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METRO AG

Annual accounts 1998 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 METRO AG's 1998 annual report.

Notes to the financial statements of METRO AG

(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 (personal property) 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 personal property, 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 shown at their discounted 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 the actual endowment (total assets) of this Fund in accounting terms. Deficient cover exists only to the extent that the usufructuary rights created in the 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, 1998, the Fund's commitments proratable to METRO AG exceeded the Fund's assets by DM 255.180 million. At December 31, 1998, the usufructuary rights created were valued at DM 222.511 million. An accrual provides for the deficient cover of DM 32.669 million. Moreover, an identical accrual provides for the 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 reduce risks, their valuation being separate and itemwise and predicated on the imparity principle (which requires unrealized losses to be accrued and prohibits unrealized profits to be recognized). Nonlisted financial instruments are valued either on a marked-to-market basis 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. Post-maturity exchange transactions are valued at the forward rates for the respective remaining terms.

Specific accruals principally provide for impending losses from derivative financial instruments at the notional losses from evening up such positions (marked to market). Unrealized gains remain unaccounted for. For interest rate futures valued separately, net payments made to compensate for reduced values have generally been directly expensed.

In accordance with the true-and-fair-view standards of Art. 264 par. 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 one position valued as a unit, losses from unsettled contracts are offset against, up to the amount of, unrealized profits. Losses in excess are accrued, gains in excess remaining unaccounted for.

Balance sheet captions, if valued on a netted basis and hedged by interest rate swaps, are stated according to their swapped interest rate structure.

Cash settlement payments from interest rate futures contracted to hedge financial transactions which are recognized in the balance sheet are distributed over the underlying transaction's term.

The formation of separate valuation units is premised on factors such as individual risk compensation of offsetting deals, interest rate and currency identity, financial-standing identity (prime debtors exclusively), and substantially matching maturities.

Comments on METRO AG's balance sheet

(2) Fixed assets

DM million	At cost Balance at 1-1-1998	Additions	Book transfers	Disposals	Charges[1] accumu-lated	**Balance at 12-31-1998**	Charged[1] in 1998
Intangible assets							
Rights and licenses	0.476	0.392	–	0.271	0.253	**0.344**	0.210
Tangible assets							
Land, equivalent titles, and buildings (including buildings on leased land and leasehold improvements)	2.721	–	–	2.721	–	**–**	0.709
Sundry plant, factory and office equipment	8.115	3.757	–	3.068	4.309	**4.495**	2.960
	10.836	3.757	–	5.789	4.309	**4.495**	3.669
Financial assets							
Shares in Group companies	6,129.970	5,452.515	13.368	1,406.822	80.627	**10,108.404**	–
Loans to Group companies	6.309	284.694	–	11.840	–	**279.163**	–
Investments	129.734	229.162	–	140.911	6.301	**211.684**	–
Other long-term loans	115.887	–	–	115.029	0.021	**0.837**	–
Advance payments on shares in Group companies	13.368	–	(13.368)	–	–	**–**	–
	6,395.268	5,966.371	–	1,674.602	86.949	**10,600.088**	–
Total	6,406.580	5,970.520	–	1,680.662	91.511	**10,604.927**	3.879

[1] Amortization/depreciation/write-down

(3) Tangible assets

The additions to tangible assets of DM 3.757 million relate primarily to PC equipment and vehicles. The disposals of DM 5.789 million essentially refer to the expiration of the useful life. The demolition of former Asko Deutsche Kaufhaus AG's office building caused DM 0.580 million to be written down.

(4) Financial assets

Additions to shares in Group companies of DM 5,452.515 million include DM 4,703.281 million for the acquisition of Viehof GmbH and Metro Cash & Carry GmbH, including the trade-related service companies, such as Metro International AG, Metro International Handels AG, Gemex Trading AG, and Metro SB-Handels AG. The Metro Cash & Carry shares were partly acquired under a capital increase against a DM 262.208 million contribution in kind. The market value of the stock granted in exchange is equivalent to DM 4.4 billion.

As of January 1, 1998, Metro Cash & Carry GmbH acquired the Makro Group's European C&C operations, i.e. this group's majority stakes in Makro subsidiaries and minority stakes in Metro companies. Under this acquisition transaction, an agreement was signed to grant METRO AG the option to acquire, on the same terms and conditions and by the year 2002, all of the shares held by Metro Holding AG/Ligapart AG in the wholesale companies based in Metro and Makro countries. In the second half of 1998, however, Metro Holding AG/Ligapart AG and METRO AG agreed on the early acquisition by METRO AG of the C&C business with economic effect as of January 1, 1998.

DM 362.187 million refers to additional shares acquired in 1998 in existing subsidiaries, such as Extra Verbrauchermärkte GmbH, Kaufhalle AG, Reno Versandhandel GmbH, Media-Saturn-Holding GmbH, Vobis Microcomputer AG, and Horten AG. Metro International AG's capital stock was raised by DM 248.000 million.

DM 133.200 million of the additions is allocable to a new share granted in Divacom Beteiligungs GmbH.

DM 1,391.798 million of the total disposals of DM 1,406.822 million of shares in Group companies refers to the companies transferred to the Divaco Group, e.g. Massa AG, Adler Modemärkte GmbH, Vobis Microcomputer AG, Kaufhalle AG, and Reno Versandhandel GmbH. DM 4.397 million is attributable to NVA Warenhandels AG's merger into METRO AG.

The additional loans to Group companies include one of DM 275.000 million granted to Viehof GmbH. DM 9.457 million results from NVA Warenhandels AG's merger and concerns Fundus Vermögensverwaltung GmbH.

The disposals reflect the transfer to Divaco Beteiligungs AG & Co KG of the loans granted to Fundus Vermögensverwaltung GmbH and Fleiwa Fleisch- und Wurstwarenproduktions GmbH.

DM 209.790 million of the total additions of DM 229.162 million to investments mirrors the acquisition of a 37-percent stake in Divafon Beteiligungs GmbH, another DM 19.372 million being allocable to Debitel Kommunikationstechnik GmbH & Co KG/Debitel Kommunikationstechnik Verwaltungsgesellschaft mbH. DM 112.810 million of the disposals refers to the transfer to Divaco Beteiligungs AG & Co KG of various shares in investees, such as Roller GmbH & Co KG, Debitel Kommunikationstechnik GmbH & Co KG/Debitel Kommunikationstechnik Verwaltungsgesellschaft mbH, and Service Bank GmbH & Co KG.

The disposals of other long-term loans reflect the transfer of loans to Divaco Beteiligungs AG & Co KG.

(5) Receivables and sundry assets

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Due from Group companies	**4,342.028**	4,315.923
thereof with a remaining term above 1 year	**[4.533]**	[5.585]
Receivable under investor/investee relations	**–**	38.867
Sundry assets	**379.051**	423.684
thereof with a remaining term above 1 year	**[22.545]**	[81.077]
	4,721.079	4,778.474

Sundry assets include claims for tax refunds of a total DM 167.119 million, DM 160.184 million of which concerns tax credits on dividends received in the year under review. This line also covers an investee to be divested.

(6) Short-term securities

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Shares in Group companies	**0.025**	0.025
Other short-term securities	**13.545**	36.632
	13.570	36.657

(7) Prepaid expenses and deferred charges

This caption includes DM 13.920 million of loan discount, being the difference between the redemption amount and the loan face value from the 1998/2013 convertible bond issue.

(8) Capital stock

At December 31, 1997, the Company's capital stock had amounted to DM 1,217,951,940, subdivided into

220,589,076	shares of common stock of DM 5 at par =	DM 1,102,945,380
23,001,312	shares of preferred stock of DM 5 at par =	DM 115,006,560
243,590,388	shares of stock of DM 5 at par =	DM 1,217,951,940

In fiscal 1998, the capital stock changed as outlined below, in addition to the fact that the July 7, 1998 stockholders' meeting resolved to convert the stock into no-par shares. Moreover, the same meeting authorized the Supervisory Board, after the irrevocable establishment of the DM/euro exchange rate, to decide that the memorandum & articles of association be amended and previous DM denominations changed into euros (cf. annual stockholders' meeting of July 7, 1998, agenda item 10). After the official exchange rate had been fixed on December 31, 1998, at €1 = DM 1.95583, the Supervisory Board replaced on February 25, 1999, all DM mentions in the memorandum & articles of association for euro. An application for the entry of such amendments in, has been filed with, the Commercial Register.

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, had approved four potential capital increases in connection with warrant bond issues still outstanding. Three of these capital increases have meantime lapsed. The annual stockholders' meeting of July 9, 1997, resolved to adjust the remaining conditional capital (original ceiling: DM 15,000,000) in line with the equity-funded capital increase. Accordingly, the capital stock was conditionally increased by an aggregate maximum of DM 36,000,000 by issuing up to 7,200,000 DM 5 shares of common stock at par (conditional capital I). The potential capital increase was destined to issue METRO AG common stock to holders of the 2% DM 1986/1998 warrant bond issue floated by Metro Finance BV (formerly Kaufhof Finance BV) upon exercise of their option rights. By December 31, 1997, option rights to acquire 4,140,000 shares of METRO AG common stock were still pending exercise.

In fiscal 1998, a total of 4,137,600 new shares of common stock of DM 5 at par were issued hereunder, their prorated total of such common stock amounting to DM 20,688,000.

By the warrant bond issue's maturity on September 1, 1998, altogether 2,400 shares of METRO AG common stock had remained unexercised; the conditional capital has lapsed. Consequently, on November 20, 1998, the Supervisory Board, acting through its duly authorized Presidential Committee, canceled the relevant clause in Art. 4(7) in the memorandum & articles of association and renumbered the previous paragraphs 8–10 to read 7–9.

The annual stockholders' meeting of July 9, 1997, resolved to conditionally raise the capital stock by up to another DM 100,000,000 (conditional capital II).

This potential capital increase is connected with the Executive Board's authority to issue on or before July 9, 2002, warrant and/or convertible bonds for an aggregate maximum par value of DM 2,000,000,000 and to grant their holders option/conversion rights for new common and/or preferred METRO AG stock equivalent to an aggregate maximum par value of DM 100,000,000.

Warrant and/or convertible bonds may also be issued by subsidiaries wholly owned by METRO AG (whether directly or indirectly). In this case, the Executive Board is authorized to guarantee the bonds on behalf of the issuing subsidiary and to grant bondholders option or conversion rights for new common and/or preferred stock of METRO AG.

In each case, the potential capital increase will only be implemented to the extent and provided

(a) that the holders of such conversion rights or option warrants as are attached to the convertible or warrant bonds to be floated or guaranteed on or before July 9, 2002, by METRO AG or its wholly owned indirect or direct subsidiaries, exercise their conversion or option rights, or

(b) that such holders of convertible bonds to be floated or guaranteed on or before July 9, 2002, by METRO AG or its wholly owned indirect or direct subsidiaries as are subject to a conversion obligation satisfy such conversion requirement.

On February 25, 1999, the Supervisory Board resolved to redenominate the previous DM 100,000,000 of conditional capital II into €51,129,188.12 (cf. Art. 4 par. 8 of the amended memorandum & articles of association).

With a view to duly and properly satisfying all payment obligations incumbent on Metro International Finance BV (a wholly owned METRO AG subsidiary based in Amsterdam, Netherlands), zero coupon convertible bonds guaranteed by METRO AG and totaling DM 1,500,000,000 were floated on July 9, 1998, entitling their holders to convert the bonds into bearer shares of METRO AG preferred stock (the "DM Convertible Bond Issue"). The 15-year DM Convertible Bonds will be redeemed at the accrued principal amount by July 9, 2013, unless (i) they have previously been redeemed or (ii) the conversion right has been exercised with full legal effect. METRO AG has granted each bondholder the right during the exercise period from July 9, 1999, through June 9, 2013 (both days included) to convert the bonds into shares of METRO AG nonvoting preferred stock, meaning that no conversion rights could to date have been exercised.

Authorized capital I

Under Art. 4 par. 7 of the amended memorandum & articles of association (renumbered from Art. par. 8 upon deletion of par. 7, as resolved by the annual stockholders' meeting on July 9, 1997), the Executive Board was authorized, after first obtaining the Supervisory Board's approval, to raise the capital stock by up to DM 250,000,000 by issuing once or several times on or before July 9, 2002, new common and/or preferred stock in exchange for cash contributions (authorized capital I).

While stockholders are to be granted their subscription right, it may be excluded to the extent required to safeguard the rights of the holders of warrant and convertible bonds floated by METRO AG and/or its indirect and direct wholly owned subsidiaries.

Furthermore, subscription rights may be excluded for one or several capital increases under the authorized capital, provided that (i) the par value of the capital increase does not exceed 10 percent of the capital stock recorded in the Commercial Register when this authorized capital is utilized for the first time and (ii) the issue price of the new shares is not significantly below the current market price.

As resolved on November 18, 1998, the Executive Board wielded part of this authority after first obtaining the approval of even date from the Presidential Committee duly authorized by the Supervisory Board, and raised the capital stock by DM 133,089,345 by issuing 26,617,869 shares of common stock at an issue price of DM 87.02 per share. The resulting stock premium of DM 2,183,267,339 was transferred to the reserve from capital surplus.

The purpose of this cash capital increase was to finance the acquisition of such stakes in European Metro and Makro companies and trade-related service enterprises as were then held by Metro Holding AG/Ligapart AG, both of Baar, Switzerland.

On November 20, 1998, the capital increase was recorded by the Commercial Register. The authorized capital I existing thereafter (a maximum DM 116,910,655) was redenominated into €59,775,468.73 by resolution of the Supervisory Board of February 25, 1999 (cf. Art. 4 par. 7 of the memorandum & articles of association).

Authorized capital II

The extraordinary stockholders' meeting of September 11, 1997, resolved to create authorized capital II: The Executive Board was authorized, with the Supervisory Board's prior approval, (i) to raise the Company's capital stock by issuing once or several times on or before September 11, 2002 new bearer shares of common stock by an aggregate maximum of DM 350,000,000 for noncash contributions (authorized capital II), and (ii) to decide on the exclusion of the stockholders' subscription rights and stipulate all 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 exchange for a contribution in kind ex rights. The contribution in kind represented the transfer by SHV Makro NV of all its shares in Mebrö Beteiligungs AG (now renamed Metro Cash & Carry GmbH), which in turn held all of the Makro Group's European and Moroccan C&C operations. This noncash contribution and the entry of the implemented capital increase in the Commercial Register were made on January 6, 1998. Thereafter, the remaining authorized capital II amounted to DM 241,200,000.

By its resolution of November 18, 1998, the Executive Board again made partial use of its capital-raising authority after obtaining on the same date the approval from the Supervisory Board's duly authorized Presidential Committee, and increased the capital stock by DM 153,408,190 by issuing 30,681,638 bearer shares of common stock in exchange for a contribution in kind and excluding the subscription rights. This noncash contribution consisted of the full capital of Cologne-based Metro Cash & Carry Beteiligungs GmbH & Co KG, a limited partnership entered in the Commercial Register of the Cologne Local Court under number HRA 14275 and in which the Baar, Switzerland-based Metro Holding AG's/Ligapart AG's cash & carry business and similar operations (mainly equity interest in trade-related service enterprises) were combined.

Based on the underlying audit report dated November 19, 1998, and issued by Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH, this noncash contribution as well as the entry of the implemented capital increase in the Commercial Register were made on November 20, 1998. Thereafter, the remaining authorized capital II amounted to a maximum DM 87,791,810, which was redenominated into €44,887,239.69 as resolved by the Supervisory Board on February 25, 1999, in accordance with Art. 4(9) of the Company's memorandum & articles of association.

Capital stock at December 31, 1998

At December 31, 1998, the capital stock totaled DM 1,633,937,475; on February 25, 1999, this figure was changed by the Supervisory Board into €835,418,965.35, as authorized by the annual stockholders' meeting on July 7, 1998, and once the euro/mark exchange rate had irrevocably been fixed. The capital stock is divided into 303,786,183 shares of common, and 23,001,312 shares of preferred, stock.

As of December 31, 1998, the capital stock rose from the year-earlier closing date by DM 415,985,535 (€212,690,026.74), corresponding to 83,197,107 no-par shares.

Breakdown of capital stock at December 31, 1998:

303,786,183 shares of common stock	= €776,617,045	= DM 1,518,930,915
23,001,312 shares of preferred stock	= € 58,801,920	= DM 115,006,560
326,787,495 shares of stock	= €835,418,965	= DM 1,633,937,475

No acquisition of treasury stock

On July 7, 1998, the annual stockholders' meeting authorized the Company to acquire treasury stock up to an equivalent of ten percent of the capital stock (cf. that meeting's agenda item 9). To date, this authority has not been exercised, whether by METRO AG, or any company controlled or majority-owned by METRO AG, or any other party on behalf or for the account of METRO AG or any company controlled or majority-owned by METRO AG; cf. Art. 160(1)(2) AktG.

Other mandatory disclosures

Pursuant to Arts. 21 par. 1 and 22 par. 1(1) and (2) German Securities Trading Act ("WpHG"), the following statements are made:

Metro Holding AG, Baar, Switzerland, informed METRO AG that Baar-based Ligapart AG meantime owns more than 5 percent of METRO AG's voting stock and now holds 17.26 percent of such voting stock.

Furthermore, Metro Holding AG communicated that Düsseldorf-based Metro Vermögensverwaltung GmbH & Co KG meantime owns less than 50 percent of METRO AG's voting stock and presently holds 43.34 percent thereof.

The stake in METRO AG's voting stock allocable to Metro Holding AG through the aforesaid two entities thus totals 60.6 percent.

(9) Reserve from capital surplus

At December 31, 1998, this reserve totaled DM 4,541,849,475 and developed as follows:

DM	
Balance at December 31, 1997	**2,161,063,165**
Additions in 1998	
Cash capital increase: 26,617,869 shares of common stock	**2,183,267,339**
Option right exercise: 4,137,600 new shares of common stock	**183,118,971**
Fee for conversion rights granted under the 1998/2013 convertible bond issue	**14,400,000**
Balance at December 31, 1998	**4,541,849,475**

(10) Untaxed/special reserves

Untaxed/special reserves were solely created under the terms of Art. 6b German Income Tax Act ("EStG"). DM 101.079 million thereof was released and allocated to various real-estate limited partnerships which, in turn, used the ACR option to write down land and building values in the same amount to offset the transfer of such untaxed reserves under Art. 6b EStG.

(11) Accruals

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Pension accruals	**326.458**	283.871
Tax accruals	**175.527**	160.521
Other accruals	**138.121**	320.391
	640.106	764.783

Pension accruals of DM 262.389 million provide for direct pension commitments, another DM 63.361 million for the deficient cover of underfunded benevolent funds. The increase is attributable to the application of the new 1998 mortality tables.

The tax accruals adequately provide for tax audit risks, too.

The other accruals account for the following:

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Risks from investees	**65.163**	101.482
Litigation risks	**21.473**	16.844
Financial transaction risks	**16.371**	9.704
Commitments to employees	**14.419**	9.697
Risks from leases and realty sold	**3.929**	164.927
Other risks	**16.766**	17.737
	138.121	320.391

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

The accruals for risks from leases and realty sold decreased through utilization, as well as the transfer to Divaco Beteiligungs AG & Co KG since this limited partnership, when taking over certain subsidiaries, also assumed the attaching risks.

(12) Liabilities

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Bonds	**268.000**	804.000
Due to banks	**827.217**	1.292
Trade payables	**9.765**	14.422
Notes payable	**135.000**	1,934.300
Due to Group companies	**6,600.046**	3,354.556
Payable under investor/investee relations	**0.342**	0.334
Sundry liabilities	**698.635**	448.764
thereof for taxes	**[251.046]**	[210.805]
thereof from social security	**[0.430]**	[30.214]
	8,539.005	6,557.668

Ageing structure of liabilities as of December 31, 1998:

DM million	**Total**	up to 1 year	above 5 years
Bonds	**268.000**	268.000	–
Due to banks	**827.217**	770.217	–
Trade payables	**9.765**	9.765	–
Notes payable	**135.000**	135.000	–
Due to Group companies	**6,600.046**	5,077.546	1,522.500
Payable under investor/investee relations	**0.342**	0.342	–
Sundry liabilities	**698.635**	698.543	0.075
	8,539.005	6,959.413	1,522.575

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

(13) Contingent liabilities

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Guaranty and warranty contracts	**7,930.293**	5,597.434
thereof to Group companies	**[144.302]**	[170.770]
thereof for Group companies	**[3,489.408]**	[5,070.691]
Suretyships and guaranties	**743.349**	642.757
thereof to Group companies	**[0.788]**	[0.788]
thereof for Group companies	**[211.831]**	[330.798]
	8,673.642	6,240.191

DM 2,850.000 million of the increase in contingent liabilities under guaranty and warranty contracts is attributable to (i) METRO AG having guaranteed certain bank loans raised by Divaco AG & Co KG to fund the acquisition of METRO AG Group companies and (ii) such transferred companies' loans having been taken over in this context.

(14) Other financial obligations

DM million	**Dec. 31, 1998**	Dec. 31, 1997
Commitments from share tender rights	**767.031**	2,909.355
thereof to Group companies	**[–]**	[1,986.452]
Obligations from rental and leasing contracts (per annum)	**236.711**	168.608
thereof to Group companies	**[91.931]**	[116.904]
thereof for Group companies	**[221.333]**	[164.180]
Obligations from financial derivatives	**170.121**	11.568
thereof to Group companies	**[2.658]**	[4.243]
Sundry	**114.198**	191.319
	1,288.061	3,280.850

The decrease in commitments from share tender rights is ascribable to the acquisition of 40 percent of the shares in the Makro Group's European and Moroccan C&C operations as of January 1, 1998.

DM 270.762 million of the other financial obligations is covered by rights of recourse.

(15) Derivative financial instruments

Risk-reducing financial derivatives as of December 31, 1998:

DM million	Notional amount (net positions)	Market value (net positions)
Interest rate transactions		
Listed products:		
5 years	169.000	0.101
10 years	433.000	(0.381)
	602.000	(0.280)
OTC products:		
Interest rate swaps	3,920.438	(147.200)
Caps/collars/floors	400.000	0.001
	4,320.438	(147.199)
Currency transactions		
OTC products:		
Futures	43.932	(1.032)
Interest rate/ currency swaps	48.787	(8.354)
	92.719	(9.386)
Total	5,015.157	(156.865)

The notional amounts are calculated from the net positions based on the underlying purchase/selling prices. The market value is the marked-to-market balance of unrealized gains and losses netted within any one class of financial derivatives. No direct relationship exists to the accruals for financial transaction risks (see Note 11). Netting of market values within certain derivatives classes is not identical with the accounting for separately valued or netted derivative and financial transactions.

See Note 1 for details of the accounting and valuation principles applied to financial derivatives.

Currency futures/forwards mature throughout within one year.

Comments on METRO AG's income statement

(16) Income from investments

DM million	1998	1997
Income from P&L transfer agreements	**1,043.437**	891.638
Income from investments	**438.791**	289.353
thereof from Group companies	**[423.194]**	[283.590]
Expenses from loss absorption	**(119.426)**	(71.476)
Write-down of financial assets	**–**	(0.021)
	1,362.802	1,109.494

The expenses from loss absorption mainly refer to Tip Discount Handels GmbH, Metro Immobilien Holding GmbH, and Kaufhof Warenhaus AG (which, having taken over Kaufhalle AG's retail operations as of January 1, 1998, shows a net loss).

(17) Net financial result

DM million	1998	1997
Income from long-term loans	**17.505**	0.379
thereof from Group companies	**[12.596]**	[0.368]
Other interest and related income	**295.301**	219.287
thereof from Group companies	**[248.250]**	[124.447]
Other financial income	**32.640**	132.718
thereof from Group companies	**[6.123]**	[19.556]
Interest and related expenses	**(424.705)**	(237.655)
thereof to Group companies	**[160.492]**	[83.735]
Other financial expenses	**(106.182)**	(143.116)
thereof to Group companies	**[4.610]**	[18.280]
	(185.441)	(28.387)

The other financial income/expenses lines chiefly relate to the profit or loss from interest rate hedges based on financial derivatives, including gains and losses on securities and currency transactions.

(18) Other operating income

DM million	1998	1997
Rentals (real/personal property)	**267.062**	205.749
Release of untaxed/ special reserves under Art. 6b EStG	**101.079**	47.247
Administrative services for subsidiaries	**17.837**	14.192
Book gains from fixed-asset disposals	**12.573**	5.838
Below-the-line income	**3.907**	4.550
Sundry	**38.058**	33.827
	440.516	311.403

Rentals primarily reflect transitory realty rentals posted in suspense accounts and income from personal-property leasing.

The income from the release of untaxed/special reserves under Art. 6b EStG was transferred with full tax effect to various real-estate limited partnerships to offset the ACR-based write-down charged in equal amounts.

(19) Personnel expenses

DM million	1998	1997
Wages and salaries	**79.714**	59.934
Social security taxes, expenses for pensions and related fringe benefits	**25.988**	49.312
thereof pension expense	**[21.851]**	[45.041]
	105.702	109.246

Wages and salaries include DM 33.654 million in settlement and year-end payments.

The expenses for pensions and related fringe benefits include DM 2.661 million additionally provided for accruals for underfunded benevolent funds.

(20) Other operating expenses

DM million	1998	1997
Rentals (real/personal property)	**282.833**	230.726
Losses on the contribution of subsidiaries to Divaco Beteiligungs AG & Co KG	**166.922**	–
Transfer of untaxed/ special reserves under Art. 6b EStG to real-estate limited partnerships	**101.079**	47.247
Cost of capital increase	**31.218**	1.016
General administrative expenses	**19.339**	18.547
Service fees charged by subsidiaries to METRO AG	**19.107**	15.322
Legal, audit and similar fees	**19.106**	11.301
Leasing and litigation risks	**8.472**	18.115
Write-down of current assets	**1.741**	37.958
Sundry	**61.759**	47.516
	711.576	427.748

The contribution of subsidiaries to Divaco Beteiligungs AG & Co KG was based on book values to the Group some of which were below METRO AG's. In the METRO AG Group's consolidated accounts, the contribution does not affect net income.

(21) Extraordinary result

DM million	1998	1997
Extraordinary income	**–**	306.567
Extraordinary expenses	**(42.136)**	(428.053)
	(42.136)	(121.486)

The extraordinary expenses mirror the additional provision for pension accruals due to the application of the new 1998 mortality tables.

(22) Income taxes

This caption offsets tax refunds against additional provisions for tax audit risk accruals.

(23) Transfer from net income to reserves retained from earnings

Under Art. 58(2) AktG, METRO AG's Supervisory and Executive Boards transferred DM 94.527 million from the year's net income of DM 749.150 million to reserves retained from earnings.

(24) Appropriation of net earnings

The Supervisory and Executive Boards propose that the net earnings of DM 654,622,801 be appropriated as follows:

	Number of shares	Cash dividend in €	Cash dividend in DM
Cash dividend of €1.02 (approx. DM 2) per share of common stock	303,786,183	**309,861,907**	**606,037,213**
Cash dividend of €1.02 plus one of €0.06 (approx. DM 2.11) per share of preferred stock	23,001,312	**24,841,417**	**48,585,588**
	326,787,495	**334,703,324**	**654,622,801**

According to the Supervisory Board's February 25, 1999 amendment to the memorandum & articles of association, preferred stockholders are entitled to receive an extra dividend of €0.06.

Solely tax-exempt portions of distributable equity (EK-01, EK-04) will be used for dividend payment:

	from EK-01 equity	from EK-04 equity
per common share	€0.126 (DM 0.246)	€0.894 (DM 1.749)
per preferred share	€0.133 (DM 0.260)	€0.947 (DM 1.852)

The EK-01 equity portions do not include any input tax credit and are therefore subject to capital yields taxation at source. For German resident stockholders (unless corporate), they represent taxable income. The capital yields tax certified withheld (including the solidarity surtax thereon) is creditable to an eligible stockholder's income tax debt.

EK-04 equity portions are tax-exempt for stockholders who own the stocks as personal assets in Germany; generally, the same rule would also apply to stock held as operating assets in Germany.

Further information

(25) Employees

METRO AG's workforce averaged 227 in fiscal 1998, calculated from the four quarterly mean headcounts, 6 and 221 being blue- and white-collar employees, respectively. Part-timers and temporary personnel were translated into full-time equivalents (FTE).

(26) Shareholdings

The list of the METRO AG Group's shareholdings will be deposited with the Local Court of Cologne under Commercial Register number HRB 26888 and may also be obtained directly from METRO AG.

(27) Group affiliation

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

(28) Supervisory and Executive Boards

For their services on behalf of METRO AG, Supervisory Board members received DM 1.856 million.

The Executive Board's emoluments totaled DM 15.744 million.

Former Executive Board members (and their surviving dependants) of METRO AG and companies merged into METRO AG received DM 15.478 million. METRO AG's pension accruals totaled DM 82.584 million for these persons.

Members of the Supervisory Board

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

Klaus Bruns
Vice-Chairman
Oberhausen
Kaufhof Warenhaus AG

Peter Brenner
Hannover
Regional chairman
of the HBV union
as from July 7, 1998

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

Holger Grape
Hamburg
Head of the wholesale/retail and
private services employees' group
at the DAG union

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

Hubert Haselhoff
Sarstedt
Extra Verbrauchermärkte GmbH
up to July 7, 1998

Hanns-Jürgen Hengst
Cologne
Kaufhof Warenhaus AG

Gerhard Herbst
Frankfurt/Main
Regional chairman of the NGG union
up to July 7, 1998

Hermann Hesse
Düsseldorf
Kaufhof Warenhaus AG

Ingeborg Janz
Goslar
Real SB-Warenhaus GmbH
up to July 7, 1998

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

Dr. Klaus Liesen
Essen
Supervisory Board Chairman
of Ruhrgas AG
up to May 13, 1998

Dr. Karlheinz Marth
Düsseldorf
Secretary to the central executive committee
of the HBV union

Dr. Thomas Middelhoff
Gütersloh
Executive Board Chairman
of Bertelsmann AG
as from July 7, 1998

Gustav-Adolf Munkert
Cologne
Kaufhof Warenhaus AG
up to July 7, 1998

Fritz-Julius Nolden
Cologne
Kaufhof Warenhaus AG
as from July 7, 1998

Bernd Pischetsrieder
Munich
Former Executive Board Chairman
of BMW AG
as from July 7, 1998

Hildegard Schäfer
Lollar
Real SB-Warenhaus Holding GmbH
as from July 7, 1998

Professor Dr. Helmut Schlesinger
Oberursel
Former President of Deutsche Bundesbank

Dr. Manfred Schneider
Leverkusen
Executive Board Chairman
of Bayer AG

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

Dr. Henning Schulte-Noelle
Munich
Executive Board Chairman
of Allianz AG
up to July 7, 1998

Peter Seuberling
Kirkel
Praktiker Bau- und Heimwerkermärkte AG

Dr. Joachim Theye
Bremen
Lawyer and notary public

Hans-Peter Wolf
Cologne
METRO-AG-Kaufhof-Betriebskrankenkasse
as from July 7, 1998

Members of the Executive Board

Dr. Hans-Joachim Körber
Spokesman as from January 1, 1999

Wolfgang Urban
Spokesman
up to January 31, 1998

Klaus Wiegandt
Spokesman
up to December 31, 1998

Siegfried Kaske
up to November 30, 1998

Georg Kulenkampff
from May 1 to November 13, 1998

Dr. Wolf-Dietrich Loose

Zygmunt Mierdorf
as from January 1, 1999

Theo de Raad

Joachim Suhr

Cologne, March 30, 1999

THE EXECUTIVE BOARD

Dr. Körber

Dr. Loose

Mierdorf

de Raad

Suhr

We audited the annual accounts (including the accounting) and the management report of METRO AG for the fiscal year ended December 31, 1998. The accounting and the preparation of the annual accounts and management report for the Company in accordance with German Commercial Code regulations and the supplementary provisions in METRO AG's memorandum & articles of association are the responsibility of the Company's Executive Board. Our responsibility is, based on our audits, to express an opinion on said annual accounts and management report for the Company.

We conducted our audit of the Company's annual accounts pursuant to Art. 317 HGB in accordance with the generally accepted standards for the audit of financial statements as established by the Institute of Sworn Public Auditors in Germany (IDW). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the accounting and the annual accounts and management report for the Company are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounting and the annual accounts and management report for the Company. An audit also includes assessing the accounting principles used, and significant estimates made, by the Executive Board, as well as evaluating the overall presentation of said annual accounts and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any objections or exceptions.

It is our opinion that the annual accounts, with due regard to accounting principles generally accepted in Germany, present a true and fair view of METRO AG's net-asset, financial and income position. The combined management report on METRO AG and the Group gives an overall pertinent presentation of the Company's position and a fair description of any risks related to future development.

Duisburg, April 19, 1999

FASSELT-METTE & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. P. Schöneberger	Dr. M. Fasselt
Wirtschaftsprüfer	Wirtschaftsprüfer

METRO AG
Balance sheet as of December 31, 1998

Assets

DM million	Note no.	Balance at Dec. 31, 1998	Balance at Dec. 31, 1997
Fixed assets	2		
Intangible assets		**0.344**	0.164
Tangible assets	3	**4.495**	5.154
Financial assets	4	**10,600.088**	6,271.448
		10,604.927	6,276.766
Current assets			
Receivables and sundry assets	5	**4,721.079**	4,778.474
Short-term securities	6	**13.570**	36.657
Cash on hand and in bank		**1,245.293**	690.119
		5,979.942	5,505.250
Prepaid expenses and deferred charges	7	**21.362**	13.578
		16,606.231	11,795.594

Stockholders’ equity and liabilities

DM million	Note no.	Balance at Dec. 31, 1998	Balance at Dec. 31, 1997
Stockholders’ equity			
Capital stock	8	**1,633.937**	1,217.952
Reserve from capital surplus	9	**4,541.849**	2,161.063
Reserves retained from earnings	23	**525.846**	431.319
Unappropriated retained earnings	24	**654.623**	489.711
		7,356.255	4,300.045
Untaxed/special reserves	10	**69.529**	170.608
Accruals	11	**640.106**	764.783
Liabilities	12	**8,539.005**	6,557.668
Deferred income		**1.336**	2.490
		16,606.231	11,795.594

METRO AG
Income statement
for the year ended December 31, 1998

DM million	Note no.	1998	1997
Income from investments	16	**1,362.802**	1,109.494
Net financial result	17	**(185.441)**	(28.387)
Other operating income	18	**440.516**	311.403
		1,617.877	1,392.510
Personnel expenses	19	**(105.702)**	(109.246)
Amortization of intangible and depreciation of tangible assets		**(3.879)**	(2.787)
Other operating expenses	20	**(711.576)**	(427.748)
		(821.157)	(539.781)
Result from ordinary operations		**796.720**	852.729
Extraordinary result	21	**(42.136)**	(121.486)
Income taxes	22	**(0.122)**	(24.018)
Other taxes		**(5.312)**	2.735
Net income		**749.150**	709.960
Transfer to reserves retained from earnings	23	**(94.527)**	(220.249)
Net earnings	24	**654.623**	489.711

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