31, 1996, by DM 483.7 million. METRO AG earned a net income of DM 614.4 million, derived mainly from the investments in its subsidiaries. A major reason for the difference between METRO AG's net income and the Group's is the outside stockholders' DM 106.8 million profit share in the Group's net income. After transferring DM 211.1 million to the reserves retained from earnings, METRO AG's net earnings amount to DM 403.4 million.

The share exchange ratios stipulated for the mergers of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG will be reviewed upon application by stockholders of the three former mergee companies in proceedings pending before the Regional Courts of Saarbrücken, Frankfurt/Main, and Cologne. The applicants allege that the respective share exchange ratios were understated to their debit. Neither the position of the court proceedings nor the arguments submitted by the applicants give rise to any reason for doubting the correctness of the exchange ratios determined in the merger agreements.

The full annual accounts of METRO AG, on which Fasselt-Mette & Partner Wirtschaftsprüfungsgesellschaft as the statutory auditors issued their unqualified opinion, will be published in the German Federal Gazette and deposited with the Local Court of Cologne under Commercial Register number HRB 26888; they may also be obtained from METRO AG as a separate publication.

METRO AG
Balance sheet as of December 31, 1996

Assets

In DM million	**Balance at 12-31-1996**	Balance at 1-1-1996
Fixed assets		
Intangible assets	**0.326**	0.285
Tangible assets	**4.654**	26.993
Financial assets	**5,971.300**	5,749.503
	5,976.280	5,776.781
Current assets		
Receivables and sundry assets	**2,707.489**	2,714.219
Short-term securities and note loans	**305.628**	404.363
Cash on hand and in bank	**768.218**	987.616
	3,781.335	4,106.198
Prepaid expenses and deferred charges	**6.869**	5.003
	9,764.484	9,887.982

Stockholders' equity and liabilities

In DM million	**Balance at 12-31-1996**	Balance at 1-1-1996
Stockholders' equity		
Capital stock	**501.212**	501.014
Reserve from capital surplus	**2,729.608**	2,725.363
Reserves retained from earnings	**211.070**	–
Unappropriated retained earnings	**403.366**	–
	3,845.256	3,226.377
Untaxed/special reserves	**217.856**	267.193
Accruals	**879.669**	1,085.064
Liabilities	**4,820.611**	5,308.518
Deferred income	**1.092**	0.830
	9,764.484	9,887.982

METRO AG
Income statement
for the year ended December 31, 1996

In DM million	1996
Income from investments	1,012.437
Financial result	(43.921)
Other operating income	394.407
	1,362.923
Personnel expenses	(93.966)
Amortization of intangible and depreciation of tangible assets	(4.232)
Other operating expenses	(526.575)
	(624.773)
Result from ordinary operations	738.150
Income taxes	(110.280)
Other taxes	(13.434)
Net income	614.436
Transfer to reserves retained from earnings	(211.070)
Net earnings	403.366

Profit appropriation

METRO AG's Supervisory and Executive Boards will propose to the annual stockholders' meeting on July 9, 1997, to appropriate the profit of DM 403.4 million, which remains after transfer to the reserves retained from earnings, as follows:

- Distribution of a cash dividend of DM 2 plus a bonus of DM 2, totaling DM 4 for each DM 5 share of common stock at par
- Distribution of a cash dividend of DM 2.25 plus a bonus of DM 2, totaling DM 4.25 for each DM 5 share of preferred stock I at par
- Distribution of a cash dividend of DM 2.25 plus a bonus of DM 2, totaling DM 4.25 for each DM 5 share of preferred stock II at par

Attaching to the dividend is a tax credit of $^3/_7$ of DM 0.152 per share of common stock, and one of $^3/_7$ of DM 0.161 per share of preferred stock; German resident stockholders may offset this credit against their personal or corporate income taxes, together with the capital yields tax and the solidarity surtax.

Cash flow and capital expenditure in the Group

The METRO AG Group's cash flow reached DM 1,948 million and thus clearly exceeded the DM 1,514 million of funds used in investing activities.

Cash flow, METRO AG Group

In DM million	1996
Net income of the Group	717
Amortization/depreciation/ write-down of fixed assets	1,218
Change in noncurrent accruals	7
Transfer to untaxed/ special reserves	17
All other items	(11)
	1,948

The Real Estate division spent DM 424.6 million, particularly to secure land acquisitions in Germany and abroad and to erect buildings.

Department Stores invested DM 290.5 million, primarily in the swift changeover to the successful Galeria Kaufhof merchandising concept.

The integration of outlets into the Real merchandising concept accounted for a capital expenditure by Hypermarkets of DM 197.5 million.

Metro Wholesale spent a total DM 134 million, largely directed toward expansion in the People's Republic of China and in Romania.

Consumer Electronics Centers used DM 112 million to invest in the network of German and foreign branches.

Expansion abroad and additional outlets opened up in Germany required Home Improvement Centers to spend DM 86.4 million.

Asset and capital structure of the Group

METRO AG's 1996 consolidated balance sheet shows an equity capital of DM 4,826 million, which covers 49.9 percent of fixed assets. Total assets of DM 20,777 million bring the equity ratio to 23.2 percent. Net financial accounting indebtedness amounts to some DM 770 million, or 3.7 percent of the balance sheet total, after netting interest-bearing assets and liabilities.

Group balance sheet structure

Assets	**DM million**
Fixed assets	**9,673**
Current assets	**11,104**
	20,777

Equity & liabilities	**DM million**
Equity	**4,826**
Long-term debt	**3,061**
Short-term debt	**12,890**
	20,777

Material subsequent events

Subsequent to December 31, 1996, there were no events of material significance to either METRO AG's or the METRO AG Group's net-asset, financial or income position.

For information only, it is mentioned that the Supervisory and Executive Boards will propose to the annual stockholders' meeting of July 9, 1997, to raise METRO AG's capital stock by DM 701.7 million, from DM 501.2 million to DM 1,202.9 million, by transferring an equivalent amount from the reserve from capital surplus. Moreover, METRO AG submitted in April 1997 to the outside stockholders of Alzey-based Massa AG, a 96-percent METRO AG subsidiary, a voluntary public offering to purchase their stock at a price of DM 150 for each DM 50 share at par. In addition, under its Group portfolio streamlining program, METRO AG disposed in the spring of 1997 of all its shares in ITC Immobilien Team Consulting GmbH and Mac Fash Textilhandels GmbH.

Prospects

In the 1997–1999 period METRO AG's paramount goal will be to improve division results continuously, this being the only way to reach the following medium-term targets:

- Group return on sales of 3 percent before taxes
- Return on equity of 15 percent after taxes.

METRO AG will push ahead with the measures already introduced and aimed at optimizing productivity and expanding its competitive position both at home and abroad. This will include, in particular, efforts to generate earnings from groupwide synergies in the purchasing, logistics, information technology and administrative sectors. METRO AG will also continue pursuing its disinvestment and restructuring programs consistently.

At home, sales will rise thanks to the expansion of selected divisions and ongoing sales outlet conversions in the Department Store and Hypermarket divisions.

The METRO AG Group will greatly boost foreign sales by tapping new growth markets.

Metro Wholesale will continue to be the main income generator in 1997. It will press ahead with its well-directed internationalization efforts by opening up further wholesale markets in the People's Republic of China and in Romania.

Kaufhof Warenhaus AG will achieve improved profits from the department stores converted into the Galeria concept in 1996. Activities in 1997 will focus on the restructuring of additional branches.

Hypermarkets will step up the integration of the former Meister-Märkte stores into the Real outlet structure in southern Germany. The internationalization of the Hypermarket division is starting with the penetration of the Polish and Turkish markets.

The Food Stores & Discounters division is continuing to round off the Extra chain of outlets. The Tip stores will substantially expand their sales at home and abroad.

Further outlets to be opened up in Germany and abroad will promote the success being shown by the Consumer Electronics Centers contrary to the industry trend.

On the domestic market, Praktiker stores will concentrate on integrating the Spar home improvement centers and on extending the outlet network nationwide. Abroad, markets in Poland, Turkey, Hungary, and Italy will be accessed.

The economic situation of the furniture, fixtures, fittings and household effects sector will not improve to any great degree in 1997. Despite fundamental streamlining measures, the Furniture division will not enhance its result appreciably in 1997 compared with the preceding year.

Computer Centers will direct efforts at strengthening the existing network of Superstores and further boost franchise sales. Maxdata wholesale business will expand at home and abroad.

The Fashion Centers division is stepping up measures to optimize productivity through the relocation of logistics capacity to Thuringia. Poland is another foreign market to be accessed by the Adler chain.

In general, Management is confident that it will succeed in further increasing the result from ordinary operations.

Dependency report

In its letter dated January 4, 1996, Metro Vermögensverwaltung GmbH & Co KG informed METRO AG pursuant to Art. 20(4) German Stock Corporation Act ("AktG") that it holds a majority stake in METRO AG. Analogously, by letter of May 3, 1996, Metro Holding AG, Baar, Switzerland, informed METRO AG under the terms of Art. 20(4) in conjunction with Art. 16(4) AktG that it owns a controlling stake in METRO AG's stock indirectly through its majority interest in Metro Vermögensverwaltung GmbH & Co KG. Thereupon, and in accordance with Art. 312 AktG, METRO AG's Executive Board prepared a report on the Group affiliation.

Certified without qualification by the Duisburg-based statutory auditors, Fasselt-Mette & Partner Wirtschaftsprüfungsgesellschaft, the dependency report on fiscal 1996 was submitted to the Supervisory Board. The Executive Board ended its report with the following representation:

"The Executive Board of METRO AG states and represents that, under the circumstances which were known to the Executive Board at the time legal transactions were entered into, the Company has in all cases received an equitable consideration. Other reportable actions were neither taken nor omitted."

General economic setting

Germany

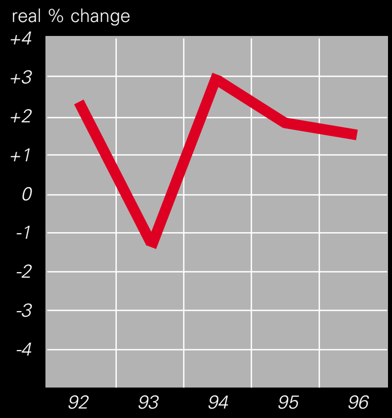
Growth in the German economy continued to weaken generally in 1996. Real gross domestic product rose by only 1.4 percent compared with 1.9 percent in the preceding year. In eastern Germany, the economic slowdown was especially marked, gross domestic product growing by a real 2.0 percent following a 5.3-percent increase in 1995. The 1.3-percent rise in gross domestic product in western Germany was also down from 1.6 percent in 1995.

A crucial factor in the economic downturn was declining construction activity, expenditure for building falling by a real 2.7 percent. On the other hand, expenditure for capital equipment (up 2.4 percent), government consumption (up 2.6 percent) and exports (up 4.9 percent), which benefited from the slight drop in the parity of the German mark, made an above-average contribution to real economic growth.

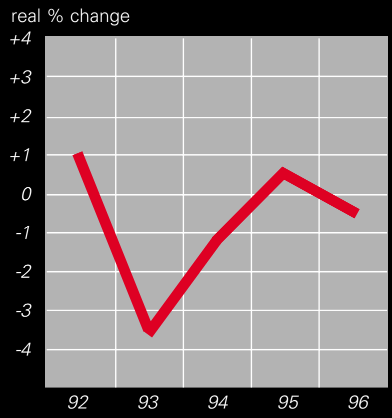
Private consumption – up by 1.3 percent and just below the rise in gross domestic product – provided no impetus.

Overall productivity rose by 2.5 percent. Real growth of 1.4 percent was achieved solely through increased productivity, with an on balance negative effect on the employment market. The national unemployment rate thus climbed to 11.5 percent, with a higher increase in eastern Germany from 14.9 percent to 16.7 percent than in the western part of the country (up to 10.1 percent from 9.3 percent). On an annual average, some 4 million people were registered as unemployed in Germany in 1996, 9.8 percent more than in 1995.

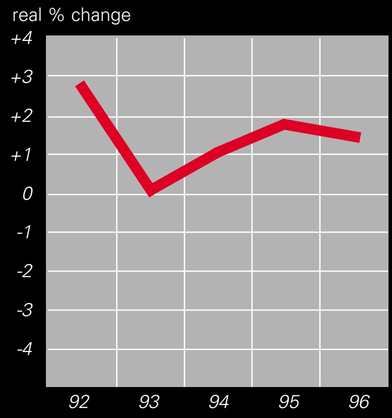
Gross domestic product



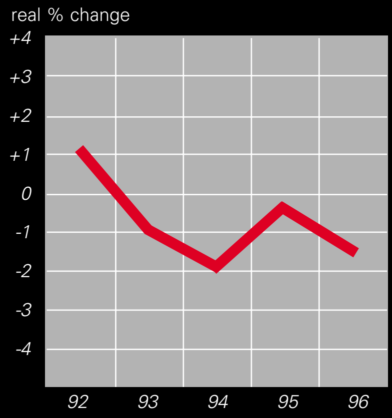
Retail trade sales



Private consumption



Strict retail trade sales [1]



[1] Excl. motor car, fuel, lubricant, and pharmacy sales

Retail and wholesale trade

At DM 920.3 billion, German retail trade sales were 0.7 percent higher than in the preceding year, equivalent to a fall of 0.2 percent in real terms.

Retail trade's share of private consumption continued to decline. Given small rises in disposable income and a constant rate of savings, private households displayed a reluctance to spend in the retail trade sector so as to be able to meet higher payments in other areas, such as rent, travel or insurance.

The Federal Statistical Office reported increased sales for the motor trade/filling stations (up 4.5 percent), pharmacies (up 2.8 percent) and bicycles/sporting equipment retailing (up 2.9 percent). Sales of foodstuffs (up 0.2 percent), footwear (up 0.3 percent) and building and home improvement plus do-it-yourself supplies and products (down 0.6 percent) remained roughly at the preceding year's level. There was a clear drop in sales of electrical household appliances and radio and television sets (down 3.2 percent) and of furniture, fixtures, fittings and household effects (down 2.7 percent). The clothing and textile sectors also registered reduced sales (down 1.9 and 2.1 percent, respectively).

Retail trade sales in the narrower definition of the term (excluding motor car, fuel, lubricant, and pharmacy sales) receded by 0.9 percent to DM 706.9 billion, representing a fall of 1.5 percent in real terms. This means that sales have dropped in real terms for four years in a row. The price index rose by 0.6 percent in 1996, demonstrating a situation of extensive price stability.

The German wholesale trade (excluding motor cars) recorded sales which were down by 1.4 percent in terms of value and by 0.7 percent in terms of units compared with 1995. Wholesale prices dipped by 0.7 percent.

Wholesale trading in food, beverages and tobacco rose by 0.5 percent. In the consumer durables and nondurables sector, wholesale revenues diminished by a nominal and real 3.1 percent. Sales in nonfood wholesaling were therefore less favorable than in many retail trade sectors.

Western industrialized nations

The rate of expansion of the world economy quickened somewhat in 1996 in general. Western industrialized nations' real gross domestic product rose by 2.3 percent in 1996 following a 2.0-percent rise in 1995. However, there were pronounced differences in growth rates in the individual regions.

Real gross domestic product and consumer prices in the industrialized nations 1995–1996, % changes versus previous year

	Weight in %	Gross domestic product 1996	Gross domestic product 1995	Consumer prices 1996	Consumer prices 1995
Germany	11.2	1.4	1.9	1.5	1.9
France	7.1	1.3	2.2	2.0	1.8
UK	5.1	2.4	2.5	2.4	3.4
Italy	5.1	0.7	2.9	3.9	5.4
Spain	2.6	2.2	2.8	3.6	4.7
Netherlands	1.8	2.8	2.1	2.1	1.9
Belgium	1.3	1.4	1.9	2.1	1.5
Austria	1.1	1.0	1.8	1.9	2.2
Sweden	1.1	1.1	3.6	0.7	2.5
Denmark	0.8	2.4	2.6	2.1	2.1
Finland	0.6	3.2	4.5	0.6	1.0
Greece	0.5	2.6	2.0	8.5	9.3
Portugal	0.5	2.5	1.8	3.2	4.1
Ireland	0.3	6.3	10.7	1.6	2.6
Luxembourg	0.1	2.4	3.7	1.4	1.9
European Union	**39.2**	**1.6**	**2.4**	**2.3**	**2.8**
Switzerland	1.4	– 0.7	0.1	0.8	1.8
Norway	0.7	4.8	3.3	1.3	2.5
Western Europe	**41.3**	**1.6**	**2.3**	**2.2**	**2.8**
USA	32.3	2.4	2.0	2.9	2.8
Japan	23.8	3.6	1.4	0.1	– 0.1
Canada	2.6	1.5	2.3	1.6	2.1
Total[1]	**100.0**	**2.3**	**2.0**	**1.9**	**2.1**

[1] Total of the nations listed. Weighted with the 1995 gross domestic product.
Source: Spring appraisal issued by the Pool of Economic Institutes

Among the major industrialized nations, Japan recorded the strongest overall growth of 3.6 percent. The US economy grew at an above-average rate of 2.4 percent, the stable upward trend thus gaining further strength there.

In contrast, the forces of economic recovery were much more muted in Western Europe. On average the 1995 real macroeconomic performance was exceeded by only 1.6 percent. As a result the rate of growth in Western Europe fell short of the 1995 level by almost one percentage point. However, the average figure obscures considerable differences between individual countries. Contrary to the overall trend, the Irish economy expanded 6.3 percent in 1996, recording – similar to 1995 – the best performance among Western European countries. The Italian economy was the weakest (up by 0.7 percent). In the other EU countries, growth rates ranged mainly between 1 and 3 percent. In Germany overall growth was comparatively weak at 1.4 percent.

Favored by the continuing devaluation of most European currencies in relation to the dollar, exports improved in 1996 compared with the preceding year.

Domestic demand also picked up as the year progressed, helped by low interest rates and a marked quickening of money supply growth. Nevertheless, Europe achieved a high degree of price stability. Even countries with normally above-average price increases were again successful in combating inflation in 1996.

The efforts of many European countries to fulfill the Maastricht criteria bore initial fruit, although the tight fiscal policy being predominantly pursued also had a considerable dampening effect on private consumption. In addition, state spending in many countries has to be restricted or reduced in order to meet the criteria for entry to European Monetary Union. This need to make savings in virtually all public budgets left little scope for measures to stimulate economic activity through government spending.

The employment situation again deteriorated in many countries in 1996.

Other countries

Dynamic economic expansion among the states of South-East Asia weakened somewhat in 1996 due to growing inflationary risks and thus rising interest rates. Nonetheless, with a real gross domestic product growth rate of some 7 percent, the Far East was the fastest-growing region worldwide. The P.R. China remained the front-runner among Far Eastern countries, posting a plus of 9 percent.

In Central and South America inflation was noticeably checked, providing a good basis for a continuing stable upswing.

In Central and Eastern Europe economic development is characterized by clear contrasts. Whereas the Russian and Bulgarian economies suffered a severe setback in 1996, Poland, the Czech Republic, Romania and Slovakia again achieved appreciable growth rates.

Nation survey

Nation	Population 1995[1]		Gross domestic product (GDP)		Private consumption	Consumer goods trade	
	total in 1,000	per km²	GDP per capita in US$ based on 1994[2] purchasing-power parities	in US$ billion total GDP 1996[3]	in US$ billion total 1996[3]	in US$ billion total 1996[4]	in % of Germany
Austria	7,968	95	20,348	226	125	64	10
Belgium	10,113	331	19,765	268	166	78	12
PR China	1,200,336	126	3,002	830	398	278	42
France	57,981	107	21,784	1,560	934	398	61
Germany	**81,539**	**228**	**19,395**	**2,354**	**1,355**	**655**	**100**
Greece	10,451	79	8,618	120	89	58	9
Hungary	10,115	109	6,098	44	31	20	3
Italy	57,187	190	18,109	1,203	752	302	46
Luxembourg	406	157	30,950	[5]	[5]	[5]	[5]
Netherlands	15,503	380	20,264	392	235	120	18
Poland	38,388	119	6,208	133	86	56	8
Romania	22,835	96	3,522	33	22	15	2
Spain	39,621	78	13,888	581	361	159	24
Switzerland	7,202	174	24,230	292	174	130	20
Turkey	61,945	80	5,235	184	130	91	14
UK	58,395	239	18,592	1,152	738	385	59

[1] Source: Federal Statistical Office
[2] Source: ifo-Schnelldienst 10/97 (ifo-Institut, Munich)
[3] Source: FERI
[4] End-user consumer goods trade
(Sources: EUROSTAT, Deutsche Bundesbank, M+M EURODATA, joint diagnosis, EU Commission, our own calculations and estimates)
[5] No data available

Division reports

METRO AG reports in a concise form on the performance of all its divisions in the past fiscal year. In addition, certain divisions or outlet chains will be presented in greater detail to provide the reader with a deeper insight into corporate policy and strategies.

The Metro Wholesale division, the Kaufhof Warenhaus outlet chain and the Hypermarkets division have been selected for in-depth coverage for 1996, with further reports of this nature to follow gradually in future years.

METRO AG's divisions had differing fiscal years as well as, in some cases, varying sales definitions in 1995. Therefore, direct comparisons cannot be drawn with sales and result figures for fiscal 1996. All the 1995 data merely serve statistical purposes.

METRO AG Group by divisions

	Sales (gross)	Result from ordinary operations	Capital expenditure[1]	Employees (full-timers)	Outlets	Selling space
	DM million	DM million	DM million	Number	Number	1,000 m²
Metro Wholesale	11,033	420	134	17,583	70	715
Department Stores	11,539	203	291	35,755	306	1,690
Hypermarkets	10,722	100	198	19,905	162	1,145
Food Stores & Discounters	7,859	61	120	13,948	889	958
Consumer Electronics Centers	7,632	240	112	10,244	156	396
Home Improvement Centers	4,304	187	86	10,213	222	1,091
Furniture Centers	1,704	(125)	31	5,172	94	785
Computer Centers	3,135	46	53	2,922	279	63
Fashion Centers	1,417	28	28	5,588	133	247
Footwear Centers	816	25	10	1,936	469	287
Mail Order	495	21	5	1,152	0	0
Restaurant & Catering	474	21	18	3,877	261	97
Real Estate	0	179	425	487	0	0
Others	894	69	125	5,472	137	22
METRO AG	0	(413)[2]	3	311[3]	0	0
METRO AG Group	**62,024**	**1,062**	**1,639**	**134,565**	**3,178**	**7,496**

[1] Additions to tangible and intangible assets (excl. goodwill)
[2] Including DM 194 million amortization of goodwill
[3] As of Dec. 31, 1996, 179 full-timers worked for METRO AG directly.

Metro Wholesale

The cash-and-carry concept

The cash-and-carry business, established in 1964 as a special form of self-service wholesaling, forms the basis and core of Metro's activities. The crucial keys to success in this type of outlet are

- Broad range of products with high availability,
- Low costs passed on in the form of reasonable prices,
- Direct advertising,
- Preferential treatment,
- Use of the most up-to-date organizational, information and management tools,
- Flat hierarchical structures,
- Ability to multiply.

The Metro model was successful from the outset. Thanks to a clearly defined structure, it was possible to transfer the C&C sales outlet concept to new countries quickly. Numerous stores have been established in Germany and in another 18 countries, some operating within a long-standing partnership under the Makro name.

Metro C&C

As the largest entity within international C&C business, Metro Wholesale in Germany has in its 50 wholesale outlets a potential clientele of 2.8 million traders and institutional bulk consumers. A cohesive merchandise information system makes it possible not only to define customer groups exactly but also to provide over 1.5 million buyers with information and assistance every other week through direct advertising media. Further development and market adjustment of this cash-and-carry concept, which has been successful for over 30 years, have made Metro C&C one of the most important sources of supply especially for small and medium-sized traders.

The range is geared to the overall operating needs of commercial customers. It comprises about 15,000 food and 20,000 nonfood items, including a full range of food, beverages and tobacco, and a basic assortment of other consumer goods, albeit covering all the essential nonfood product categories.

Great importance is attached to expanding and developing qualitatively the range of fresh foods so as to meet the needs of customers and strengthen ties with them. The concept rests on guaranteeing the freshness and optimizing the presentation of the goods offered. Demand for high quality calls for staffing adjustments in the fruit and vegetable, meat and delicatessen areas, as the only way to reliably ensure compliance with readiness for sale and freshness guarantees.

Customers can obtain advice from regional consultants attached to each C&C store. Instore goods presentation is clear, meeting self-service criteria while helping to cut shopping time. Customers select their goods, pay for them in cash, and carry them away.

A cohesive merchandise information system allows individual C&C stores to purchase goods according to their needs, enabling not only low inventory levels but also minimum capital tie-up.


HENKELL
Coca-Cola
Coke
NIGHT & DAY
JACOBS KAFFEE
Chipsletten
Chio Chips

Metro Eco

Eco is a specialty wholesale outlet concept with particular emphasis on the food sector, concentrating on the key needs of the food, restaurant and catering trades. A comprehensive range of food products comprising some 11,000 items (dry foods and fresh produce) as well as a concentrated nonfood assortment of about 1,500 consumer durables and nondurables for the restaurant and catering trade are offered on selling space of approx. 3,500 m^2. The key fresh food areas are the fruit and vegetable section, the meat department, and the fresh fish indoor market, offering 70–120 fresh fish varieties. The first stores of this type were opened in Trier and Bielefeld at the end of 1996 in order to test the market.

Sigma Bürowelt

This specialty chain operates in the field of office equipment, PCs, telecommunications, office supplies, stationery, and office furniture.

At the start of fiscal 1996, Sigma Bürowelt operated five specialty office stores in Germany. Dynamic expansion of this type of outlet is planned on the basis of this well-developed and successful concept. In the first phase, another fifteen specialty office stores are to be established, two of which were actually opened in Wuppertal and Duisburg at the end of 1996. In particular, shopping malls and specialty store centers already associated with other outlet chains belonging to the Metro Group are being sought as locations.

Internationalization

Metro International Management GmbH (MIM), a METRO AG subsidiary, is the management company in charge of all wholesale activities at home and abroad. It is responsible for the management and strategic controlling of C&C business in France, Italy, Austria, Hungary, Turkey, and Denmark on behalf of the Swiss Metro Holding AG, which owns these foreign-based companies. The direct access to foreign know-how involved is of great benefit to METRO AG.

Any new operations abroad in the wholesale sector will be held by MIM itself.

Romania's first C&C store was opened in Bucharest in October 1996. Because of performance to date, the Metro Wholesale division will continue to invest in Romania.

Following the successful opening of the first store in the P.R. China, speedy expansion is planned there. A strong joint-venture partner

has been found in this country in the shape of the Jinjiang Group, which holds a 40-percent stake in the Chinese Metro company. The C&C store opened in Shanghai in November 1996 is developing very well.

Metro Wholesale maintains its market position

Metro Wholesale managed to stabilize its market and competitive position despite unfavorable trading conditions. The Metro C&C, Eco, BLV-Grossverbraucherservice and Sigma Bürowelt outlet chains (all in Germany) which comprise the Wholesale division, as well as C&C activities in China and Romania recorded gross sales in fiscal 1996 of DM 11.0 billion, 1.4 percent below the preceding year's level. In terms of comparable selling space, sales declined by 2.5 percent. Sales registered by the activities newly launched in the fourth quarter of 1996 (Eco outlet chain, access to Chinese and Romanian markets; DM 84.8 million) as well as Sigma Bürowelt's satisfactory performance failed to compensate fully for declining sales among the core outlet chains in Germany.

The fall in sales is attributable to the buying resistance related to continuing weak investment and consumer spending as well as to intensifying selling space and systems competition in the wholesale sector.

Against the background of modest growth in gross domestic product (up a real 1.4 percent) in 1996, a muted propensity to consume persisting in virtually all goods segments, retail trade performance which has been sluggish for years, and very slack business in the restaurant and catering trade, a large proportion of the commercial customers of wholesale outlet chains (such as Metro C&C) had to cope with a difficult year, a reduced business volume with these customers often being the result.

At the same time, the network of suppliers also in the cash-and-carry segment is growing increasingly dense. For example, the number of C&C outlets rose by almost 4 percent in 1996 alone to about 400 stores throughout Germany.

Despite this difficult environment, Metro C&C maintained its leading market position in Germany in this type of trading outlet. With the opening of two Eco stores in the fourth quarter of 1996, a new specialty wholesale concept operating on a cash-and-carry basis is being tested. If it proves successful, more stores based on this principle will be opened.

Sigma Bürowelt added another two specialty stores to its existing network of seven.

As part of continuing internationalization efforts, C&C outlets were opened in China (Shanghai) and in Romania (Bucharest). The selling space was expanded by 42,210 m^2 to 715,471 m^2.

Further improved result from ordinary operations

The division increased the 1996 result from ordinary operations by DM 30.0 million to DM 420.0 million, up by 7.7 percent from the previous year.

The fact that improved pretax profit was generated despite falling sales is the result of well-directed management of personnel expense and cost of materials. In addition, continuing synergy projects in the Group contributed another DM 26.6 million to pretax profit.

Strategic capital spending at home and abroad

Compared with the previous year, capital expenditure rose by DM 72.7 million to DM 134.0 million (up by 119 percent), of which expansion in China and Romania accounted for about DM 50 million. In addition, capital spending went into the fresh-food concept at C&C stores and into new outlets.

Workforce rises thanks to expansion

The number of employees within the whole division, translated into full-timers, averaged 17,583, including 686 full-time staff engaged in new activities abroad.

Concentration on core capabilities and international expansion

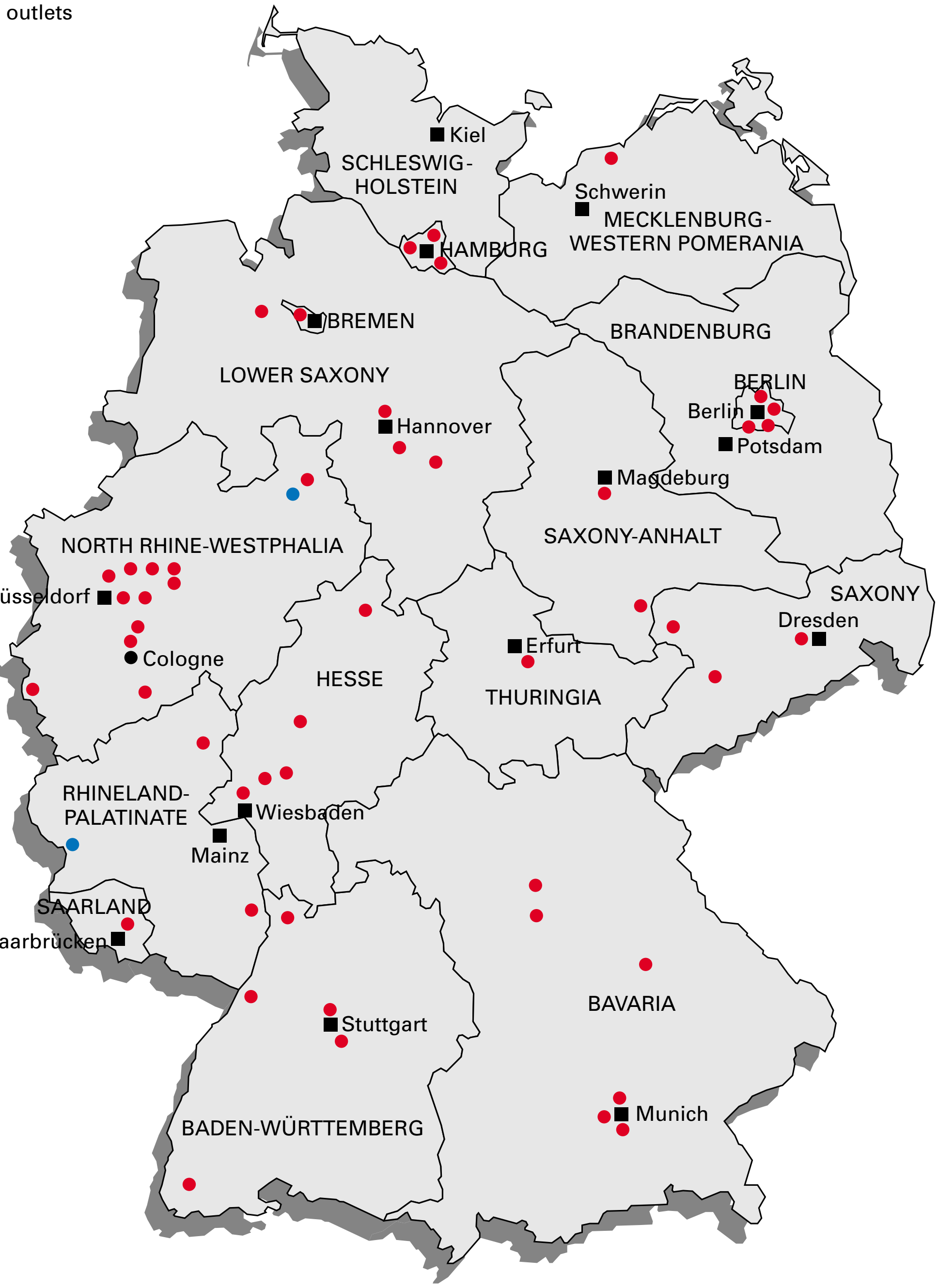
Great importance is being attached to the expansion and further development of the fresh-food concept, the aim being to improve efforts to meet the needs of the restaurant and catering trade, the hotel industry, and the food trade.

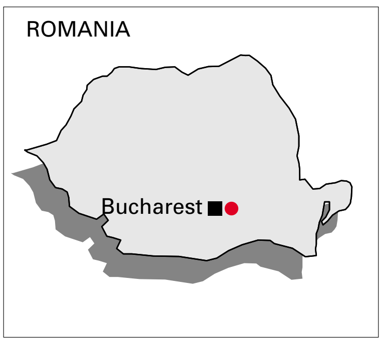
Internationalization of the C&C concept is continuing through the opening-up of markets in the P.R. China and in Romania. Initial results are in line with targets, endorsing the decision to access markets in economic regions undergoing structural change.

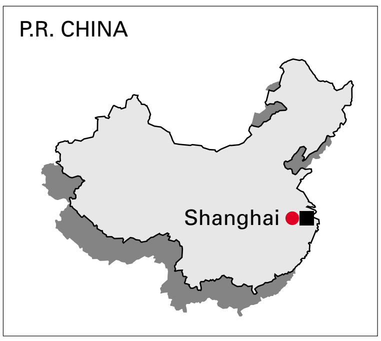
At the end of the fiscal year, the BLV wholesale delivery business was sold, consistent with the policy of concentrating the portfolio on the Group's declared core specializations.

Metro Wholesale locations

- 52 Metro C&C outlets
- 2 Metro Eco outlets







As of December 1996

Department Stores

With the emergence of new types of outlet and additional out-of-town retail selling space, primarily in the specialty store sector, basic needs are today usually covered by discounter type stores through the exploitation of functional advantages.

Accordingly, the department store must also abandon its efforts to strike a happy mean, offering only average product assortments and price levels, and reinvent itself through an innovative marketing concept with a range structure which targets specific markets while offering higher quality. The department store is thus striving for improved added value through controlled growth, taking into account higher capital and personnel costs within its trading outlets.

The Galeria Kaufhof concept

The Galeria Kaufhof concept is Kaufhof Warenhaus AG's forward-pointing long-term concept. Merchandise is displayed on a multiplicity of islands, each a distinctive world of its own, where the array of products is geared to the specific needs of target markets and assembled according to demand. For the customer this means that a broad assortment of related goods can be surveyed at a glance. The emphasis is on value for money and a pronounced brand policy, with attention being paid to seasonal activities, topicality and specific themes running through the ranges concerned.

An integral presentation is another key aspect of the Galeria concept. This embraces various elements of shopping experience-related goods display, the inclusion of brand shops, coordinated advertising as well as extensive services involving direct communication with the customer and innovative multimedia deployment. The Galeria Kaufhof concept is being continuously modified and geared to changing customer trends and needs. For this purpose, the management has wide-ranging market research and control tools at its disposal.

The Galeria which was opened at the new shopping megamall "Centro Oberhausen" in September 1996, with new ground-breaking concepts in terms of service, multimedia, sports and children's ranges, as well as architecture, shop design and goods presentation, is a showcase example of a Galeria Kaufhof.

Given limited volume growth in saturated markets, the Galeria department store with its consistent value-for-money formula is tapping new customer groups, who regard shopping in a sophisticated atmosphere as a lifestyle choice. From the point of view of the department store, value for the customer means a combination of first-class service, an attractive product mix and high availability of the ranges offered. The most up-to-date control and logistics systems are being used to expand productivity and cost leadership.

With the integration of the former Horten branches into joint department store operations, the ongoing conversion to the Galeria Kaufhof concept has been in progress since the start of 1995. Stores with selling space of more than 7,000 m^2 and a sales potential of around DM 1.5 billion in the respective catchment area are the most suitable conversion candidates. As of the end of March 1997, 40 department stores had been converted to this new outlet type. By the end of 1997 half of the suitable branches or 65–70 percent of selling space will have been refurbished. On a same-space basis, the stores restructured to Galerias have improved sales on average.

Structure of the Department Stores division

METRO AG's Department Stores division consists of the Kaufhof Warenhaus Group and Kaufhalle AG. The division recorded sales of DM 11.54 billion (down by 1.7 percent) in fiscal 1996 (like-for-like selling space, down 0.9 percent). Total selling space rose by 0.9 percent to 1,690,467 m^2, while the number of stores fell to 306.

The Kaufhof Warenhaus Group with its 145 branches and 1,326,163 m^2 selling space registered sales of DM 9.31 billion (down 0.8 percent). In terms of comparable selling space, this represents a slight dip in sales of 0.3 percent. The western German Kaufhof branches, aided by the successful Galeria Kaufhof concept, improved their same-space performance compared with the preceding year.

The Horten branches in Frankfurt/Oder, Halle, Jena, Weimar, Stralsund, and Potsdam were closed, whereas a Galeria Kaufhof branch with 17,650 m^2 selling space was opened at Centro Oberhausen. Here sales were well above expectations.

Kaufhalle AG with its 161 branches achieved sales of DM 2.23 billion (down by 3.2 percent). In western German branches of Kaufhalle AG, retail sales fell by 1.6 percent and in eastern Germany by 13.6 percent compared with 1995. The generally weak state of the retail trade in eastern Germany and the domination of "out-of-town" shopping complexes led to an appreciable decline in sales at Kaufcenter branches in downtown locations.

In fiscal 1996, Kaufhalle AG opened branches in Cologne's Neusser Strasse and in the Billstedt district of Hamburg. The branch in Berlin-Weissensee was completely renovated, with its selling space virtually doubled. The outlet in Halle-Neustadt was also modernized.

Stores in Berlin/Frankfurter Tor, Dessau, Havelberg, Neuruppin and Schönebeck were closed in 1996 while those in Mainz and Cologne/Wiener Platz were transferred to temporary premises owing to the demolition of their buildings. The new stores are due to be completed by early or mid-1998.

Kaufhof Warenhaus Group's pretax profit well up

The Department Stores division achieved clear earnings growth in 1996. The result from ordinary operations soared by DM 108.6 million to DM 202.6 million. Synergy projects generated DM 16.7 million for the division.

In particular, Kaufhof Warenhaus AG helped to boost profits. The 1995 revamping and merger-related expenses of DM 28 million incurred through the integration of eastern German Horten-Konsument Warenhaus GmbH and Horten Thüringen GmbH into Kaufhof Warenhaus AG, did not accrue in 1996, a period in which the increased income also resulted from an improved gross profit and savings in personnel and impersonal expenses. This was achieved mainly through consistent optimization of administrative and logistics capacities related to the advancing integration of the Horten Group in the second year after takeover. At the same time and as part of process chain streamlining, Kaufhof logistics were largely transferred to the Horten branches.

Kaufhalle AG's result from ordinary operations was unsatisfactory. The income position was adversely affected by restructuring expenditure in connection with the closedown/refurbishing of individual outlets.

Capital expenditure

The Kaufhof Warenhaus Group's capital expenditure totaled DM 245.0 million in 1996. Investment focused on the conversion of Kaufhof branches to the Galeria concept, which made up about 40 percent of total spending. A significant proportion went into logistics restructuring. Maintenance and extension projects accounted for additional capital spending.

Kaufhalle AG's capital expenditure for tangible assets, centered on targeted branch modernization and the acquisition of a property in Brandenburg, came to DM 45.3 million.

The department store logistics concept

The "new logistics/stage 2" concept for textiles and hardware goods, which is tapping significant potential for rationalization, has been afoot since the spring of 1995. The aim is to concentrate goods procurement and processing at a few centers in order to cut operating costs drastically and lastingly and to improve range-related efficiency and service levels substantially.

These measures result in

- Reduced costs through simplified work flows,
- More favorable purchase terms by pooling goods procurement and transport flows,
- Smaller capital tie-up owing to reduced stocks, and
- Increased sales thanks to improved coverage and service.

With its new logistics, Kaufhof Warenhaus AG can face its rivals well equipped. The project is due to be completed in the spring of 1998.

Personnel deployment optimized

In the Kaufhof Warenhaus Group, the number of employees, translated into full-timers, averaged 28,988. At 37 percent of all full-time staff on an annual basis, the proportion of part-timers remained virtually unchanged.

At the same time, the Kaufhof Warenhaus Group enhanced efficiency among its sales staff considerably through the introduction of computer-controlled flexible rostering. Communication TV is another efficiency factor. As the first corporate TV in the German wholesale or retail trade, it ensures quick yet personal interaction with all members of staff. Its main use is to promote dialogue between the Executive Board and employees and among the various departments such as Purchasing and Sales. Product training sessions, advanced courses and live broadcasts are all on the agenda. Employees can input their own contributions direct by phone or fax hot line. Communication TV is broadcast digitally and received via satellite.

Translated into full-timers, Kaufhalle AG's workforce averaged 6,767 in 1996. This represents a drop of 7.9 percent, the result, inter alia, of the closedown of Kaufcenter branches. The proportion of part-time staff rose by 1.4 percentage points to 68 percent of all employees.

Kaufhof Warenhaus Group locations

● 145 Kaufhof Warenhaus Group department stores

As of December 1996

Hypermarkets

The Real merchandising concept

Today's Real hypermarket organization arose from the combination – mainly through acquisitions – of 10 hypermarket companies (Realkauf, Divi, Continent, Esbella, Basar, Massa, Massa-Mobil, Meister, BLV, and Huma) with completely diverse merchandising and system concepts as well as highly disparate collective wage agreements and company agreements.

A merchandising concept operating under the name of Real, which was geared to the greatly changed needs of consumers, was developed and successfully tested in 1992. After that the gradual conversion of existing hypermarkets to this trading-outlet concept got under way.

Together with the development of a forward-pointing administrative and logistics-oriented corporate structure, this led to far-reaching restructuring of the Hypermarkets division, which will be completed in 1998 with the conversion of the last Meister stores in southern Germany. Inside 5 years the "Real" outlet concept has advanced to the status of market leader among hypermarket chain stores in Germany.

The hypermarket remains a growth area in Germany's food retailing sector. Real represents the new type of up-to-date and successful hypermarkets. It combines great product depth in both the food and nonfood sector with very competitive pricing over the whole range. In a clear and friendly environment, the customer finds attractive assortments arranged, wherever possible, according to product groups rather than suppliers, and can therefore compare products and make a choice from a clearly presented array of merchandise. Among fresh foods, customers interested in natural products will find organically grown produce under the "Grünes Land" label.

Real stands for price leadership in the hypermarket sector, which is reflected in every day low prices combined with a policy of selected special offers.

In view of increasingly fierce competition in the retail trade and in order to achieve cost and productivity leadership in the hypermarket sector, Real will have to swiftly harmonize its complex logistics structures, some of which still decentralized, upon completion of the integration phase. This will create the foundations for the introduction of largely automated goods supply processes with a high proportion of sourcing from central warehouses. In this process, Real will be able to call on the logistics know-how already available within the METRO AG Group.

Satisfactory sales in fiscal 1996

At the end of the period under review, METRO AG's Hypermarkets division comprised 162 outlets with a total of 1,144,830 m² selling space. The division achieved sales of DM 10.7 billion (down 0.1 percent from 1995; or up by 0.4 percent including meantime sold Fleischproduktion Cottbus); in terms of comparable selling space, sales matched the 1995 level. Whereas the Real operations in northern, western, central and eastern Germany, whose conversion had already been completed earlier, improved their same-space sales performance, the southern German region, currently undergoing restructuring, registered an appreciable drop in sales owing to the conversion process.

Another 6 stores were converted into Real outlets, including 5 former Meister stores (Bad Wörishofen, Schweinau, Nürnberg, Fürth, and Schwabach) and a former Massa store in Rüsselsheim. Five new hypermarkets (Erfurt, Wildau, Zittau, Flensburg, and Traunstein) were


real

opened in 1996, coinciding with the closedown of 5 temporary Massa-Mobil outlets in eastern Germany.

Much improved profits thanks to optimized cost structure

After a weak performance in 1995, the Hypermarkets division generated much higher earnings in 1996. The result from ordinary operations climbed from DM 38 million to DM 99.7 million. Alongside a higher gross profit from trading operations, the lower overall impersonal expenses led to encouraging improvements, also registered by the Massa, Huma and Meister outlets converted in 1995. Real moreover benefited DM 16.4 million from synergy projects.

Conversion to Real stepped up

The Hypermarkets division's capital expenditure totaled DM 197.5 million. The main areas of spending were the ongoing conversion of stores into Real outlets and the opening of new stores.

The number of employees within the Hypermarkets division, translated into full-time jobs, averaged 19,905.

Reorientation continues with the organizational integration of Massa hypermarkets

Massa AG (in which METRO AG holds a 96.2-percent stake) runs 15 extra large hypermarkets with sales of approx. DM 1.3 billion. Except for one store in Koblenz, all the hypermarkets have now been converted into Real outlets. Within Real, Massa – together with the southwest German region – forms the central German region. To fully capitalize on synergies, hypermarket operations require also organizational integration into the Real outlet chain. In addition, as from April 28, 1997, METRO AG submitted a voluntary public offering to Massa AG's outside stockholders to purchase their stock at a price of DM 150 for each DM 50 share at par.

Strategic outlook

In the current fiscal year, too, Real hypermarkets will continue to improve their competitive position purposefully through the conversion of former Meister stores in southern Germany. In this regard, Real expects further expenditure for restructuring. The measures taken to optimize the flow of goods include direct stocking responsibility at hypermarkets, enabling improved inventory control through comprehensive goods management from the supplier's ramp to the store. As for marketing strategy, the nonfood concept will be further refined and extended. For a finer-meshed network of branches aiming at making sustained use of synergies, such as in administration and advertising, Real will open further hypermarkets. The corporate structure will be simplified by merging individual companies into Real Holding GmbH.

Hypermarket locations

● 162 METRO AG Group hypermarkets

As of December 1996

Food Stores & Discounters

Reorientation of the division through the strategic sale of supermarkets

Following a comprehensive reorientation in the fiscal year, METRO AG's Food Stores & Discounters division consists mainly of two outlet chains: Extra convenience stores and Tip discounters.

Extra outlet chain

On selling space of between 1,000 and 4,000 m², the convenience stores of the Food Stores & Discounters division offer a comprehensive assortment of up to 20,000 items in central locations. The key features of Extra are quality and service with fresh produce, and every day low prices in the dry food range. With 103 conversions, 21 openings and 9 closedowns in 1996, the network of convenience stores was extended to 485 and 714,005 m². Through planned improvements to the fresh-produce and service sectors, expansion of its private-label range and a competitive price policy, Extra is seeking to further enhance the attractiveness of its outlets.

Far-reaching restructuring

The starting point for refocusing the Extra outlet chain was the disposal of small-space supermarkets. As of February 1, 1996, altogether 66 Bolle stores in the Berlin region were sold to Spar Handels AG, and as of May 1, 1996, a total of 142 Schätzlein stores belonging to the western region were acquired by the Tengelmann Group. The division's sales thus fell by about DM 1 billion. The large-space Comet supermarket chain with an average selling space of 1,100 m² was integrated into the Extra convenience store organization (115 outlets). In addition, 103 large-space supermarkets from the former Bolle and Schätzlein outlet chains were converted into Extra stores.

The cash-and-carry chain (Schaper) with 23 stores will be co-managed by Metro Wholesale in future.

Lower sales basis following disposal of small-space supermarkets

As a result of the disposal of Bolle and Schätzlein stores, sales declined by 5.4 percent from DM 8,308 million to DM 7,859 million. In terms of comparable selling space, sales fell by 0.9 percent compared with the preceding year. The total number of stores within the Food Stores & Discounters division (including Schaper) decreased from 1,018 to 889, with selling space amounting to 958,632 m² at the end of 1996.

Tip outlet chain

The Tip merchandising concept is characterized by the following features:

- Streamlined range (approx. 1,300 items),
- Price leadership,
- Proximity to customers,
- At least 60 parking spaces.

On a selling space of 500–600 m², Tip offers alongside its own "Tip" budget label virtually all well-known branded goods, provided they are the market leaders in their product category.

The stores are located in densely populated residential areas and in suburbs with good transportation connections. Bakeries and butcher's shops as instore concepts as well as fresh produce such as fruit and vegetables offer the customer an up-to-the-minute yet varying range with special emphasis on freshness.

The whole network of Tip outlets in Germany currently comprises 381 stores. In fiscal 1996, altogether 70 new stores were opened and selling space reached 191,493 m² at year-end.

Apart from expansion within Germany, Tip established its first stores in Poland in 1996.

Result from ordinary operations well up

The sale of small-space supermarkets led in the period under review to a clear easing of pressure on income. At the same time the Food Stores & Discounters division benefited from synergy projects to the tune of DM 11.1 million. The result from ordinary operations surged accordingly to DM 61.3 million (up from DM 16.2 million). As expected, the start of the Tip outlet chain's expansion into Poland placed a burden on net income.

Capital expenditure

Capital expenditure totaled DM 111.1 million in the fiscal year (excluding Tip/Poland). Apart from the high expansion rate of Tip/Germany, the Food Stores & Discounters division directed its investment into converting large-space supermarkets into Extra stores and modernizing the existing shop network.

Employees

Following the disposal of small-space supermarkets, the number of employees decreased appreciably, falling by some 15 percent to average 13,948 full-timers on an annual basis.

Consumer Electronics Centers

Media Markt/Saturn continues to expand

The Consumer Electronics Centers division (shareholding: 71.7 percent) consists of the Media Markt, Saturn and Flachsmann outlet chains. At year-end the division operated 156 stores with 395,686 m² (up from 141 stores with 362,565 m²). The Media Markt/Saturn Group opened 15 new stores in 1996.

Close to urban areas, Media Markt as efficient specialty outlets with an aggressive pricing policy offers, in addition to the conventional household appliances segment (brown and white goods), a diverse range of "new media" comprising some 15,000 items on an average selling space of 2,500–3,000 m². Media Markt thus skillfully combines supremely competitive pricing with a broad product mix, well-developed product know-how, high-caliber advice and sophisticated services. Media Markt operated 113 specialty consumer electronics stores at the end of 1996 on 282,309 m² selling space in Germany, Austria, France, and Switzerland.

Saturn runs specialty electrical stores with a selling space of 1,500–6,000 m². In traditional downtown locations, Saturn primarily covers the entertainment sector (MCs, CDs, etc.), including complete video systems. Saturn operates both as separate stores with about 18,000 items and as an integral part of other METRO AG outlet chains, such as its department stores, within the Saturn instore concept, offering a range of some 12,000 items. As of December 31, 1996, Saturn ran 30 stores with 91,069 m².

The Flachsmann merchandising concept concentrates on medium-sized and small towns and – unlike the full Media and Saturn product ranges – offers an assortment which is dependent on regional priorities on selling space of 400–2,000 m^2. There were 13 Flachsmann branches with altogether 22,308 m^2 at the end of 1996.

Media Markt/Saturn records substantial sales growth on comparable selling space

The Media Markt/Saturn Group's sales were very encouraging. With the exception of France, the division registered appreciable sales growth in Germany as well as Austria and Switzerland on comparable selling space. Sales climbed to DM 7.63 billion (up by 19.5 percent). On a same-space basis, sales improved by 6.9 percent compared with the preceding year.

In a stagnant market, sales of "new media" products in particular (office communication, telecommunications, and computers) were above expectations. Media Markt/Saturn will focus on expanding its market position in this promising line of merchandise.

Result from ordinary operations

The result from ordinary operations rose clearly in 1996 to DM 240.4 million (up by 37 percent), the main reason being a higher gross profit from greatly increased productivity on comparable selling space. Media Markt continued to set itself apart from the competition successfully and consistently expanded its market position.

Capital expenditure

Capital expenditure reached DM 112.0 million in fiscal 1996, most of which was required for expanding and modernizing existing stores.

The Media Markt Group in Germany accounted for DM 91.7 million of capital spending, while DM 20.3 million was invested abroad. The division's sound financial footing provides a good basis for further growth.

Employees

As a result of continued successful expansion, the number of employees rose, averaging 10,244 full-timers on an annual basis.

Outlook

The Consumer Electronics Centers division is continuing to extend in the current fiscal year both at home and abroad as part of a targeted and controlled strategy. All outlet chains are seeking to further extend their branch networks in Germany. At the same time, Media is stepping up its expansion into Eastern Europe, with the first Media Markt store opening in Budapest, Hungary, in March 1997.

Home Improvement Centers

Praktiker consolidates its market leadership through acquisition of Spar home improvement centers

In fiscal 1996, the Praktiker Group, in which METRO AG holds a 75-percent stake, achieved group sales of DM 4.3 billion (up by 5.5 percent). Branches opened in the period under review accounted for DM 136.3 million of sales, whereas the newly acquired Spar home improvement centers contributed DM 291.9 million. On a same-space basis, sales fell by 6.4 percent. This is attributable to a double-figure percentage rise in selling space against the background of increasing competition and declining market growth rates.

Praktiker substantially raised non-German sales to DM 305 million (up by 22.5 percent) through its expansion into Austria and the opening of another home improvement center in Luxembourg.

The number of Praktiker home improvement centers rose by 38 to 222. Apart from 13 new stores, 27 outlets acquired from Spar strengthened the network of Praktiker branches in hitherto underrepresented regions of western Germany such as Hamburg and the Rhine-Ruhr area. Two stores were closed. Total selling space expanded appreciably by 171,200 m^2 (up by 18.6 percent) to a total of 1,091,400 m^2.

Result from ordinary operations receding

The result from ordinary operations fell by 15.0 percent from DM 220.0 million to DM 186.9 million. The drop in earnings is the result of lower sales on a same-space basis as well as the pre-operating and start-up expenses involved in opening new centers. Expenditure on penetrating the Austrian market was in line with targets, whereas the acquisition of the Spar home improvement centers led initially to slight pressure on income.

Capital expenditure rises clearly owing to takeover of Spar home improvement centers

Capital expenditure in fiscal 1996 totaled DM 86.4 million. Apart from the opening of 13 new stores, 7 existing home improvement centers were refurbished. Goodwill rose by DM 105 million from the acquisition of Spar home improvement centers.

Higher number of employees and proportion of part-timers

Because of the opening of new stores, the absorption of Spar home improvement centers and expansion abroad, the average number of employees, translated into full-timers, rose to 10,213 in 1996. The proportion of part-timers was further raised to a scheduled 25.6 percent of full-time staff as part of the flexible staff deployment strategy.

Price leadership expanded thanks to redefined advertising strategy

Praktiker is further expanding its price leadership in the do-it-yourself market with an advertising strategy which was redefined in mid-November 1996, combining aggressively priced special offers with an attractive and comprehensive range of products. Praktiker is thus addressing consumer weakness for special offers in the do-it-yourself and home improvement sector, which has less price transparency than the food trade. The measures taken are starting to impact favorably on sales in the current fiscal year.

Internationalization enjoys strategic priority

Internationalization of the Praktiker concept enjoys priority as part of a medium-term growth strategy. Having accessed the Luxembourg and Greek markets, Praktiker is steadfastly continuing its international expansion in Austria with the opening of additional home improvement centers in 1997. Sales trends confirm the competitiveness of Praktiker sales outlets even in an international context. In years to come, further expansion to 15 locations in Austria's urban centers is planned.

The preparations for expansion into Poland, Italy, Hungary and Turkey got under way in 1996. Praktiker plans to open its first home improvement centers in these countries in 1997.

Furniture Centers

Falling sales in difficult economic climate

The German furniture retail trade suffered in 1996, especially in the 4th quarter, from continuing reluctance on the part of the public to purchase consumer durables. Sales of furniture, fixtures, fittings and household effects thus weakened considerably throughout the year, falling by a nominal 2.7 percent compared with the preceding year. The sector also faced the additional burden of generally intensifying price competition, which increasingly stepped up pressure on margins and advertising.

Möbel Unger continues restructuring course

The Furniture Centers division's sales amounted to DM 1,704 million. Because of the closedown of 12 Massa stores, division sales decreased by 13.1 percent, declining by 6.5 percent in terms of comparable selling space.

Möbel Unger is continuing its turnaround and restructuring program. Owing to closedown and the disposal of unprofitable stores, the number of Möbel Unger furniture outlets dropped clearly from 89 to 63, with selling space receding by 20.6 percent from 843,170 m^2 to 669,245 m^2.

At year-end the whole Furniture Centers division comprised 94 stores with 784,600 m^2 compared with 108 outlets with 894,730 m^2 in the preceding year. Apart from the Möbel Unger and Massa outlet chains, 31 stores belonged to the Divi (29 outlets), Möbel Busch (1 outlet) and Roller/ Luxembourg (1 outlet) furniture stores.

Logistics and inventory management streamlining rigorously continued

Apart from the sale of unprofitable stores, activities focused on optimizing logistics and merchandise information. For example, Möbel Unger closed a service and sales center, ten warehouses and five centers-cum-warehouse. A new merchandise information system to make order processing more efficient and on schedule was put into practice in the fiscal year. As of January 1, 1997, all logistics services were concentrated in Unger Service und Logistik GmbH. Increased sales of self-collection furniture reduced delivery volumes.

On the marketing level, Möbel Unger refocused its product range policy along the lines of regional priorities. In order to create a more youthful image, the "Young Unger" concept, with which Unger is seeking to appeal to younger customers with up-to-date ranges and attractively presented products, was expanded at six stores.

In order to improve cost structure, the average number of employees, translated into full-timers, fell again, from 6,153 to 5,172.

Capital expenditure of DM 31.5 million is largely attributable to rationalization measures.

Roller achieves satisfactory result

Roller (shareholding: 49.9 percent) saw its sales rise by 10 percent to DM 1.2 billion as it continued to expand. Sales on comparable selling space fell by 6.0 percent, however. The Roller investee comprised 59 stores with 382,583 m². Apart from outlets in Germany, Roller also operates self-collection furniture stores in Austria and the Netherlands. Against the background of continuing expansion and general consumer resistance, Roller achieved a net result which fell short of the preceding year.

Earnings burdened by restructuring measures

The Furniture Centers division's income was greatly affected by measures to restructure and refocus Möbel Unger, with the integration of the former Massa furniture outlets having an especially adverse effect on the income. In view of the unsatisfactory sales trend, the decline in gross profit largely overabsorbed the savings in personnel and impersonal expenses achieved in the fiscal year. At Divi, conversion-related expenditure for the integration of Massa furniture centers led to a worse annual result. The loss from ordinary operations (including Roller's pro-rated contribution) deteriorated from DM 85 million to DM 124.9 million.

Despite far-reaching restructuring measures, the Furniture Centers division's result for 1997 will not improve greatly on the preceding year either.

Computer Centers

The sales network of the Vobis Group, in which METRO AG holds a 90-percent stake, currently comprises 1,105 stores (including franchisees) in 11 European countries with franchisees accounting for altogether 75 percent. Vobis sells computers and related accessories, including its own Highscreen private label as well as the brand products of other PC manufacturers. The sales outlet structure developed according to plan in 1996, the proportion of sales through franchisees (excluding Real, Kaufhof) rising from 9.7 to 17.2 percent. The Vobis Group's non-German sales reached 28 percent.

Vobis increases sales to DM 3.14 billion

In 1996 Vobis consistently expanded its leading market position in Germany and continued its successful course. The companies belonging to the Vobis Group (including wholesale business with franchisees and Maxdata sales) registered sales of DM 3.14 billion at home and abroad (up 1.6 percent). A comparison should take into account that the preceding year's sales included goods supplied to Metro Group companies. Sales growth adjusted for this effect amounted to 5.3 percent. Turnover of PCs in Germany soared to 521,000 (up 27 percent), the volume sold in Europe climbing to 721,000 PCs (up 18 percent). With its BTC (built to customer) assembly method, the company enjoys a clear competitive advantage. The technique allows the customers to have their PC configured to meet their personal requirements at the local branch or by phone/the Internet. The PC is then delivered inside 48 hours.

Vobis Group achieves satisfactory result from ordinary operations

Fiscal 1996 was characterized especially in its first six months by a weaker market volume in the traditional private-customer segment. In Germany, structural market changes in the first quarter of 1996 also led temporarily to a significant heating up of competition.

With Maxdata the division has enjoyed a share in the fast-growing corporate business sector since 1994. Market volume here mounted 20 percent compared with the preceding year. Maxdata continued to gain market shares in 1996.

In a generally difficult environment, the Vobis Group achieved a satisfactory result from ordinary operations of DM 46.0 million (down by 8 percent).

Expansion of Superstore concept continued

The fiscal year's capital expenditure of DM 53.4 million was directed mainly at expansion of the branch network at home and abroad. The Superstore merchandising concept was extended as planned to an additional 15 stores, bringing the total number in Europe to 51. At the same time, the network of outlets was modernized through consistent expansion of selling space at existing branches. Capital spending also targeted optimization projects aimed at further reducing production costs. Maxdata GmbH built a new logistics center to cope with the increased sales volume.

Flexible staff deployment stepped up

Taking into account extended shopping hours, flexibility in staff deployment was further expanded, so as to cover additional personnel needs as far as possible without incurring extra costs. The division increased its average number of employees, translated into full-timers, from 2,816 to 2,922.

Vobis Group adheres to consolidation and internationalization course

Thanks to extensive optimization measures in marketing and customer services as well as in production, logistics and administration management, the company is well equipped to cope with continually strong price competition.

Vobis is striving to boost sales appreciably in 1997, including targeted efforts to further augment its foreign sales. In terms of trading outlets, Vobis will again increase the number of Superstores which offer a greatly extended and attractive assortment of PC-related goods on selling space of up to 1,000 m².

With Maxdata (shareholding: 51 percent), Vobis has established itself successfully in the overproportionately growing segment of wholesale and corporate customers. The German market leader in monitor sales is pressing ahead with expansion into European countries outside of Germany.

Fashion Centers

Adler further strengthens its market position

Adler fashion centers operate as specialty clothes outlets located predominantly outside major towns. Adler sees itself as *the* specialty clothes store for the whole family, with a strong merchandise mix in terms of price, quality and fashion. Adler offers the customer a clear and competitively priced range of textile goods. Stores are operated in Germany, Austria, and Luxembourg. High customer satisfaction with Adler is reflected in fast-growing acceptance of the Adler Card, with which shoppers can purchase goods at reasonable prices in all Adler stores, having had ample time to make a selection at home from up-to-date fashion brochures.

During the period under review, another seven stores in Chemnitz, Plauen, Dollgow, Eiche, Jena, Gera and Haibach (jeans store) were added; one store was relocated. At year-end Adler had 88 stores with 208,768 m² (up from 81 with 191,444 m²).

Adler achieves encouraging sales in a difficult submarket

Against the background of continuing weak activity in the sector, the Fashion Centers sales were at a satisfactory level in general, improving by 4.0 percent from 1,363 million to DM 1,417 million. In terms of comparable selling space, the Adler outlets achieved a sales rise of 1.0 percent, whereas division sales (Adler plus Mac Fash) receded by 0.2 percent altogether on a same-space basis.

Profits adversely affected by nonrecurring Motex logistics expenditure

The result from ordinary operations decreased clearly from DM 68 million to DM 28.2 million in 1996. Declining earnings are exclusively attributable to nonrecurring expenditure of DM 42.0 million for the relocation of the distribution center to Thuringia. On an adjusted basis, Adler recorded a slightly higher pretax profit compared with the preceding year. Thanks to targeted optimization measures in goods purchasing, Adler enhanced the quality and fashionableness of its merchandise mix appreciably. This led to an improved gross profit.

Adler prepares for the future

During the period under review, Adler introduced an inventory optimization system. It monitors current stock on hand and initiates an order procedure with the supplier automatically if stocks run low, enabling Adler to reduce its out-of-stock rate and allowing product ranges to be adapted to current fashions or seasonal variations at short notice.

In fiscal 1996, Adler Austria's central purchasing organization was shifted to Germany, Austrian sales operations having been managed from there since 1995.

Relocation of Motex logistics center to Thuringia

In order to increase storage capacity and optimize the flow of goods, Adler laid the foundation stone in 1996 for the construction of a new logistics center in Thuringia to replace the current Grossostheim site. Building work started in December 1996, with capital expenditure expected to reach DM 130–140 million. Adler is thus creating the logistics environment for targeted extension of the network of sales outlets and for additional growth.

In fiscal 1996, the division invested DM 27.8 million in further widening of the branch network and in the relocation of Adler's Motex warehouse to Thuringia.

The Fashion Centers division's number of employees, translated into full-timers, averaged 5,588.

Mac Fash

Mac Fash branches are located primarily at out-of-town sites close to hypermarkets. Mac Fash offers a basic rather than a full range, including all traditional sectors such as ladies' outerwear, men's and children's clothing. Items sold by this outlet chain are in the lower price range and belong predominantly to mainstream fashion trends. During the period under review, the number of outlets remained at 45 with selling space totaling 37,830 m^2 (up from 37,644 m^2).

METRO AG has meanwhile sold its 100-percent stake in Mac Fash.

Footwear Centers

Aggressive cut-price policy; new store image with three merchandising concepts

In order to underpin its market position as the leading footwear discounter, Reno redefined its price and advertising strategy. At the same time, the program aimed at expanding cost leadership was stepped up.

Through two differing POS presentations in 469 outlets (up from 408) on a total of 287,197 m^2 (up from 270,693 m^2), the division is pursuing a graduated strategy of every day low prices. "Pay-less" is an outlet chain firmly positioned in the low price range; it benefits from downtown locations well frequented by customers, and is to be found in Germany, Austria, and Switzerland. The traditional Reno merchandising concept operates at a somewhat higher price level than Pay-less, though still well below the market average. At larger Reno footwear centers, the product assortment is supplemented by reasonably priced textile goods and children's clothing.

Apart from Germany, Reno also operates its stores in Austria, France, Hungary, and Switzerland.

As of January 1, 1996, Reno acquired a 30-percent stake in Mayer Schuh GmbH. The Mayer outlets complement the Reno concept with footwear ranges of higher quality combined with well-developed services.

Sales from over-the-counter and footwear mail order business amounted to DM 816 million. At the footwear centers, sales increased only marginally despite expansion owing to lower average prices. On a same-space basis, over-the-counter sales dipped by 2.4 percent. Further scaling-down of mail order business continued in 1996 as planned.

Result from ordinary operations down

The new pricing and advertising concept did produce the desired turnover figures in fiscal 1996. However, because of the new cut-price policy accompanied by a reduction in the gross margins, the result from ordinary operations dropped from DM 50 million to DM 24.9 million in 1996.

Capital expenditure

Additions to tangible assets resulting from outlet network expansion amounted to DM 10.1 million. A 30-percent stake in Mayer Schuh GmbH was also acquired.

Reno franchise system branching out

In order to reduce fixed costs, Reno is pressing ahead with the conversion to independent franchisees. In fiscal 1996, a total of 113 branches were transferred to the Reno franchise system.

As a consequence, the number of employees, translated into full-timers, decreased by 26.2 percent from 2,622 to 1,936 on an average annual basis.

Mail order

The Mail Order division consists of Oppermann Versand AG and Hanseatisches Wein- und Sekt-Kontor Hawesko GmbH. Oppermann is a mail order company specializing in promotional and gift items as well as office supplies for corporate and private customers, whereas Hawesko's main activity is dispatching high-quality wines and champagnes to end users.

Disposal of Wenz halves sales

In fiscal 1996, the division generated sales of 494.6 million (down from DM 1,092 million in 1995), representing a drop of 54.7 percent. The reason for the reduced sales is the disposal of the Wenz Group to the Pforzheim-based Klingel Group as of December 31, 1995/January 1, 1996.

During the fiscal year, Oppermann only just managed to match the preceding year's sales level despite increased advertising efforts, whereas Hawesko further expanded its leading market position.

Pressure on pretax profit eased by Wenz sale

The result from ordinary operations improved strongly, reaching DM 20.5 million (up from a loss of DM 39 million in 1995). This favorable situation is attributable to discontinued restructuring costs following the Wenz sale.

Capital expenditure

Capital expenditure totaled DM 5.2 million in fiscal 1996. Capital spending at Oppermann went, inter alia, toward expansion and modernization of the mail order system.

Appreciable fall in number of employees

On an average the number of employees, translated to full-timers, sank from 2,113 to 1,152 in 1996 owing to the sale of Wenz.

Restaurant and Catering

Successful integration of Horten restaurant operations boosts sales

The Dinea Group consists of Dinea Gastronomie GmbH, Grillpfanne Gastronomische Betriebe GmbH, Axxe Reisegastronomie GmbH (50 percent) and Bon Appetit Horten Restaurant GmbH. Following the complete takeover of the restaurant and catering operations at Horten department stores, the Dinea Group is one of Germany's leading instore restaurant and catering companies.

The group achieved sales of DM 474 million (up from DM 399 million). This growth of 18.8 percent compared with the previous year is essentially the result of the takeover of the Horten restaurant and catering operations in September 1995.

Structural improvements / capital expenditure

As of December 31, 1996, the division comprised 261 outlets with 96,769 m² (down from 263 outlets with 97,552 m²). In order to upgrade the overall quality of its establishments, 11 were closed as planned, 9 restaurants were opened and 18 completely refurbished. Including the franchises, Dinea has more than 320 restaurant and catering operations.

Of capital expenditure amounting to DM 17.6 million, DM 10.1 million went toward refurbishment and structural improvements.

Improved earnings

The result from ordinary operations improved appreciably to DM 21.1 million (up from DM 14.9 million).

Number of employees up owing to takeover

On an annual average the division increased its number of employees, translated to full-timers, by 13.4 percent from 3,419 to 3,877, due to the takeover of the Horten operations.

Dinea acquires "Die Büffeteria" as of February 1, 1997

As of February 1, 1997, Dinea Gastronomie GmbH acquired from the Schickedanz Group the systems restaurant and catering company, "Die Büffeteria" Restaurantbetriebe GmbH & Co KG, Nürnberg. The company has 42 instore and motorway restaurants in Germany and Austria employing some 400 staff (translated into full-timers). Sales are likely to reach DM 48 million in the current fiscal year.

Real Estate

Metro Immobilien Holding GmbH's structure

Metro Immobilien Holding GmbH (MIH) is the parent company of Metro's Real Estate division with three operating areas

- Metro Grundbesitzverwaltung GmbH (MGV)
- CMG Centermanagement und Entwicklungs GmbH (CMG)
- BSV-Bau, Bauservice und Verwaltung GmbH (BSV)

and the real-estate holding company

- GBS Gesellschaft für Unternehmensbeteiligungen mbH (GBS).

MIH performs all the central intercompany tasks of its affiliates and carries out interdivisional Real Estate-related projects for the Group.

MGV is the central company for rental of its own real estate, option properties and outside joint locations. It is the management company for real-estate enterprises run by the same management.

CMG is responsible for center management and administration of specialty store centers belonging to METRO AG.

BSV is the central company for all modernization/new-building activities, planning measures and maintenance work, insofar as such operations exceed a defined division-specific scale.

GBS holds stakes in the Group's real-estate enterprises.

Corporate combination of real-estate service providers

As part of the merger, the property structure was streamlined, coinciding with the organizational combination of all real-estate service providers and the integration of real-estate enterprises. The restructuring process is due to be completed in fiscal 1997.

As part of the plans to internationalize successful types of outlet within METRO AG's division lineup, GBS acquired sites in Poland, Hungary, Italy, and Turkey. GBS built its first hypermarket in the Polish city of Szczecin.

The TEC Erfurt and Förde-Park Flensburg centers were opened and the second phase of the Weserpark Bremen complex was commissioned. The Bischofsheim center was built and opened in 1996 and a hypermarket in Wittlich was extended.

Horten AG

Horten AG is METRO AG's only corporation listed on the stock exchange which owns and administers real estate.

All department store properties and multistorey car parks owned are let to Kaufhof Warenhaus AG on the basis of a long-term lease agreement. Annual rental income totals DM 119 million. Fluctuations in Horten AG's earnings caused by the prevailing market situation for large properties used by the retail trade are not anticipated due to the long-term nature of Horten AG's lease agreements with Kaufhof Warenhaus AG.

Owing to the present state of the market, Horten AG is concentrating on optimizing the current property portfolio in close coordination with the main lessee, Kaufhof Warenhaus AG.

Asset Immobilien GmbH & Co KG

Asset Immobilien GmbH & Co KG holds the property assets of former Kaufhof Holding AG. METRO AG is the sole limited partner. The 100-percent stake in the corporate general partner is held by Horten AG, a METRO AG subsidiary.

The purpose of the company is to build, develop, acquire and sell properties on its own land and land belonging to third parties and to lease such properties to Kaufhof Warenhaus AG and Kaufhalle AG in the main.

Two department stores (Gera, Plauen) and five plots of land were purchased in 1996. The headquarters in Cologne and the Kaufhof department store in Saarbrücken were refurbished.

Real estate owned and option properties (as of Dec. 31, 1996)

	Group real estate		Option properties		Total real estate	
Type	No. of properties	Area m²	No. of properties	Area m²	No. of properties	Area m²
Shopping centers/ combined sites	5	219,111	45	3,965,637	50	4,184,748
Hypermarkets	8	197,826	17	582,842	25	780,668
Department stores	177	778,391	36	127,278	213	905,669
Food stores & discounters	62	315,686	11	96,445	73	412,131
Home improvement centers	11	283,236	23	399,056	34	682,292
Furniture centers			23	561,884	23	561,884
Fashion centers	7	124,587	6	115,720	13	240,307
C&C centers	6	130,519	1	14,826	7	145,345
Warehouses	20	939,514	11	886,483	31	1,825,997
Empty land	38	2,009,006	13	1,097,651	51	3,106,657
Other		383,736		491,067		874,803
	334	5,381,612	186	8,338,889	520	13,720,501

Outside financing of option properties

The book values of option properties at December 31, 1996, amount to DM 4,681 million, the pertinent residual liabilities to DM 4,896 million. DM 117 million was repaid in fiscal 1996.

Capital expenditure

The Real Estate division spent a total DM 590.3 million to acquire additional properties, DM 424.6 million thereof allocable to tangible and intangible assets, the remaining DM 165.7 million to investments in (almost exclusively non-German) real-estate enterprises holding properties for the expansion planned abroad.

Real Estate's result from ordinary operations came to DM 179.4 million.

Some 80 percent of Real Estate's rental income was earned from METRO AG Group companies.

Others

The "Others" division comprises essentially the affiliates Free Com Die Telekommunikationsgesellschaft (marketing, importation and exportation of mobile telecommunications equipment), Rungis Express (wholesale, supplying the restaurant and catering trade, with special emphasis on fresh produce and high quality), Jacques' Wein-Depot (wine retailing), CWD (importing of and trading in wine, champagne and sparkling wine), Michel Farah (mainly clothes importing, exporting, wholesaling and retailing), as well as Massa-Ausbauhaus.

The sales generated by the division rose by 15.1 percent to DM 894 million, the result from ordinary operations reaching DM 69.1 million.

The division's capital expenditure totaled DM 128.4 million.

The number of employees, translated into full-timers, averaged 5,472.

METRO AG's internationalization drive: Global strategy – local concepts

The globalization of the economy is gradually embracing all sectors of developed national economies with increasing speed. Since the beginning of the 1990s, trade has also been characterized by systematic internationalization.

The driving forces behind this trend are, firstly, the foreseeable end to great growth opportunities in domestic markets and, secondly, purchasing power in the newly industrialized countries, which is expected to rise overproportionately in the next ten to fifteen years owing to the dramatically changing global economic environment. At the same time, consumer markets in these countries are opening up to both international consumption trends and modern forms of trading. Government and municipal authorities recognize the economic advantages of mass distribution which cuts transaction costs and the additional scope for exports created for local consumer goods industries from the transfer of foreign trading companies' know-how.

In addition, consumers in the newly industrializing countries are accepting and adopting the contemporary types of sales outlet found in industrialized nations without any appreciable time-related adjustment problems.

In particular, system-driven discounter outlet types such as hypermarkets and specialty discount stores will bring about structural changes in trade at international level.

With the establishment of METRO AG, the central foundations have been laid for skilled and dynamic internationalization, which enjoys strategic priority in the development of selected outlet chains within the METRO AG portfolio.

International trading groups are already active to a greater or lesser degree or preparing activities in all the up-and-coming economic regions. The time frames for penetrating emerging markets are therefore not only determined by the specific features of a growth market but also greatly influenced by the decisions of global competitors. The majority of trading companies from Europe, the USA and Japan which are expanding into new economic regions possess, for historical reasons, a highly concentrated portfolio or even a monostructural outlet type concept. In their home markets, they have achieved a market position of absolute dominance.

In comparison, METRO AG offers a broad range of outlet types within its portfolio. The bulk of the outlet types envisaged for globalization also enjoy a strong market position at home. Against the background of limited resources, such a broad lineup of outlet types leads, however, to internationalization disadvantages in relation to monostructural competitors, which can concentrate their resources on one sector alone.

On the other hand, METRO AG's diversified outlet type portfolio offers substantial competitive advantages amid competition for locations in the urban areas of newly industrialized countries, because it can offer up-to-date shopping centers from a single source.

Crucial benefits are emerging for METRO AG from its experience abroad spanning more than 20 years with the C&C Group, which is managed under a nongratuitous contract for services by Metro International Management GmbH (MIM). This know-how extends to newly industrialized countries, to former Eastern bloc countries as well as to the developed markets in Western industrialized nations.

Since internationalization develops swiftly, it is now necessary to make use of competitive edges speedily and to compensate as far as possible for the disadvantages of the broad lineup of outlet types by exploiting the synergies of all METRO AG outlet chains expanding in any one country.

METRO AG's strategic approach to internationalization comprises

- Preparing feasibility studies for selected countries,
- Defining the priorities among target countries and time-scales on the basis of expert and weighted assessment criteria,
- Selecting top locations,
- Strategic orientation of the market access concept to the benchmarks of national trading structures and of local market leaders,
- Decentralized orientation of each merchandising concept to customer needs within the country concerned,
- Precise gearing of the operation's core function to local conditions,
- Active and offensive know-how transfer between METRO AG outlet chains in the country targeted for expansion,
- Use of powerful information and logistics systems,
- Development of high-caliber management teams made up of national and international staff,
- Use of innovative financing models adapted to national conditions,
- Goal of market leadership in each division.

METRO AG is convinced that consistent orientation toward these factors will guarantee the competitiveness of the international portfolio long term.

Internationalization efforts in 1996

In the course of further expanding wholesale business abroad, the first cash-and-carry store in Shanghai, China, was opened on October 31, 1996. At the same time, the cash-and-carry internationalization drive in Eastern Europe continued with the opening of a store in Bucharest, Romania, on October 24, 1996. Both stores are developing according to expectations. Expansion in the P.R. China and Romania is part of a cohesive strategy, with the opening of further outlets planned in 1997.

At year-end, METRO AG managed 125 international wholesale operations in eight countries.

The Group's retail outlet chains also pushed ahead energetically with their internationalization efforts.

Media Markt broadened its international business, operating 12 specialty stores in Austria, 11 in France and 3 in Switzerland in 1996. The results achieved likewise signal continuing expansion, an example being the opening of the first Media Markt in Budapest, Hungary, in March 1997.

The Vobis Group operated outlets in 10 countries outside of Germany at the end of the period under review. The branching-out of international activities is concentrating on additional franchisees and expansion of the Superstore branch network.

Praktiker penetrated the Austrian market successfully in fiscal 1996 with the opening of two home improvement centers. Six stores are operated in Greece, where Praktiker remains the market leader. A third outlet was opened in Luxembourg.

Adler's specialty textile stores further expanded their market leadership in Austria with 13 fashion centers. In Luxembourg, Adler runs two stores.

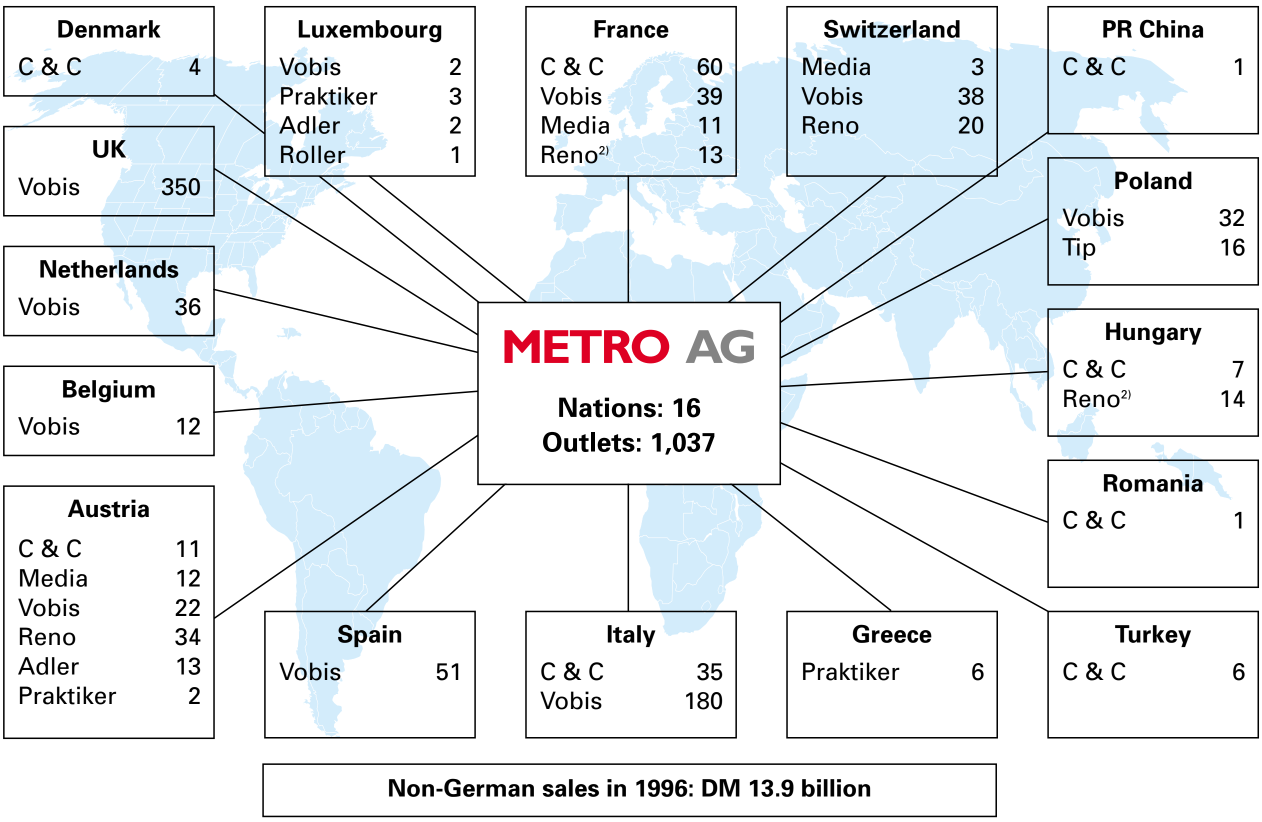
At year-end, Reno footwear centers operated 81 stores altogether in Austria, France, Hungary and Switzerland. (Sales in France and Hungary are not included in consolidation.)

The discounter Tip accessed the Polish food retailing business with the opening of 16 stores in Poland. The performance of these first outlets up to year-end has prompted the decision to increase substantially the opening rate of new stores in 1997.

Altogether, METRO AG was active in 16 countries with 9 outlet chains (including Oppermann mail order business) in fiscal 1996. Foreign sales amounted to DM 13.9 billion, representing 19.1 percent of the METRO AG Group's sales plus C&C business management (DM 72.9 billion in total).

Foreign outlets employed 6,955 staff, translated into full-timers, on an annual average (excluding C&C business management and franchisees).

Operations outside of Germany 1996, METRO AG (Dec. 31, 1996)[1)]



[1)] Operations per outlet type and nation (incl. C&C business management)
[2)] Not consolidated

METRO AG Group: 1996 non-German sales by nations [1]

In DM million	Adler	Media	Oppermann	Praktiker	Reno	Roller	Tip	Vobis	C&C	Others	Metro divisions	C&C business management	Total non-German sales
Austria	127	864		34	50			104		28	1,207	1,724	2,931
Belgium								47			47		47
PR China									22		22		22
Denmark												499	499
France		360	14					44			418	4,334	4,752
Greece				196							196		196
Hungary												924	924
Italy								188			188	2,814	3,002
Luxembourg	35			74		19		12		2	142		142
Netherlands								178			178		178
Poland							33	52			85		85
Romania									63		63		63
Spain								57			57		57
Switzerland		221			36			120			377		377
Turkey												578	578
UK								35			35		35
Total sales by division	**162**	**1,445**	**14**	**304**	**86**	**19**	**33**	**837**	**85**	**30**	**3,015**	**10,873**	**13,888**

[1] Incl. C&C business management

Focal points: Poland, Turkey, and P.R. China

METRO AG will continue to expand its international position and access new growth markets. Poland and Turkey have been singled out as initial targets, whereas the P.R. China has priority for Metro International Management GmbH (MIM).

Following intensive study, METRO AG identified Poland as a priority for strategic expansion, the first Real hypermarket opening in Szczecin in February 1997. Acceptance among Polish customers is fully in line with expectations. The Praktiker and Adler outlet chains plan to open their first specialty stores in the early half of 1997. The discounter Tip will step up its expansion efforts which have already proved successful. As of March 1997, five additional stores had been opened, so that Tip boasted a network of 21 outlets altogether in the first quarter of 1997.

One strategic advantage enjoyed by METRO AG against the background of intensifying competition in Poland is optimum organization of interfaces between outlet chains. In order to create the required conditions, METRO AG moved into a joint administration center for all its outlet chains in Warsaw in 1996.

Turkey, with its above-average economic growth and fast-growing population of around 62 million, a high proportion of whom are under the age of 30, is regarded as one of the most promising markets of southeast Europe. Turkey's retailing structure, over 75 percent of which is still concentrated on small spaces of below 100 m², appears to offer large-space outlets great scope for growth. METRO AG therefore decided to prepare for Real and Praktiker's penetration of the Turkish market systematically and consistently in 1997.

The know-how accumulated by Metro Cash-and-Carry, Turkey, in more than six years will help considerably in assessing market opportunities and working out merchandising concepts.

Group synergies

One reason for merging Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG into METRO AG in 1996 was to achieve synergies to be realized from fiscal 1997.

Following the registration of the merger in July 1996, development of the planned Group structure and project implementation got under way more quickly than assumed in the merger report.

As part of the merger preparations, three major areas in which synergies are to be exploited from 1997 were defined:

- *Integration of holding company functions*

  This includes the concentration of tasks through interlinking of hitherto independent areas of activity such as finance, strategic planning, controlling, Group accounting, investor relations, personnel management and H.R. development, legal matters, taxes, and public relations.

  This has resulted in that adherence to accounting, publication and stock exchange regulations is now the sole responsibility of METRO AG.

- *Procurement and private-label management*

  In procurement pooling, terms and costs are to be influenced through reduced numbers of suppliers and process chain optimization between suppliers and trade.

  With regard to the private labels, the aim is to demonstrate the price-performance strength of outlet chains through distinctive private-label management and Group-wide optimization of purchasing and accounting structures.

- *Synergy areas in the services sector*

  In the fields of information technology, logistics, advertising and financing, the purpose is also to realize synergies as from fiscal 1997 through optimization. This is achieved through service companies which make their specialized knowledge and expertise available to the divisions in all the sectors cited and group together demand for services. The synergies obtained were allocated and credited to the individual outlet chains.

  The cost limit of planned merger-related expenditure amounting to DM 50 million for 1996 was adhered to, DM 47.4 million being the actual amount spent.

Environmental protection

Pro-environmental conduct is an essential element of METRO AG's corporate credo. An environmental committee for Metro Grosshandelsgesellschaft, the Asko Group and Kaufhof Holding AG was established back in 1993, which in a first joint project set an example by developing and implementing cleaning and waste disposal solutions.

With the establishment of an environmental management system, specific measures have been taken to publicize the Company's environmental policy both internally and externally. The system's tasks are to develop and coordinate environmental protection strategies as part of corporate goals, to implement METRO AG's environment-related projects, to monitor projects adopted and expand successful schemes, as well as to formulate environmental principles and compile an environmental report.

Defined criteria and quality targets for purchasing eco-friendly products were further developed during the period under review. Organically grown agricultural produce forms part of the merchandise mix offered by outlets.

Activities by outlet chains to safeguard conservation efforts, save resources and reduce environmental damage are being continually expanded. This involves the conversion to alternative refrigerant systems, use of ecologically sound paper in the production of brochures, and further improved logistics. Comprehensive solutions for recycling transport packaging are being constantly examined.

In order to implement the German Recycling & Waste Management Act which came into force in October 1996, Wertstoff-Circle Services GmbH & Co KG was established back in August 1994, which is engaged specifically in the disposal and marketing of recyclable waste. More than 300,000 tonnes of waste from Metro divisions is recycled through this company. The reutilization rate is 80 percent.

About 1,000 tonnes of plastic waste of all descriptions is produced within the Group annually. A special system is used to treat the mixed plastic waste economically, crush it without additional cleaning or chemicals, process it into usable items and then sell it in stores.

Key areas of personnel work

H.R. development

Human resources development is of gaining importance to METRO AG and its divisions. The aim is to enable staff to take on high- and top-level managerial positions, to provide the human resources to open up and further develop stores at home and abroad, to ensure a systematic, goal-oriented and integrated H.R. development policy in the divisions and a ready supply of young skilled specialists (school leavers and university graduates). Interdivisional career paths are to be made available both at home and abroad and the transfer of know-how between the divisions is to be assisted through formation of a network.

As part of this strategy, METRO AG has developed a whole series of interdivisional promotional schemes, such as the Metro Academy's TOP program, which is designed to demand and promote initiative and creativity among top-flight executives. The Metro management sponsoring group is a one-year interdivisional program designed for middle management in which hands-on projects in particular are tackled. At the end of the year, the results of these innovative projects will be submitted to the executive and management boards of the divisions and then largely implemented.

Almost 100 young administrators from staff departments of various divisions at the Cologne head office took part in 10 junior employee schemes within which they planned and implemented their own skills-upgrading courses. Alongside continuing education objectives, this project is designed to teach networking skills, enable the participants to brush up knowledge about their own company and deal with topics outside the scope of their specific departments.

A large number of courses are also conducted in the divisions as part of career and advancement programs and subject-specific training projects they offer. This also applies to personnel development abroad. For example, many of Metro's junior managers from various European countries have studied issues relating to assignments abroad and political and economic conditions in the European region at the European Academy in Otzenhausen. Seminars were also held for German and Polish executives as preparation for future tasks in Poland.

Vocational training

The promotion of vocational training enjoys high priority within the METRO AG Group. It offers a wide range of prospects and allows graduates from all types of schools to enter the working world. Owing to the strained situation in the German apprenticeship market, the Group increased its number of apprenticeships, providing a total of 3,031 in 1996, a rise of 5.0 percent compared with 1995. Despite the tight situation mentioned, not all vacancies were filled. The METRO AG Group will again substantially increase the number of apprenticeships in the current year and take suitable measures to ensure that training places in hitherto less appealing vocational occupations are filled. The Group employed a total of 7,721 apprentices in 1996, representing – in relation to full-timers – a proportion of 5.8 percent.

Personnel structure

On average the Group employed 168,797 persons (excluding apprentices) in 1996. Translated into full-timers, this was equivalent to a workforce of 134,565, of whom 69.6 percent were women. The average length of service with the company was 8.1 years, the average age 36.6 years.

The proportion of full-timers within the Group's workforce came to approx. 55 percent. Part-time employment rose as flexible working hour schemes were further improved. This meant that in all Group companies adjustment to the changed store opening hours in Germany was ensured in a way that met the needs of customers as well as the interests of employees.

Wage policies

In Germany, personnel and pay policy-makers faced the special challenge of responding to legislative initiatives in 1996.

Even more than amendments to paid sick leave legislation, deregulation of shop opening hours proved to be an acid test for the efficiency of retail trade organizations, which had to create the necessary preconditions for this initiative. It is not least thanks to the dedicated efforts of the Group's pay-negotiating experts that – with the exception of the Lower Saxony and Mecklenburg–Western Pomerania wage-bargaining regions – workable pay settlements were agreed. In the two regions cited, pay agreements were not concluded at the level of the respective employer/employee organizations, with company pay agreements being agreed instead.

At the same time, the divisions laid the foundations for comprehensive extension of shop opening hours in Germany from November 1, 1996. Special emphasis was laid on meeting fluctuations in customer traffic through flexible staff deployment and attractive working hour schemes without affecting costs as far as possible and on continuing to offer good service.

In division companies with their own pay agreements, the respective wage-rate systems were consistently further developed in the direction of greater flexibility, increased use of performance incentives and creation of tailor-made structures.

Interest rate and currency management

The Group's interest rate and currency management is handled by METRO AG on behalf of all Group companies and aims at reducing basic risks. Trading and settlement are segregated; contracts are made with blue-chip parties only.

The use of derivatives entails major gyrations in the financial result since, in contrast to classical financial instruments, profits and losses are partly realized short term.

Translated into a financing term of 10 years and based on the 1996 long-term finance plan, 36 percent of the entire long-term interest rate risk was during 1996 covered by fixed-income or straight bonds and fixed-rate loans (80 percent), as well as by interest rate derivatives (20 percent). At fiscal year-end, comparable hedging came to 41 percent.

Currency management encompasses the protection of operational business, real estate and financial transactions (such as foreign-currency funding). In this context, all elements form one separate unit and are hedged as a function of the overall risk position.

On an annual average and related to all companies, micro hedges cover some 25 percent of yearly requirements from individual operational risks, according to the particular circumstances at the various business areas.

Earnings per share according to DVFA/SG

The earnings per share according to DVFA/SG were determined as a yardstick to measure the Company's earning power. Earnings per share according to DVFA/SG represent a standardized value jointly developed by Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V. (German Association of Financial Analysis and Investment Consultancy – "DVFA") and Schmalenbach Gesellschaft Deutsche Gesellschaft für Betriebswirtschaft (German Society of Business Administration – "SG"). After eliminating adjustable expense and income items and deducting third-party P&L shares, the METRO AG Group's 1996 result amounted to DM 712.0 million. Related to the 100.2 million shares of stock, earnings per DM 5 share according to DVFA/SG came to DM 7.10.

Accounting analysis of the fiscal 1996 DVFA/SG result

In DM million	Adjustable income/ expenses of the year	Adjustable income/ expenses included in DVFA/SG result
Net income	**717.2**	**717.2**
Adjustable income		
Gains from fixed-asset disposals	(108.9)	(50.3)
Income from the release of accruals	(192.5)	(35.0)
Adjustable income, net total	**(301.4)**	**(85.3)**
Adjustable expenses		
Amortization of goodwill	193.9	171.2
Transfer to untaxed/special reserves	17.2	15.7
Other (nonrecurrent expenses Motex GmbH: DM 42.0 million; merger-related expenses: DM 47.4 million)	89.4	–
Adjustable expenses, net total	**300.5**	**186.9**
Result (acc. to DVFA/SG)		**818.8**
Third-party profit shares		(106.8)
Result acc. to DVFA/SG excl. third-party profit shares		**712.0**
Average number of shares ranking for dividend in fiscal year (million)		100.2
Earnings per share in DM (acc. to DVFA/SG)		**7.10**

Comments on the determination of DVFA/SG-based earnings

In fiscal 1996, the METRO AG Group earned a net income of DM 610.4 million (excluding third-party shares). In accordance with DVFA/SG recommendations, adjustments totaling DM +101.6 million were made to determine the DVFA/SG-based result. Each adjustment amount only accounts for the Group's share and is stated gross for net (i.e., excluding any imputed tax burden) since most adjustments refer to Group companies which do not earn any taxable income or are bound by a profit & loss transfer agrement with METRO AG, which, in turn, is carrying forward tax losses.

The highest amount of adjustment is the addition of amortized goodwill, attributable to goodwill from capital consolidation and to that carried forward from individual financial statements.

Both METRO AG's and the METRO AG Group's purposes include the acquisition and disposal as well as the management of land and buildings. Book gains and/or losses from the disposal of any such fixed assets are, therefore, not adjusted to the extent that they are part of the Group's ordinary business operations and not unusually high. When determining the DVFA/SG result, such book gains were deducted from net income as were yielded from the sale of land and buildings subsequently leased back.

A multitude of specific circumstances caused numerous Group companies to release accruals to income. None of the accruals providing for such circumstances were released in the period at an amount in excess of DM 12 million. Most of the accruals were provided for as a charge against such companies' operating result and, as far as former Asko, DSBK or Kaufhof Group companies are concerned, had already reduced these companies' DVFA/SG results in the past. Where the provision for accruals did not decrease DVFA/SG results, the amounts from the release of accruals were eliminated.

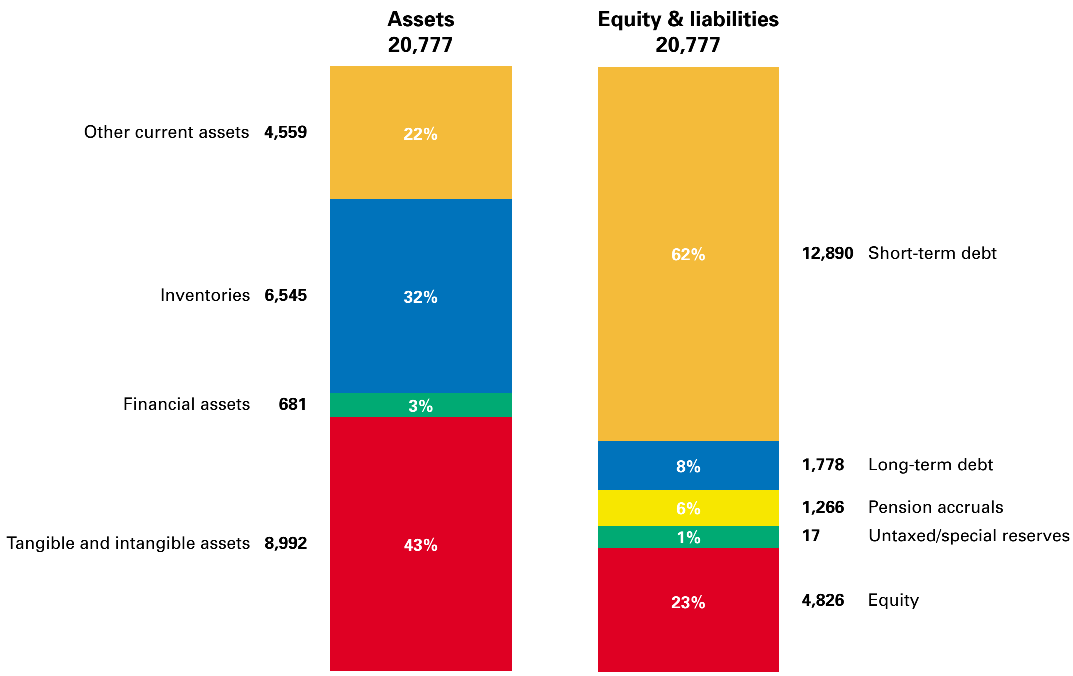
Cash flow according to DVFA/SG

The METRO AG Group's cash flow was determined according to DVFA/SG recommendations and reached DM 1,898 million for fiscal 1996. The resultant cash flow per DM 5 share of stock came to DM 18.93.

Cash flow of METRO AG Group

In DM million	1996
Net income of the Group	717
Amortization/depreciation/write-down of fixed assets	1,218
Straight cash flow	**1,935**
Change in noncurrent accruals	7
Transfer to untaxed/special reserves	17
All other items	(11)
Annual cash flow	**1,948**
Adjustment for significant cash income	(50)
Cash flow according to DVFA/SG	**1,898**

Balance sheet structure 1996, METRO AG Group
in DM million



Cash flow statement, METRO AG Group

In DM million	1996
Net income	717.2
Amortization/depreciation/write-up of fixed assets	1,217.8
Change in noncurrent accruals	6.4
Other non-cash expenses and income – net	6.4
Annual cash flow – gross	**1,947.8**
Profit/loss from fixed-asset disposals	(91.9)
Changes in current accruals	(38.9)
Changes in current assets and in liabilities	1,189.6
Net cash provided by operating activities	**3,006.6**
Cash provided by fixed-asset disposals	622.8
Cash used in additional fixed assets	(2,137.3)
Net cash used in investing activities	**(1,514.5)**
Decrease in third-party capital shares	(140.1)
Cash provided for stockholders	(104.9)
Other changes in equity	23.7
Decrease in financial debts	(114.6)
Net cash used in financing activities	**(335.9)**
Cash-based change in liquid assets	**1,156.2**
Cash and cash equivalents at Jan. 1	561.8
Cash and cash equivalents at Dec. 31	**1,718.0**

The cash flow statement was prepared in accordance with IdW Statement HFA 1/1995 (issued by Institut der Wirtschaftsprüfer in Deutschland e.V., a German society of sworn public auditors) and SG recommendations. The line "net cash provided by operating activities" additionally reflects the cash flow for the year. The net cash from financing activities states the liquid assets and note loans. Major effects of changes in the group of consolidated companies are reflected in the various account lines.

Metro stock

First quotation of METRO AG stock on July 25, 1996

On July 19, 1996, upon entry in METRO AG's Commercial Register of the merger, trading in Asko Deutsche Kaufhaus AG common and preferred stock, in Deutsche SB-Kauf AG common stock and in Kaufhof Holding AG common and preferred stock was discontinued. Pending the commencement of official quotation, initially only share exchange options for METRO AG stock were traded between July 19 and 24, 1996. Then, on July 25, 1996, METRO AG stock was for the first time officially listed at the stock exchanges in Frankfurt/Main and Düsseldorf. The opening price of common stock was DM 136, while preferred stock I and II was each quoted at DM 101.

Par value of Metro stock fixed at DM 5

By subdividing the capital stock into DM 5 shares at par after the merger, the magnitude of Metro stock prices is now on an internationally accepted level. METRO AG thus addresses a wide range of potential stockholders and promotes investment in shares by private individuals.

METRO AG's stock is divided into three classes: common stock, preferred stock I, and preferred stock II. In terms of dividend privileges, preferred shares I are based on former Kaufhof preferred stock, while Metro preferred stock II is predicated on former Asko preferred stock. This means that the two classes of preferred stock entitle holders to different dividend claims depending on the percentage of distribution for common stock (in percent of share par value).

Equity-funded capital increase

The increase in capital stock, announced in the merger period and to be equity funded, has meanwhile been firmly planned. Subject to the approval by the annual stockholders' meeting of July 9, 1997, the capital stock will be raised in the ratio of 5:7 by transfer from the reserve from capital surplus. The capital stock will then increase by DM 701.7 million, from DM 501.2 million to DM 1,202.9 million.

This move is believed to clearly improve the liquidity of all Metro stock classes after implementation of the capital transactions.

At the same time, based on the proposed adjustment ratio, another accounting adjustment to the Metro stock price level in relation to other listed international trading corporations will be the consequence.

After implementing the equity-funded capital increase and fully utilizing the EK-01 low-tax equity portion, profit distributions for fiscal 1997 will probably be made from the tax-exempt EK-04 equity portion; since this source of distribution is deemed repaid capital, it will be nontaxable income for stockholders. However, stockholders carrying their investment in METRO AG as operating assets will be required to deduct such distributions from their book value.

Metro stock: prices volatile

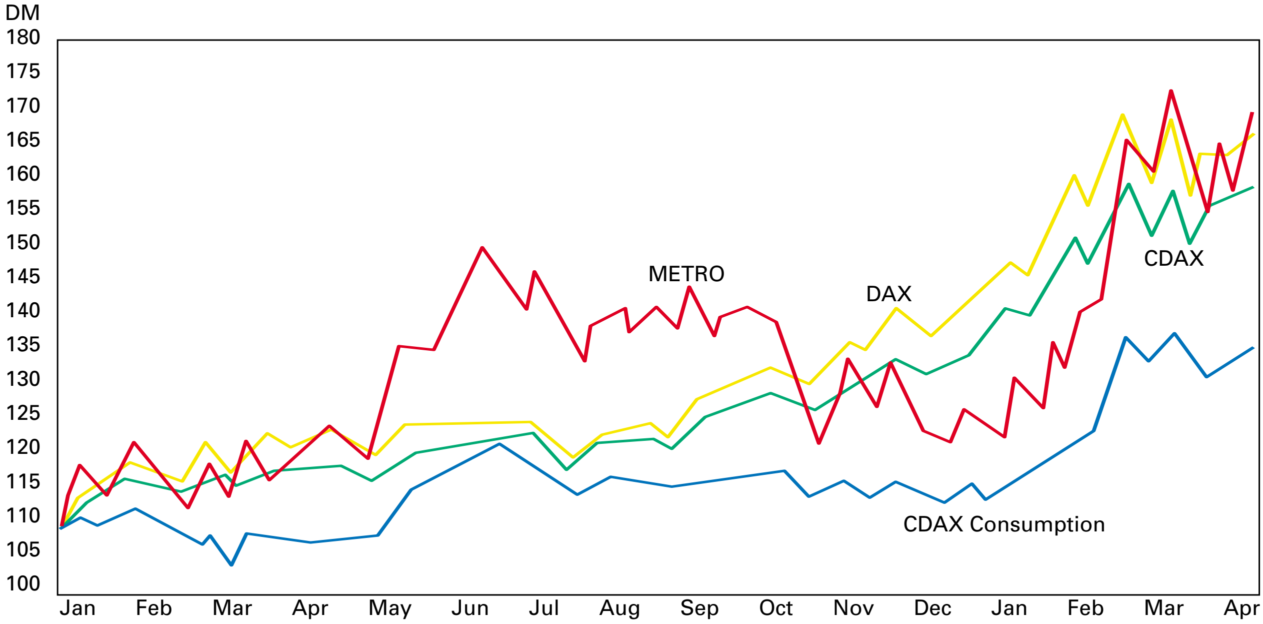
Against the backdrop of a continuing weak situation within the German consumer goods retail trade and with sales and income prospects remaining poor in comparison with other DAX sectors, German retail stocks in 1996 fell short of the DAX/CDAX average.

In the year 1996, the German stock index (DAX) climbed 28.2 percent to 2,888.69 points. The CDAX index, which covers 356 German listed companies (as of December 30, 1996), likewise surged by 22.1 percent to 263.46 points. In contrast, the so-called CDAX Consumption Index, which reflects the price trend of German listed companies of the retail and consumer goods industries, underperformed, inching up by 4.2 percent to 143.28 points at December 30, 1996.

As of December 30, 1996, Metro common stock was quoted at a closing price of DM 124, hence some 8.8 percent below the opening quotation of DM 136. Preferred stock I and II fell 13.9 and 15.8 percent to DM 87 and DM 85, respectively.

As from January through end-April 1997, prices of Metro stock showed a general upswing.

Metro stock price trend[1)]



[1)] January 1996 through April 1997. Metro stock absolute; determination of historical price trend (Jan. 2 to July 18, 1996) based on price history of Kaufhof common stock and allowing for merger-related share exchange ratio plus cash premium. DAX, CDAX, CDAX Consumption indexed to Metro stock.

Source: Datastream

Taking into account the share exchange ratios, which were fixed during the merger proceedings, and of the cash dividends paid in 1996 (for German resident Kaufhof stockholders, including tax credit), the investment growth for an Asko or Kaufhof common stockholder versus the close of 1995 came to 48.9 and 30.2 percent, respectively. In a direct performance comparison with the DAX/CDAX (and particularly with the CDAX Consumption Index) for the entire year, Metro common stock did well. Using the above computation basis, the value of Metro preferred stock I (ex Kaufhof) and II (ex Asko) rose by 16.7 and 24.4 percent, respectively.

METRO AG's end-1996 market capitalization at DM 12.07 billion

Since its initial listing, METRO AG has been among the 30 corporations included in the DAX. Admission criteria are market capitalization and stock exchange trading volume of Metro stocks. With a market capitalization of DM 12.07 billion as of December 30, 1996, METRO AG is among the 20 biggest German listed companies. In just under five months' trading after the first official quotation, Metro stock worth some DM 11.5 billion was turned over at the Frankfurt/Main and Düsseldorf bourses (excluding IBIS trading, a screen-based system comprising Germany's top 30 shares and leading bond issues). Translated into all-1996 turnover of Metro stock, this would correspond to a volume worth around DM 25.7 billion. Among all the companies listed in Germany, METRO AG thus ranks 23rd and is Germany's largest listed trading corporation.

Metro stock indicators 1996

Data per share		Common stock	Preferred stock I	Preferred stock II
Annual closing price	DM	124.00	87.00	85.00
Annual high	DM	143.00	103.70	104.00
Annual low	DM	120.50	86.50	83.00
Shares	number	90,658,539	7,963,880	1,620,000
Option rights outstanding	number	2,978,576	–	–
Cash dividend	DM	2.00	2.25	2.25
Bonus	DM	2.00	2.00	2.00
Tax credit[1]	DM	0.07	0.07	0.07
Total distribution	DM	4.07	4.32	4.32
Dividend yield[2] (incl. bonus)	%	3.3	5.0	5.1

Per DM 5 share of stock		
Earnings (net) acc. to DVFA/SG	DM	7.10
Cash flow acc. to DVFA/SG	DM	18.93
Market/book value		2.5
Market capitalization	DM bill.	12.07

[1] for German resident stockholders
[2] based on annual closing price

METRO AG intensifies dialogue with capital markets

In the course of the merger proceedings, the Executive Board held many meetings with analysts and investors in order to explain the merger background and present the future corporate strategy. One focal session was held on March 14, 1996, with some 170 analysts and investors from Germany and abroad.

METRO AG sees investor relations as targeted, ongoing communication with investors and analysts on METRO AG's business development, both past and present, and its expectations from the market.

Additional information

Reuters' abbreviations:	
Common stock	MEOG.F
Preferred stock I	MEOG_p.F
Preferred stock II	MEOG_pa.F
Option warrant (86/98)	DE781905.F
Bloomberg's abbreviations:	
Common stock	MEO GR
Preferred stock I	MEO3 GR
Preferred stock II	MEO5 GR
Option warrant (86/98)	KFHC GR
Securities identification numbers (SINs):	
Common stock	725 750
Preferred stock I	725 753
Preferred stock II	725 755
Option warrant (86/98)	781 905
Metro stock is traded at:	Frankfurt/Main, Düsseldorf stock exchanges; IBIS
Investor relations agenda 1997/1998:	
Annual earnings conference/ analysts meeting 1997	May 27, 1997
Annual stockholders' meeting 1997	July 9, 1997
Semiannual report 1997	late August 1997
Sales report 3rd quarter 1997	late October 1997
Quiet period	December 1997 to January 1998
Preliminary sales report 1997	early February 1998
Sales report 1st quarter 1998	late April 1998

Annual accounts 1996
of the METRO AG Group

Notes
to the METRO AG Group's financial statements

(1) Legal basis, date of initial consolidation and comparative data

METRO AG's consolidated accounts have been prepared in accordance with the provisions of the German Commercial Code ("HGB") and the German Stock Corporation Act ("AktG"). The METRO AG Group was formed by Metro Vermögensverwaltung GmbH & Co KG contributing in March 1996 to METRO AG the stock held in Asko Deutsche Kaufhaus AG and Kaufhof Holding AG, along with its interest in Metro SB-Grossmärkte GmbH & Co KG and various other companies. Such contributions in kind took economic effect at January 1, 1996, which is hence the date of the METRO AG Group's formal inception.

In mid-July 1996, the mergers of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG into METRO AG were entered in the Commercial Registers concerned and took retroactive effect as of January 1, 1996, thus the date underlying the first-time consolidation of all companies included in the Group accounts.

With a view to enhancing conclusiveness of the 1996 Group accounts, the comparative figures in the consolidated balance sheet as of December 31, 1996, are the post-merger values at January 1, 1996. The same accounting and valuation principles as for the accounts at January 1, 1996, were consistently applied. No comparative figures can be provided for the 1996 consolidated income statement since the Group has existed for one year only.

The annual financial statements of companies included in the Group accounts are predicated on Groupwide uniform accounting and valuation principles. The fiscal year of most of these companies is identical with METRO AG's. Wherever fiscal years of companies included close at a date different from METRO AG's and thus also from the Group's balance sheet date, interim financial statements were prepared for consolidation purposes.

(2) Group of consolidated companies, associated affiliates

Besides METRO AG as the parent, the Group accounts comprise 444 German and 110 foreign companies in which METRO AG directly or indirectly holds the majority of voting rights.

Pursuant to Art. 271 par. 2 HGB, the list of Group companies encompasses not only METRO AG's subsidiaries but also those of Düsseldorf-based Metro Vermögensverwaltung GmbH & Co KG and Baar-based Metro Holding AG which directly or indirectly hold a majority stake in METRO AG. The relations to these companies (which do not require inclusion in METRO AG's consolidated accounts) are disclosed in separate caption lines under "nonconsolidated Group companies."

Under the terms of Art. 296 HGB, 28 subsidiaries of minor significance are not consolidated; of these, 13 companies are not or no longer engaged in operational activities.

In comparison with January 1, 1996, the group of consolidated companies changed as follows:

Number at Jan. 1, 1996	**509**
Changes in fiscal 1996:	
due to mergers into other Group companies	–18
due to voting right changes	–3
due to new formations	+50
due to share acquisitions	+16
Number at Dec. 31, 1996	**554**

The additions due to share acquisitions refer to Praktiker Dritte Baumärkte GmbH & Co KG (formerly Spar Bau- und Heimwerkermärkte GmbH), 5 non-German companies as well as real-estate enterprises.

The investments in 10 so-called associated affiliates – i.e., entities over which a consolidated company can exercise a significant influence on business and financial policies and 20 percent or more of whose voting rights are held (statutory assumption) – are included in the Group accounts at equity under the terms of Arts. 311, 312 HGB. Pursuant to Art. 311(2) HGB, 26 associated affiliates of minor significance are stated at book value.

The full listing of the METRO AG Group's consolidated companies and associated affiliates will be deposited with the Commercial Register of the Local Court of Cologne under no. HRB 26888. The complete list of Group companies may, moreover, be obtained directly from METRO AG.

(3) Consolidation principles

For consolidation, the so-called book value method of accounting is adopted: In a single step, the cost of subsidiaries is offset against the Group's share in the subsidiaries' equity as of the date of first-time consolidation or acquisition. In accordance with legislative provisions, any resultant net equity under cost is allocated to the reserves hidden in the consolidated subsidiaries' assets. Any residual net equity under cost is disclosed as goodwill.

The shares in Asko Deutsche Kaufhaus AG's and Kaufhof Holding AG's stock were contributed to METRO AG in terms of time and logic consequence prior to the merger into METRO AG of these holding companies. Therefore, initial consolidation is required to be based on the book values of METRO AG's investments in these holding companies. Under the initial consolidation of the shares in Asko Deutsche Kaufhaus AG's and Kaufhof Holding AG's stock, the resultant net equity was first applied to all assets and liabilities of the subgroup concerned, in due accordance with Art. 301 par. 1(3) HGB. The net equity under cost from the first-time consolidation of Kaufhof Holding AG has been fully allocated to the reserves hidden in the Kaufhof subgroup's land and buildings, while the maximum net equity from the initial consolidation of Asko Deutsche Kaufhaus AG's stock has been applied to this subgroup's real property and real-estate investee companies. Any residual net equity under cost is disclosed as goodwill.

Goodwill acquired by the Group for valuable consideration is also capitalized to the extent that such goodwill is allocable to third-party stockholders. Amortization of third-party shares in goodwill is charged to the Group's income and disclosed as third-party P&L shares.

Investees included at equity are capitalized according to the book value method at their prorated equity. Any net equity under cost from the inclusion at equity of investments in associated affiliates as of December 31, 1996, is shown under goodwill.

The minority shares of outside stockholders in the capital of consolidated subsidiaries are disclosed separately pursuant to Art. 307(1) HGB. The same applies to third-party shares in goodwill to the extent that these outside stockholders have acquired such goodwill jointly with the Company.

Under the terms of Art. 308 par. 3(1) HGB, the untaxed/special reserves set aside in the individual financial statements are principally carried over to the consolidated accounts. Untaxed/special reserves existing at initial consolidation date are allocated to deferred taxation or to the reserves retained from earnings in accordance with their third-party capital shares or their equity shares, respectively, thus being duly reflected in capital consolidation.

Intercompany P&L, intra-Group transfers, expenses and income, as well as receivables and payables are eliminated. The option of third-party debt consolidation is utilized.

If based on timing differences substantially after 4 years, deferred taxes are provided for income tax effects from consolidation transactions recognized in net income. The reason for this approach is that tax loss carryovers exist within the METRO AG Group which, according to current income forecasts, will have been fully applied after 3 or 4 years.

(4) Currency translation

All balance sheet captions, including net income and all lines upstream of net earnings, denominated in non-DM currencies are translated at the mean current rate. For expenses and income, the annual average rate is used. Currency translation differences are thus produced in the income statement which are posted to other operating expenses or other operating income, as applicable. Consolidation-related differences from currency translation are offset against the reserves retained from earnings and not recognized in net income.

(5) Accounting and valuation principles

Intangible assets are stated at acquisition cost, tangible assets at purchase or production cost, both less accumulated systematic amortization or depreciation, less write-down and less accelerated cost recovery (ACR) charges as applicable or required. Additions to movable tangibles are generally depreciated by using the tax convenience of charging the full or half the rate for additions in the first or the second six-month period, respectively. Systematic depreciation is charged to buildings and self-contained building appurtenances or elements on a straight-line basis, while for movable tangible assets, the declining-balance method is as a rule used wherever permitted by tax regulations. From the year in which straight-line depreciation exceeds declining-balance charges, the former method is adopted thenceforth. Assets are written down whenever any impairment in value is of a long-term nature. So-called low-value assets (i.e., at net cost of DM 800 or less) are fully written off in the year of their addition. Systematic amortization and depreciation are based on the following useful lives (AAR/ADRs) throughout the Group:

Goodwill:	generally 15 years
Buildings:	25–50 years
Leasehold improvements:	lease term or 10 years, whichever is shorter
Store improvements:	7 years (first use prior to 1-1-1994: 8 years)
Factory and office equipment:	3–10 years

Where holdings of minor significance are involved, investments in associated affiliates and shares in nonconsolidated Group companies are capitalized at cost. Investments other than insignificant in associated affiliates are then stated at the prorated net accounting equity. For first-time consolidation purposes, the cost of such associated affiliates is offset against their prorated equity, any adjustment to Groupwide uniform valuation methods being waived in these cases. The cost of investments stated according to the equity method of accounting varies as a function of the annual change in equity capital.

Long-term loans are capitalized at par, non- or low-interest loans being discounted to their present values.

Inventories are priced at the lower of cost or market.

Purchase cost of inventories is partly determined on a cost price basis according to the merchandise information system (MIS), or else by applying the inverse method to the selling value. Where the inverse method is used to determine purchase cost, the markdown rates derived from pricing margins of stocks on hand are deducted from stocked goods valued at selling prices.

Risks from changing fads and similar exposures are adequately allowed for at standard industry rates. Pricing is based on net realizable values.

Production cost also includes reasonable portions of overhead expenses besides direct costs.

Receivables and sundry assets are principally stated at par or face value. Specific allowances provide for the risks inherent in doubtful receivables; non-interest receivables are discounted. Standard allowances for doubtful accounts provide for part of the general collection risk.

Short-term securities and note loans are valued at cost, market or current value, whichever is lower.

Accruals provide for foreseeable or apprehensible risks, uncertain commitments and impending losses, as deemed appropriate in accordance with sound business practice and judgment. The actuarial present value is used to provide for pension accruals, on the basis of an imputed yearly interest rate of 6 percent, all pursuant to Art. 6a German Income Tax Act ("EStG"). Same-amount accruals provide for the deficient cover resulting from nonconsolidated Supplementary Pension Funds. Long-term accruals, such as for deficient rental cover or employment anniversary allowance commitments, are disclosed at par, i.e. not discounted.

Liabilities are generally stated at the amount repayable.

Financial derivatives of interest rate and currency management are used to minimize risks from the companies' operational activities, their valuation being itemwise and predicated on the imparity principle (which requires unrealized losses to be accrued and prohibits recognition of unrealized profits).

Nonlisted financial instruments are valued either as marked to market, by using generally accepted option pricing models or, for non-option-type derivatives, according to the present-value method.

Currency-related financial transactions are principally valued at the current mean spot price. Exchange transactions maturing later are valued at the forward rates for the respective remaining terms.

For interest rate futures and options thereon, net security payments made are directly deducted.

Specific accruals provide in principle for impending losses from derivative financial instruments at the notional losses from evening up such positions (marked to market). In accordance with the true-and-fair-view standards of Art. 264 par. 2(1) HGB and in line with international practice, transactions constituting economic units and whose collateralization is objectively interrelated are valued on an offset basis, i.e., within a position valued as a unit, losses from unsettled contracts are offset against, and up to the amount of, unrealized profits. The formation of separate valuation units is premised on currency identity, financial-standing identity (prime debtors exclusively), and substantially matching maturities.

Comments on the consolidated balance sheet

(6) Fixed assets

In DM million	Balance at 1-1-1996	Change in the group of consol. comp. Additions/ (Disposals)
Intangible assets		
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	304.783	1.263 –
Goodwill	2,576.032	– –
Prepayments on intangibles	2.488	– –
	2,883.303	1.263 –
Tangible assets		
Land, equivalent titles, and buildings (including buildings on leased land and leasehold improvements)	6,511.400	42.902 (9.386)
Production plant and machinery	124.879	0.163 –
Other plant, factory and office equipment	3,362.449	21.472 –
Prepayments on tangibles, construction in progress	174.756	0.311 (10.626)
	10,173.484	64.848 (20.012)
Financial assets		
Shares in nonconsolidated Group companies	73.420	0.610 –
Loans to nonconsolidated Group companies	14.339	– –
Other investments	285.147	6.131 (3.064)
Investments in associated affiliates	225.322	– (147.111)
Loans under investor/investee relations	25.163	57.210 –
Other long-term securities	61.411	0.050 –
Other long-term loans	138.890	– (0.911)
	823.692	64.001 (151.086)
Total	13,880.479	130.112 (171.098)

[1] Amortization, depreciation, write-down, write-off

*) Including net income prorated at DM 20.420 million (= addition), net loss prorated at DM 7.849 million and profits distributed at DM 1.770 million (= disposals)

**) DM 34.492 million reclassified from long-term into short-term securities, as well as the DM 9.225 million reclassified from prepaid rentals into prepaid expenses and deferred charges resulted in a non-zero book transfer balance.

Additions	Book transfers	Disposals	Charges[1] (accumulated)	**Balance at 12-31-1996**	Charged[1] in fiscal year
At cost					
126.015	1.414	54.072	221.217	**158.186**	79.413
223.227	33.903	54.605	326.785	**2,451.772**	193.869
0.543	(1.120)	0.425	–	**1.486**	–
349.785	34.197	109.102	548.002	**2,611.444**	273.282
579.218	147.074	220.882	2,150.022	**4,900.304**	315.147
14.983	4.674	27.429	92.809	**24.461**	18.168
760.362	5.753	592.960	2,216.654	**1,340.422**	604.864
158.136	(144.367)	24.930	37.168	**116.112**	6.367
1,512.699	13.134	866.201	4,496.653	**6,381.299**	944.546
0.300	–	0.059	31.548	**42.723**	–
–	–	13.839	0.500	**–**	–
176.927	(11.556)	10.996	28.657	**413.932**	–
61.968 [*)]	(35.775)	15.301 [*)]	2.093	**87.010**	–
3.405	–	14.056	50.825	**20.897**	–
0.749	(26.147)	32.017	0.015	**4.031**	–
44.901	(17.570)	42.289	10.899	**112.122**	0.345
288.250 [*)]	(91.048)	128.557 [*)]	124.537	**680.715**	0.345
2,150.734	(43.717) [**)]	1,103.860	5,169.192	**9,673.458**	1,218.173

The 1996 additions (excluding goodwill and financial assets) are allocable to the divisions as follows:

In DM million	
Metro Wholesale	**133.993**
Department Stores	**290.461**
Hypermarkets	**197.530**
Food Stores & Discounters	**120.353**
Consumer Electronics Centers	**111.953**
Home Improvements Centers	**86.360**
Furniture Centers	**31.488**
Computer Centers	**53.389**
Fashion Centers	**27.805**
Footwear Centers	**10.138**
Mail Order	**5.214**
Restaurant & Catering	**17.566**
Real Estate	**424.565**
Others	**128.442**
	1,639.257

(7) Intangible assets

Breakdown as of December 31, 1996, of the total goodwill of DM 2,451.772 million:

- DM 2,203.220 million net equity under cost from capital consolidation
- DM 122.270 million difference from inclusion at equity,
- DM 126.282 million goodwill carried over from individual financial statements.

The additions to goodwill mainly result from the acquisition of Praktiker Dritte Baumärkte GmbH & Co KG (formerly Spar Bau- und Heimwerkermärkte GmbH), as well as from that of further Vobis Microcomputer AG stock.

Besides goodwill, intangible assets basically include purchased software.

Goodwill is amortized over the anticipated period of benefit, as a rule 15 years.

(8) Tangible assets

When initially consolidating the shares in Kaufhof Holding AG and Asko Deutsche Kaufhaus AG, conservatively valued reserves hidden in land and buildings were disclosed.

Depreciation of tangible assets includes write-down at DM 25.223 million and ACR charges of DM 2.009 million under the terms of Art. 4 German Economic Area Promotion Act ("FördG").

(9) Financial assets

The additions to investments chiefly refer to capital spent on foreign companies which hold real property for expansion outside of Germany. The book value at December 31, 1996, largely reflects that of real-estate enterprises.

The additions to investments in associated affiliates include DM 20.420 million of prorated net incomes. Disposals reflect profits distributed at DM 1.770 million and prorated net losses of DM 7.849 million. A major item included in the book value as of December 31, 1996, is the investment in Roller GmbH & Co KG.

(10) Inventories

In DM million	**12-31-1996**	1-1-1996
Raw materials and supplies	**145.005**	153.727
Work in process	**12.526**	43.081
Finished products, merchandise	**6,338.461**	6,383.387
Prepayments made	**48.723**	53.126
	6,544.715	6,633.321

Breakdown of inventories by division as of December 31, 1996:

In DM million	
Metro Wholesale	**723.025**
Department Stores	**1,691.236**
Hypermarkets	**871.056**
Food Stores & Discounters	**601.439**
Consumer Electronics Centers	**810.635**
Home Improvements Centers	**803.768**
Furniture Centers	**299.076**
Computer Centers	**279.864**
Fashion Centers	**168.318**
Footwear Centers	**143.595**
Mail Order	**71.437**
Restaurant & Catering	**5.290**
Others	**75.976**
	6,544.715

(11) Receivables and sundry assets

In DM million	12-31-1996	1-1-1996
Trade receivables	**656.911**	690.454
thereof with a remaining term of more than 1 year	**[0.822]**	
Due from nonconsolidated Group companies	**46.634**	194.773
thereof with a remaining term of more than 1 year	**[–]**	
thereof from trading	**[26.127]**	
Receivable under investor/ investee relations	**118.942**	112.339
thereof with a remaining term of more than 1 year	**[–]**	
thereof from trading	**[0.641]**	
Sundry assets	**1,689.013**	1,714.286
thereof with a remaining term of more than 1 year	**[88.912]**	
	2,511.500	2,711.852

Sundry assets are mainly short-term receivables typically disclosed at balance sheet date (creditors with debit balances, tax reclaims, rebates and similar credits receivable from merchandise management, and purchase price claims from the disposal of shares in subsidiaries).

(12) Short-term securities and note loans

In DM million	12-31-1996	1-1-1996
Shares in nonconsolidated Group companies	**0.471**	8.004
Other short-term securities	**231.634**	247.719
Note loans	**114.690**	109.902
	346.795	365.625

The other short-term securities primarily include shares in Hapag-Lloyd AG stock. The note loans were granted to real-estate enterprises and are used to fund operating outlets within in the METRO AG Group.

(13) Prepaid expenses and deferred charges

These substantially include prepaid rentals. Loan discount of DM 0.808 million is amortized by systematic charges over the underlying liabilities' term.

(14) Equity

The METRO AG Group's equity presented the following changes since January 1, 1996:

In DM million	METRO AG's capital stock	METRO AG's reserve from capital surplus	Reserves retained from earnings	Unappropriated retained earnings, Group	Third-party equity shares	Total
Balance at Jan. 1, 1996	501.014	2,725.363	–	–	1,114.900	4,341.277
Exercise of option rights	0.198	4.245				4.443
Unappropriated retained earnings				403.366	106.811	510.177
Transfer from net income to reserves retained from earnings			207.037			207.037
Currency translation			8.446			8.446
Net equity under cost of shares acquired					(140.149)	(140.149)
Distribution to third parties from profit carried forward					(92.504)	(92.504)
Distribution to third parties from 1996 profit					(12.372)	(12.372)
Balance at Dec. 31, 1996	**501.212**	**2,729.608**	**215.483**	**403.366**	**976.686**	**4,826.355**

(15) Capital stock

METRO AG's capital stock corresponds to the par value of stock issued. The exercise of option rights caused the capital stock to rise by DM 0.198 million to DM 501.212 million by December 31, 1996. The capital stock breaks down as follows:

Class	Number	Par value per share	Total par value DM million
Common stock	90,658,539	DM 5	453.293
Preferred stock I	7,963,880	DM 5	39.819
Preferred stock II	1,620,000	DM 5	8.100
Capital stock	100,242,419	DM 5	501.212

As of December 31, 1996, a potential capital exists at DM 14.893 million to enable the Company to grant shares of METRO AG common stock to bondholders of Metro Finance B.V.'s 2% DM Warrant Bond Issue of 1986/1998 upon exercise of their option rights.

(16) Reserve from capital surplus

This reserve includes the stock premiums earned in the scope of the capital raise through the contribution in kind (contribution of the stakes held in Asko Deutsche Kaufhaus AG, Kaufhof Holding AG and the Metro Cash & Carry companies), the merger with Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG, as well as the exercise of option rights.

(17) Reserves retained from earnings

These reserves disclose the 1996 profits (unless distributed) of companies included in the Group accounts. DM 211.070 million of these reserves represents earnings retained by METRO AG.

(18) Third-party equity shares

The shares of outside stockholders in capital and reserves amount to DM 882.247 million. After distributions already made, equity includes DM 94.439 million as third-party P&L share.

(19) Accruals

In DM million	12-31-1996	1-1-1996
Pension accruals	**1,266.165**	1,266.631
Tax accruals	**417.197**	330.669
Other accruals	**2,375.113**	2,492.366
	4,058.475	4,089.666

Pension accruals provide for company-specific direct pension commitments, as well as for obligations under various pension schemes handled by independent pension and similar funds. The availability to newly recruited employees of benefits payable by these funds has been or will be excluded in the course of 1997. The accruals fully provide for obligations.

The tax accruals mainly provide for municipal trade taxes and include reasonable amounts to allow for risks from tax audits.

The other accruals substantially provide for the following uncertain commitments and obligations:

In DM million	
Rental obligations	**522.173**
Personnel-related commitments	**439.264**
Closedown and restructuring	**401.767**
Commodity trade commitments	**191.678**
Invoices outstanding for capital expenditure and costs	**182.669**
Deferred maintenance	**64.331**
Suretyships, guaranties and warranties	**54.334**
Litigation fees and risks	**50.791**
Guaranty obligations	**48.340**
Other	**419.766**
	2,375.113

Long-term accruals, such as for deficient rental cover or employment anniversary allowance commitments, are disclosed at par, i.e. not discounted.

(20) Liabilities

In DM million	12-31-1996	1-1-1996
Bonds	**542.495**	492.171
Due to banks [1]	**643.556**	851.767
Prepayments received on orders	**114.760**	78.048
Trade payables	**7,335.366**	6,686.938
Notes payable	**1,300.039**	539.934
Due to nonconsolidated Group companies [2]	**343.862**	500.274
Payable under investor/ investee relations [3]	**30.948**	196.448
Sundry liabilities	**1,127.654**	1,342.824
thereof for taxes	**[501.269]**	
thereof from social security	**[218.711]**	
	11,438.680	10,688.404

[1] incl. DM 246.838 million to finance real property
[2] incl. DM 75.313 million from trading
[3] incl. DM 0.847 million from trading

The analysis below ages the liabilities as of December 31, 1996:

In DM million	12-31-1996 Total	Remaining term of 1 year or less	Remaining term of more than 5 years	Thereof collateralized by charges on realty	Thereof collateralized by other interests
Bonds	**542.495**	60.213	134.282		
Due to banks	**643.556**	65.382	288.116	246.838	5.633
Prepayments received on orders	**114.760**	105.475			
Trade payables	**7,335.366**	7,334.487			
Notes payable	**1,300.039**	1,300.039			
Due to nonconsolidated Group companies	**343.862**	201.405			
Payable under investor/investee relations	**30.948**	23.494	7.448		
Sundry liabilities	**1,127.654**	1,080.893	22.396	13.048	5.460
	11,438.680	10,171.388	452.242	259.886	11.093

The bonds have been floated by Metro Finance B.V. and guaranteed by METRO AG.

The sundry liabilities chiefly include taxes payable, personnel-related obligations, pension commitments, interest payable, as well as miscellaneous borrowings to finance purchase prices.

(21) Deferred income

This caption basically reflects income from forfaiting and factoring within the leasing business.

(22) Contingent liabilities

In DM million	12-31-1996
Suretyships and guaranties	**450.683**
Notes endorsed and discounted	**0.082**
Guaranty and warranty contracts	**535.726**
	986.491

(23) Other financial obligations

In DM million	12-31-1996
Obligations from leases, rental and leasing contracts (per annum)	**2,615.867**
thereof nonconsolidated Group companies	**[3.901]**
Commitments from share tender rights	**922.187**
Purchasing commitments	**132.860**
Liability as general partner	**11.354**
All other	**18.703**
	3,700.971

(24) Derivative financial instruments

At balance sheet date, the following derivatives were used to minimize risks:

In DM million	Volume at par (net positions)	Market value (net positions)
Interest rate transactions		
Listed products:		
3 months	549.000	(0.590)
5 years	304.000	0.584
10 years	611.250	6.679
	1,464.250	6.673
OTC products:		
Interest rate swaps	854.160	38.576
Swaptions	20.000	0.374
Caps and collars	450.000	1.928
	1,324.160	40.878
Currency transactions		
OTC products:		
Futures	488.356	6.714
Interest rate/currency swaps	7.880	(8.005)
Spread options	108.836	0.301
Call options	11.500	0.071
	616.572	(0.919)
	3,404.982	46.632

The volume at par is based on the net position of the buying and selling prices underlying the various transactions. The market value shown is the net balance of unrealized profits and losses from marking the positions to market. Accruals provide for negative market values. For details of derivatives accounting and valuation, see Note (5). Exchange futures exclusively mature within one year.

Comments on the income statement

(25) Sales

Gross 1996 sales break down as follows:

In DM million	
Metro Wholesale	**11,033.102**
Department Stores	**11,539.315**
Hypermarkets	**10,721.634**
Food Stores & Discounters	**7,858.960**
Consumer Electronics Centers	**7,631.684**
Home Improvements Centers	**4,303.958**
Furniture Centers	**1,704.174**
Computer Centers	**3,134.880**
Fashion Centers	**1,417.201**
Footwear Centers	**816.440**
Mail Order	**494.589**
Restaurant & Catering	**474.106**
Other	**894.021**
	62,024.064

DM 3,014.567 million of sales is allocable to Group companies based outside of Germany.

(26) Other operating income

In DM million	
Rentals	**703.068**
Building/construction work	**360.139**
Advertising services	**306.631**
Release of accruals	**192.526**
General services	**175.096**
Central A/P clearing for divisions	**151.415**
Gains from fixed-asset disposals	**108.932**
Sundry	**435.388**
	2,433.195

Income from building/construction work contrasts with approximately equivalent expenses.

The income from the release of accruals refers to a large number of transactions in numerous companies, including (without being limited thereto) accruals for deficient rental, closedowns and restructuring, invoices outstanding for costs, litigation risks, as well as for warranties.

The income from central A/P clearing for divisions is related with the settlement of trade payables via a central clearing office.

(27) Cost of materials

In DM million	
Raw materials, supplies, merchandise purchased	**39,819.431**
Services purchased	**41.272**
	39,860.703

(28) Personnel expenses

In DM million	
Wages and salaries	**6,435.341**
Social security taxes, expenses for pensions and related fringe benefits	**1,328.441**
thereof pension expense	**[101.299]**
	7,763.782

In the year under review, expenses for social plans under restructuring programs were incurred at DM 102.168 million.

(29) Amortization of intangible and depreciation of tangible assets

In DM million	
Amortization of goodwill from capital consolidation	**154.502**
Amortization of goodwill from inclusion at equity	**8.733**
Amortization of goodwill from individual annual accounts	**30.634**
Amortization of other intangible assets	**79.413**
Depreciation of tangible assets	**944.699**
	1,217.981

The amortization of goodwill carried over from the individual to the consolidated financial statements includes write-down at DM 8.884 million. Depreciation of tangible assets also covers ACR charges of DM 27.232 million.

The application of different currency translation rates in balance sheet and income statement produced a difference of DM 0.153 million in the fixed-asset analysis.

(30) Other operating expenses

In DM million	
Rentals	2,486.822
Advertising and promotion	1,399.879
Maintenance	470.659
Energy	450.962
Building/construction work	330.157
Transportation of goods	294.517
Personnel-related expenses	292.859
Cleaning/waste disposal	230.732
Materials consumption	185.854
Postages and related expenses	138.117
Legal, audit and similar fees	128.342
Closedown and restructuring expenses	109.107
Insurances	77.544
Sundry	978.254
	7,573.805

The sundry other operating expenses largely involve administrative, EDP, vigilance and payment transaction expenses.

(31) Income from investments

In DM million	
Net P/L from associated affiliates	16.991
Income from other investments	2.408
	19.399

(32) Net financial result

In DM million	
Other interest and similar income	182.932
thereof from nonconsolidated Group companies	[2.017]
Other financial income	103.826
Income from other long-term securities and loans	7.503
Write-down of financial assets and short-term securities	(1.056)
Other financial expenses	(103.906)
Interest and similar expenses	(261.294)
thereof to nonconsolidated Group companies	[(18.974)]
	(71.995)

(33) Income taxes

In DM million	
Corporation income tax	150.153
Municipal trade tax on income	112.310
Non-German income taxes	2.420
	264.883
Deferred taxes	9.603
	274.486

At December 31, 1996, tax loss carryovers existed within the METRO AG Group at DM 3.8 billion for corporation income tax purposes and at DM 3.5 billion as credit against municipal trade tax on income. Such loss carryovers can be applied for an indefinite period of time.

(34) Net income

METRO AG's net income amounts to DM 614.436 million, the Group's to DM 717.214 million. Major reasons for the difference are the DM 106.811 million third-party P&L shares, as well as consolidation effects.

The Group's net income is affected by accelerated cost recovery (ACR) charges to an insignificant extent only.

(35) Third-party shares in net income

The third-party shares in profit and loss amount to DM 142.488 million and DM 35.677 million, respectively.

(36) Additional data

Average number of employees	1996
White-collar	**135,722**
Blue-collar	**33,075**
Apprentices/trainees	**7,721**
	176,518

The figures include 75,364 part-timers per capita.

(37) Supervisory and Executive Boards

For their activities on behalf of METRO AG, Supervisory Board members received DM 0.775 million. Up to the date of registration of the merger, former Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG paid total emoluments of DM 2.151 million to their Supervisory Board members, whose total remuneration thus came to DM 2.926 million.

The emoluments paid to the Executive Board members for their services on behalf of METRO AG from January 1 through December 31, 1996, totaled DM 15.611 million. For the period from January 1, 1996, up to July 19, 1996, the date of merger registration, the remuneration paid to the other Executive Board members of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG totaled DM 6.717 million.

Former Executive Board members of the companies absorbed by METRO AG and their surviving dependants received DM 6.458 million; METRO AG provided a total DM 75.569 million for their accrued pensions.

Supervisory Board members

Erwin Conradi
Chairman
Baar/Switzerland
Executive Board chairman
of Metro Holding AG

Klaus Bruns
Vice-chairman
Oberhausen
Kaufhof Warenhaus AG
as from Aug. 14, 1996

Hans-Dieter Cleven
Baar/Switzerland
Executive Board vice-chairman
of Metro Holding AG

Holger Grape
Hamburg
Head of the Trade & Private Services
occupational group of the DAG union
as from Aug. 14, 1996

Prof. Dr. Erich Greipl
Düsseldorf
Management Board member
of Metro Vermögensverwaltung
GmbH & Co KG
as from June 21, 1996

Sven Gronostay
Düsseldorf
Metro Vermögensverwaltung
GmbH & Co KG
from June 21 to Sep. 12, 1996

Hubert Haselhoff
Dortmund
DSBK-Handels AG
as from Aug. 14, 1996

Hanns-Jürgen Hengst
Cologne
Kaufhof Warenhaus AG
as from Aug. 14, 1996

Gerhard Herbst
Frankfurt/Main
State district head of the NGG union
as from Aug. 14, 1996

Hermann Hesse
Düsseldorf
Kaufhof Warenhaus AG
as from Aug. 14, 1996

Angelika Hünerbein
Düsseldorf
Metro Vermögensverwaltung
GmbH & Co KG
from June 21 to Sep. 12, 1996

Ingeborg Janz
Goslar
Real SB-Warenhaus GmbH
as from Aug. 14, 1996

Renata Jungo
Baar/Switzerland
Metro Holding AG
from June 21 to Sep. 13, 1996

Dr. Hermann Krämer
Düsseldorf
Executive Board member
of Veba AG
as from Sep. 30, 1996

Bernd Kreft
Baar/Switzerland
Metro Holding AG
from June 21 to Sep. 13, 1996

Dr. Klaus Liesen
Essen
Supervisory Board chairman
of Ruhrgas AG
as from Sep. 30, 1996

Dr. Karlheinz Marth
Düsseldorf
Secretary to the Central Executive Committee
of the HBV union
as from Aug. 14, 1996

Gustav-Adolf Munkert
Cologne
Kaufhof Warenhaus AG
as from Aug. 14, 1996

Prof. Dr. Helmut Schlesinger
Oberursel
Former president of Deutsche Bundesbank
as from Sep. 30, 1996

Dr. Manfred Schneider
Leverkusen
Executive Board chairman
of Bayer AG
as from Sep. 30, 1996

Hans Peter Schreib
Düsseldorf
Chief executive officer
of Deutsche Schutzvereinigung
für Wertpapierbesitz e.V.
as from Sep. 30, 1996

Dr. Henning Schulte-Noelle
Munich
Executive Board chairman
of Allianz AG
as from Sep. 30, 1996

Peter Seuberling
Kirkel
Praktiker Bau- und Heimwerkermärkte AG
as from Aug. 14, 1996

Dr. Joachim Theye
Bremen
Lawyer and notary public
as from Sep. 30, 1996

Hugo Trütsch
Baar/Switzerland
Metro Holding AG
from June 21 to Sep. 13, 1996

Dr. Stephan Ulrich
Baar/Switzerland
Metro Holding AG
up to Sep. 12, 1996

Heinz-Jürgen Weber
Baar/Switzerland
Metro Holding AG
from June 21 to Sep. 12, 1996

Executive Board members

Wolfgang Urban
Spokesman
as from July 1, 1996

Klaus Wiegandt
Spokesman
as from July 1, 1996

Prof. Dr. Erich Greipl
up to June 21, 1996

Siegfried Kaske
as from July 1, 1996

Dr. Hans-Joachim Körber
as from July 1, 1996

Dr. Wolf-Dietrich Loose
as from July 1, 1996

Joachim Suhr
as from Dec. 5, 1995

Cologne, April 29, 1997

THE EXECUTIVE BOARD

Urban Wiegandt

Kaske Dr. Körber

Dr. Loose Suhr

The past fiscal year was marked by a fundamental restructuring process affecting the key companies of today's METRO AG Group and by their integration into METRO AG.

The METRO AG Group was formed by Metro Vermögensverwaltung GmbH & Co KG contributing in March 1996 to Steba Beteiligungs AG (a company acquired in late 1995 and renamed METRO AG) the controlling interests held in Asko Deutsche Kaufhaus AG and Kaufhof Holding AG, along with its interest in Metro SB-Grossmärkte GmbH & Co KG and various other companies. Such contributions in kind took economic effect at January 1, 1996, which is hence the date of the METRO AG Group's formal inception.

Members of METRO AG's Supervisory Board were as from December 5, 1995, Mr. Erwin Conradi, Mr. Hans-Dieter Cleven and Dr. Stephan Ulrich. On December 5, 1995, the Supervisory Board appointed Prof. Dr. Erich Greipl and Mr. Joachim Suhr as the Company's Executive Board members.

After the aforesaid financial interests had been contributed to METRO AG on March 14, 1996, the Company aimed to merge Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG (in which Asko then held a 79-percent stake), and Kaufhof Holding AG each into METRO AG. The Supervisory Boards of Asko, DSBK and Kaufhof dealt in detail with this structural decision and the required steps and actions; on March 27 and 29, 1996, respectively, they unanimously advocated the envisaged mergers. The stockholders' meetings of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG voted in favor of the corresponding merger agreements with METRO AG on May 24, 28 and 30, 1996, respectively, all with a majority of more than 99 percent. The resolution approving the merger agreements was adopted by METRO AG's stockholders' meeting of June 21, 1996.

Due to the mergers, METRO AG required a Supervisory Board in conformity with the German Codetermination Act 1976. On June 21, 1996, METRO AG's stockholders' meeting elected the following ten Supervisory Board members as the stockholder representatives: Mr. Erwin Conradi, Mr. Hans-Dieter Cleven, Prof. Dr. Erich Greipl (who prior to the election had stepped down from the Executive Board), Mr. Sven Gronostay, Ms. Angelika Hünerbein, Ms. Renata Jungo, Mr. Bernd Kreft, Mr. Hugo Trütsch, Dr. Stephan Ulrich, and Mr. Heinz-Jürgen Weber.

It proved impossible at short notice to abide by the highly complex procedure prescribed by the Codetermination Act for electing an equal number of employee representatives; therefore, these members had to be appointed by the court pursuant to Art. 104(4) AktG. On August 14, 1996, the following employee representatives were elected Supervisory Board members of METRO AG: Mr. Klaus Bruns, Mr. Holger Grape, Mr. Hubert Haselhoff, Mr. Hanns-Jürgen Hengst, Mr. Gerhard Herbst, Mr. Hermann Hesse, Ms. Ingeborg Janz, Dr. Karlheinz Marth, Mr. Gustav-Adolf Munkert, and Mr. Peter Seuberling.

On June 21, 1996, and with effect from July 1, 1996, the Supervisory Board appointed Mr. Wolfgang Urban, Mr. Klaus Wiegandt, Mr. Siegfried Kaske, Dr. Hans-Joachim Körber, Dr. Wolf-Dietrich Loose and Mr. Joachim Suhr as METRO AG's Executive Board members for a term of 5 years. At the same time, Mr. Urban and Mr. Wiegandt were appointed Executive Board spokesmen.

Concurrently with the entries in METRO AG's Commercial Register on July 18 and 19, 1996, the mergers of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG took effect. The three original mergees had thus become defunct, their stockholders thenceforth being owners of METRO AG.

Ms. Hünerbein, Mr. Gronostay, Dr. Ulrich and Mr. Weber stepped down from the Supervisory Board as of September 12, and so did Ms. Jungo, Mr. Kreft and Mr. Trütsch as of September 13, 1996. At September 30, 1996, the Local Court of Registration then appointed the following stockholder representatives as Supervisory Board members: Dr. Hermann Krämer, Dr. Klaus Liesen, Prof. Dr. Helmut Schlesinger, Dr. Manfred Schneider, Mr. Hans Peter Schreib, Dr. Henning Schulte-Noelle, and Dr. Joachim Theye.

The Supervisory Board elected Mr. Erwin Conradi and Mr. Klaus Bruns its chairman and vice-chairman, respectively.

Thereupon, the Supervisory Board established three committees with parity representation, viz. the so-called Supervisory Board presidential/staff committee, the slate submittal committee pursuant to Art. 27(3) Codetermination Act, and a financial audit commmittee.

*

In the fiscal year 1996, METRO AG's Supervisory Board monitored, and provided advice for, the Executive Board's conduct of business. The Supervisory Board regularly obtained information on the Group's position and business development, and received and discussed the pertinent reports from the Executive Board. All actions requiring the Supervisory Board's approval were deliberated on in detail.

The Supervisory Board chairman maintained constant contact with the Executive Board and was provided with ongoing information about material transactions and the financial position.

The Supervisory Board's deliberations concerned fundamental business policy matters and major individual transactions, sales trends, income situation and financial position of Group companies. Additionally on the agenda were measures for sharpening the Company's competitive edge and strengthening its market position, as well as preinvestment and financial planning discussions.

Focal points at the October meeting were METRO AG's financing with its accounting effects and the international expansion of certain subsidiaries.

The accounting, the annual financial statements (including the notes thereto) as of December 31, 1996, and the combined Management Report on the Company and the Group were examined by the statutory auditors, Duisburg-based Fasselt-Mette & Partner Wirtschaftsprüfungsgesellschaft, who issued their unqualified opinion thereon. The Supervisory Board concurs with the audit results, which do not contain any findings or exceptions. The statutory auditors' reports were submitted to all the Supervisory Board members and discussed at the Supervisory Board's annual earnings meeting in the presence of the statutory auditors.

The Executive Board submitted to the Supervisory Board the consolidated accounts, the Group Management Report and the report of the statutory Group auditors. The Supervisory Board approved of the Group accounts including the Group Management Report.

The Supervisory Board examined and approved the annual accounts as of December 31, 1996, including the combined Management Report on the Company and the Group, all as submitted by the Executive Board; the annual accounts are thus adopted. The Supervisory Board agrees to the appropriation of net earnings as proposed by the Executive Board.

In addition, the Executive Board prepared a dependency report on the Company's affiliation in fiscal 1996 pursuant to Art. 312 AktG. The statutory auditors examined said report, too, laid down the results of their audit in writing and issued the following opinion thereon:

"According to our audit, which we performed with due care and to professional standards, it is our opinion that

(1) the facts stated in the report are valid,

(2) the consideration paid by the Company for the legal transactions mentioned in the report was not unreasonably high."

According to the final result of its own examination, the Supervisory Board has no objections, either to the representations of the Executive Board in the report the latter prepared under the terms of Art. 312 AktG, or to the auditors' opinion issued thereon.

Cologne, May 1997

THE SUPERVISORY BOARD

Erwin Conradi
Chairman

Summary of major Group companies

Name	Reg. office	% held by Group	Equity in DM million
METRO AG	Cologne		3,845.256
Metro Wholesale			
Metro International Management GmbH	Düsseldorf	100.00	264.958
Metro Grosshandelsgesellschaft mbH	Düsseldorf	100.00	53.782
Department Stores			
Kaufhof Warenhaus AG	Cologne	87.50	330.000
Kaufhalle AG	Cologne	84.23	382.152
Hypermarkets			
Real SB-Warenhaus Holding GmbH	Alzey	100.00	414.041
Real SB-Warenhaus GmbH & Co Vertriebs-KG	Bochum	100.00	191.775
Real SB-Warenhaus GmbH	Hannover	100.00	76.400
Real SB-Warenhaus GmbH & Co Vertriebs-KG	Mutterstadt	100.00	24.433
Real SB-Warenhaus GmbH & Co Süd KG	Fürth	100.00	(13.497)
Massa AG	Alzey	96.20	197.214 [1)]
Food Stores & Discounters			
Deutsche SB-Kauf Handelsgesellschaft mbH	Sarstedt	100.00	171.113
Deutsche SB-Kauf Handels AG	Kamen	100.00	73.838
Extra SB-Warenhaus GmbH Vertriebsgesellschaft im Münsterland	Mülheim/Ruhr	100.00	50.309
Extra Verbrauchermarkt GmbH & Co Betriebs-KG	Sarstedt	100.00	39.820
Extra Handelsgesellschaft mbH Betriebsgesellschaft	Sarstedt	100.00	22.077
Tip Discount Handels GmbH & Co KG	Sarstedt	100.00	22.146
Consumer Electronics Centers			
Media-Saturn-Holding GmbH	Ingolstadt	71.69	312.719
Home Improvements Centers			
Praktiker Bau- und Heimwerkermärkte AG	Kirkel	75.00	834.102 [1)]
Furniture Centers			
Möbel Unger GmbH	Goslar	100.00	207.498
Computer Centers			
Vobis Microcomputer AG	Würselen	90.00	141.592
Maxdata Computer GmbH	Marl	45.90	45.431
Fashion Centers			
Adler Modemärkte GmbH	Haibach	100.00	66.000
Footwear Centers			
Reno Versandhandel GmbH	Thaleischweiler-Fröschen	75.00	60.948
Mail Order			
Oppermann Versand AG	Neumünster	67.75	52.913
Hanseatisches Wein- und Sekt-Kontor Hawesko GmbH	Hamburg	75.00	19.680
Restaurant & Catering			
Dinea Gastronomie GmbH	Cologne	100.00	10.000
Real Estate			
Metro Immobilien Holding GmbH	Saarbrücken	100.00	378.207
Asset Immobilien GmbH & Co KG	Cologne	100.00	545.533
Horten AG	Düsseldorf	87.46	433.460
Others			
Metro MGE Einkauf GmbH	Düsseldorf	100.00	26.712

[1)] Fiscal year from Oct. 1, 1995, to Sep. 30, 1996

The full listing of the METRO AG Group's shareholdings will be deposited with the Commercial Register of the Cologne Local Court under no. HRB 26888 and may also be obtained directly from METRO AG.

"The consolidated accounts, which we examined with due professional care, comply with the law. The consolidated accounts, which are in accordance with generally accepted accounting principles, present a true and fair view of the METRO AG Group's net-asset, financial and income position. The Group Management Report, which is combined with that on METRO AG, is in conformity with the consolidated accounts."

Duisburg, April 30, 1997

FASSELT-METTE & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. H. Herrmann	Dr. P. Schöneberger
Wirtschaftsprüfer	Wirtschaftsprüfer

METRO AG Group

Balance sheet as of December 31, 1996

Income statement for the year ended December 31, 1996

METRO AG Group
Balance sheet as of December 31, 1996

Assets

In DM million	Note no.	**Balance at 12-31-1996**	Balance at 1-1-1996
Fixed assets	6		
Intangible assets	7	**2,611.444**	2,537.499
Tangible assets	8	**6,381.299**	5,988.512
Financial assets	9	**680.715**	745.416
		9,673.458	9,271.427
Current assets			
Inventories	10	**6,544.715**	6,633.321
Receivables and sundry assets	11	**2,511.500**	2,711.852
Short-term securities and note loans	12	**346.795**	365.625
Cash on hand and in bank		**1,603.336**	451.917
		11,006.346	10,162.715
Prepaid expenses and deferred charges	13	**97.585**	75.449
		20,777.389	19,509.591

Stockholders' equity and liabilities

In DM million	Note no.	**Balance at 12-31-1996**	Balance at 1-1-1996
Equity	14		
Capital stock	15	**501.212**	501.014
Reserve from capital surplus	16	**2,729.608**	2,725.363
Reserves retained from earnings	17	**215.483**	–
Unappropriated retained earnings, Group		**403.366**	–
Third-party equity shares	18	**976.686**	1,114.900
		4,826.355	4,341.277
Untaxed/special reserves		**17.205**	–
Accruals	19	**4,058.475**	4,089.666
Liabilities	20	**11,438.680**	10,688.404
Deferred income	21	**436.674**	390.244
		20,777.389	19,509.591

METRO AG Group
Income statement for the year ended December 31, 1996

In DM million	Note no.	1996
Gross sales (incl. VAT)	25	**62,024.064**
Value-added tax		**(6,990.164)**
Net sales		**55,033.900**
Change in inventories of finished products and work in process		**57.013**
Other work and material capitalized		**6.793**
Other operating income	26	**2,433.195**
Total operating performance		**57,530.901**
Cost of materials	27	**(39,860.703)**
Personnel expenses	28	**(7,763.782)**
Amortization of intangible and depreciation of tangible assets	29	**(1,217.981)**
Other operating expenses	30	**(7,573.805)**
Operating result		**1,114.630**
Income from investments	31	**19.399**
Net financial result	32	**(71.995)**
Result from ordinary operations		**1,062.034**
Income taxes	33	**(274.486)**
Other taxes		**(70.334)**
Net income	34	**717.214**
Third-party shares in net income	35	**(106.811)**
Transfer to reserves retained from earnings		**(207.037)**
Net earnings, Group		**403.366**