METRO AG

ANNUAL ACCOUNTS 1997 OF METRO AG

Annual accounts of METRO AG

The Management Report of METRO AG has been combined with that on the Group and is published in the METRO AG's annual report for 1997.

1. Disclosure, accounting and valuation principles

In the financial statements (balance sheet and income statement), certain captions have been combined with a view to enhancing transparency of presentation. To underline the Company's holding function, the order of income statement captions laid down in Art. 275 German Commercial Code ("HGB") has partly been modified. Any summarized captions are detailed in these Notes.

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.

Investments and shares in Group companies are capitalized at cost or any lower current value, lower values being maintained and carried forward.

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

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. To the extent permissible, income from investments is received as earned and capitalized in the year for which the dividend is distributed.

Short-term securities 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"). At one METRO AG Benevolent Fund, the commitment volume exceeds in terms of accounting the actual endowment (total assets) of this Fund. Deficient cover exists only to the extent that the usufructuary rights created in this Fund's favor in certain Group properties fail to cover the commitment volume that decreases as benefits or claims are utilized. As of December 31, 1997, the Fund's commitments proratable to METRO AG exceeded the Fund's assets by DM 243.013 million. At December 31, 1997, the usufructuary rights created were valued at DM 225.400 million. An accrual provides for the deficient cover of DM 17.613 million. Moreover, an accrual in the same amount as the deficient cover provides for this deficient cover resulting from the Supplementary Pension Fund. 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 payments made to compensate for reduced values have been directly expensed.

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 para. 2(1) HGB and in line with international practice, derivative financial transactions that constitute economic units and whose collateralization is adequately documented to be 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 factors such as currency identity, financial-standing identity (prime debtors exclusively), and substantially matching maturities.

Comments on the balance sheet of METRO AG

2. Fixed assets

in DM million	Balance at Jan. 1, 1997 (At cost)	Additions (At cost)	Disposals (At cost)	Book transfers (At cost)	Charges[1] (accu-mulated)	**Balance at Dec. 31, 1997**	Charged[1] in fiscal year
Intangible assets							
Rights and licenses	0.616	0.029	0.169	–	0.312	**0.164**	0.191
Tangible assets							
Land, equivalent titles, and buildings (including buildings on leased land and leasehold improvements)	3.690	–	0.969	–	2.013	**0.708**	0.167
Other plant, factory and office equipment	6.631	4.026	2.542	–	3.669	**4.446**	2.429
	10.321	4.026	3.511	–	5.682	**5.154**	2.596
Financial assets							
Shares in Group companies	6,135.383	442.428	447.888	0.047	89.627	**6,040.343**	–
Loans to Group companies	8.338	0.236	2.265	–	–	**6.309**	–
Investments	22.253	107.895	0.367	(0.047)	34.172	**95.562**	17.870
Other loans	0.858	115.029	–	–	0.021	**115.866**	0.021
Advance payments on shares in Group companies	–	13.368	–	–	–	**13.368**	–
	6,166.832	678.956	450.520	–	123.820	**6,271.448**	17.891
Total	6,177.769	683.011	454.200	–	129.814	**6,276.766**	20.678

[1] Amortization/depreciation/write-downs

3. Tangible assets

The additions to tangible assets of DM 4.026 million relate primarily to PC equipment and vehicles. The disposals of DM 3.511 million essentially refer to two small sites in Saarbrücken and Düren and the disposal of PC equipment and vehicles.

4. Financial assets

Additions to shares in Group companies of DM 442.428 million include DM 295.000 million for the acquisition of 100 percent of the shares in Erste SB-Warenhaus GmbH & Co KG from Massa AG, which had transferred the entire business operations of its hypermarkets to its 100 percent subsidiary Erste SB-Warenhaus GmbH & Co KG prior to this transaction. METRO AG then transferred its full stake in Erste SB-Warenhaus GmbH & Co KG to Real SB-Warenhaus GmbH in return for shareholder rights. Both the acquisition of the shares in Erste SB-Warenhaus GmbH & Co KG by METRO AG and the transfer of these shares to Real SB-Warenhaus GmbH have been completed and legally enforced. Some stockholders are appealing against the resolution approving these transactions taken at the Annual Stockholders' Meeting of Massa AG on May 23, 1997.

DM 138.659 million of the additions to financial assets refer to an increase in stakes held in individual investments, predominantly Horten AG, Massa AG and Kaufhalle AG.

Disposals of shares in investments total DM 447.888 million and include DM 367.670 million relating to the disposal of Möbel Unger GmbH, Oppermann Versand AG, Mac Fash Textilhandels GmbH and Inter Fashion Company Limited. DM 68.954 million of the disposals relate to the transfer of AKM Holding GmbH & Co KG to Metro Dienstleistungs-Holding GmbH, with a simultaneous reduction in book value. Prior to this transaction, the shares in Hanseatisches Wein- und Sekt-Kontor Hawesko GmbH, CWD Champagner und Wein Distributionsgesellschaft mbH, Rungis Express Gesellschaft für Frischimporte mbH and Hapag-Lloyd AG were transferred to AKM Holding GmbH & Co KG. AKM has now divested the shares in Rungis and Hapag-Lloyd.

Disposals of loans to Group companies refer to scheduled and premature repayment of loans.

The addition to investments results from the acquisition of a 49.9 percent stake in Roller GmbH & Co from Möbel Unger GmbH, which has now been divested. Valuation at the lower current value resulted in a write-down of DM 17.870 million on the shares in Roller GmbH & Co.

Additions to other loans relate to the granting of loans totaling DM 115.029 million maturing on or before June 30, 2002.

Advance payments on shares in Group companies of DM 13.368 million refer to expenses already incurred in connection with the acquisition from January 1, 1998 of Mebrö Beteiligungs AG, now renamed Metro Cash & Carry AG, which in turn holds the shares in the companies acquired from SHV Makro NV.

5. Receivables and sundry assets

in DM million	**Dec. 31, 1997**	Dec. 31, 1996
Due from Group companies	**4,315.923**	2,160.560
thereof with a remaining term of more than 1 year	**[5.585]**	[55.585]
Receivable under investor/ investee relations	**38.867**	47.509
Sundry assets	**423.684**	499.420
thereof with a remaining term of more than 1 year	**[81.077]**	[44.969]
	4,778.474	2,707.489

Sundry assets include claims for reimbursement of taxes totaling DM 206.655 million. DM 125.648 million of this concerns tax credits on dividends received in the year under review. This item also covers the receivables from the disposal of investments.

6. Short-term securities and note loans

in DM million	**Dec. 31, 1997**	Dec. 31, 1996
Shares in Group companies	**0.025**	0.025
Other short-term securities	**36.632**	190.913
Note loans	**–**	114.690
	36.657	305.628

The decline in other short-term securities mainly relates to the sale of the shares in Hapag-Lloyd AG.

7. Capital stock

Changes to the capital stock in fiscal 1997 are outlined below.

Equity-funded capital increase

In line with the resolution passed at the Annual Stockholders' Meeting on July 9, 1997, the Company raised its capital stock by DM 701,700,405 through an equity-funded 7:5 scrip issue.

The capital was increased by issuing 126,922,649 shares of common stock, 11,149,432 shares of preferred stock I and 2,268,000 shares of preferred stock II, with a par value of DM 5 with effect from July 11, 1997. The new shares are entitled to the dividend for fiscal 1997.

At the Annual Stockholders' Meeting held on July 9, 1997 and the separate meeting of holders of preferred stock I and II held on the same day, it was resolved to combine the non-voting preferred stock types I and II to form new non-voting preferred stock with a uniform cumulative dividend of 6.4 percent of the par value of the stock and a uniform non-cumulative bonus of 2.2 percent. The corresponding amendments to the Articles of Association were entered in the Commercial Register on August 4, 1997.

Conditional capital I and II

As part of the merger of Kaufhof Holding AG into METRO AG, the Annual Stockholders' Meeting on June 21, 1996 approved four conditional capital increases in connection with outstanding warrant bonds. Three of these capital increases have now expired.

The Annual Stockholders' Meeting on July 9, 1997 resolved to adjust the remaining conditional capital (originally up to DM 15,000,000) in line with the equity-funded capital increase. Accordingly, a conditional increase in the capital stock of up to DM 36,000,000 through the issue of up to 7,200,000 shares of common stock with a par value of DM 5 was approved (conditional capital I). The conditional capital increase will be used to issue common stock of METRO AG to holders of the 2% DM warrant bond issue 1986/1998 floated by Metro Finance BV (formerly Kaufhof Finance BV) upon exercise of their option rights.

In fiscal 1997, a total of 3,007,888 new shares of common stock with a par value of DM 5 were issued out of this conditional capital upon option right exercise. The total par value of this common stock is DM 15,039,440 and can be broken down as follows:

496	shares of common stock before the scrip issue =	DM	2,480
3,007,392	shares of common stock after the scrip issue =	DM	15,036,960
3,007,888	shares of common stock =	DM	15,039,440

By December 31, 1997 option rights for 4,140,000 shares of Metro common stock were still outstanding. If all option rights were exercised, the Company's equity would rise by DM 203 million.

At the Annual Stockholders' Meeting on July 9, 1997 a further conditional increase in the capital stock of up to DM 100,000,000 was approved (conditional capital II).

This conditional capital relates to the Executive Board's authority to issue warrant and/or convertible bonds to a total par value of DM 2,000,000,000 up to July 9, 2002 and to grant option/conversion rights for new common and/or preferred METRO AG stock with an aggregate maximum par value of DM 100,000,000.

Warrant and convertible bonds can also be issued by 100 percent subsidiaries controlled directly or indirectly by METRO AG. In this case, the Executive Board is authorized to guarantee the bonds on behalf of the Company and to grant the holders option or conversion rights for new common and/or preferred stock of METRO AG.

The conditional capital increase only takes effect insofar as holders utilize their option rights.

Authorized capital I and II

Under Art. 4 para. 8 of the Articles of Association amended by the resolution passed by the Annual Stockholders' Meeting on July 9, 1997, the Executive Board is authorized, with the approval of the Supervisory Board, to raise the capital stock by up to DM 250,000,000 in return for cash contributions on one or more occasions up to July 9, 2002, by issuing new common or preferred stock (authorized capital I).

In the event of a capital increase, stockholders must be given subscription rights. Subscription rights can be excluded insofar as this is necessary to secure the rights of holders of warrant and convertible bonds issued by METRO AG and/or 100 percent subsidiaries of METRO AG.

Further, subscription rights can be excluded for one or more capital increases permitted under the authorized capital providing that the par value of the capital increase does not exceed 10 percent of the capital stock entered in the Commercial Register at the time use is first made of this authorized capital and the issue price of the new shares is not substantially below the current market price of the stock.

At the Extraordinary Stockholders' Meeting held on September 11, 1997, authorized capital II was created. This authorizes the Executive Board, with the approval of the Supervisory Board, to raise the capital stock of the Company by issuing once or several times new common bearer stock by up to an aggregate maximum of DM 350,000,000 up to September 11, 2002 in return for contribution in kind (authorized capital II). At the same time, the Executive Board was authorized to decide, after obtaining the Supervisory Board's approval, to exclude the subscription rights and to set the other details of the capital increase.

The Executive Board made partial use of this authority through its resolutions of December 8 and 16, 1997 (approved by the Supervisory Board on December 17, 1997) and raised the capital stock by DM 108,800,000 to DM 1,326,751,940 in return for contributions in kind ex rights. The contribution in kind comprised the transfer by SHV Makro NV of all shares in Mebrö Beteiligungs AG, now renamed Metro Cash & Carry AG, which in turn holds all European C&C operations of the Makro Group (including its operations in Morocco). The contribution in kind and the entry of the implementation of the capital increase in the Commercial Register took place on January 6, 1998 on the basis of the audit report on the contribution in kind prepared by Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH and dated January 2, 1998. In compliance with Art. 189 of the German Stock Corporation Act (AktG), the capital stock was only deemed raised when the entry in the Commercial Register and the capital increase were effected. Following this transaction, authorized capital II of DM 241,200,000 remains.

On December 31, 1997 the Company's capital stock totaled DM 1,217,951,940.

Breakdown of the capital stock:

Class	Number	Par value per share	Total par value in DM
Common stock	220,589,076	DM 5	1,102,945,380
Preferred stock	23,001,312	DM 5	115,006,560
Capital stock (total)	243,590,388	DM 5	1,217,951,940

The following conditional capital is derived from option rights that have not yet been exercised:

Warrant bond issue 1986/1998	DM 20,700,000
Number of option rights	4,140,000
Option price per share of common stock	DM 49.26
less premium payable by METRO AG*	DM 0.28

* cf. conversion ratio of 4:1 plus cash premium of DM 1.13

Moreover, there is conditional capital of DM 100,000,000 from warrant and convertible bonds that have not yet been issued.

At the start of January 1996, Metro Vermögensverwaltung GmbH & Co KG, Düsseldorf, announced that it holds a majority stake in METRO AG (controlling interest as defined in Art. 20 para. 4 of the German Stock Corporation Act (AktG)). At the same time, Metro Holding AG, Baar, Switzerland, informed METRO AG that it owns a majority stake (as defined in Art. 20 para. 4 of the German Stock Corporation Act) in METRO AG indirectly through its controlling interest in Metro Vermögensverwaltung GmbH & Co KG.

In August 1996, Metro Vermögensverwaltung GmbH & Co KG announced that, under the provisions of the German Securities Trading Act it holds a total of 67.16 percent of the voting capital of METRO AG and that its holdings of common and non-voting preferred stock of METRO AG totaled 60.74 percent of the capital stock. Also in August 1996, Metro Holding AG, Baar, Switzerland announced that, through Metro Vermögensverwaltung GmbH & Co KG, a subsidiary that it controls, it holds 67.16 percent of METRO AG's voting capital and that its indirect holdings of METRO AG's common and non-voting preferred stock amount to 60.74 percent of the capital stock. No further announcement has been made as to whether or not the holdings exceed the stakes set out in the German Securities Trading Act for disclosure.

Under the terms of Art. 21 para. 1 of the German Securities Trading Act (WpHG), on January 8, 1998 SHV Makro NV announced that its voting rights exceed the 5 percent threshold and that it is entitled to a total of 8.9789 percent of the voting capital. Pursuant to Art. 21 para. 1 in conjunction with Art. 22 para. 1 No. 2 of the German Securities Trading Act, on January 9, 1998 SHV Holdings NV announced that its indirect share of the voting rights totals 8.9789 percent of the voting capital.

8. Reserve from capital surplus

This reserve totaled DM 2,161,063,165 on December 31, 1997 and changed as follows over the fiscal year:

in DM	
Balance at December 31, 1996	**2,729,608,389**
Transfer to capital stock for the equity-funded capital increase (7:5 scrip issue) resulting in the issue of 126,922,649 shares of common stock (par value DM 5) = DM 634,613,245 11,149,432 shares of preferred stock I (par value DM 5) = DM 55,747,160 2,268,000 shares of preferred stock II (par value DM 5) = DM 11,340,000	**(701,700,405)**
Addition from option rights exercised in 1997: 3,007,888 new shares of common stock	**133,155,181**
Balance at December 31, 1997	**2,161,063,165**

9. Untaxed/special reserves

Untaxed/special reserves were set aside exclusively under the terms of Art. 6b of the German Income Tax Act (EStG). DM 47.247 million thereof was released and allocated to a number of real estate companies operating as limited partnerships (legal structure: KG). These in turn took an accelerated depreciation charge of the same amount against land and buildings to allow transfers to reserves pursuant to Art. 6b of the German Income Tax Act (EStG).

10. Accruals

in DM million	**Dec. 31, 1997**	Dec. 31, 1996
Pension accruals	**283.871**	263.746
Tax accruals	**160.521**	224.734
Other accruals	**320.391**	391.189
	764.783	879.669

Pension accruals of DM 242.762 million related to direct pension commitments, while accruals of DM 40.257 million have been set up to cover shortfalls at underfunded benevolent funds.

Tax accruals contain an appropriate allowance for risks arising from tax audits.

Other accruals chiefly comprise the following:

in DM million	**Dec. 31, 1997**	Dec. 31, 1996
Risks from rental contracts and realty	**164.927**	188.638
Risks from investees	**101.482**	130.003
Litigation risks	**16.844**	14.988
Risks inherent in financial transactions	**9.704**	12.442
Commitments to employees	**9.697**	27.599
Other risks	**17.737**	17.519
	320.391	391.189

Accruals for risks arising from commitments relating to deficient rental cover at Unger/Massa furniture centers closed in previous years totaling DM 165.192 million were transferred from the risks from investees category to risks from rental contracts and realty following the disposal of Möbel Unger GmbH in 1997. The 1996 figures have been restated accordingly.

Risks from investees include commitments to subsidiaries and risks arising from the disposal of subsidiaries.

11. Liabilities

in DM million	**Dec. 31, 1997**	Dec. 31, 1996
Bonds	**804.000**	–
Due to banks	**1.292**	3.337
Trade payables	**14.422**	10.843
Notes payable	**1,934.300**	986.500
Due to Group companies	**3,354.556**	3,482.907
Payable under investor/ investee relations	**0.334**	0.219
Sundry liabilities	**448.764**	336.805
thereof for taxes	**[210.805]**	[260.622]
thereof from social security	**[30.214]**	[34.354]
	6,557.668	4,820.611

The maturity structure of liabilities as of December 31, 1997 was as follows:

in DM million	**Total**	1 year or less	More than 5 years
Bonds	**804.000**	804.000	–
Due to banks	**1.292**	1.292	–
Trade payables	**14.422**	14.422	–
Notes payable	**1,934.300**	1,934.300	–
Due to Group companies	**3,354.556**	3,354.556	–
Payable under investor/investee relations	**0.334**	0.334	–
Sundry liabilities	**448.764**	448.667	0.079
	6,557.668	6,557.571	0.079

No liabilities have been collateralized by liens, mortgages or similar charges or encumbrances.

12. Contingent liabilities

in DM million	**Dec. 31, 1997**
Guaranty and warranty contracts	**5,597.434**
thereof to Group companies	**[170.770]**
thereof for Group companies	**[5,070.691]**
Sureties	**642.757**
thereof to Group companies	**[0.788]**
thereof for Group companies	**[330.798]**
	6,240.191

The rise in liabilities arising from guaranty and warranty contracts relates primarily to the acquisition of the Makro Group in January 1998. In December 1997 METRO AG gave a guaranty to SHV Makro NV (the seller) that it would honor all payments obligations entered into by Mebrö Beteiligungs AG, which it acquired as from January 2, 1998. This transaction has now been completed.

13. Other financial obligations

in DM million	**Dec. 31, 1997**
Commitments from share tender rights	**2,909.355**
thereof to Group companies	**[1,986.452]**
Obligations from rental and leasing contracts (per annum)	**168.608**
thereof to Group companies	**[116.904]**
thereof for Group companies	**[164.180]**
Obligations from financial derivatives	**11.568**
thereof to Group companies	**[4.243]**
Other	**191.319**
	3,280.850

The rise in commitments from share tender rights mainly relates to the option agreement concluded with Metro Holding AG, Baar, in December 1997. This contains a right to tender for its shares of generally 40 percent of the European and Moroccan C&C activities of the Makro Group. The amount stated here is the gross amount, i.e. without offsetting METRO AG's tender rights with regard to Metro Holding AG.

14. Derivative financial instruments

On December 31, 1997, the following financial derivatives were being used to minimize risks:

in DM million	Notional amount (net positions)	Market value (net positions)
Interest rate transactions		
Listed products:		
3 months	144.000	(0.366)
5 years	169.000	(1.349)
10 years	844.750	(9.396)
10 year call option	250.000	(0.500)
10 year put option	500.000	(1.465)
	1,907.750	(13.076)
OTC products:		
Interest rate swaps	148.652	6.809
Caps and collars	400.000	0.189
	548.652	6.998
Currency transactions		
OTC products:		
Futures	3,090.668	(2.724)
Interest rate/currency swaps	6.617	(0.838)
	3,097.285	(3.562)
Total	5,553.687	(9.640)

The notional amounts are calculated from the net positions based on the underlying purchase/selling prices. The market value is the balance of unrealized gains and losses generated by the mark-to-market method. Accruals are made for negative market values. For details of the accounting and valuation procedures used for financial derivatives, see Note 1. All currency futures/forward rate transactions mature within one year.

Comments on the income statement of METRO AG

15. Income from investments

in DM million	1997	1996
Income from P&L transfer agreements	**891.638**	624.081
Income from investments	**289.353**	756.718
thereof from Group companies	**[283.590]**	[754.452]
Expenses from loss absorption	**(71.476)**	(172.830)
Write-down of financial assets	**(0.021)**	(195.532)
	1,109.494	1,012.437

The previous year's figures include P&L transfers from some subsidiaries and investments for a period of 15 months. The fiscal year of these companies ended on September 30, 1996 and they inserted an abbreviated fiscal year from October 1 to December 31, 1996.

A loss of DM 37.945 million was transferred from Möbel Unger GmbH for the period January 1 to June 30, 1997 (excluding extraordinary items).

16. Net financial result

in DM million	1997	1996
Income from long-term loans	**0.379**	3.579
thereof from Group companies	**[0.368]**	[2.303]
Other interest and related income	**219.287**	200.275
thereof from Group companies	**[124.447]**	[95.527]
Other financial income	**132.718**	91.031
thereof from Group companies	**[21.534]**	[7.483]
Interest and related expenses	**(237.655)**	(235.283)
thereof to Group companies	**[(83.735)]**	[(93.535)]
Other financial expenses	**(143.116)**	(103.523)
thereof to Group companies	**[(18.280)]**	[(16.597)]
	(28.387)	(43.921)

Other financial income and Other financial expenses chiefly relate to the results of interest hedging with financial derivatives, including gains and losses on securities and foreign-currency transactions. DM 1.494 million was written down from capitalized premiums for options acquired and caps/collars and DM 13.076 million was written down for security provided.

17. Other operating income

in DM million	1997	1996
Rents (real estate and personal property)	**205.749**	254.118
Release of untaxed/special reserves under Art. 6b EStG	**47.247**	49.337
Administrative services for subsidiaries	**14.192**	35.762
Book gains from disposal of assets	**5.838**	7.489
Non-period income	**4.550**	5.366
Sundry	**33.827**	42.335
	311.403	394.407

Rents mainly comprise transitory rents for real estate and income from the leasing of personal property.

Income from the release of untaxed/special reserves under Art. 6b of the German Income Tax Act (EStG) was transferred to a number of real estate companies operating as limited partnerships (legal structure: KG) in order to make up for same-amount write-downs.

18. Personnel expenses

in DM million	1997	1996
Wages and salaries	**59.934**	67.690
Social security contributions, expenses for pensions and related benefits	**49.312**	26.276
thereof pension expense	**[45.041]**	[20.747]
	109.246	93.966

Wages and salaries include severance and year-end payments totaling DM 14.094 million.

Expenses for pensions and related benefits include additions to accruals for underfunded benevolent funds of DM 19.106 million.

19. Other operating expenses

in DM million	1997	1996
Rents (real estate and personal property)	**230.726**	268.013
Transfer of untaxed/special reserves pursuant to Art. 6b EStG to real estate companies (limited partnerships)	**47.247**	49.337
Write-down of current assets	**37.958**	31.628
General administrative expenses	**19.563**	24.605
Service fees charged to METRO AG by subsidiaries	**15.322**	23.999
Rental and litigation risks	**18.115**	9.532
Legal, audit and similar fees	**11.301**	11.808
Subscriptions and insurance policies	**1.173**	5.328
Non-period expenses	**0.218**	4.309
Merger-related expenses	**–**	41.568
Sundry	**46.125**	56.448
	427.748	526.575

20. Extraordinary result

in DM million	1997	1996
Extraordinary income	**306.567**	–
Extraordinary expense	**(428.053)**	–
	(121.486)	–

Extraordinary income contain a book gain from the transfer of AKM Holding GmbH & Co KG to Metro Dienstleistungs-Holding GmbH, another 100 percent subsidiary of METRO AG, at market value. AKM Holding GmbH & Co KG groups together most of the investments of the METRO AG Group that have been earmarked for disposal. The market value of AKM Holding GmbH & Co KG has now largely been realized through the disposal of its stakes in Hapag-Lloyd AG (15 percent) and Rungis Express Gesellschaft für Frischimporte mbH (70 percent).

Extraordinary expenses relate to the disposal of the Furniture Centers and Mail Order divisions (Möbel Unger GmbH and Oppermann Versand AG). They represent book losses generated by the disposal of these companies and equity guaranties and additions to accruals relating to maintenance and rental risks. DM 17.870 million comprises the write-down of shares in Roller GmbH & Co to current market value.

21. Income taxes

This item chiefly relates to risks arising from tax audits.

22. Transfer from net income to the reserves retained from earnings

Under Art. 58 para. 2 of the German Stock Corporation Act the Supervisory and Executive Boards transferred DM 220.249 million of the Company's net income of DM 709.960 million to the reserves retained from earnings.

23. Appropriation of net earnings

The Supervisory and Executive Boards propose that the net earnings of DM 489,710,920 should be appropriated as follows:

	Dividend per share DM	Number of shares	**Cash payout DM**
Cash dividend of per DM 5 share of common stock	2.00	220,589,076	**441,178,152**
Cash dividend of per DM 5 share of preferred stock	2.11	23,001,312	**48,532,768**
		243,590,388	**489,710,920**

The dividend comprises a portion on which German income tax has been paid and a portion on which no tax has been paid.

The taxed portion comprises:

per share of common stock DM 0.062,
per share of preferred stock DM 0.065.

Attached to the dividend payment is a tax credit of $^3/_7$ of DM 0.062 per share of common stock and $^3/_7$ of DM 0.065 per share of preferred stock. Stockholders resident in Germany may offset this credit against their personal or corporate income taxes, together with the capital yields tax and solidarity surcharge. No tax is payable on the other portion of the dividend – which is paid out of equity known as EK 04 – by private stockholders resident in Germany. This ruling generally also applies to stocks held in the assets of German companies.

Further information

24. Employees

Taking the average for fiscal 1997, calculated from the averages for the four quarters, METRO AG had an average headcount of 233, comprising 6 wage earners and 227 salaried persons. Part-time and temporary staff have been converted into full-time employees.

25. Shareholdings

A list of the METRO AG Group's shareholdings will be filed with Cologne Local Court (HRB 26888). This list is also available directly from METRO AG.

26. Group affiliation

The annual financial statements of METRO AG are included in the consolidated accounts of the METRO AG Group. These, in turn, are incorporated in the consolidated accounts of Metro Holding AG, Baar, Switzerland, as the top tier of consolidation.

27. Supervisory and Executive Boards

Emoluments totaling DM 1.828 million were paid to the members of the Supervisory Board of METRO AG.

Emoluments paid to members of the Executive Board totaled DM 16.163 million. This figure includes a severance payment for a former member of the Executive Board.

A total of DM 6.146 million was paid to former members of the Executive Boards and their surviving dependants of those companies merged into METRO AG. Accruals of DM 77.164 million for their pensions have been provided for in the accounts of METRO AG.

Members of the Supervisory Board

Erwin Conradi
Chairman
Baar, Switzerland
Chairman of the Executive Board of
Metro Holding AG

Klaus Bruns
Vice-Chairman
Oberhausen
Kaufhof Warenhaus AG

Hans-Dieter Cleven
Baar, Switzerland
Vice-Chairman of the Executive Board of
Metro Holding AG

Holger Grape
Hamburg
Head of the Wholesale/Retail and
Private Services Employees' Group
at the DAG trade union

Professor Dr. Erich Greipl
Düsseldorf
Member of the Management Board of
Metro Vermögensverwaltung GmbH & Co KG

Hubert Haselhoff
Sarstedt
Chairman of the Central Works Council of
Extra Verbrauchermärkte GmbH

Hanns-Jürgen Hengst
Cologne
Kaufhof Warenhaus AG

Gerhard Herbst
Frankfurt
Regional Chairman of the NGG trade union

Hermann Hesse
Düsseldorf
Kaufhof Warenhaus AG

Ingeborg Janz
Goslar
Real SB-Warenhaus GmbH

Dr. Hermann Krämer
Seevetal
Former member of the Executive Board of
Veba AG

Dr. Klaus Liesen
Essen
Chairman of the Supervisory Board of
Ruhrgas AG

Dr. Karlheinz Marth
Düsseldorf
Secretary to the Central Executive Committee of the
HBV trade union

Gustav-Adolf Munkert
Cologne
Kaufhof Warenhaus AG

Professor Dr. Helmut Schlesinger
Oberursel
Former President of Deutsche Bundesbank

Dr. Manfred Schneider
Leverkusen
Chairman of the Executive Board of
Bayer AG

Hans Peter Schreib
Düsseldorf
Lawyer, Member of the Board of
Deutsche Schutzvereinigung
für Wertpapierbesitz e.V.

Dr. Henning Schulte-Noelle
Munich
Chairman of the Executive Board of
Allianz AG

Peter Seuberling
Kirkel
Praktiker Bau- und Heimwerkermärkte AG

Dr. Joachim Theye
Bremen
Lawyer and notary public

Members of the Executive Board

Klaus Wiegandt
Spokesman

Wolfgang Urban
Spokesman
until January 31, 1998

Siegfried Kaske

Dr. Hans-Joachim Körber

Dr. Wolf-Dietrich Loose

Theo de Raad
as from January 1, 1998

Joachim Suhr

Cologne, March 30, 1998

THE EXECUTIVE BOARD

Wiegandt

Kaske Dr. Körber

Dr. Loose de Raad Suhr

METRO AG
Balance sheet as of December 31, 1997
Income statement
for the year ended December 31, 1997

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

Duisburg, April 20, 1998

FASSELT-METTE & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. H. Herrmann	Dr. P. Schöneberger
Wirtschaftsprüfer	Wirtschaftsprüfer
(Auditor)	(Auditor)

METRO AG
Balance sheet as of December 31, 1997

Assets

in DM million	Note no.	**Balance at Dec. 31, 1997**	Balance at Dec. 31, 1996
Fixed assets	2		
Intangible assets		**0.164**	0.326
Tangible assets	3	**5.154**	4.654
Financial assets	4	**6,271.448**	5,971.300
		6,276.766	5,976.280
Current assets			
Receivables and sundry assets	5	**4,778.474**	2,707.489
Short-term securities and note loans	6	**36.657**	305.628
Cash on hand and in bank		**690.119**	768.218
		5,505.250	3,781.335
Prepaid expenses and deferred charges		**13.578**	6.869
		11,795.594	9,764.484

Stockholders' equity and liabilities

in DM million	Note no.	**Balance at Dec. 31, 1997**	Balance at Dec. 31, 1996
Stockholders' equity			
Capital stock	7	**1,217.952**	501.212
Reserve from capital surplus	8	**2,161.063**	2,729.608
Reserves retained from earnings	22	**431.319**	211.070
Unappropriated retained earnings	23	**489.711**	403.366
		4,300.045	3,845.256
Untaxed/special reserves	9	**170.608**	217.856
Accruals	10	**764.783**	879.669
Liabilities	11	**6,557.668**	4,820.611
Deferred income		**2.490**	1.092
		11,795.594	9,764.484

METRO AG
Income statement
for the year ended December 31, 1997

in DM million	Note no.	1997	1996
Income from investments	15	**1,109.494**	1,012.437
Net financial result	16	**(28.387)**	(43.921)
Other operating income	17	**311.403**	394.407
		1,392.510	1,362.923
Personnel expenses	18	**(109.246)**	(93.966)
Amortization of intangible and depreciation of tangible assets		**(2.787)**	(4.232)
Other operating expenses	19	**(427.748)**	(526.575)
		(539.781)	(624.773)
Result from ordinary operations		**852.729**	738.150
Extraordinary result	20	**(121.486)**	–
Income taxes	21	**(24.018)**	(110.280)
Other taxes		**2.735**	(13.434)
Net income		**709.960**	614.436
Transfer to reserves retained from earnings	22	**(220.249)**	(211.070)
Net earnings	23	**489.711**	403.366

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