METRO AG

ANNUAL REPORT 1998

Metro Wholesale	METRO	makro	CC Schaper
Hypermarkets	real,-	allkauf	KRIEGBAUM UNTERNEHMENSGRUPPE
Food Stores	extra	KRIEGBAUM UNTERNEHMENSGRUPPE	
Consumer Electronics Centers	Media Markt	SATURN	
Home Improvement Centers	Praktiker		
Department Stores	GALERIA KAUFHOF	Horten	
Real Estate			
Restaurant & Catering			
Discounters			
Computer Centers			
Fashion Centers			
Footware Centers			
Others			

At a glance

METRO AG Group in figures

	1998 DM mill.	1997 DM mill.	1996 DM mill.
Net sales	**91,704**	56,840	55,034
Result from ordinary operations	**1,133**	930	1,062
Net income	**735**	623	717
Net income excl. third-party P&L shares	**574**	554	610
Result according to DVFA/SG	**1,081**	777	712
Return on equity after taxes	**9.1%**	12.6%	14.9%
Capital expenditure[1]	**2,663**	1,891	1,639
Cash flow according to DVFA/SG	**3,008**	1,981	1,898
Total assets	**37,086**	25,414	20,777
Equity	**8,083**	4,962	4,826
Capital stock	**1,634**	1,218	501

Per share[2]	**DM**	DM	DM
Earnings according to DVFA/SG	**3.31**	3.19	2.96
Cash dividend[3]			
• common stock	**€ 1.02 Euro ~ 2.00**	2.00	1.67
• preferred stock I[4]	**€ 1.08 Euro ~ 2.11**	2.11	1.77
• preferred stock II[4]			1.77
Cash dividend incl. tax credit[3) 5) 6)]			
• common stock	**€ 1.02 Euro ~ 2.00**	2.03	1.70
• preferred stock I[4]	**€ 1.08 Euro ~ 2.11**	2.14	1.80
• preferred stock II[4]			1.80
Cash flow according to DVFA/SG	**8.71**	7.85	7.44

[1] Additions to tangible and intangible assets (excl. goodwill)

[2] 1996 figures adjusted for the capital increase through the 7-for-5 capitalization issue of July 23,1997

[3] 1996 dividend including bonus equivalent to DM 0,83 per share of common/preferred stock

[4] As resolved by the July 9, 1997 stockholders' meeting, combined into one category of nonvoting preferred stock

[5] For German resident stockholders

[6] Solely tax-exempt equity portions will be used for the 1998 dividend.

METRO AG Group profit/loss by division

	1998 DM mill.	1997 DM mill.	1996 DM mill.
Metro Wholesale	**1,138.7**	385.9	427.7
Hypermarkets	**286.0**	128.1	99.7
Food Stores	**37.8**	73.7	80.4
Consumer Electronics Centers	**493.0**	347.0	240.4
Home Improvement Centers	**53.7**	81.3	186.9
Department Stores	**21.9**	142.8	203.6
Real Estate	**131.1**	134.9	179.4
Restaurant & Catering	**27.7**	17.6	21.1
Discounters	**(98.1)**	(74.4)	(26.8)
Computer Centers	**27.1**	37.5	46.0
Fashion Centers	**108.1**	92.2	28.2
Footware Centers	**1.7**	(30.3)	24.9
Others	**108.2**	68.5	(36.3)
Division result from ordinary operations, before goodwill amortization	**2,336.9**	1,404.8	1,475.2
less holding company's result	**(567.0)**	(235.1)	(219.3)
less amortization of goodwill	**(636.8)**	(239.5)	(193.9)
Result from ordinary operations	**1,133.1**	930.2	1,062.0
Extraordinary result	**86.3**	0.2	–
less income taxes	**(398.3)**	(250.9)	(274.5)
less other taxes	**(85.9)**	(56.7)	(70.3)
Net income of the Group	**735.2**	622.8	717.2

Contents

Letter to our stockholders

Dear Stockholders:

The year 1998 was the most successful so far in METRO AG's almost three-year history:

- METRO AG's market capitalization increased to some DM 42.3 billion. METRO AG's stock recorded the best performance among the DAX 30. Even compared with its European rivals, this is an outstanding achievement.

- Our earnings per share also gained. Despite a 34-percent rise in numbers, earnings per share climbed to DM 3.31 (up from DM 3.19).

- The takeover of all stakes in the European C&C operations including all trading-related service enterprises (e.g., Gemex, MIAG) from Metro Holding AG/Ligapart AG has resulted in total transparency.

- The concentration on four divisions – Cash & Carry (Metro/Makro), Food Retail (Real/Extra), Nonfood Specialty (Media/Saturn/Praktiker), and Department Stores (Kaufhof Galeria) – is making it possible to significantly reduce complex structures and organization.

Our employees are shaping the process of change

The speed with which METRO AG is pressing ahead with the portfolio optimization process is based on the exceptional motivation of our employees. They have actively shaped the necessary process of change and surmounted wide-ranging challenges successfully and despite great pressure. They ensure that with every day that passes we move a little closer to our goals. For this we would like to express our particular thanks.

Enhanced earnings

With a rise in the result from ordinary operations by some 22 percent to DM 1.13 billion, our own expectations are fulfilled. The profit structure and potential of our four core divisions also showed a marked improvement:

- Thanks to the acquisition of the European cash & carry operations from SHV Makro NV/Metro Holding AG/Ligapart AG, we managed to strengthen our largest division decisively. In 1998 METRO AG conducted C&C business in 18 countries. The Group's total non-German share of sales rose to 35 percent.

- With the acquisition of the Allkauf and Kriegbaum Groups, Real consistently expanded its market position in Germany. Its 273 hypermarkets make it the clear market leader in Germany. In the hypermarkets not affected by renovation and conversion, Real already achieves a pretax return on sales of over 3 percent. Allkauf's and Kriegbaum's integration and rigorous synergy utilization are under way.

- Media/Saturn is continuing its successful expansion, also achieving an above-average improvement in selling-space productivity in its existing network. Owing to accelerated national and international expansion in Poland, Hungary and now in Spain and the Netherlands, Media/Saturn is well on the way to becoming an established European retail brand.

- Conversion to the Galeria concept continued on schedule at Department Stores. This concept continues to meet our expectations in terms of both sales and earnings.

The only underachievers in 1998 were Extra and Praktiker where extensive measures are being pushed through in both outlet chains.

METRO AG increases its impact efficiency

By transferring to Divaco our non-core operations with sales of DM 10.3 billion and accounting for a net loss contributed at DM 163.8 million, we wrapped up the portfolio restructuring process launched at the beginning of 1996. METRO AG will focus in future on profitable growth in four divisions. Just as important as an improved financial-statement structure, is the marked reduction in corporate structure complexity. Greater flexibility enhances competitiveness at international level amid a dynamically changing competitive environment.

Profitability well up

At DM 3.0 billion, cash flow was up by 51.8 percent from the previous year. With the investment made in organic growth in our divisions in 1998 as well as the acquisitions to round off our C&C and Food Retail divisions, depreciation of fixed assets and goodwill amortization leapt by 74.5 percent to DM 2.4 billion. Likewise, EBIT soared by 63.5 percent to DM 1.6 billion.

Dividend payout rises by 34 percent to DM 655 million

The Supervisory and Executive Boards will propose to the annual stockholders' meeting for fiscal 1998 the payment of an unchanged dividend of €1.02 (approx. DM 2.00) per share of common stock and €1.08 (approx. DM 2.11) per share of preferred stock. Allowing for the capital measures taken in 1998 and the much higher number of shares, this is equivalent to a total cash dividend distribution of €334.7 million or DM 654.6 million (up 34 percent or DM 164.9 million).

Retail excellence

Our concept for further optimizing our merchandising may be subsumed under the formula of retail excellence. Following integration of acquisitions into our sales structures, we will be seeking to appreciably improve market profile in all the outlet chains. Examples of this include the continuing conversion of our department stores to the Galeria format, the introduction of a new nonfood concept at our hypermarkets and the repositioning of our home improvement centers in Germany as efficient do-it-yourself specialty outlets. The aim is for each outlet chain to develop through target group-oriented market positioning into its own distinctive retail brand.

Crucial factors in achieving success include steadily implementing our concepts on selling space (execution) and promoting an effective market profile compared with the competition (excellence). Against the background of intensifying competition, only those merchandising concepts that consistently adapt to ever more differentiated behavior patterns and needs of customers will prove successful in the long run and develop their own growth momentum. This is the future challenge facing METRO AG.

METRO AG, a European trading group

Following the purchase of the European cash & carry operations as well as international expansion of our retail outlet chains, we will be Europe's biggest trading group in 1999 with sales of some DM 89 billion and outlets in 21 countries. We plan to exploit systematically the resulting competitive advantages in an increasingly integrated European market. This will include pooling our procurement structures by creating a pan-European purchasing organization.

Consistent implementation of value-oriented corporate management

All decisions made within METRO AG will in future be geared to the ROI expectations of the capital market. In general, these should outpace the opportunity cost of capital raising. This is what you expect and this is what we want you to get. However, to do so we must be in a position to reflect this situation objectively and to communicate it effectively to our employees and stockholders. METRO AG has therefore opted for the groupwide introduction of EVA® (Economic Value Added) from the year 2000 as a central controlling parameter. Even now in 1999 all investment decisions have to comply with this principle. In future, a sizable proportion of our executives' compensation will be tied to the attainment of EVA benchmarks. Value-oriented corporate management will thus become an integral part of our daily work.

Stock option program: Executives as stockholders

By introducing a stock option program we are seeking to improve our executives' capital market orientation and to promote the still young stock culture in our Company. The aim is to encourage our executives to make decisions and act as if they were METRO AG stockholders. In organizing this program, we have dispensed with complicated hurdles. Rather, we are seeking to make this long-term remuneration component simple, transparent and comprehensible. With a benchmark of 30 percent in three years above the issue price of Metro common stock, we have opted for a criterion which is intended to be motivating yet realistic.

We want to be one of the best not just one of the biggest trading companies

Following rapid growth over the past three years, we are expecting in the current fiscal year and in the wake of the portfolio purge pursued in 1998, Group sales to inch down to some DM 89 billion. Irrespective of the varying conditions in the countries of Europe and the changed competitive environment, we are seeking to continue along our path of profitable growth by our own efforts. There will always be competition in all markets. It is our aim in this contest for the best merchandising concepts to be among the leading traders. C&C, Media/Saturn and Galeria Kaufhof demonstrate impressively that an individual company can prosper even under adverse economic conditions. We intend to develop the other outlet chains consistently along these lines.

Our thanks go to all our stakeholders – customers, stockholders, business partners and employees alike – for their confidence and support during the past fiscal year.

Yours truly,

Dr. Körber

Dr. Loose

Mierdorf

de Raad

Suhr

Metro stock

Excellent price trend in 1998

Fiscal 1998 was a successful year for Metro stock, both in terms of price trend and trading volumes at the Frankfurt/Main and Düsseldorf stock exchanges, and in Xetra trading. With a 116.3-percent gain (adjusted for cash dividends and capital increases), Metro stock definitely outperformed the German DAX (+18.4 percent) and the Dow Jones Euro Stoxx 50 (+32.0 percent).

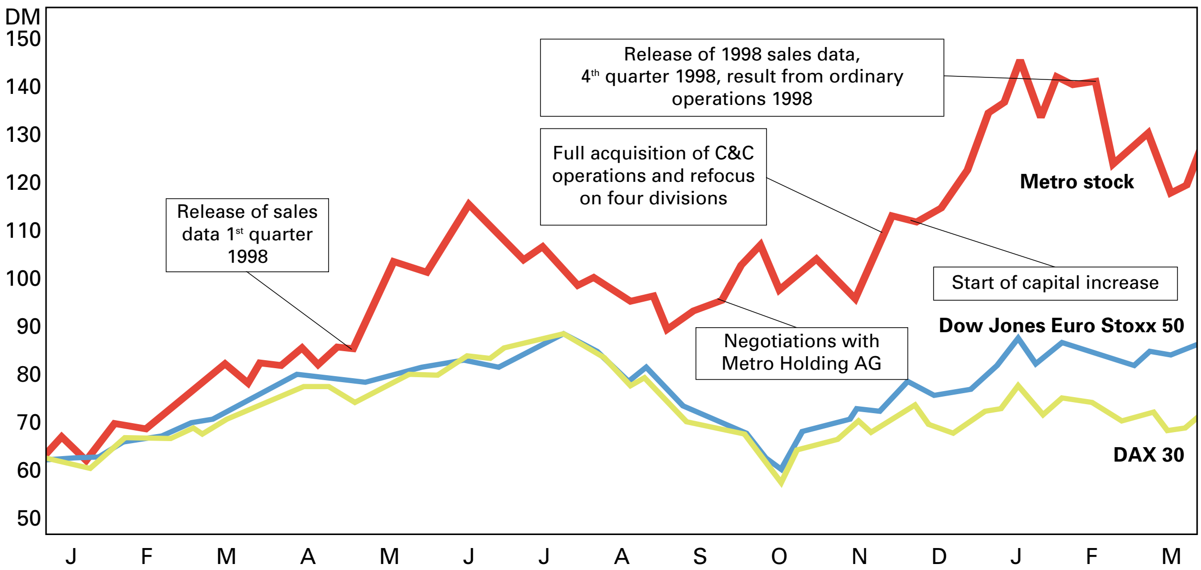
In spring, when the 1998 first-quarter sales boom – especially the European cash & carry operations' – was published, Metro stock prices showed a clear uptrend that continued into summer and outpaced the reference indexes' growth rates in the first half of the year under review.

Starting in August, the climate on the international capital markets clouded. The financial and currency crises in East Asia, Latin America and Russia triggered a strong bearish trend and raised volatility at the stock markets worldwide. Initially, Metro stock could not entirely escape this maelstrom. When the commencement of final negotiations with Metro Holding AG for the acquisition of the remaining stakes in the European C&C operations (Metro/Makro) and the trade-related service companies was announced, the price of Metro stock showed an uptrend in September, quite contrary to the market. The press releases on these acquisitions and the announcement that the Group would undergo a structural shakeout, resulting in the concentration on four divisions, caused a remarkable price gain through to year-end. In view of climbing stock prices, METRO AG was able to fully place in November/December 1998 altogether 26.6 million no-par shares of common stock at an issue price of DM 87. On December 30, 1998, Metro common stock was quoted at its annual high of DM 133.

Since January 4, 1999, stock exchanges have changed to quotation in euros. The uptrend continued, reaching on January 7, 1999, the all-time high of €78.50 or DM 153.53. By then, METRO AG's market capitalization had come to €24.9 billion (DM 48.6 billion).

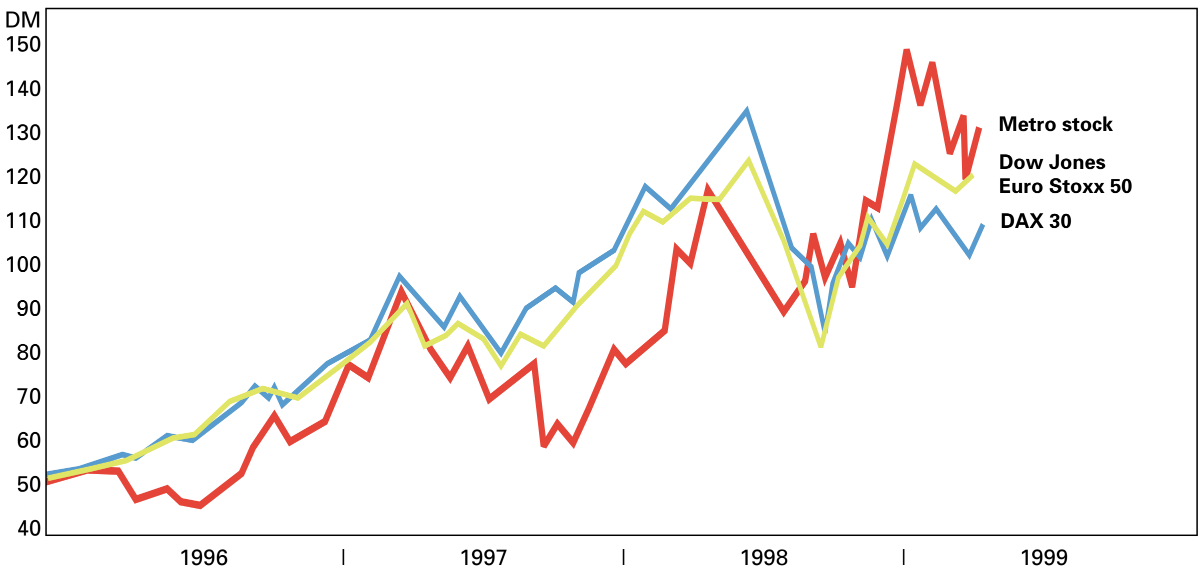
After this surge, the Metro stock price started to decline and, at March 31, 1999, was quoted at €58.65 (DM 114.71), which corresponded to a 13.7-percent decrease versus the 1999 opening quotation.

Performance of Metro common stock since early 1998[1)]



1) January 2, 1998, through March 31, 1999. Metro common stock in absolute terms; DAX, Dow Jones Euro Stoxx 50 indexed to Metro common stock. Source: Datastream

Price history of Metro common stock[1)]



1) July 25, 1996 (first quotation) through March 31, 1999. Metro common stock in absolute terms; DAX, Dow Jones Euro Stoxx 50 indexed to Metro common stock. Source: Datastream

Metro stock, key figures 1998

Basic data		**1998**	1997	1996
Annual closing [1]				
Common stock	DM	**133.00**	64.50	51.67
Preferred stock	DM	**80.30**	50.20	36.25
Annual high [1]				
Common stock	DM	**133.00**	99.60	59.58
Preferred stock	DM	**80.30**	74.00	43.21
Annual low [1]				
Common stock	DM	**59.64**	50.00	50.21
Preferred stock	DM	**46.49**	35.00	36.04
Total outstanding [1]	shares	**326,787,495**	243,590,388	240,581,806
Common stock	shares	**303,786,183**	220,589,076	217,580,494
Preferred stock	shares	**23,001,312**	23,001,312	23,001,312

Profit distribution [1]		**1998**	1997	1996
Common stock				
Cash dividend [2]	€/DM	**1.02 ~2.00**	2.00	1.67
Tax credit [3] [4]	DM	**–**	0.03	0.03
Total	€/DM	**1.02 ~2.00**	2.03	1.70
Dividend yield [5]	%	**1.5**	3.1	3.3
Preferred stock				
Cash dividend [2]	€/DM	**1.08 ~2.11**	2.11	1.77
Tax credit [3] [4]	DM	**–**	0.03	0.03
Total	€/DM	**1.08 ~2.11**	2.14	1.80
Dividend yield [5]	%	**2.6**	4.3	5.0

Data per share of Metro common stock [1]		**1998**	1997	1996
Earnings per share (net) acc. to DVFA/SG				
incl. goodwill amortization (previous method)	DM	**3.31**	3.19	2.96
excl. goodwill amortization (new method)	DM	**1.43**	2.30	2.25
Cash flow acc. to DVFA/SG	DM	**8.71**	7.85	7.44
Ratio of price/book value		**5.2**	3.1	2.5
Market capitalization	DM bill.	**42.25**	15.38	12.07

NB: The 1996 preferred stock data refers to preferred stock I

[1] 1996 data adjusted for the 7-for-5 scrip issue of July 23, 1997
[2] 1996 incl. bonus of DM 0.83 (translated; per common/preferred share)
[3] For stockholders resident in Germany
[4] Solely tax-exempt equity portions are used for the 1998 dividend
[5] Based on annual closing price

METRO AG's market capitalization soaring 175 percent to DM 42 billion in 1998

After the year's capital increases, METRO AG's market capitalization almost trebled in 1998, surging from DM 15.38 billion to DM 42.25 billion. Among the DAX 30 companies, METRO AG thus moved up nine places to rank 14th (29th within the Dow Jones Euro Stoxx 50).

Metro stock is listed for official trading on the Frankfurt/Main and Düsseldorf stock exchanges and included as one of Germany's foremost equities in the Xetra electronic trading system and the German Futures & Options Exchange (DTB), its 1998 trading volume zooming by 74.6 percent to DM 70.7 billion and making it one of the 20 top-trading DAX equities. Outside of Germany, Metro stock is quoted for unofficial trading at the Vienna and Geneva stock exchanges.

Management report on the METRO AG Group and METRO AG

Realignment of the METRO AG Group

During fiscal 1998, METRO AG fortified the competitive position of its Cash & Carry and Hypermarkets lines by acquiring the European C&C operations and the Allkauf and Kriegbaum outlets. Thanks to consistent portfolio streamlining the Group's structure changed appreciably. Apart from this reinforcement, the concentration on four core divisions was last year's main focus of activity. The transfer at the end of 1998 of four divisions and other non-core operations to the Divaco Group meant that our portfolio was pared down to four lines of business. The METRO AG Group will in future consist of the following four divisions:

- Cash & Carry (Metro/Makro)
- Food Retail (Real, Extra)
- Nonfood Specialty (Media/Saturn, Praktiker)
- Department Stores (Galeria Kaufhof)

They will be supported by our cross-division service companies engaging in purchasing, logistics, information technology, real estate, and restaurant & catering. What had been hitherto a company concentrated on Germany and operating 13 disparate divisions has evolved into a focused international trading group with only six outlet chains. Of the 61.3-percent rise in Group sales to DM 91.7 billion, 35.2 percent of sales was generated abroad in 1998 (up from 6.8 percent).

Expansion of C&C business through acquisition of the European operations of SHV Makro NV/ Metro Holding AG/Ligapart AG

As of January 1, 1998, METRO AG acquired the European C&C operations of SHV Makro NV, meaning the majority interests in the Makro countries and minority holdings in the Metro countries. Under this acquisition, an option agreement was reached making it possible for METRO AG to purchase all of the Metro Holding AG/Ligapart AG shares in the C&C operations in the Metro and Makro countries by the year 2002. In the second half of 1998, however, Metro Holding AG/Ligapart AG and METRO AG settled on an earlier purchase of the C&C business and all trading-related service companies by METRO AG with economic effect as of January 1, 1998.

Through the purchase of European C&C operations, METRO AG is strengthening its international position significantly and now conducts C&C operations in 18 countries outside of Germany, with C&C business presently generating abroad more than 70 percent of its sales totaling DM 36.2 billion. In addition, this division offers an ideal strategic platform for our others seeking to branch out in Europe. The know-how and international experience of the new employees gained from the Makro and Metro countries will help METRO AG to consolidate and further improve its position among international trading corporations. The Metro countries were previously managed indirectly by METRO AG. C&C is also expected to be the driving force behind internationalization in future, moving into one to two additional countries per year.

The acquisition of Metro Holding AG's business operations was financed firstly through a noncash capital increase by DM 0.3 billion and secondly through a cash capital raise by DM 2.1 billion. The METRO AG Group spent some DM 9.5 billion on the total purchase of C&C operations with a sales volume of DM 27.1 billion.

Hypermarket expansion through Allkauf and Kriegbaum purchase

The acquisition of the Allkauf and Kriegbaum Groups greatly strengthened Food Retail and especially the Hypermarkets, whose sales shot up 59.2 percent to DM 15.5 billion.

In February 1998, METRO AG acquired the Allkauf Group retroactively as of January 1, 1998. It is one of Germany's most notable hypermarkets, operating 94 outlets with selling space of some 504,300 m^2. In fiscal 1998, Allkauf generated sales of DM 4.3 billion with a workforce of 8,030.

The Kriegbaum group of companies adds 20 hypermarkets to the network of sales outlets, especially in Baden-Württemberg. At the same time, the Extra outlet chain will gain 18 food stores from Kriegbaum, thus closing a strategic outlet gap in the southern region of Germany. The purchase of the Kriegbaum Group took place in July 1998, retroactively as of March 1, 1998.

The outlets gained from both acquisitions complement the existing Real hypermarkets ideally. Altogether, Real now has a national sales network of 273 outlets. The Federal Cartel Office approved the takeover of Allkauf and Kriegbaum without imposing any conditions.

Convergence on four divisions through Divaco deal

By concentrating on four operating divisions in December 1998, METRO AG wrapped up the realignment process under way since mid-1996. METRO AG's portfolio strategy is now defined by the following objectives:

- Market leadership or at least up among the leaders in the respective market segment
- Above-average return on sales and long-term profitability
- Significant size of market segment and commensurate size of the division within the portfolio
- Internationalization potential

Consequently, METRO AG shed its Discount Stores and Computer, Fashion and Footwear Centers, transferring them all to Divaco. A 95.6-percent stake in the Kaufhalle AG real-estate company and, from Department Stores, the trading operations of 143 Kaufhalle and 25 Kaufhof branches were also taken over by Divaco. Apart from the other non-core activities, such as the remaining furniture segment, the interests in nonstrategic real-estate companies and other financial interests (e.g. Debitel AG) were transferred to Divaco, too.

METRO AG holds a direct and indirect equity interest of 49 percent, and a 24.5-percent voting interest, in the Divaco Group's management holding company, a limited partnership whose major partner is Deutsche Bank AG. The shareholdings and other assets were transferred in December 1998 without affecting the Group's net income. METRO AG has thus fully withdrawn from the aforementioned operations. These divisions have consequently no longer been reflected in the 1998 consolidated balance sheet of the METRO AG Group.

Divaco's purposes include to swiftly realize the portfolio transferred on optimum terms. A joint-venture agreement has ensured that the proceeds from this realization will accrue to METRO AG after deducting a contingent profit share.

This portfolio purge has already had the following major effects on the consolidated balance sheet:

- The balance sheet total decreased by approx. DM 3 billion.
- Net financial debts diminished by DM 3.7 billion, the spun-off companies' deconsolidation accounting for DM 1.8 billion, and the cash inflow from the former subsidiaries' transfer for DM 1.9 billion.

This streamlining did not yet have any material impact on the Group's 1998 consolidated income statement since the transfer was implemented at 1998 year-end only, therefore, without being recognized in net income. The businesses transferred to the Divaco Group generated in 1998 net sales of DM 10.3 billion, their loss from ordinary operations amounting to DM 163.8 million.

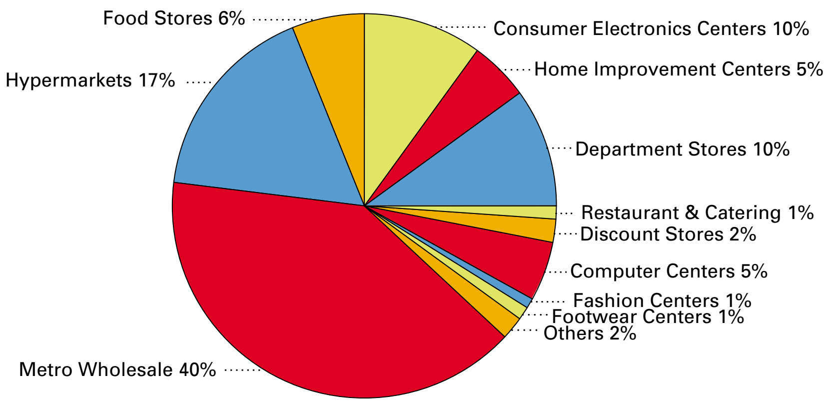
Group sales

In fiscal 1998, the METRO AG Group generated net sales of DM 91.7 billion. This represents a rise of DM 34.9 billion or 61.3 percent, DM 27.1 billion of which resulted from the acquisition of the European C&C operations from SHV Makro NV/Metro Holding AG/Ligapart AG as of January 1, 1998, with the Allkauf Group, also purchased as of January 1, 1998, accounting for DM 4.3 billion. The stake acquired in the Kriegbaum hypermarkets/food stores as of March 1, 1998, led to incremental sales totaling DM 1.4 billion.

Adjusted for the company acquisitions/transfers cited, Group sales climbed 4.8 percent in 1998.

With non-German sales of DM 32.3 billion (up from DM 3.9 billion), their share of total sales increased from the preceding year's 6.8 percent to 35.2 percent.

METRO AG Group's sales structure



Sales and performance trends by division

METRO AG Group: Trend of net sales

	1998 DM mill.	1997 DM mill.	Change vs. prev. year %
Metro Wholesale	**36,150**	10,179	+ 255.1
Hypermarkets	**15,505**	9,740	+ 59.2
Food Stores	**5,547**	5,498	+ 0.9
Consumer Electronics Centers	**9,069**	7,529	+ 20.5
Home Improvement Centers	**4,909**	4,054	+ 21.1
Department Stores	**9,491**	9,971	– 4.8
Restaurant & Catering	**410**	432	– 5.2
Discount Stores	**1,407**	1,426	– 1.3
Computer Centers	**4,900**	3,918	+ 25.1
Fashion Centers	**1,258**	1,176	+ 7.0
Footwear Centers	**910**	708	+ 28.6
Others	**2,148**	2,209	– 2.8
METRO AG Group	**91,704**	56,840	+ 61.3
thereof non-German sales	**32,276**	3,884	+ 731.0

In the year under review, the METRO AG Group reaped a profit from ordinary operations of DM 1,133.1 million (up 21.8 percent from 1997).

Result from ordinary operations of the Group

	1998 DM mill.	1997 DM mill.	Change vs. prev. year DM mill.
Metro Wholesale	**1,138.7**	385.9	+ 752.8
Hypermarkets	**286.0**	128.1	+ 157.9
Food Stores	**37.8**	73.7	– 35.9
Consumer Electronics Centers	**493.0**	347.0	+ 146.0
Home Improvement Centers	**53.7**	81.3	– 27.6
Department Stores	**21.9**	142.8	– 120.9
Real Estate	**131.1**	134.9	– 3.8
Restaurant & Catering	**27.7**	17.6	+ 10.1
Discount Stores	**(98.1)**	(74.4)	– 23.7
Computer Centers	**27.1**	37.5	– 10.4
Fashion Centers	**108.1**	92.2	+ 15.9
Footwear Centers	**1.7**	(30.3)	+ 32.0
Others	**108.2**	68.5	+ 39.7
Divisions' result from ordinary operations before goodwill amortization	**2,336.9**	1,404.8	+ 932.1
less holding company's	**(567.0)**	(235.1)	– 331.9
less goodwill amortization	**(636.8)**	(239.5)	– 397.3
Result from ordinary operations	**1,133.1**	930.2	+ 202.9
Extraordinary result	**86.3**	0.2	+ 86.1
less income taxes	**(398.3)**	(250.9)	– 147.4
less other taxes	**(85.9)**	(56.7)	– 29.2
Net income of the Group	**735.2**	622.8	+ 112.4

Comments on sales and profit trends in the divisions

Owing to the purchase of European C&C operations, **Cash & Carry** sales surged by 255.1 percent to DM 36.2 billion. Adjusted for these acquisitions, they climbed 5.0 percent to DM 10.7 billion. Abroad, where C&C business generates more than 70 percent of sales, international expansion was accelerated with the opening of 15 C&C outlets. The result from ordinary operations came to DM 1.1 billion (up from DM 385.9 million). The profit contribution from the acquired European operations surpassed expectations, taking into account the restructuring and regrouping measures being carried out in the Group. With a profit of DM 406.0 million, German C&C business fell just short of the high prior-year level.

In fiscal 1998, sales by **Hypermarkets** increased by 59.2 percent to DM 15.5 billion, of which the Allkauf and Kriegbaum acquisitions contributed DM 5.4 billion. Adjusted for acquisitions, sales rose – thanks to appreciable sales growth in Poland and Turkey from DM 128.9 million to DM 464.6 million – by 4.2 percent. Apart from integrating the Allkauf and Kriegbaum outlets in Germany, the focus was on internationalization with seven new outlets opened abroad. The result from ordinary operations improved from DM 128.1 million in 1997 to DM 286.0 million despite increased start-up losses from international expansion.

In a difficult environment, **Food Stores** managed to raise sales by a slight 0.9 percent to DM 5.5 billion owing to the consolidation of the Kriegbaum food stores and after the disposal of Extra home improvement centers. Excluding these acquisitions and disposals, sales reached DM 5.2 billion, 3.9 percent below the year-earlier level. Apart from integrating the 18 Kriegbaum food stores, Extra strengthened its national sales network by opening 24 new outlets while disposing of 34 small outlets. Sagging sales on a same-space basis in the existing network of sales outlets caused the result from ordinary operations to collapse from DM 73.7 million to DM 37.8 million.

Consumer Electronics Centers saw sales surge further ahead. Despite a stagnating market environment, sales increased in 1998 by DM 1.5 billion to DM 9.1 billion (up 20.5 percent). At DM 1.8 billion, the non-German share already accounts for 20 percent of total sales. In Germany, the Media Markt/Saturn Group consolidated its network of sales outlets with 26 new stores including eight stores acquired from the Multi Media and Sound & Technik Groups. Abroad, three outlets were opened. Despite start-up losses arising from the expansion drive in Poland and the run-up costs for the planned entry into the Spanish market, the result from ordinary operations rose by DM 146.0 million to DM 493.0 million.

At DM 4.9 billion, **Home Improvement Centers** raised sales by 21.1 percent, of which the acquired Wirichs outlets and Extra Bau & Hobby franchisees accounted for DM 0.9 billion. Adjusted for these acquisitions, sales climbed 4.9 percent. The increase in non-German sales from DM 334.5 million to DM 482.4 million was due mainly to the opening of 14 new home improvement centers. The non-German share of total sales rose to 9.8 percent (up from 8.3 percent). The national branch network was augmented through the integration of 58 Wirichs home improvement centers, which started in October 1997, and eight newly opened stores to 289 outlets. Abroad, Praktiker opened 14 new stores doubling its presence to 28 outlets. Owing to unsatisfactory sales on a same-space basis, the result from ordinary operations declined by 33.9 percent to DM 53.7 million, with declining start-up costs in Germany contrasting with much higher initial expenses abroad due to ongoing expansion.

Sales at **Department Stores** fell to DM 9.5 billion, equivalent to a decrease of 4.8 percent. Whereas the 110 Kaufhof branches almost managed to match year-earlier sales (down 0.6 percent), sales at the Kaufhalle branches transferred to Divaco as of December 1, 1998, declined by 10.3 percent versus the year-earlier level. In particular, the 57 Galeria branches performed encouragingly, recording sales growth of 3.5 percent. As part of the drive to optimize the sales network, 25 unprofitable Kaufhof branches and 143 Kaufhalle outlets deemed unsuitable for future conversion to the Group's downtown concepts were transferred to Divaco. Following the closedown of six outlets in 1998, there are 129 department stores remaining in the Kaufhof Warenhaus Group. At DM 21.9 million, Department Stores' result from ordinary operations was down 84.7 percent from the preceding year. Whereas the Kaufhof Warenhaus Group – despite heavy investment in the Galeria concept – again raised profits to DM 196.9 million (up 1.0 percent) in 1998, Kaufhalle's loss escalated from DM 52.1 million to DM 175.0 million.

At **Real Estate** the result from ordinary operations came to DM 131.1 million, representing a fall of DM 3.8 million compared with the preceding year.

Restaurant & Catering's establishments registered sales of DM 409.6 million in 1998, a slide of 5.2 percent, due to closedowns. The disposal of unprofitable operations improved the result from ordinary operations to DM 27.7 million (up from DM 17.6 million).

Discount Stores, which were transferred to Divaco as of December 1,1998, saw sales recede to DM 1.4 billion (down 1.3 percent). Another 21 branches were opened in Poland. The loss from ordinary operations worsened from DM 74.4 million to DM 98.1 million due to necessary structural measures and the continuing drive for expansion.

The first-time full-year consolidation of Peacock AG coupled with further favorable performance by Maxdata raised sales at **Computer Centers** to DM 4.9 billion, representing an increase of 25.1 percent from the preceding year. With profits at Vobis continuing to decline, Computer Centers' result from ordinary operations contracted to DM 27.1 million (down from DM 37.5 million).

Given sales growth of 7.0 percent to DM 1.3 billion, **Fashion Centers**' result from ordinary operations advanced by DM 15.9 million to DM 108.1 million.

Footwear Centers recorded sales of DM 909.9 million. This rise of DM 202.4 million is attributable chiefly to the takeover of Mayer Schuh GmbH. The result from ordinary operations came to DM 1.7 million (improving from the prior-year loss of DM 30.3 million), although the prior-year result had been adversely affected by restructuring measures at Mayer Schuh costing DM 53.2 million.

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

In fiscal 1998, the Group's net income of DM 735.2 million exceeded the prior year's by 18.1 percent. After deducting the third-party profit shares, the Group's net income allocable to METRO AG's stockholders amounts to DM 573.7 million (up 3.6 percent).

The Company determined its earnings per share according to the recommendations of DVFA/SG as a standardized performance assessment value which was jointly developed by Deutsche Vereinigung für Finanzanalyse und Anlageberatung e.V. (German Association of Financial Analysis and Investment Consultancy – "DVFA") and Schmalenbach Gesellschaft (German Society of Business Administration – "SG"). After adjustment for certain income and expense items and deducting the third-party P/L shares, the METRO AG Group's 1998 result according to DVFA/SG came to DM 1,080.5 million. Related to the number of shares outstanding, DVFA/SG-based earnings per share amount to DM 3.31 for 1998 which, including the goodwill amortization of DM 614.2 million, would be DM 1.43.

METRO AG Group: Determination of 1998 earnings according to DVFA/SG

DM million	Income/expenses adjustable for 1998	Income/expenses adjusted in DVFA/SG account
Net income		**735.2**
Income		
Gains from fixed-asset disposals	(150.2)	(23.3)
Income from the release of accruals	(218.5)	(5.4)
Income from the Hawesko Group's deconsolidation	(245.3)	(245.3)
Net subtotal, income	**(614.0)**	**(274.0)**
Expenses		
Goodwill amortization	636.8	614.2
Nonrecurrent provision for pension accruals (redefined actuarial basis)	159.0	156.8
Transfer to untaxed/special reserves	10.3	9.8
Net subtotal, expenses	**806.1**	**780.8**
Result acc. to DVFA/SG		**1,242.0**
Third-party profit shares		(161.5)
DVFA/SG-based result excl. third-party profit shares		**1,080.5**
Number of shares outstanding and ranking for 1998 dividend (million)		326.8
Earnings per share acc. to DVFA/SG (in DM)		**3.31**
DVFA/SG-based result excl. third-party profit shares		1,080.5
Adjustment for goodwill amortization		(614.2)
DVFA/SG-based result incl. goodwill amortization		**466.3**
Earnings per share acc. to DVFA/SG incl. goodwill amortization (in DM)		**1.43**

Comments on the DVFA/SG account

In line with the DVFA/SG Commission's recommendations, adjustments totaling DM 506.8 million were added to determine the corresponding result. Adjustment amounts account only for the Group's share and are stated gross for net, i.e. without imputing any imputed income tax burdens.

Cash flow acc. to DVFA/SG and capital expenditure in the Group

The METRO AG Group's cash flow was determined in accordance with DVFA/SG recommendations and reached DM 3,007.9 million (up 51.8 percent), thus exceeding the DM 2,663.4 million of funds used for investing in tangible and intangible assets by 12.9 percent (excluding M&A transactions). The 1998 DVFA/SG-based cash flow per share amounted to DM 8.71 (net of third-party P/L shares).

The remaining noncash expenses include the one-off provision for pension accruals to reflect the redefined actuarial basis (new mortality tables). A major cash item is the book gain from the Hawesko Group's disposal.

METRO AG Group: Cash flow acc. to DVFA/SG

DM million	1998	1997
Group's net income	735.2	622.8
Amortization/depreciation/write-down of fixed assets	2,384.2	1,360.7
Straight cash flow	**3,119.4**	1,983.5
Decrease in noncurrent accruals	(27.0)	(22.0)
Transfer to untaxed/special reserves	10.3	17.2
Remaining noncash items, net	33.3	95.1
Annual cash flow	**3,136.0**	2,073.8
Adjustment for major cash-based income	(128.1)	(92.5)
Cash flow acc. to DVFA/SG	**3,007.9**	1,981.3
Third-party shares	(161.5)	(68.9)
Cash flow acc. to DVFA/SG excl. third-party shares	**2,846.4**	1,912.4

Metro Wholesale incurred a capital expenditure of DM 688.1 million, mainly for broadening the fresh-produce range in existing outlets and for expansion in the eastern part of Europe (Poland, the Czech Republic, Hungary, Romania and entry into the Bulgarian market).

Further modernization and restructuring of the existing Real sales network as well as expansion at home and abroad required Hypermarkets to spend DM 318.4 million.

Consumer Electronics Centers used DM 174.4 million to expand and renovate existing outlets in the network of German and foreign branches.

Expansion abroad and opening of outlets in Germany as well as renovations accounted for a capital expenditure by Home Improvement Centers of DM 78.1 million.

Department Stores invested DM 348.7 million, primarily in the continuing changeover to the Galeria merchandising concept, which cost DM 180 million.

The Real Estate division spent DM 623.7 million, particularly to secure land acquisitions in Germany and abroad and to erect buildings.

Consolidated statement of cash flows, METRO AG Group

DM million	**1998**	1997
Gross profit (net sales less cost of materials)	**20,404.3**	15,508.0
Change in trade receivables and prepayments received	**14.9**	0.2
Increase in inventories	**(133.5)**	(462.8)
(Decrease)/Increase in trade payables	**(404.6)**	451.3
Change in trade-related working capital	**(523.2)**	(11.3)
Gross operating cash flow	**19,881.1**	15,496.7
Personnel expenses	**(10,663.9)**	(8,014.3)
Other operating expenses and income	**(5,625.4)**	(5,086.8)
Adjustments for		
net gain/loss from fixed-asset disposals	**(122.2)**	(29.5)
increase/(decrease) in pension and Other accruals	**182.7**	(28.4)
others items	**(31.8)**	8.9
Taxes paid in fiscal year	**(402.6)**	(381.2)
Cash flow from operating activities	**3,217.9**	1,965.4[1)]
M&A transactions	**(5,800.9)**	(614.4)
Expenditure for tangible assets	**(2,586.7)**	(2,334.3)
Expenditure for other fixed assets	**(600.7)**	(273.6)
Decrease in non-interest liabilities from investing activities	**(9.5)**	(10.5)
Disposal/transfer of shareholdings	**2,143.5**	(187.5)
Fixed-asset disposals	**1,046.1**	228.9
Decrease/(Increase) in receivables from divestments	**51.0**	(144.0)
Cash flow from investing activities	**(5,757.2)**	(3,335.4)
Profit distributed to		
METRO AG stockholders	**(489.7)**	(403.4)
other stockholders	**(61.9)**	(134.4)
Capital increases	**2,534.6**	148.2
Change in third-party shares in capital and reserves	**147.5**	(126.0)
Incurrence of financial debts	**6,860.8**	3,152.5
Repayment of financial debts	**(4,182.5)**	(1,425.6)
Interest paid	**(790.0)**	(277.3)
Interest received	**324.6**	174.8
P/L transfers and other financing activities	**(74.5)**	52.8
Cash flow from financing activities	**4,268.9**	1,161.6
Total cash flows	**1,729.6**	(208.4)
Exchange rate effects on cash and cash equivalents	**(3.2)**	(0.9)
Overall change in cash and cash equivalents	**1,726.4**	(209.3)
Cash and cash equivalents at January 1	**1,508.7**	1,718.0
Cash and cash equivalents at December 31	**3,235.1**	1,508.7

1) The variance versus the 1997 report is substantially attributable to the changes in notes payable and net financial result having been reclassified as cash flow from financing activities.

The consolidated statement of cash flows was prepared in accordance with IDW Statement HFA 1/1995 (issued by Institut der Wirtschaftsprüfer in Deutschland e.V., the German society of sworn public auditors) and describes the Group's 1998 and 1997 business trends in terms of its cash position.

The cash flow from operating activities soared over 60 percent to DM 3.2 billion, substantially because the sales volume of the Metro Wholesale, Hypermarkets and Food Stores divisions rose, but also due to organic growth. The variations in the various lines versus 1997 were significantly affected by the changes in the group of consolidated companies. One material reason for the difference between the cash flow from operating activities and the operating result as per consolidated income statement is the noncash effect of the amortization of intangible and depreciation of tangible assets, which total DM 2.4 billion.

The outflow of cash from M&A transactions is shown net after deducting the liquid assets taken over from the acquired groups of companies. Acquisition of the companies required DM 5.8 billion which was financed at DM 2.3 billion from cash capital increases and at DM 3.5 billion through borrowings. Other capital increases involved contributions in kind valued at DM 4.4 billion. The acquisition of the Makro/ Metro, Allkauf and Kriegbaum groups strengthened the Cash & Carry, Hypermarkets and Food Stores operations. Capital expenditure for tangible assets exceeded the prior year's by 11 percent.

At DM 2.1 billion, a major inflow of cash came from the transfer to Divaco of the Discount Stores, Computer Centers, Footwear Centers and Fashion Centers divisions, as well as from the Hawesko Group's divestment. Moreover, the Polish retail operations' real estate was sold to a leasing company. Fixed-asset disposals were DM 817.2 million higher than the year before.

The high overall level of capital expenditures in 1998 required a net DM 2.7 billion to be borrowed from outside sources. Inter alia, a DM 1.5-billion convertible bond issue was floated by Metro International Finance BV, Amsterdam. Due to the higher net financial indebtedness, net interest expense climbed DM 362.9 million.

Asset and capital structure of the Group

METRO AG's 1998 consolidated balance sheet shows an equity capital of DM 8,083 million, which covers 39.1 percent of fixed assets. Total assets of DM 37,086 million bring the equity ratio to 21.8 percent. Net financial accounting indebtedness amounts to some DM 5,759 million, or 15.5 percent of the balance sheet total, after netting interest-bearing assets and liabilities.

The changes versus the preceding balance sheet date are largely the result of the addition of the C&C operations of SHV Makro NV and Metro Holding AG/ Ligapart AG and of the Allkauf and Kriegbaum Groups, as well as the deconsolidation of the companies transferred to Divaco.

Capital increases

In fiscal 1998, METRO AG raised its capital stock in several steps from DM 1,217.9 million to DM 1,633.9 million.

In a first step, utilizing part of the authorized capital II approved by the extraordinary stockholders' meeting of September 11, 1997, the capital stock was increased by DM 108.8 million in exchange for contributions in kind ex rights. The share issue price amounted to DM 80.44. The noncash contribution made by SHV Makro NV involved all of the shares in Mebrö Beteiligungs AG (now Metro Cash & Carry GmbH) which held the stakes in the Makro Group's entire European and Moroccan C&C operations.

Out of this authorized capital II, another DM 153.4 million was used for a noncash capital raise, at an issue price of DM 87.00 per share. This noncash contribution consisted of the full capital of Metro Cash & Carry Beteiligungs GmbH & Co KG, a limited partnership in which Metro Holding AG's/Ligapart AG's cash & carry business and trade-related service enterprises were combined.

Utilizing part of the authorized capital I approved by the stockholders' meeting of July 9, 1997, the capital stock was raised by DM 133.1 million by issuing 26,617,869 DM 5 shares of common stock. 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. The resulting stock premium of DM 2,183.3 million was transferred to the reserve from capital surplus.

Another DM 20.7 million was added to the capital stock as option rights were exercised, and the corresponding shares issued, under the 2% DM 1986/1998 warrant bond issue floated by Metro Finance BV. The stock premium of DM 183.1 million was also transferred to the reserve from capital surplus.

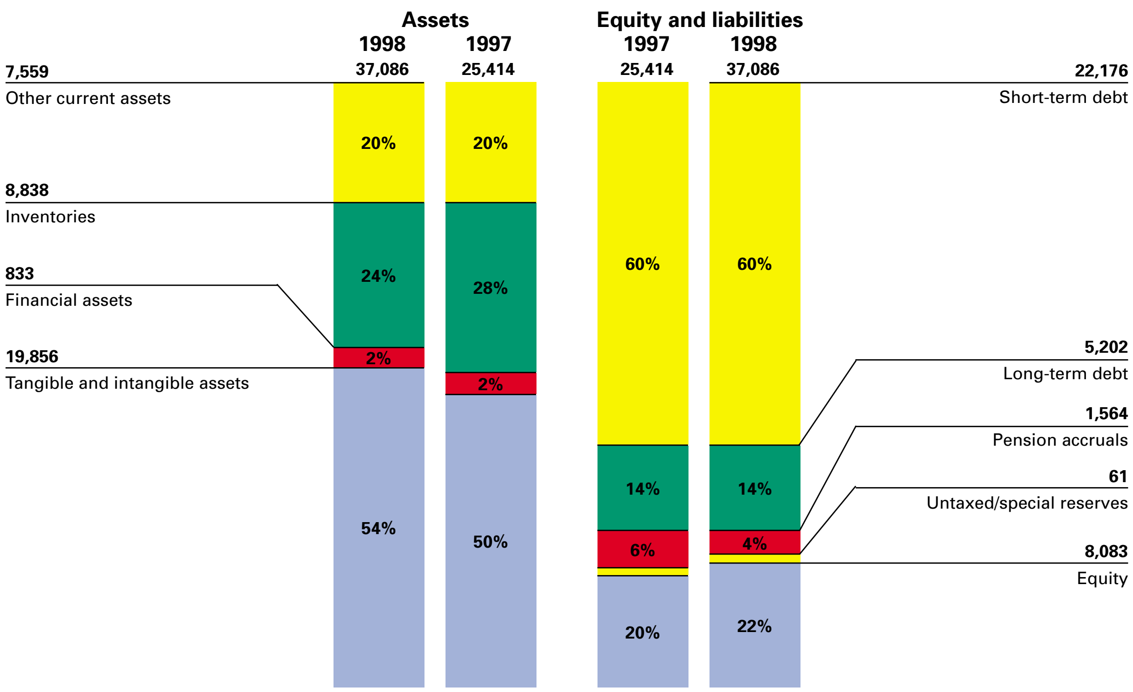
These measures boosted METRO AG's equity base from DM 5.0 billion to DM 8.1 billion. During the period, the number of common shares rose by 83,197,107 to 303,786,183 (all fully ranking for the 1998 dividend), while the preferred stock remained unchanged at 23,001,312 shares. The capital stock is divided into a total 326,787,495 no-par shares.

Convertible bond issue

On July 9, 1998, Metro International Finance BV (a wholly owned METRO AG subsidiary based in Amsterdam, Netherlands) floated zero coupon convertible bonds guaranteed by METRO AG and totaling DM 1,500,000,000, 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.

Balance sheet structure, METRO AG Group

DM million



Business risks and risk management

As a trading organization the METRO AG Group is exposed to the typical business risks. The sales and earnings of all business units depend to a large degree on demand for consumer goods in both the retail and wholesale trade. These risks are reduced by the variety of divisions and outlet chains and international diversification.

The divisions remaining in the METRO AG Group after restructuring comprise over-the-counter wholesale and retail trade and food and nonfood specialty stores in downtown and "out-of-town" shopping locations.

The degree of internationalization rose as a result of the 1998 acquisitions from about 5 percent to some 35 percent, also giving the Group a presence in European countries where demand for consumer goods is more buoyant.

The METRO AG Group has embraced internationalization, with above-average opportunities being seen especially in the fast-growing economies of Central and Eastern Europe, as well as in China. The high growth recorded by these economies is, however, also associated with greater-than-average volatility, proneness to economic crises, and with capital market and political risks in these regions.

How does the METRO AG Group deal with risks?

The German Act Governing Corporate Control & Transparency ("KonTraG") makes clear the obligation on the executive board of a corporation to establish a monitoring system so that risks jeopardizing the company's existence as a going concern can be detected early on.

At Metro such systems are among the management tools in use, with risk management geared to a diversified trading group under decentralized control.

Clear delegation to the respective country management teams places the emphasis on responsibility at local level. In addition, each chain is managed in the marketplace autonomously by a complete management team. Each country management team and each division/outlet chain parent boast extensive controlling, which monitors the management of business processes at the outlets while keeping the company management informed about actual vs. budget performance variances.

The operations of the divisions and service companies are assisted by a responsible member of METRO AG's Executive Board. They are thus coached on strategic, personnel and organizational matters.

All the divisions and service companies are integrated into a groupwide uniform strategic, planning and budgeting process ranging from assessing the market and competitive environment to action plans to quantifying key parameters over the next three years. The relevant parameters form the framework for operational management. Interim monitoring is conducted through a reporting system with weekly and monthly components.

Discrepancies emerging from the reporting systems are identified, analyzed and submitted to the Executive Board with proposals on exploiting opportunities, avoiding risks and taking countermeasures.

Within internal auditing, which in METRO AG is under the control of the Executive Board Spokesman, operational organization is checked with regard to the security, propriety and cost efficiency of business operations. Emphasis is also placed on detecting weak spots and irregularities and on drawing up recommendations on future prevention.

Insurance is taken out to cover any losses, claims and liability risks, thus ensuring that these have no substantial impact on the Group's liquidity, financial and income position.

METRO AG's service companies and functions act as know-how providers for the whole Group. This is a deliberate policy of grouping together certain risks and risk management functions within one Group area. For example, the financing unit pursues a substantially centralized approach in the Group, with METRO AG's financial department ensuring the management of liquidity, interest rate and currency risks. In turn, this department is monitored by an independent controlling department with an auditing function.

International expansion is carried out following thorough feasibility studies into the relevant countries. Initially, such expansion involves the most experienced division internationally, namely, the wholesale business, followed by the retail trade in well-balanced steps. All the measures are taken by the divisions individually and coordinated within METRO AG, the aim being to realize the opportunities identified both quickly and consistently, without losing sight of the entrepreneurial risks involved. Insurance cover is also taken out for political risks in specific countries.

In general, the examination of the current risk situation showed that there were no risks jeopardizing the company's continued existence and no future such risks were identified.

Annual accounts of METRO AG

In its annual financial statements as of December 31, 1998, METRO AG as parent company of the METRO AG Group shows a balance sheet total of DM 16.6 billion (up from DM 11.8 billion). On the asset side, financial assets and accounts due from Group companies prevail. Total financial assets soared by DM 6.0 billion, mainly within Cash & Carry and Hypermarkets, and decreased by DM 1.7 billion through the transfer of various companies to Divaco. The issuance of new stock to fund the Metro C&C acquisition, the transfer to reserves and the higher unappropriated retained earnings caused equity to jump by DM 3,056 million to DM 7,356 million. The Company's equity ratio is 44.3 percent (up from 36.5). As resolved by the annual stockholders' meeting of July 7, 1998, METRO AG redivided its capital stock into no-par shares. The net financial indebtedness of December 31, 1997, dropped by DM 2,064.6 million and, therefore, a 15.1-million excess cover existed at December 31, 1998. METRO AG's net income came to DM 749.1 million and was mainly earned from investments in subsidiaries. After retaining earnings of DM 94.5 million and their transfer to reserves, METRO AG's unappropriated retained earnings total DM 654.6 million.

The share exchange ratios fixed for the 1996 mergers of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG are being reviewed upon application by former stockholders of the three 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 give the position of the court proceedings nor the arguments submitted by the applicants 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, 1998

Assets

DM million	**Balance at Dec. 31, 1998**	Balance at Dec. 31, 1997
Fixed assets		
Intangible assets	**0.344**	0.164
Tangible assets	**4.495**	5.154
Financial assets	**10,600.088**	6,271.448
	10,604.927	6,276.766
Current assets		
Receivables and sundry assets	**4,721.079**	4,778.474
Short-term securities	**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	**21.362**	13.578
	16,606.231	11,795.594

Stockholders' equity and liabilities

DM million	**Balance at Dec. 31, 1998**	Balance at Dec. 31,1997
Stockholders' equity		
Capital stock	**1,633.937**	1,217.952
Reserve from capital surplus	**4,541.849**	2,161.063
Reserves retained from earnings	**525.846**	431.319
Unappropriated retained earnings	**654.623**	489.711
	7,356.255	4,300.045
Untaxed/special reserves	**69.529**	170.608
Accruals	**640.106**	764.783
Liabilities	**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	1998	1997
Income from investments	**1,362.802**	1,109.494
Net financial result	**(185.441)**	(28.387)
Other operating income	**440.516**	311.403
	1,617.877	1,392.510
Personnel expenses	**(105.702)**	(109.246)
Amortization of intangible and depreciation of tangible assets	**(3.879)**	(2.787)
Other operating expenses	**(711.576)**	(427.748)
	(821.157)	(539.781)
Result from ordinary operations	**796.720**	852.729
Extraordinary result	**(42.136)**	(121.486)
Income taxes	**(0.122)**	(24.018)
Other taxes	**(5.312)**	2.735
Net income	**749.150**	709.960
Transfer to reserves retained from earnings	**(94.527)**	(220.249)
Net earnings	**654.623**	489.711

Profit appropriation

METRO AG's Supervisory and Executive Boards will propose to the annual stockholders' meeting on July 6, 1999, to appropriate the profit of DM 654.6 million (€334.7 million), which remains after transfer to the reserves retained from earnings, as follows:

- Distribution of a cash dividend of €1.02 (approx. DM 2) for each common share
- Distribution of a cash dividend of €1.08 (approx. DM 2.11) for each preferred share

Solely tax-exempt equity portions (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.

Material subsequent events

No events of materiality to the assessment of the net-asset, financial and income position of METRO AG or the Group occurred after the fiscal year had been closed.

Outlook

For the current fiscal year METRO AG does not anticipate any substantial improvement in the macro-economic environment. Especially in Germany, where the METRO AG Group's divisions generate about 65 percent of their sales, consumer demand is unlikely to show any appreciable revival in 1999 despite the continuing improvement in buyer confidence since mid-1998.

Following strong growth during the past three years, METRO AG expects (net) Group sales in 1999 to fall short of the 1998 level, to around DM 89 billion, owing to the end-1998 portfolio purge. The main risks to achieving the sales and profit targets set for 1999 are the weaker-than-forecast economic situation in Germany and the rest of Europe.

After the integration of 1998's acquisitions into sales outlet organization, further improvement of the market profile of METRO AG's divisions will enjoy top priority.

As part of the internationalization of the Cash & Carry, Real, Media/Saturn and Praktiker outlet chains, METRO AG plans to build on its outstanding competitive position in an increasingly integrated Europe.

The METRO AG Group has earmarked capital expenditure of some DM 3.5 billion for developing and refurbishing existing merchandising concepts as well as organic expansion.

METRO AG therefore plans to continue along its path of profitable growth.

Dependency report

Metro Holding AG informed METRO AG that, through companies it controls, it owns a majority stake in METRO AG. Therefore, METRO AG is a subsidiary controlled by Metro Holding AG. Consequently, and in accordance with Art. 312 German Stock Corporation Act ("AktG"), METRO AG's Executive Board prepared a dependency report on Group affiliation.

Certified without qualification by the Duisburg-based statutory auditors, Fasselt-Mette & Partner Wirtschaftsprüfungsgesellschaft, the dependency report on fiscal 1998 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."

Further information

General economic setting

Germany

The German economy was quite vigorous in 1998, with real gross domestic product rising from 2.2 percent in the preceding year to 2.8 percent. However, growth forces were again stronger in western than eastern Germany. The western part of the country recorded an increase in real GDP by 2.8 percent (up from 2.3 percent), the eastern part only one of 2.0 percent in 1998 (up from 1.7 percent).

The economic upturn, already under way for a good two years, thus continued as a whole – albeit in eastern Germany not strongly enough to bring about a tangible reduction in unemployment.

An investment boom supplied the strongest impetus for growth, plant and equipment spending climbing a real 10.1 percent. On the other hand, real capital expenditure for new construction was down 4.3 percent compared with a decline of 2.5 percent in the preceding year. Whereas the recession in the western German building and construction trade bottomed out, in eastern Germany it intensified further. Although exports lost appreciable momentum as the year progressed owing to the Asian crisis and the difficulties in Russia and South America, they rose at a real annual rate of 5.4 percent, helping to boost macroeconomic growth considerably. In contrast, government demand supplied little momentum, with public consumption persisting at about the prior-year level (up a real 0.6 percent).

Private consumption recovered somewhat in 1998, increasing by a real 1.9 percent (up from 0.5 percent). However, this trend was very unsteady. Increased purchases, especially of cars, furniture and other home furnishings, were recorded before the rise in value-added tax, which came into effect as of April 1, 1998. The slight easing in the labor market as well as unexpectedly low inflation rates helped to revive private consumption to a certain degree. The unemployment rate (as a share of the civilian working population as a whole) fell on an annual average to 11.1 percent (down from 11.4 percent). The situation in the eastern German labor market was again less favorable than in western Germany. In the eastern part of the country, the unemployment rate inched up from 18.1 to 18.2 percent while edging down in western Germany from 9.8 percent to 9.4 percent. On a yearly average, some 4.28 million people were unemployed in Germany in 1998, 2.4 percent fewer than 1997.

Retail and wholesale trades

Retail sales climbed a nominal 1.3 percent in 1998, totaling DM 964.7 billion. In real terms, this represents an increase of 1.0 percent.

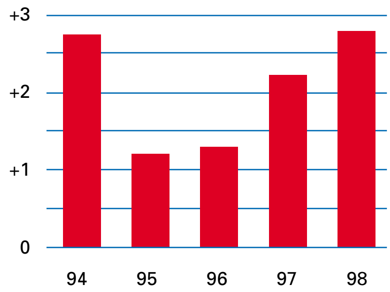
Retail trade's share of private consumption thus continued to decline. This confirms a trend discernible for some time showing that the rise in private consumption primarily benefits services, meaning rentals, travel, insurance as well as transport and communications. The goods chiefly sold in the retail trade do not, in the eyes of consumers, enjoy the same priority as services.

The Federal Statistics Office reported for 1998, in nominal terms, reduced retail sales by fuel suppliers (down 11.9 percent), gas stations (down 4.7 percent), specialty clothing stores (down 1.4 percent) and sporting equipment outlets (down 1.1 percent). Mail order traders (down 0.7 percent) and specialty watch, clock and jewelry retailers (down 0.7 percent) also fell short of their year-earlier sales. On the other hand, retail sales of electrical household appliances and radio and television sets grew (up 2.9 percent), with gains also recorded by car dealers (up 5.0 percent) and photographic, optical and computer retailers (up 8.8 percent).

A.C. Nielsen measured a nominal sales decline of 2.0 percent for the German food retail trade.

Gross domestic product

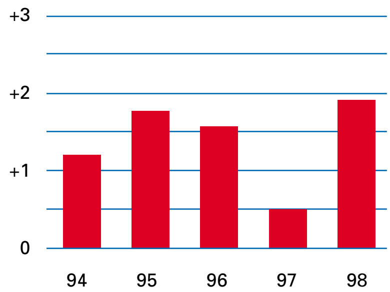
real % change[1]



[1] Basis 1991 = 100

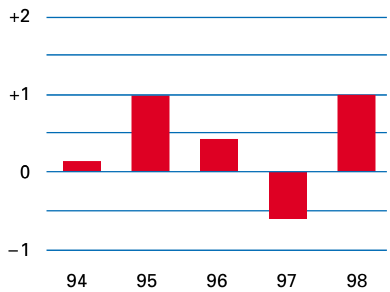
Private consumption

real % change



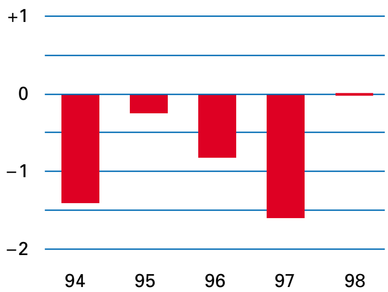
Retail trade sales

real % change

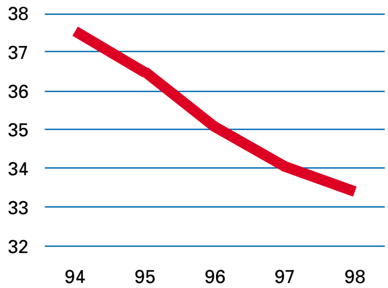


Strict retail trade sales[1)]

real % change



Strict retail trade sales[1)]
as % of private consumption



[1)] excluding motor car, fuel, gasoline, lubricant, pharmacy sales

The Federal Association of German Do-It-Yourself Stores, Home Improvement & Garden Centers published sales growth data showing a nominal rise of 3.5 percent for its sector.

Strict retail trade sales (i.e., excluding motor car, fuel, gasoline, lubricant and pharmacy sales) increased by 0.7 percent to DM 720.0 billion, although, in real terms this means stagnation. In fact, following five years of persistent declining sales, strict retail trade did not grow in real terms in 1998 either. Owing to weak demand and fierce competition, retail prices were very largely stable, the index of strict retail prices rising by 0.7 percent.

The German wholesale trade (excluding motor cars) raised its sales by a nominal 1.2 percent in 1998. Wholesale prices receded by 2.9 percent on average, meaning that real sales growth in the wholesale trade came to 4.2 percent. Whereas wholesale trading in consumer durables and nondurables performed encouragingly (up a nominal 1.9 percent and a real 1.8 percent), that in food, beverages and tobacco failed to match the prior-year level (down a nominal 0.3 percent and up a real 1.6 percent).

World economy / Western industrialized nations

The financial and currency crises in East Asia, Latin America and Russia placed a strain on the world economy in 1998.

Hardest hit were the newly industrializing countries of Southeast Asia, which slipped into recession in 1998. As a result of this crisis, the structural weakness from which Japan had been suffering in 1997 deteriorated into the most severe economic slump in Japan's post-war history. Real gross domestic product in Japan declined by about 3 percent in 1998, while private consumption contracted (down a real 1.1 percent) and exports failed to reach the preceding year's level (down a real 2.3 percent).

In Western industrialized nations, overall economic development pointed again upward, although growth forces weakened in many countries as the year progressed.

In the United States, the Asian and Latin American crises slowed down exports considerably, which just managed to exceed the prior-year level (up a real 1.5 percent following the 12.8-percent rise in 1997). A prudently expansionary monetary policy coupled with continued mounting domestic demand cushioned the impact of the export crisis on the economy as a whole. Private consumption (up a real 4.8 percent) and capital expenditure (up a real 9.7 percent) rose strongly, so that gross domestic product expanded by a real 3.9 percent in 1998, matching the year-earlier increase.

In Western Europe, the economic upswing continued in general. Real GDP climbed 2.8 percent in 1998 (up from 2.6 percent). Especially among the countries participating in Economic and Monetary Union (Euroland), an advancing process of economic convergence is discernible. Although the economies of Ireland (up a real 9.5 percent) and Finland (up 5.0 percent) continued to grow at an above-average rate, while Italy lagged behind somewhat (up 1.4 percent), the other EMU states recorded in 1998 real macroeconomic growth within the narrow range of about 3-4 percent. Thus, both the economic cycles and growth rates in Euroland grew closer together in 1998.

In Great Britain, Denmark and Greece – countries yet to join the first phase of EMU – growth weakened somewhat in 1998.

In most Western European countries, exports lost momentum as 1998 progressed, although by rising 5 percent in real terms, they still made an above-average contribution to overall economic growth in Western Europe. With a few exceptions (Greece, Great Britain), there was remarkable price stability in Western Europe, with inflation averaging 1.6 percent.

Real GDP and consumer prices in industrialized nations, changes versus the previous year (in percent)

	Relative weight	Gross domestic product		Consumer prices	
	in %[1]	1998	1997	1998	1997
Germany	10.0	2.8	2.2	1.0	1.8
France	6.6	3.2	2.3	0.7	1.2
Italy	5.4	1.4	1.5	1.7	1.8
Spain	2.5	3.8	3.4	1.8	2.0
Netherlands	1.7	3.7	3.6	2.0	2.2
Belgium	1.1	2.9	2.9	1.0	1.6
Austria	1.0	3.0	2.5	0.9	1.3
Finland	0.6	5.0	5.9	1.4	1.2
Portugal	0.5	4.0	3.7	2.8	2.3
Ireland	0.3	9.5	9.8	2.4	1.4
Luxembourg	0.1	3.5	3.7	0.9	1.4
Euroland	**29.8**	**3.0**	**2.5**	**1.2**	**1.7**
Great Britain	6.0	2.5	3.5	3.4	3.2
Sweden	1.1	3.0	1.8	– 0.1	0.5
Denmark	0.8	3.0	3.5	1.9	2.1
Greece	0.6	3.0	3.5	4.8	5.6
European Union	**38.3**	**2.9**	**2.7**	**1.6**	**1.9**
Switzerland	1.2	2.0	1.1	0.0	0.6
Norway	0.7	2.5	3.4	2.2	2.5
Western Europe	**40.2**	**2.8**	**2.6**	**1.6**	**1.9**
USA	37.0	3.9	3.9	1.6	2.3
Japan	20.0	– 2.8	0.8	0.6	1.8
Canada	2.8	3.0	3.8	0.9	1.6
Total countries	**100.0**	**2.1**	**2.8**	**1.3**	**2.0**

[1] Based on gross domestic product relating to 1997 prices and exchange rates
Sources: OECD and the Kiel-based Institute for World Economy

Other countries

During 1998, the recession in the East Asian countries hit by economic crisis deteriorated dramatically, affecting a region that had previously boasted very strong growth. The main countries involved in the crisis were Indonesia, South Korea, Thailand, Hong Kong and Malaysia, although Singapore and the Philippines also suffered appreciable slumps in growth. Only Taiwan and the People's Republic of China achieved gains in 1998 following on from their previous growth rates. For the crisis region as a whole (excluding P.R. China), real GDP plummeted from some 5 percent in 1997 to minus 4 percent in 1998.

Real GDP and consumer prices in selected Asian countries, changes versus the previous year (in percent)

	Relative weight in %	Gross domestic product 1998	Gross domestic product 1997	Consumer prices 1998	Consumer prices 1997
South Korea	20.3	– 5.1	5.5	7.5	4.3
Taiwan	11.4	4.8	6.8	1.7	0.9
Indonesia	9.6	– 13.7	4.9	58.1	6.4
Thailand	7.7	– 5.1	0.1	8.1	5.6
Hong Kong	6.4	– 4.9	5.3	2.8	5.7
Malaysia	4.1	– 4.8	7.7	5.3	2.7
Singapore	3.9	1.8	7.9	– 0.3	2.0
Philippines	3.5	– 0.5	5.2	9.7	5.7
Region[1]	**66.9**	**– 4.0**	**5.3**	**12.9**	**4.2**
P.R. China	33.1	7.9	8.8	– 0.8	2.8
Total[1]	**100.0**	**0.0**	**6.4**	**8.4**	**3.7**

[1] Weighted with 1997's gross domestic product
Sources: DIW, FERI

In Central and Eastern Europe, economic performance was mixed. Owing to its persistent inability to reform, Russia suffered a severe currency and financial crisis, which was not without repercussions for other CIS nations such as Ukraine and Belarus. Long overdue yet still lacking reforms in the financial sector and delays with privatization were the reasons behind the significant contraction in Romania's economy once again and the Czech Republic's failure to build on the upturn of previous years.

Those Central and Eastern European countries that stuck rigorously to the path of reform managed to avoid the currency and financial crisis emanating from Russia. Thus, Poland, Hungary, Slovenia and Slovakia recorded strong growth.

Real GDP and consumer prices in Central and Eastern Europe, changes versus the previous year (in percent)

	Relative weight in %	Gross domestic product 1998	1997	Consumer prices[1] 1998	1997
Poland	22.1	4.8	6.9	11.8	14.9
Czech Republic	7.6	– 2.9	1.0	10.7	8.4
Hungary	6.7	5.2	4.6	14.1	18.3
Romania	4.7	– 4.4	– 6.6	59.2	155.1
Slovakia	3.1	5.0	6.5	6.8	6.1
Slovenia	2.9	4.3	3.8	7.9	8.4
Bulgaria	1.4	1.1	– 6.9	22.3	1,083.1
Central Europe [2]	**48.5**	**2.6**	**3.7**	**–**	**–**
Russia	43.5	– 4.6	0.8	27.7	14.7
Ukraine	7.0	– 1.7	– 3.2	10.6	15.9
Belarus	1.0	5.0	10.0	70.0	64.0
Total [2]	**100.0**	**– 0.8**	**2.0**	**–**	**–**

[1] Annual average
[2] Total of countries listed, weighted with GDP at average exchange rates in 1998

Sources: DIW, FERI

Country review

Country	Population in 1997[1] total in 1,000	per km²	Gross national product (GNP) per capita, in US$ based on 1997 purchasing power parities[1]	Gross domestic product (GDP) in US$ billion, 1998 total[2]	Private consumption in US$ billion, 1998 total[2]	Trading in consumer goods in US$ billion 1998 total[3]	in % of Germany
Austria	8,075	97	21,980	213	117	45	8
Belgium	10,175	308	22,370	254	152	70	13
Bulgaria	8,290	75	3,860	13	9	5	1
P.R. China	1,227,177	132	3,570	985	464	250	47
Czech Republic	10,304	134	11,380	55	28	18	3
Denmark	5,275	126	22,740	173	90	41	8
France	58,579	107	21,860	1,430	858	352	66
Germany	**82,076**	**235**	**21,300**	**2,139**	**1,216**	**536**	**100**
Great Britain	58,920	243	20,520	1,390	886	440	82
Greece	10,508	81	13,080	120	88	39	7
Hungary	10,158	110	7,000	47	29	15	3
Italy	57,424	195	20,060	1,169	734	388	72
Luxembourg	422	169	34,460	[4]	[4]	[4]	[4]
Morocco[1]	27,500	60	3,130	34	22	14	3
Netherlands	15,595	459	21,340	373	222	89	17
Poland	38,650	127	6,380	145	98	53	10
Portugal	9,940	108	13,840	106	69	36	7
Romania	22,546	98	4,290	44	33	21	4
Spain	39,293	79	15,720	556	341	131	24
Switzerland	7,118	178	26,320	264	158	56	10
Turkey	63,724	83	6,430	204	141	95	18

[1] Source: World Bank
[2] Source: FERI
[3] Source: FERI and Metro estimates
[4] No details

Division reports

METRO AG completed portfolio restructuring within fiscal 1998. As from 1999, its portfolio consists of four divisions:

- Cash & Carry
- Food Retail, with the Real and Extra outlet chains
- Nonfood Specialty, with the Media/Saturn and Praktiker outlet chains
- Department Stores

The transfer to Divaco of trading operations not included among these divisions (inter alia, Discount Stores, Computer, Fashion and Footwear Centers) did not take place until the end of 1998. Even though these operations were no longer consolidated companies of the METRO AG Group as of December 31, 1998, they nonetheless had a considerable impact on sales and earnings in 1998. So as to enable comparability with fiscal 1997 and 1996, they therefore form an integral part of reporting.

In fiscal 1998, METRO AG converted its reporting to the publication of net sales, ensuring comparability with other international trading companies and in line with international practice.

METRO AG Group by divisions

	Net sales	Result from ordinary operations	Capital expenditure[1]	Workforce	Outlets	Selling space	Transferred to Divaco Outlets	Transferred to Divaco Selling space
	DM mill.	DM mill.	DM mill.	FTE	Number	1,000 m²	Number	1,000 m²
Metro Wholesale	36,150	1,139	688	53,874	327	2,670	14[3]	19[3]
Hypermarkets	15,505	286	318	32,751	284	1,914	–	–
Food Stores	5,547	38	82	13,830	523	851	–	–
Consumer Electronics Centers	9,069	493	174	11,664	211	524	–	–
Home Improvement Centers	4,909	54	78	14,839	317	1,640	2[3]	10[3]
Department Stores	9,491	22	349	29,367	129	1,299	168[4]	471[4]
Real Estate	–	131	624	701	–	–	–	–
Restaurant & Catering	410	28	13	4,005	263	106	–	–
Discount Stores	1,407	(98)	32	2,340	–	–	560[4]	281[4]
Computer Centers	4,900	27	53	3,782	–	–	255[3]	62[3]
Fashion Centers	1,258	108	25	4,069	–	–	102[3]	241[3]
Footwear Centers	910	2	39	2,523	–	–	885[3]	431[3]
Others	2,148	108	183	7,310	31	134	30[3]	102[3]
METRO AG	–	(1,204)[2]	4	227	–	–	–	–
METRO AG Group	**91,703**	**1,133**	**2,663**	**181,282**	**2,085**	**9,138**	**2,016**	**1,617**

[1] Additions to tangible and intangible assets, excluding goodwill
[2] Including goodwill amortization of DM 637 million
[3] Transferred to Divaco as of Dec. 31, 1998
[4] Transferred to Divaco as of Dec. 1, 1998

Metro Wholesale

After the purchase of the international C&C operations from SHV Makro NV/Metro Holding AG/ Ligapart AG, Cash & Carry as a special form of self-service wholesaling is METRO AG's biggest division by far.

C&C business is directed at all commercial buyers, who are offered a wide and highly specialized food range, especially in fresh produce, as well as a non-food assortment for general business needs. The main target groups are service providers, restaurant and catering establishments, tradesmen and the self-employed.

Acquisition of the European C&C operations from SHV Makro NV and Metro Holding AG/ Ligapart AG

A partnering agreement and cross-shareholdings in C&C business had existed between the Dutch SHV Makro NV and Metro Holding AG/Ligapart AG since 1968.

Under the management of the majority stockholder Metro Holding AG (up to 60 percent) and Makro stakes (up to 40 percent), C&C business expanded into the "Metro countries" (France, Italy, Denmark, Austria, Turkey, and Hungary) and since the establishment of METRO AG has been supervised by Metro International Management GmbH, a subsidiary wholly owned by METRO AG, under a business management agreement.

SHV Makro NV pushed ahead with expansion as the majority stockholder (up to 60 percent) together with Metro Holding AG (up to 40 percent) in the "Makro countries" (Netherlands, Belgium, Greece, Great Britain, Spain, Portugal, Morocco, Poland, and the Czech Republic).

As of January 1, 1998, METRO AG acquired the European C&C operations of SHV Makro NV, meaning the latter's majority interests in the Makro countries and minority holdings in the Metro countries. Under this acquisition, an option agreement was reached enabling METRO AG to purchase from Metro

Holding AG/Ligapart AG all of their shares in the C&C operations in the Metro and Makro countries by the year 2002. Then in the second half of 1998, Metro Holding AG/Ligapart AG and METRO AG settled on an earlier purchase of the C&C business by METRO AG with economic effect as of January 1, 1998.

The acquisition of all SHV Makro NV and Metro Holding AG/Ligapart AG shares in such operations strengthens METRO AG's C&C country portfolio, previously confined to Germany, Romania, the P.R. China and – from 1999 – Bulgaria, to 19 countries.

Management holding company for C&C business

The Metro and Makro countries have since October 1998 been under the unified control of a management holding company, Metro Cash & Carry GmbH. Thus the integration of Metro and Makro has already been largely completed. The holding company's management consists of both Metro and Makro executives. Systems, accounting and reporting have been harmonized at a high level, with business and management principles adjusted according to best practice.

C&C operations in the individual countries are run by an autonomous management team assigned to the country concerned. Internationally the countries are organized according to regions, for which at holding company level Chief Operating Officers (COO) bear responsibility as members of Metro Cash & Carry GmbH's management. Altogether, there are five regions: Central Europe, Western Europe, Southern Europe, Eastern Europe, and Asia. Apart from the COOs, the Management Board also comprises the Chief Executive Officer (CEO), as well as the Chief Financial Officer (CFO) and the Chief Personnel Officer (CPO).

Metro Cash & Carry GmbH intensively promotes the exchange of experience and know-how between Metro and Makro countries. Personnel transfers, projects spanning several countries and regular meetings are bringing the national C&C companies ever closer together, with the mutual gains from pooled strengths and experience raising the effectiveness of the whole business appreciably. This potential will continue to be exploited rigorously.

C&C as the driving force behind internationalization

C&C business is the mainstay of the METRO AG Group's internationalization. C&C outlets operated in 18 countries in 1998 under the Metro or Makro name. Under the management of Metro Cash & Carry GmbH, C&C business generated more than 70 percent of its sales abroad in 1998, making this division the most internationalized wholesaling operation in the traditional consumer goods sector worldwide.

METRO AG's other divisions and outlet chains are using this longstanding experience in foreign markets as a platform for their own internationalization drives. They have a share in the expertise, contacts and infrastructure of the C&C operations in the respective countries. This reduces the barriers to market entry for others, giving them a strategic competitive edge.

Early access to developing markets is actively helping, above all in Eastern Europe, to develop modern trading structures with a high level of supply in young economies.

By acquiring the European C&C business, METRO AG greatly exceeded in 1998 the medium-term goal of raising the non-German share of Group sales above 30 percent. The C&C division will continue to be the driving force behind internationalization within the Group as a whole.

Non-core activities spun off

At the end of 1998, C&C's non-core operations were sold off to Divaco. They included specialty office stores in Germany (Sigma Bürowelt), the Netherlands, Poland and Portugal (Office Centre). In addition, the wholesale delivery business Gastronoom, Netherlands, was spun off to Divaco. Concentration on C&C business by disposing of specialty office stores and delivery operations makes it possible to focus on this division's core skills.

Metro Wholesale

		1998	1997	1996
Sales (net, consolidated)	DM mill.	**36,150**	10,179	10,378
Change vs. previous year	%	**255.1**	– 1.9	
Non-German sales	DM mill.	**26,319**	385	69
Capital expenditure	DM mill.	**688**	189	170
Result from ordinary operations	DM mill.	**1,138.7**	385.9	427.7
Return on sales (pretax)	%	**3.1**	3.8	4.1
Outlets	number	**327**	90	93
thereof abroad		**252**	5	2
Selling space	1,000 m^2	**2,670**	800	767
thereof abroad		**1,890**	40	16
Average workforce	FTE	**53,874**	16,711	15,034
thereof abroad		**38,921**	1,864	686

New sales dimension through consolidation of all Metro and Makro countries

The Cash & Carry division's sales totaled DM 36.2 billion in 1998, up from DM 10.2 billion, by 255.1 percent. The C&C operations acquired from SHV Makro NV and Metro Holding AG/Ligapart AG were newly consolidated in 1998. Adjusted for acquisitions, sales climbed 5 percent, especially owing to further expansion in existing countries. In terms of comparable selling space, sales increased by 1.9 percent.

Result from ordinary operations

The result from ordinary operations came to DM 1,138.7 million (up from DM 385.9 million), with C&C business making a substantial contribution to total METRO AG profits. At DM 406.0 million, German C&C business almost managed to match the high year-earlier level.

Expansion of international network of sales outlets

During fiscal 1998, Metro Cash & Carry GmbH opened 15 C&C outlets altogether. In Germany, the Schaper C&C outlet chain added two new sites to its sales network while closing three other centers. In Poland and Romania, expansion progressed with the opening of two C&C centers in each country. Two outlets were also opened in Italy, including one under the Eco concept, a specialty wholesaling business focusing on the key needs of the grocery, restaurant and catering trades. The network in France was increased by another three Eco outlets. Finally, an additional C&C store was opened in each of the following countries: the People's Republic of China, Greece, Spain, and the Czech Republic.

Strategic investment

In 1998, the Cash & Carry division's capital expenditure totaled DM 688.1 million, focusing on expansion in Eastern Europe and on fresh-produce ranges in order to offer customers the best possible quality and highest reliability with these upmarket products.

Workforce at home and abroad

The workforce, translated into full-time equivalents (FTE), averaged 53,874, of these 14,953 employed in Germany and 38,921 abroad.

The cultural and professional diversity of the employees working for the C&C operations in a number of different countries represents a benefit for the whole Group, producing as it does many ideas, innovations and complementary strengths.

Strategic outlook

In virtually all the countries in which Metro Cash & Carry GmbH operates its C&C outlets, the respective companies have achieved market leadership in the C&C business. Based on this outstanding starting position, this merchandising concept's growth potential, which in the next few years will be systematically tapped through both geographic expansion and growth on existing space, is becoming evident.

In Bulgaria the first two C&C outlets were opened in Sofia and Plovdiv in the spring of 1999, making METRO AG the first international consumer goods trading company to operate its own outlets in this Eastern European country. Having gained access to the Bulgarian market, Metro Cash & Carry GmbH is methodically examining further expansion opportunities in Eastern Europe and Asia. The aim is to open up markets in one to two new countries every year.

In addition to exploiting new countries, potential remains for further growth in many markets. In young markets in which Metro Cash & Carry GmbH has been actively pursuing its cash & carry concept for just a few years, this can be done by opening new outlets in other regions of the country. In mature markets, in contrast, where high market penetration has already been achieved with the existing merchandising concepts, options for further expansion through modular C&C concepts are being examined.

Metro Cash & Carry GmbH and the national C&C companies are working constantly on various projects aimed at improving the business principle by adopting innovative ideas and optimizing existing structures and procedures. The following will help to safeguard and extend market leadership: stepped-up customer marketing, expanded fresh-produce competence, adaptation and enhancement of nonfood ranges based on methodical market research, the development of new store construction, fitting and furnishing plans, as well as a good working relationship with the industry within cooperation projects (ECR/Efficient Consumer Response).

Hypermarkets

With the takeover of 94 hypermarkets of the Allkauf Group as of January 1, 1998, and 20 of the Kriegbaum Group as of March 1, 1998, Real purposefully expanded its market leadership in Germany. The Allkauf and Kriegbaum stores represent an excellent geographical addition to the existing Real outlets. Real thus extended its national network of outlets, closing regional gaps. With its 273 hypermarkets, Real is now the comprehensive market leader in this segment.

The acquired hypermarkets' conversion to the Real concept has started, with activities focusing at present on the Allkauf properties. In order to cut costs, the central administrative departments, purchasing and advertising were pooled in 1998.

Targeted international expansion

Apart from the conversion of hypermarkets in Germany, targeted internationalization was the focus of business activities. In Poland and Turkey, Real laid the foundations for opening up these markets rapidly and successfully. Real has already positioned itself as the leader in Poland's hypermarket segment by opening ten. In Turkey, the establishment of a country management team and the first hypermarket opening in Ankara created the basis for expansion in this key country.

Rising popularity of new nonfood concept

Increased merchandise mix competence, innovative goods presentation, service and attractive prices are the characteristics of the new Real nonfood concept. The aim is to turn the customer's pleasure from an enjoyable shopping experience into higher selling space productivity for hypermarkets and thus improved profits. Depending on outlet size, theme-oriented product groups with strong customer appeal are assembled into merchandising islands, each a distinctive world of its own, such as Home/Living, Sport/Leisure, Textiles, and Electronics. The clear and self-service-friendly display of goods with the emphasis on range quality and merchandise mix competence is geared to consumer habits and lifestyles. Modern furnishings, coloring and floor design combine to create a pleasant shopping atmosphere. Branded goods, supplemented by private labels, will in future play an even greater role in creating a distinctive profile. Outstanding value for money also helps to increase customer loyalty.

Initial results from test markets confirm that this concept, which is implemented in some 40 outlets in the current fiscal year, is proving popular. It is planned to convert all suitable hypermarkets to this concept by the year 2001 subject to an individualized site study.

Promoting customer loyalty

Real has designed an extensive package of measures for improving customer orientation. Workshops are drafting ideas for openly attracting customers while helping to translate such ideas into practice. Regular one-on-one conversations with customers visiting hypermarkets, supplemented by large-scale surveys, are helping to identify any weak points, with a national hot line available for queries and complaints. The aim of all these measures is to maintain an intensive dialogue with the customer so as to improve the Real concept constantly.

Hypermarkets

		1998	1997	1996
Sales (net, consolidated)	DM mill.	**15,505**	9,740	9,667
Change vs. previous year	%	**59.2**	0.8	
Non-German sales	DM mill.	**465**	129	–
Change vs. previous year	%	**260.5**	–	–
Capital expenditure	DM mill.	**318**	236	198
Result from ordinary operations	DM mill.	**286.0**	128.1	99.7
Return on sales (pretax)	%	**1.8**	1.3	1.0
Outlets	number	**284**	158	162
thereof abroad		**11**	4	–
Selling space	1,000 m^2	**1,914**	1,149	1,145
thereof abroad		**89**	35	–
Average workforce	FTE	**32,751**	21,588	19,905
thereof abroad		**2,594**	1,265	–

Sales surge through acquisitions

In fiscal 1998, Hypermarkets generated sales of DM 15.5 billion, representing a rise of 59.2 percent, with the Allkauf and Kriegbaum acquisitions contributing DM 5.4 billion. Sales growth adjusted for this effect came to 4.2 percent. The consolidation of nine hypermarkets leased from former franchisee Otten as of September 1, 1998, raised sales by DM 188.0 million. On a same-space basis, sales by all hypermarkets were 1.6 percent down on the previous year owing to a decline in the fourth quarter.

Sales in Poland and Turkey totaled DM 464.6 million, a rise of DM 335.8 million compared with a year before.

Profit rises to DM 286 million

The profit from ordinary operations improved by an appreciable DM 157.9 million to DM 286.0 million, to which the Allkauf and Kriegbaum acquisitions made a substantial contribution through synergies in procurement and advertising. The start-up losses from international expansion eroded the result from ordinary operations by DM 90.3 million (up from DM 35.8 million).

Branch network further expanded

Following the integration of 94 Allkauf and 20 Kriegbaum outlets as well as the opening of six new hypermarkets, Real boasts 273 hypermarkets in Germany with a selling space of 1,816,000 m^2 (up from 154 outlets with 1,113,600 m^2).

Abroad, Real continued to expand, opening seven outlets. Six new stores were added to the four existing branches in Poland in 1998, whereas in Turkey Real opened its first hypermarket in Ankara. Real is thus operating eleven hypermarkets abroad with a selling space of 97,900 m^2.

Capital expenditure up to DM 318.4 million

Capital spending totaled DM 318.4 million, of which DM 210.0 million went on modernizing and restructuring the branch network and DM 108.4 million on expansion.

Increased workforce due to strong expansion

Owing to acquisitions and expansion at home and abroad, the number of employees, based on FTE, rose on an annual average by 51.7 percent to 32,751, of these 2,594 abroad.

A staff training program – with emphasis on customer service, proactive selling and motivation – is promoting increased customer orientation as an integral part of the Real concept.

Strategic outlook

The continued conversion of Allkauf outlets – primarily in the northern and eastern parts of the country – and of Kriegbaum outlets to the Real merchandising concept, the opening of new stores and streamlining measures are optimizing the hypermarket portfolio in Germany.

The merging of Allkauf's and Kriegbaum's administrative activities will continue with procedures being harmonized. New inventory control and logistics systems will further optimize the process chain relating to the flow of goods in terms of costs.

As part of ongoing internationalization, focused growth in Poland and Turkey will take priority. An additional nine outlets will be added to the Polish branch network in 1999, whereas in Turkey, Real plans to open another four hypermarkets.

Food Stores

This division's 1998 business was characterized by weak growth in this industry, with the Extra food stores unable to counter this trend.

Keen competition calls for an action program

During the period, Extra optimized its branch structure by opening 42 new stores with selling space of 95,266 m² and shedding 34 small ones. In addition, 34 food stores were reprofiled and expanded. The branch network was extended especially in the southern region by the takeover of 18 Kriegbaum outlets. With the disposal of its Extra Bau & Hobby home improvement centers to Praktiker, Extra plans to concentrate in future exclusively on the food stores market segment.

Extra established with modular merchandising and marketing concepts a variety of market profiles depending on branch size. As part of the drive to reposition this outlet chain, a new price concept was introduced in mid-1998, which showed encouraging results as early as the fourth quarter. A reoriented advertising concept aimed at conveying a more aggressive market image is supporting the revised pricing strategy. These measures were supplemented by increased customer orientation. Based on a customer frequency study, checkout and counter staffing can now be precisely planned. Merchandise mix expertise was enhanced by expanding the choice of fresh produce, with the nonfood range now comprising more convenience goods.

Food Stores

		1998	1997	1996
Sales (net, consolidated)	DM mill.	**5,547**	5,498	5,379
Change vs. previous year	%	**0.9**	2.2	
Capital expenditure	DM mill.	**82**	84	87
Result from ordinary operations	DM mill.	**37.8**	73.7	80.4
Return on sales (pretax)	%	**0.7**	1.3	1.5
Outlets	number	**523**	515	485
Selling space	1,000 m²	**851**	789	714
Average workforce	FTE	**13,830**	12,697	11,861

Sales boosted by takeovers

In an environment continuing difficult, Extra achieved sales of DM 5.5 billion, representing a rise of DM 48.9 million or 0.9 percent compared with the previous year.

Adjusted for the takeover of 18 Kriegbaum food stores and disposal of Extra home improvement centers, Food Stores registered a sales decline of 3.9 percent to DM 5.2 billion. On a same-space basis, sales were down 4.1 percent.

Profit plunging

The result from ordinary operations slumped by DM 35.9 million to DM 37.8 million, attributable mainly to declining sales on like-for-like space.

Investing in modern technologies

Capital expenditure excluding the takeover of Kriegbaum outlets totaled DM 81.9 million. Apart from refurbishing and expanding the branch network (DM 52.5 million), further main areas of spending included software upgrading (DM 12.0 million) and use of new technologies such as checkout and scanning systems (DM 17.4 million). Thanks to investment in the technological infrastructure, all branches were integrated into a closed inventory control system in the spring of 1999.

Larger workforce

During the period, the workforce (based on FTE) averaged 13,830, representing a rise of 1,133 or 8.9 percent.

Strategic outlook

Food Stores' branch structure is further optimized jointly with Hypermarkets. Small hypermarkets suited to the Extra concept will be transferred to Extra, whereas large food stores will be converted into hypermarkets. Both will benefit with their respective profiles and market positionings strengthened.

The existing network of food stores is being further revamped, renovated and refurbished, with Extra consistently implementing its new merchandising and marketing concepts with regard to customer orientation, product mix competence and advertising/ promotion efforts. On the cost side, the use of computerized scheduling, supported by more widespread provision of technology in the branches, and optimized physical goods distribution will result in a more effective process chain.

Consumer Electronics Centers

This division consists of the Media Markt and Saturn outlet chains. Originally designed for edge-of-town locations, Media Markt outlets now operate as efficient specialty outlets on an average selling space of 2,500 to 3,000 m², including in attractive shopping centers. Saturn outlets, on the other hand, are geared to downtown, integrated locations. Saturn operates on a space of 2,000 to 6,000 m² on a stand-alone basis and in shopping centers as well as in Kaufhof branches within the Saturn instore concept.

During fiscal 1998, the Media Saturn Group successfully continued its expansion at home and abroad. The sales strategy concentrated in existing centers on expanding local and regional market share, whereas at new outlets it was necessary, in the face of competition from other specialty outlets and retail chain branches, to build up additional market share in the promising segment of "new media" products, an integral part of the range.

Consistent customer orientation and distinctive advertising profile

Apart from asserting the classical strengths of specialty stores – merchandising mix competence coupled with attractive prices – consistent customer orientation proved crucial to success. Skills-enhancing programs on advice and service greatly helped employees to pick up and meet customer requirements efficiently.

In addition, efforts to create a distinctive market and advertising profile brought clear competitive advantages. Ninety-three percent of Germans were familiar with the current advertising slogan “Ich bin doch nicht blöd!” (“I ain’t stupid”). Investment in the brand paid off, with Media Markt one of the three most strongly promoted in Germany in 1998, thus establishing itself as a true retail brand.

Consumer Electronics Centers

		1998	1997	1996
Sales (net, consolidated)	DM mill.	**9,069**	7,529	6,617
Change vs. previous year	%	**20.5**	13.8	
Non-German sales	DM mill.	**1,809**	1,571	1,231
Change vs. previous year	%	**15.1**	27.6	
Capital expenditure	DM mill.	**174**	164	112
Result from ordinary operations	DM mill.	**493.0**	347.0	240.4
Return on sales (pretax)	%	**5.4**	4.6	3.6
Outlets	number	**211**	179	156
thereof abroad		**36**	33	26
Selling space	1,000 m²	**524**	450	396
thereof abroad		**96**	88	67
Average workforce	FTE	**11,664**	10,394	8,953
thereof abroad		**2,206**	2,033	1,586

Strong sales rise despite weak market

During fiscal 1998, Consumer Electronics Centers generated sales of DM 9.1 billion, a rise of DM 1.5 billion or 20.5 percent. In terms of comparable space, sales climbed 9.2 percent against the background of a largely stagnating market. Non-German sales accounted for DM 1.8 billion or 20 percent of total sales.

Result from ordinary operations up 42.1 percent

In line with the expansion of the national and European branch networks, the profitability of Consumer Electronics Centers improved appreciably in all countries. The profit from ordinary operations climbed DM 146.0 million to DM 493.0 million (up 42.1 percent). This includes start-up losses from expansion in Poland as well as preparations for the planned entry into Spain's market that cost DM 3.9 million (compared with the year-earlier DM 2.5 million).

Network of sales outlets further expanded

In fiscal 1998, the Media Markt/Saturn Group opened 29 new stores, including 26 in Germany. In addition, eight specialty stores acquired from Multi Media and the Sound & Technik Group were integrated into the branch network. At year-end, Media Markt/Saturn operated 211 specialty consumer electronics centers, including 36 abroad. The selling space increased from 450,200 m² to 524,000 m² (up 16.4 percent).

Expansion efforts in 1998 focused on extending the store network in Germany. In Poland the first was opened in Czeladz in the fall of 1998. Media Markt and Saturn are thus represented in five countries outside of Germany.

Capital expenditure at record level

Owing to expansion as well as the renovation of existing stores, capital expenditure reached a new record high of DM 174.4 million, representing a rise of DM 10.7 million or 6.5 percent compared with the previous year. This capital spending was again financed fully from cash flow.

Strong expansion boosts workforce

The workforce at the Consumer Electronics Centers, on a full-time equivalent (FTE) basis, averaged 11,664, up 12.2 percent. This made Media Markt and Saturn two of the leading job creators. Traditionally, special attention is given to training young people. During the period, the Media Markt/Saturn Group employed 1,246 apprentices, of these 591 newly recruited.

Strategic outlook

The whole organization has been geared to increased internationalization. In Hungary and Poland, the Media Markt/Saturn Group is pushing ahead with its expansion drive having accessed this market. The already good market position achieved in Austria and Switzerland is being augmented by new specialty centers. Entry into the Spanish and Dutch markets is planned following a thorough study. In German towns and cities additional outlets are planned at new sites as well as in urban centers, aimed at further optimizing this division's network.

Home Improvement Centers

Praktiker Bau- und Heimwerkermärkte AG operated in an environment which for the third successive year was marked by declining same-space productivity. In terms of comparable selling space, sales fell by 2 percent throughout the sector in 1998. In addition, consumer buying behavior changed steadily with much increased demand for advice and services alongside unrelenting and keen price awareness. This trend made a refocus of Praktiker's market profile necessary, especially in Germany.

Integration of Wirichs and Extra Bau & Hobby

As of October 1, 1997, Praktiker had purchased Wirichs' home improvement centers, which were included for one full year for the first time in 1998. The integration of the 58 Wirichs outlets was successfully completed in all areas in 1998, resulting in substantial synergies and savings. For instance, pooled purchasing led to improved terms and margins. The specialized merchandise mix competence of the two outlet chains – Praktiker and Wirichs – was exploited to consolidate and expand promising lines of merchandise. Targeted selection of suppliers helped to introduce new ranges and facilitated optimum logistics.

In addition, improvements were achieved in the cost structure, especially in administration. Frequently combined advertising campaigns since the end of 1998 under the slogan "Praktiker and Wirichs – two strong partners" have reduced advertising costs. Integration into the Praktiker Group was completed with the Wirichs outlets' incorporation into the restructured sales organization from October 1998.

Extra Bau & Hobby, taken over as of January 1, 1998, proved to be a suitable addition to the Home Improvement Center portfolio. With its small outlets operating in a franchising system, this chain caters to closely limited catchment areas.

The Extra home improvement centers' location positioning, market profile, advertising and merchandise mix are based on a distinctive concept and thanks to their decentralized management provide new scope for optimizing the outlet portfolio. For instance, home improvement centers not suitable for conversion to the Praktiker concept in terms of space, location and building facilities can be gradually transferred to the Extra franchise network.

Praktiker's repositioning under way

Having achieved a virtually comprehensive presence in Germany, Praktiker will be focusing in future on optimizing the existing branch network. Apart from the selective opening of new branches and outlet relocations, this also means the closing down of unprofitable stores.

In addition, Praktiker plans to channel its investment into modernizing and expanding its home improvement centers in Germany. Given fiercer competition, the provision of competitive selling space of adequate size is a basic requirement for implementing an up-to-date range concept. The product mix in the key do-it-yourself ranges will be expanded following the scheduled disposal of fringe areas alien to home improvement centers, such as consumer electronics and furniture.

Home Improvement Centers

		1998	1997	1996
Sales (net, consolidated)	DM mill.	**4,909**	4,054	3,747
Change vs. previous year	%	**21.1**	8.2	
Non-German sales	DM mill.	**482**	334	259
Change vs. previous year	%	**44.2**	28.9	
Capital expenditure	DM mill.	**78**	80	86
Result from ordinary operations	DM mill.	**53.7**	81.3	186.9
Return on sales (pretax)	%	**1.1**	2.0	5.0
Outlets	number	**317**	297	222
thereof abroad		**28**	14	11
Selling space	1,000 m^2	**1,640**	1,509	1,091
thereof abroad		**172**	85	68
Average workforce	FTE	**14,839**	12,934	10,213
thereof abroad		**2,337**	1,465	1,045

Acquisitions boost sales

During the period, Home Improvement Centers recorded sales growth of 21.1 percent to DM 4.9 billion (up from DM 4.1 billion), although on a same-space basis sales decreased by 4.8 percent. The takeover of Wirichs outlets and consolidation of the Extra Bau & Hobby franchise operations raised sales by DM 846.9 million. Adjusted for these acquisitions, this is equivalent to a sales gain of 4.9 percent.

Within Germany, sales increased – above all owing to acquisitions – by 19.1 percent to DM 4.4 billion but declined on comparable selling space by 5.2 percent. Abroad, sales surged by 44.2 percent to DM 482.4 million (up from DM 334.5 million), raising the non-German share to 9.8 percent (up from 8.2 percent). This rise is attributable largely to the opening of 14 home improvement centers, which contributed sales of DM 117.7 million.

Result from ordinary operations

The Praktiker Group's result from ordinary operations in 1998 receded to DM 53.7 million (down 33.9 percent). Owing to unsatisfactory sales performance on a same-space basis, profits fell below expectations.

In Germany the result from ordinary operations improved to DM 86.0 million, reflecting the first full-year consolidation of the Wirichs home improvement centers.

The slower speed of expansion in fiscal 1998 reduced the preoperating costs for new outlets to DM 12.3 million DM (down from DM 21.8 million). In Europe (excluding Germany), on the other hand, start-up losses of DM 50.2 million (up from DM 22.8 million) incurred through the expansion drive, impacted adversely on profits. The Greek home improvement centers again boosted their profits appreciably whereas the hitherto above-average results by the three Luxembourg branches were eroded by refurbishment and rebuilding of stores. Altogether, the losses from all foreign home improvement center operations rose to DM 32.3 million (up from the prior-year loss of DM 4.3 million).

Targeted expansion

The Home Improvement Centers division widened its sales network in 1998 by 20 to 317 outlets. With the opening of eight new branches, seven in western and one in eastern Germany, Praktiker expanded its marketing network according to plan. The integration of 58 Wirichs branches was successfully completed, while the Extra Bau & Hobby outlets comprised 35 franchise establishments (up from 29).

Following the creation of a nationwide marketing structure, Praktiker has reduced the rate of expansion at home. Whereas in 1998 the number of new branches opened in Germany was virtually half that of 1997, for the first time more outlets were established abroad than in the home market.

Outside of Germany, Praktiker doubled its presence in 1998 from 14 to 28 outlets by opening six new stores in Hungary, five in Poland, two in Austria, and one in Turkey.

Praktiker has secured a favorable starting position in important foreign markets such as Poland, Hungary, Greece, and Austria. In Italy, the expansion of the network of outlets was halted owing to lengthy approval procedures resulting in an inadequate rate of expansion. The two new home improvement centers there were transferred to Divaco. In Turkey, Praktiker is conducting its expansion drive in conjunction with other outlet chains of the METRO AG Group.

The integration of Praktiker home improvement centers as "anchor stores" in METRO AG's specialty centers is yielding strategic benefits on both sides, albeit raising Praktiker AG's start-up costs in the short term owing to the complexity of this expansion strategy. Against this background, Praktiker AG's operations in Turkey were integrated legally into METRO AG. However, Praktiker AG retains business management.

High capital expenditure owing to international expansion

The division' capital spending totaled DM 78.1 million in fiscal 1998 (down from DM 79.5 million), mainly on building new outlets and refurbishing existing ones.

In Germany, the Praktiker Group invested DM 40.2 million (down from DM 63.3 million), mainly in eight new stores, and refurbishment and replacement measures in the existing branch network. The focus was on modernizing goods display and shop design.

Outside of Germany, investments totaled DM 37.9 million (up from DM 16.2 million), again chiefly for new outlets and re-equipping existing ones.

Expansion increases workforce abroad

Flexible working hour schemes were further improved to comply with the outlets' extended opening hours. The proportion of part-timers was 33.2 percent during the period. Translated into full-time staff, the Home Improvement Centers employed 14,839 persons on an annual average in 1998 compared with 12,934 in 1997. In Poland and Hungary, Praktiker employed a workforce of 771 (up from 369).

Strategic outlook

In fiscal 1998 Praktiker initiated a fundamental realignment, the aim being to improve its market profile so as to steadily raise earnings and profitability.

The up-to-date presentation of extensive, customer-oriented do-it-yourself ranges to improve Praktiker's profile calls for optimization of selling space in Germany coupled with the shedding of fringe product ranges. The smaller home improvement centers that do not meet a minimum floor space requirement or cannot be operated profitably in the medium term will be critically examined. With only five store openings planned in the current fiscal year, the number of Praktiker home improvement centers in Germany will fall for the first time ever. Further harmonization of the Praktiker and Wirichs concepts seems appropriate in order to realize additional synergies.

Following the discontinuation of ranges not specific to home improvement centers (consumer electronics, furniture), the focus is now on strengthening core do-it-yourself competence. Optimization of the range structure by strengthening the medium-priced segments alongside a broader mix of branded articles is aimed at achieving a more favorable price-performance ratio for the customer.

In order to identify potential for improvement, Praktiker has analyzed all major internal procedures and processes. The investment in inventory control, logistics and computer systems required in the short term will nonetheless bring sustained cost savings. In addition, the employees in the outlets will receive more scope, on the basis of an optimized value-added chain, to concentrate on their most important task: that of helping the customer to make the right purchase by providing sound advice.

Abroad, expansion by Home Improvement Centers will concentrate on countries in which Praktiker can quickly achieve a position of leadership. Therefore, efforts to augment business outside of Germany will continue to focus on Poland and Hungary in 1999.

Department Stores

With its "shopping experience" Galeria concept, Kaufhof Warenhaus AG has developed a forward-pointing, competitive and vigorous department store philosophy. Expanding this successfully launched concept was again a strategic priority in 1998. An additional ten outlets were refurbished so that by year-end 57 stores bore the Galeria logo. Kaufhof has met subtly differentiating demand and more sophisticated consumer expectations by developing target group-oriented lifestyle concepts such as Sportarena and Lust for Life. Yet the most important element in all new concepts is consistent customer orientation.

Efforts to optimize and introduce new inventory control and logistics systems have been stepped up over the past three years. As a result, Kaufhof Warenhaus AG now boasts a tailor-made management data system, which efficiently supports planning and scheduling processes as well as all operational procedures.

The Galeria Kaufhof concept

All initiatives are aimed at positioning Galeria Kaufhof in the marketplace as a distinctive retail brand with its own characteristic persona. These include the grouping of ranges in line with demand- and target group-oriented merchandise islands, each a distinctive world of its own, clear specialty shop features with advanced brand competence, a stylish, contemporary ambience and the use of both informative and entertaining multimedia. Galeria Kaufhof has proved its worth as a growth-centered concept. This is possible only through continuous observation of the market, rivals and trend-setting target groups. Customer requirements and needs translate into constant pressure for change, which is being met by the conversion and updating of existing Galeria stores. The modular system deployed allows for range combinations tailored to the individual outlet. By the end of 1998, 57 percent of selling space had already been converted to the Galeria concept.

New lifestyle concepts tailored to target groups

Kaufhof Warenhaus AG's Sportarena presents a trend- and experience-oriented full range of upmarket sports goods. This concept appeals to new target groups in the expanding sports and leisure market. Assembled under ten themes – including Fashion Sports, X-treme-Sport, Fitness/Wellness, Outdoor, Golf, and Winter – the range reflects the wide variety of trends in individual sports. Following a successful trial at the Centro Oberhausen, two new Sportarena branches were created as standalone stores in Hagen and Bonn in 1998, while in Frankfurt the concept was adopted and optimized on a larger selling space.

Department Stores

		1998	1997	1996
Sales (net, consolidated)	DM mill.	**9,491**	9,971	10,105
Change vs. previous year	%	**– 4.8**	– 1.3	
Kaufhof Warenhaus Group	DM mill.	**8,026**	8,100	8,129
Change vs. previous year	%	**– 0.9**	– 0.4	
Kaufhalle	DM mill.	**1,465**	1,871	1,976
Change vs. previous year	%	**– 21.7**	– 5.3	
Capital expenditure	DM mill.	**349**	394	291
Result from ordinary operations	DM mill.	**21.9**	142.8	203.6
Return on sales (pretax)	%	**0.2**	1.4	2.0
Outlets	number	**129**	303	306
Selling space	1,000 m²	**1,299**	1,740	1,690
Average workforce	FTE	**29,367**	33,423	35,738

In the fall of 1998, Kaufhof presented in Aachen its Lust for Life outlet type, a completely new store generation in terms of its characteristics, structure, size, and positioning. Fashion, sport and music, complemented by "adventures in good eating," lie at the heart of this concept, with the emphasis on shopping as a proactive pastime. Under an exclusive cooperation deal with the Viva music station, a target group-oriented meeting-place, the Viva Lounge, was created, which is now in great demand. Customer surveys are showing that this type of outlet is already enjoying a high level of acceptance.

During the period, Kaufhof Warenhaus AG received two awards for its forward-pointing multimedia efforts, namely: the German Multimedia Gold Award and the 1998 German Retail Trade Prize.

Outlets disposed of to optimize branch network

At the heart of corporate strategy is the drive to concentrate on profitable downtown outlets with clearly defined target groups and characteristic product ranges so as to safeguard competitiveness in the German department store business. The integration of Kaufhalle's operations as of January 1,1998, aimed at achieving strategic and range-related synergistic benefits, did not bear the expected fruit. It became clear during the year that the intended restructuring would take longer than planned. Consequently, the 143 Kaufhalle and 25 of the Kaufhof branches deemed unsuitable for conversion to the Kaufhof downtown concepts were transferred to Divaco as of December 1, 1998. Six branches (5 Kaufhalle, 1 Kaufhof) were closed down during the period. Eleven Kaufhalle

stores will be used for developed Lifestyle concepts. This leaves 129 establishments, of which 57 are currently Galeria stores, with annual net sales of some DM 7.8 billion and selling space of 1.3 million m² in Kaufhof Warenhaus AG. The department store portfolio has thus been streamlined and optimized.

Galeria concept borne out by sales trend

At DM 9.5 billion, Department Stores' sales were 4.8 percent down, mainly due to Kaufhalle's poor performance. On a same-space basis, the decrease was 3.7 percent.

The 19 Mode & Sport, Kerber and Kaufhalle outlets still operated by Kaufhof Warenhaus AG recorded a sales drop of 7.3 percent versus 1997. At the 143 Kaufhalle branches transferred to Divaco, sales fell by 10.3 percent, and in the 25 Kaufhof stores by 6.3 percent.

Performance among the types of outlets varied greatly. The 110 Kaufhof stores fell just short of their prior-year sales (down 0.6 percent), with the 57 Galeria outlets again proving especially successful with a rise of 3.5 percent, demonstrating this concept's viability. The Galeria share of total sales (under the new structure) now comes to 61 percent. The high-margin textile sector with branded goods and brand shops built on its competitive lead. Whereas the entire German textile business recorded a 1.0-percent decline, Kaufhof bucked the market trend with a rise of 3.0 percent, as did its Galeria outlets with an even more impressive 7.0-percent increase.

Encouraging profits at Galeria branches

In 1998 the Kaufhof Warenhaus Group (excluding Kaufhalle) again raised its profit from ordinary operations to DM 196.9 million (up DM 2.0 million) – encouraging in view of the high investment in the Galeria concept's future development. A major contribution to this growth came from the higher gross profit, flexible staff deployment and optimized structure of impersonal expenses, especially in logistics.

Owing to nosediving sales, Kaufhalle's loss from ordinary operations deteriorated from DM 52.1 million to DM 175.0 million.

This loss eroded the Department Stores division's result from ordinary operations accordingly, which came to DM 21.9 million (down from DM 142.8 million).

Galeria conversions call for added investments

In 1998, capital expenditure focused on converting nine outlets to the Galeria concept, on optimization measures in five already redesigned stores, and on developing and implementing the new Lust for Life and Sportarena merchandising concepts. Investment in these areas totaled some DM 180 million. An additional DM 25 million was spent on expanding specialty store competence through brand shops and on installing multimedia applications in the Galeria outlets.

Enhancing employee skills: a key to success

In the drive to implement convincing new merchandising concepts, a well-trained workforce provides a crucial competitive advantage. In the Kaufhof Warenhaus Group some 70 percent of staff have direct contact with customers. Consistent human resources development is used as a strategic key to success aimed at building up a long-term relationship with the customer. Apart from the conventional tools – seminars, workshops and training courses in service and customer orientation – Kaufhof offers through its in-house K-TV and the new IQ-TV educational program (information and skills-upgrading) efficient and up-to-date continuing training.

Strategic outlook

The shift in the outlet portfolio from traditional department stores to multi-faceted downtown concepts will be continued, with optimization/conversion of further outlets to the Galeria concept remaining a top priority. The Galeria Card, launched very successfully in 1998 and readily accepted by customers, will be introduced in more stores in 1999.

The new target group-oriented concepts are intended to accelerate full utilization of outlet potential and market penetration while opening up further synergistic potential. Additional Lust for Life and Sportarena stores will be opened within the existing outlet portfolio following their successful launch.

In the further improvement of logistics, ECR (Efficient Consumer Response) activities will be stepped up as a model for comprehensive strategic partnerships with selected suppliers, the aim being to fully optimize the whole process chain from the supplier to the customer.

Real Estate

Good locations are one of the main keys to success in over-the-counter trade. The long-term availability of such selling space, coupled with great flexibility in outlet development and design, is of central importance to the METRO AG Group's divisions. METRO AG is thus pursuing a strategy of safeguarding the long-term availability of Group locations.

Apart from full Group property, option properties and other titles and property configurations with direct or indirect Group company ownership in different percentages (also jointly with third-party coproprietors) are possible.

Structure and business areas

Metro's real-estate activities are grouped together under Metro Immobilien Holding GmbH (MIH). Apart from management of real-estate enterprises, MIH operates in the following business lines:

- Property development
- Building management
- Facility and center management
- Real-estate management

MIH carries out property-related Group projects. For international expansion, real-estate strategies for each country are drawn up and implemented with the divisions involved taking the prevailing market conditions into account.

Workforce

On an annual average, the real-estate enterprises employed a workforce of 701, based on FTE.

Capital expenditure

Four new premises were completed in Germany in 1998, while another four properties were extensively renovated and six purchased. Another twelve buildings are to be renovated or completed in 1999.

In Turkey the Bilkent Center in Ankara was completed for a Real hypermarket and a Praktiker home improvement center. In the newly built Gaziantep center, the second Praktiker home improvement center was opened in January 1999 and a Real hypermarket in March 1999. Completion of a center in Adana as well as two Real hypermarkets in Izmit and Bursa are also scheduled for 1999.

During 1998, the real-estate enterprises' investment in tangible and intangible assets (excluding goodwill) totaled DM 623.7 million.

Restructuring of Polish real-estate business

Properties owned in Poland are held through local real-estate partnerships. The portfolio volume of some DM 1 billion at year-end comprised 12 completed and handed-over sites and 24 secured locations.

In 1998, another three specialty store centers were opened in Poznan, Bytom and Radom, three hypermarkets in Legnica, Rybnik and Grudziadz and two home improvement centers in Katowice and Lodz. Another three specialty store centers, ten hypermarkets and one home improvement center are under construction in 1999.

At the end of 1998, METRO AG sold its holding in Nigra 17. KG, which owns the Polish retail operations' properties through real-estate partnerships, to a leasing company which through a real-estate investment fund ensures placement of the units over a period of three to five years. METRO AG thus aims at safeguarding the long-term availability of locations while optimizing its financial and accounting indicators.

Transfers to Divaco

In its drive to concentrate on core activities, Real Estate transferred to Divaco 109 companies with fixed assets of DM 1,064.6 million.

Option properties

Under existing real-estate leases, the METRO AG Group holds numerous options on locations operated by Group companies.

The book values of these option properties at December 31, 1998, amount to an unchanged DM 2.7 billion, the pertinent residual liabilities to DM 3.2 billion (up from DM 3.0 billion). DM 40 million was repaid in fiscal 1998.

Expansion investments depress profit

The result from ordinary operations came to DM 131.1 million (down from DM 134.9 million).

METRO AG Group companies contributed 80.4 percent of the division's total rental income.

Owned real estate and option properties (Dec. 31, 1998)

	Group properties		Option properties		Total properties	
Type	No. of properties	Useful space m²	No. of properties	Useful space m²	No. of properties	Useful space m²
Shopping centers/ combined sites	25	599,681	22	594,809	47	1,194,490
C&C centers	232	2,437,926	1	9,251	233	2,447,177
Hypermarkets	21	217,676	24	220,929	45	438,605
Food stores	24	42,197	1	6,041	25	48,238
Home improvement centers	53	355,419	10	52,887	63	408,306
Department stores	96	1,875,880	12	198,316	108	2,074,196
Warehouses	9	130,142	5	369,619	14	499,761
Empty land	54	–	–	–	54	–
Other		311,815		48,374		360,189
	514	5,970,736	75	1,500,226	589	7,470,962

Restaurant & Catering

This division's leading position in the instore restaurant and catering trade was further consolidated. As part of a drive to streamline the portfolio of operations, 23 unprofitable establishments were closed down. Three freeway restaurants were opened and another three leased within this segment which offers potential for continued expansion. At year-end, the Dinea Group operated 263 restaurants.

Diversified market development

The assignment of marketing brands to segments was completed. Restaurant & Catering now operates under the following brands:

- "Dinea" in department stores and shopping centers
- "Grillpfanne" in hypermarkets and specialty store centers
- "Axxe" in freeway service areas

The Dinea Group restaurants upgraded their regular selection of food and beverages to match local market conditions while changing frequency and rhythm. Special offers plus theme days devoted to national cuisines and catering service guarantees were all successfully introduced. The objective of these efforts is greater transparency for customers.

Improved profit through portfolio streamlining

The Dinea Group recorded sales of DM 409.6 million, down 5.2 percent from the previous year's DM 432.3 million, mainly due to the disposal of establishments.

Through various measures, primarily the closedown of unprofitable establishments, the result from ordinary operations improved by 57.4 percent to DM 27.7 million (up from DM 17.6 million).

Capital expenditure

Net capital spending totaled DM 13.4 million and went primarily toward the opening of seven and refurbishment of eleven restaurants.

Workforce

Owing to the streamlining of the division's network, the number of employees (as FTE) dropped on an annual average by 5.0 percent to 4,005 from the preceding year's 4,214.

Outlook

At the beginning of 1999, Dinea took over 13 restaurants in the Allkauf and Kriegbaum hypermarkets.

As part of the strategy of concentrating on four divisions, METRO AG's Restaurant & Catering operations will in future be listed under "Others." The Dinea Group's chief activity is the operation of Group restaurants.

Discount Stores

Streamlining of Metro portfolio

In line with its professed aim of future concentration on four divisions, METRO AG transferred its Discount Stores division to Divaco as of December 1, 1998.

Sales trend

During an 11-month period (transfer to Divaco as of Dec. 1, 1998), the Tip outlet chain generated sales of DM 1.4 billion (12 months 1997: DM 1.4 billion, down 1.3 percent). Fierce competition and weak consumption led to an 8.1-percent fall in sales on a same-space basis. Owing to the opening of 21 branches, sales in Poland rose to DM 186.4 million (up from DM 110.8 million); in terms of comparable selling space, the gain was 1.8 percent.

Loss situation

The loss from ordinary operations deteriorated by DM 23.7 million from DM 74.4 million to DM 98.1 million. Declining like-for-like sales, necessary structural measures and stepped-up expansion led to the higher loss. Also included are start-up losses from the internationalization drive amounting to DM 35.2 million (up from DM 19.9 million).

Capital expenditure

Capital spending in 1998 totaled DM 32.3 million (down from DM 40.2 million) and went on expansion measures both at home and abroad.

Branch structure and workforce

During the period, the Tip sales network comprised 503 stores in Germany and 57 in Poland, amounting to 560 with a total selling space of 281,321 m². In Germany 60 new ones were opened and 17 closed, and in Poland 21 were opened. Tip's workforce (FTE basis) averaged 2,340.

Computer Centers

Streamlining of Metro portfolio

In view of the future concentration on four divisions only, Computer Centers was transferred to Divaco as of December 31, 1998.

The division's members in 1998 were Vobis Microcomputer AG, Maxdata Computer GmbH, and Peacock AG.

Sales trend

During the period, Computer Centers lifted sales by 25.1 percent to DM 4.9 billion (up from DM 3.9 billion). The increase is due to the good performance by Maxdata and the first-time full-year consolidation of Peacock AG, acquired as of June 1, 1997. At Vobis, sales decreased, due to the discontinuation of business in France and Great Britain.

Wholesalers Maxdata and Peacock managed to further increase their market penetration in Germany and Europe. The two brands, Belinea (monitors) and Artist (PCs) make Maxdata a market leader or at least one of the top suppliers in Germany and Europe.

Performance

The result from ordinary operations fell to DM 27.1 million (down from DM 37.5 million). Further declining profit margins at Vobis retail stores stifled profitability. The result reflects start-up losses from the internationalization drive, a total of DM 0.5 million (down from DM 1.9 million).

Capital expenditure

During the period, capital expenditure totaled DM 53.3 million (up from 45.9 million), mainly for restructuring the network by opening nine new Vobis Superstores, closing small outlets, franchising others (DM 14.0 million) and extending the Maxdata logistics center (DM 11.3 million).

Branch structure and workforce

As a result of branch shutdowns and the franchising of Vobis outlets, the number declined to 255 (from 266). Due to the expansion of the wholesale business, the average number of employees, based on FTE, added up to 3,782 (up 7.7 percent).

Fashion Centers

Streamlining of Metro portfolio

As part of the future concentration on four divisions, the Fashion Centers division was transferred to Divaco as of December 31, 1998.

Sales trend

The Adler fashion centers generated sales of DM 1.3 billion (up 7.0%); on a same-space basis, the rise was 2.8 percent. Given this sales trend, Adler performed better in Germany than its rivals and achieved market share gains for the fifth consecutive year.

Profit situation

The result from ordinary operations climbed DM 15.9 million to DM 108.1 million. The start-up losses resulting from expansion efforts in Poland reduced profit by DM 6.4 million (1997: DM 3.2 million).

Capital expenditure

During the period, Adler's capital spending totaled DM 24.7 million (up from DM 22.5 million). In May 1998, the Hörselgau goods distribution center near Gotha, in which a total of DM 142 million had been invested in previous years, went into operation on schedule.

Branch structure and workforce

During 1998 five new branches were opened in Germany and three in Poland. At year-end, Adler operated 102 fashion centers altogether, of these 82 in Germany, 13 in Austria, two in Luxembourg and five in Poland, with a selling space of 240,765 m². Owing to the disposal of a production plant in Sri Lanka, the number of employees (FTE basis) decreased to 4,069 on an annual average (down 19.0 percent).

Footwear Centers

Streamlining of Metro portfolio

As part of the future concentration on four divisions, the Footwear Centers division was transferred to Divaco as of December 31, 1998.

Sales trend

During the period, the Reno footwear centers raised sales by 28.6 percent to DM 909.9 million (up from DM 707.5 million). This gain is due mainly to the takeover of Mayer Schuh GmbH with sales amounting to DM 194.9 million. On a same-space basis, Reno's sales dropped 8.2 percent.

Performance

The result from ordinary operations improved appreciably to DM 1.7 million following the prior-year loss of DM 30.3 million, with the 1997 result adversely affected by Mayer Schuh GmbH's reorganization, which cost DM 53.2 million.

Capital expenditure

Capital expenditure totaling DM 39.5 million (compared with the year-earlier DM 71.7 million or DM 18.5 million excluding Mayer) was used largely to expand and modernize the branch network.

Branch structure and workforce

The takeover of Mayer Schuh GmbH with 232 outlets coupled with branch openings and closedowns helped to strengthen the sales network overall, which comprised 885 branches at the end of the fiscal year. Owing to the consolidation of Mayer and expansion of the branch network, the number of employees (based on FTE) increased to 2,523 on an average annual basis (up 51.6 percent).

Others

This division comprises essentially the Group's service companies and the other trading companies or affiliates of METRO AG. In connection with the acquisition of Metro Holding AG's/Ligapart AG's complete stakes in C&C operations in 1998, all trading-related service enterprises were also taken over.

Division sales fell in 1998 by 2.8 percent to DM 2.1 billion. The other trading companies acquired together with the European C&C operations failed to compensate for the sales decline brought about by the divestment of companies in 1997 and 1998. The result from ordinary operations came to DM 108.2 million (up from DM 68.5 million). The division's capital expenditure totaled DM 182.9 million.

The number of employees (in FTE terms) averaged 7,310.

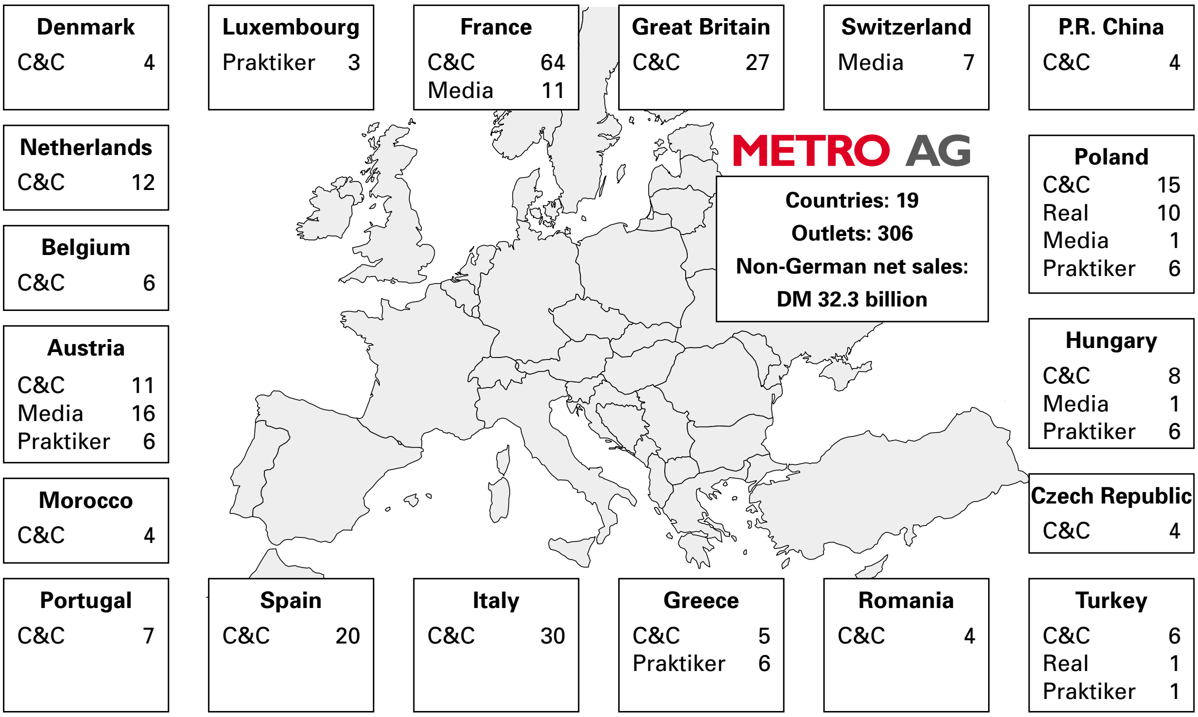
The interests in Divi-Möbel, Deutsche Fachhandels-Holding, Massa-Ausbauhaus, and others were transferred to Divaco as of December 31, 1998.

Internationalization

METRO AG's internationalization efforts are concentrating on the Cash & Carry, Real, Praktiker, and Media Markt/Saturn outlet chains. Selective internationalization is a core constituent of corporate strategy, the pioneer role having been assigned to the market leader Cash & Carry. In fact, the takeover of the European C&C operations from SHV Makro NV/Metro Holding AG/Ligapart AG coupled with the purposeful branch-out of the other divisions and their outlets have propelled non-German sales in 1998 to 35.2 percent of the Group's.

METRO AG is Europe's biggest trader, with 306 outlets in 19 countries (excluding Germany). Expansion efforts in 1999 will continue to single out internationalization projects.

METRO AG Group: Internationalization status as of Dec. 31, 1998



Service companies

The Group's service companies perform the following functions for the divisions and their outlet chains:

- Strategic procurement and private-label management
- Procurement and distribution logistics, food storage logistics
- Production, agency and media services
- Information/IT services
- Energy and recyclables management
- Insurance and financial services
- Administrative and managerial services for other Group companies as well as trademark services

These enterprises provide cross-divisional services to Group companies, adding quantifiable incremental value through their pooling purpose. The synergies achieved and the costs sustained are allocated to the beneficiaries and originators, respectively, at division level.

Metro-Gruppen-Einkauf (MGE)

MGE is the central purchasing pool of the METRO AG Group companies. With its potential for bundling and strategic control in relation to domestic and foreign suppliers, MGE boasts a negotiating and organizational muscle that yields sustained advantages. Its services include negotiating purchasing, payment and other terms and conditions, sampling and listing of goods as well as supplier and product updating.

During the period, the Makro C&C countries were assimilated into the purchasing set-up, with measures taken to build up an international purchasing organization. In addition, MGE coordinates the expansion of private labels shared by the divisions. International volume bundling and an integration of national private labels into the international private-label program are intended to establish a widespread secondary meaning of trademarks, as well as to generate strong profile and recognition for the Group across all the divisions. The aim is to implement the common pan-European private-label program speedily with high customer acceptance by delivering good value for money.

On an annual average, 271 employees (FTE basis) handled in 1998 a net procurement volume totaling DM 69 billion.

Metro-Gruppen-Logistik (MGL)/ Metro-Distributionslogistik (MDL)

MGL provides logistics services for the METRO AG Group, especially in organizing and monitoring haulage operations including the related administrative services. MDL achieves synergies through bundling and know-how transfer. A central database and data analysis system make it possible to consolidate transport services across the divisions. During the period, the logistics emphasis was on optimizing concepts and developing an international system.

Procurement logistics achieves synergies through haulage consolidation and optimization. Fewer doorstep deliveries also result in more efficient handling of incoming goods. All the relevant suppliers are included in this procurement logistics. Experience with the self-collection concept developed by MGL has been quite encouraging.

Within fresh-produce logistics, the chilled goods are channeled to the outlets from suppliers via special handling terminals. Fresh-produce logistics is based on an integrated procurement and distribution concept. As with the other systems, synergies are achieved by consolidating and optimizing structures and procedures.

In fiscal 1998, MGL’s workforce averaged 43 (FTE).

Metro-Distributionslogistik is the logistics services arm for Real, Extra and Tip. In the seven food warehouses, which stock dry foods, fresh produce, fruit and vegetables as well as frozen foods, the ranges are procured and stored, orders assembled and then delivered to the outlets. In February 1999, the food warehouse in Bondorf acquired from Kriegbaum was integrated. Imported goods are chiefly distributed through a national nonfood warehouse. In fiscal 1998, MDL’s workforce averaged 2,508 persons (in FTE terms).

Metro-Gruppen-Informatik (MGI)

MGI provides information services for METRO AG companies so as to fully utilize all synergistic and rationalization potentials in this area. The focus is on strategic uniformity in information technology, introducing comprehensive application systems and sharing computer centers and networks.

Since 1997 inventory control for Cash & Carry, Hypermarkets, Food Stores and Home Improvement Centers has been pooled and newly developed. This is yielding considerable savings in development costs, reducing lead times and opening up scope for implementing competitive advantages more quickly.

In order to provide management with specific information for decisions in purchasing, sales and administration, information systems are being created using data warehouse technologies. Additional key activities included preparations for merging computer centers and expanding SAP R/3 and data warehouse systems at the Düsseldorf location.

Significant cost savings were achieved in voice and data communications coupled with improvements to security and the level of service by developing and operating a corporate intranet. The networking of the major administrative locations was completed.

At the beginning of 1998, the newly formed EDI Service Center at MGI took charge of handling electronic data interchange (purchase orders, order confirmations, delivery advice notes etc.) from the Metro companies to the suppliers and vice versa. With EDI, potential for rationalization can be utilized through just-in-time logistics, reduced record-keeping and simplified administrative processes.

In various subprojects relating to the introduction of the euro, preparatory measures were worked out for currency conversion. The conversions and adjustments in the divisions' application systems will be carried out in 1999 and 2000.

Action priorities in 1999 will be the introduction of the new inventory control system at C&C centers, hypermarkets and food stores and of the data warehouse applications at the hypermarkets and food stores. Efforts relating to the merging of service bureaus and other computer centers will be continued and projects pertaining to Y2K and euro conversion are being finalized.

During the period, MGI's workforce averaged 343 on an FTE basis.

Metro-Werbegesellschaft (MWG)

Pooled buying of advertising production, agency and media services, as well as the development of an image databank and procedure harmonization in the run-up to advertising campaigns all lead to cost savings and service consistency for Metro companies.

During the period, MWG concentrated on improving national strategic buying of media, print, paper and photographic services as well as on preparatory measures for internationalization. To this end, operations and procedural organization were optimized and a groupwide system for media bookings and transactions created. The production of training aids and staff information using the new electronic media was stepped up.

In fiscal 1999, special importance will be attached to the internationalization of strategic buying, optimized national and international media scheduling, and the establishment of an advertising company in Poland.

During the period, MWG's workforce averaged 80 (FTE).

Other key service enterprises

In order to fully exploit the potential for cost savings arising from the deregulation of the energy market, METRO AG decided to establish another interdivisional company, Metro MEM Energie Management GmbH, which will seek to optimize groupwide energy procurement. MEM negotiates the energy supply contracts of all the METRO AG Group's energy users centrally with the utilities, concentrating for the time being on lowering electricity procurement costs for all.

Assevermag, Metro-Leasing, Metro Finance and Metro International Finance, inter alia, provide insurance and financial services.

All trade-related services now under METRO AG

Together with the complete takeover of the European wholesale operations of Metro Holding AG, Switzerland, METRO AG assumed control of all trade-related services, viz. collection/credit risk guaranties (MIAG), importation (Gemex) and trademark operations (Metro SB-Handels AG).

Gemex Trading AG has been handling goods procurement, inter alia, for METRO AG since 1996, and for Kaufhof since 1983, and operates worldwide as a buying commission agent for Group companies.

Metro International AG (MIAG) handles collection and the settlement of supplier invoices and acts as credit risk guarantor for suppliers.

Metro SB-Handels AG is the owner of an extensive portfolio of trademarks used by many METRO AG Group companies. It is responsible for licensing, improving, marketing and updating brands.

Group synergies

One of the main reasons behind the decision to merge Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG into METRO AG was to achieve sustained synergies.

Three synergy areas were identified in which potential for rationalization was to be sought:

- Integration of holding company functions (savings through improved structures)
- Procurement and private-label management (reducing the number of suppliers / strengthening private labels)
- Services sector (logistics, advertising, and financing)

Full realization of synergistic potential earlier than expected

Thanks to intensive groupwide efforts to exploit all synergistic potential through the cross-division service companies, the synergy savings envisaged from 1999 onward, and amounting to some DM 405 million annually were well exceeded as early as 1998.

		1998	1997
Consolidation of holding functions	DM mill.	**37.5**	34.4
Procurement and private-label management	DM mill.	**409.0**	154.0
Services sector	DM mill.	**111.9**	51.4
	DM mill.	**558.4**	239.8

With synergies of DM 558.4 million earned in fiscal 1998 alone, the budgeted result was surpassed by DM 293.3 million and the targets set in the merger report for a three-year period were already achieved in 1998. In future, METRO AG will therefore waive separate reporting of any merger-related synergies.

Professional management of synergies is one of METRO AG's key missions, greatly helping to safeguard its divisions' competitiveness in the long term.

Interest rate and currency management

With a view to hedging against risks and exposures from interest rate and currency risks, METRO AG uses derivative financial instruments. The use of derivatives entails see-sawing financial results since, in contrast to classical financial instruments, certain gains and losses are realized inside a short period.

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; derivatives contracting is strictly confined to prime banks as counterparties for which, moreover, specific transaction ceilings are stipulated on a case-by-case basis.

Translated into a financing term of 10 years and based on the 1998 long-term finance plan, 57 percent of the entire long-term interest rate risk was covered by fixed-income or straight bonds and fixed-rate loans (35.1 percent), as well as by interest rate derivatives (21.9 percent). At fiscal year-end, comparable hedging came to 95 percent.

Currency management encompasses the hedging of receivables and/or payables of Group companies denominated in any non-local currency and ensuing from operational business, real estate, or 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 Group companies, micro hedges cover some 25 percent of yearly requirements from individual operational risks, according to the particular circumstances at the various business areas.

Personnel and social policy

Personnel structure

On average the METRO AG Group employed 241,064 persons in 1998 (excluding apprentices; up from 177,470). Translated into full-timers (FTE), this was equivalent to a workforce of 181,282 (up from 134,019), of whom 66.8 percent were women (down from 68.0 percent).

The increase of 35.3 percent (based on FTE) is attributable to the integration of the European C&C operations previously belonging to SHV Makro NV/Metro Holding AG/Ligapart AG and the shoring of Food Retail through the purchase of the Allkauf and Kriegbaum Groups. Owing to M&As and expansion, the proportion of staff employed abroad rose to 28.3 percent (FTE), compared with the previous year's 7.4 percent. Within the Group, the average length of service with the employer was 7.3 years (down from 7.4), the average age 37.8 years (up from 37.6).

The proportion of part-timers within the total workforce edged up to 50.1 percent from 49.9 percent.

In general, roster planning flexibility makes it easier to adapt as far as possible to customer expectations in terms of presence and quality of service. At the same time, delivery schedules can be optimized and workloads shared out. Greater employee satisfaction is being promoted by responsible negotiations on the organization of working time between the parties involved. This is enabling METRO AG's divisions to create an optimum cost-performance structure for safeguarding their competitiveness.

Wage policy

The wage negotiations in the German retail trade sector were strained, in some cases severely, by industrial action in 1998. Nevertheless, settlements were reached in the wholesale and retail trades, which in terms of their overall economic impact came to just under 2 percent in wholesale and well under 2 percent in retail. In the retail trade's eastern German wage-bargaining regions, the contractual foundations for the gradual introduction of the phased collective agreement reached in 1995 were laid in the preceding year. In this way the unions and employers continued to act responsibly, taking account of both the overall economic situation and competition in the retail trade.

Toward the end of the year the unions and employers of the Bavarian retail trade reached a collective agreement aimed at promoting pre-retirement part-time work, which as a pilot deal is paving the way for similar settlements throughout the German retail trade. Unions and employers are thus helping to ease a labor market situation scarred by high unemployment. The aim is to create new jobs and improve prospects for young people and/or the unemployed by allowing older staff to opt for early retirement under acceptable conditions. Especially for Department Stores, but also for Hypermarkets, this agreement will help rejuvenate the workforce in general.

In the companies with their own pay agreements, the latter were – as in previous years – revised in line with the respective requirements and possibilities.

Personnel transfer abroad

The Group's internationalization drive makes it necessary to send staff abroad, primarily to enable the transfer of know-how, as well as to develop business activities as part of international expansion. In order to create comparable conditions for assignments abroad while taking legal and cultural aspects into account, Group guidelines were adopted during the past fiscal year in consultation with the divisions. They represent an important prerequisite for the successful deployment of expatriates and their subsequent repatriation.

Internal labor office

New procedures, outlet shutdowns and managerial restructuring led to further staff cuts in 1998. On the other hand, new jobs were created in a number of operations.

In order to keep layoffs to an absolute minimum and reduce related expenses, groupwide 349 employees were redeployed at other locations in the year of the labor office's inception. This coincided with a reduction in the level of external recruiting.

METRO AG and Divaco have pledged to preserve the METRO AG Group's welfare standards for the companies transferred to Divaco at year-end. Apart from existing obligations to pay under collective agreements and social plan provisions, this concerns in particular the commitment to seek in the case of layoffs alternative employment for those affected through the METRO AG Group's own labor office in line with local staff requirements.

Expansion of Kaufhof's health insurance fund

Following a detailed examination of the potential risks and opportunities of the Kaufhof health insurance fund ("Kaufhof-BKK"), which has been operating virtually exclusively for Kaufhof, Kaufhalle and Dinea to date, it was decided at the end of 1998 that the Fund should in future offer its services to employees of other Group companies as well. Linked to this is the expectation that the Kaufhof-BKK, which celebrated its 100th anniversary at the beginning of 1999, will seize such opportunity of organic growth so as to offer its members good benefits and comparatively low contribution rates over a long term.

In order to publicly mark its expansion to the whole of METRO AG, it was renamed METRO AG Kaufhof BKK.

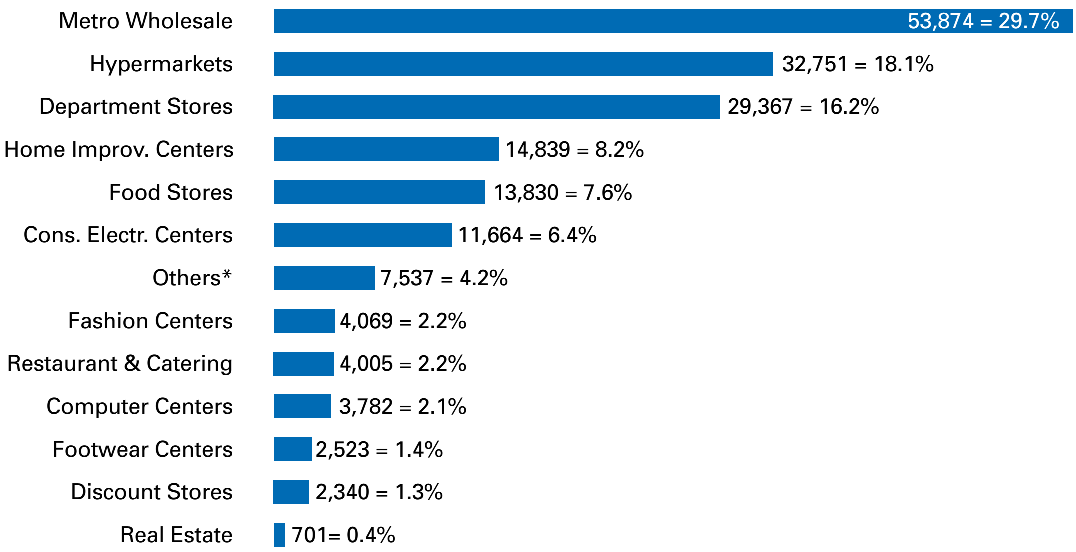
Pension plan

In 1998 two models of an employee-funded pension scheme for METRO AG's companies were developed and presented on a number of occasions. The aim is to give Group employees the opportunity to close their own retirement income shortfall through more efficient use of their contributions. The regulations differ in that pension entitlement can be acquired by either waiving part of a one-off payment or converting a portion of the regular pay.

All company-funded employee pension plans are closed to newly recruited staff.

METRO AG Group employees

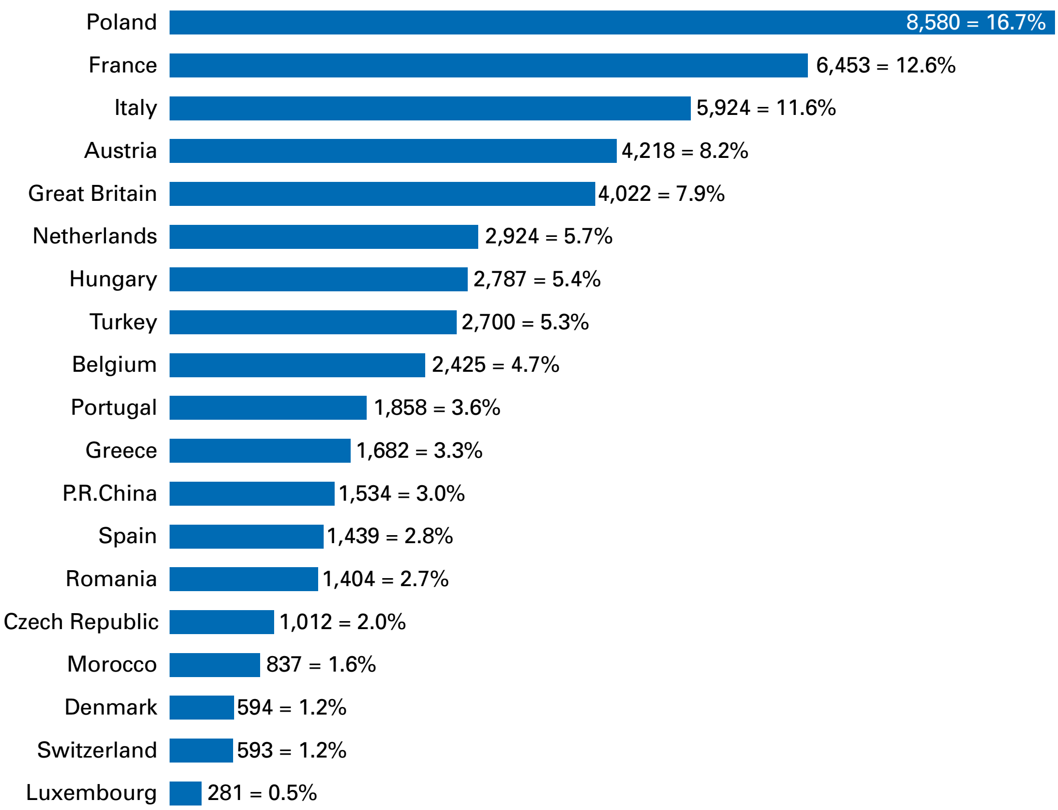
181,282 on an annual average (FTE)



* incl. METRO AG

METRO AG Group employees outside of Germany

51,267 on an annual average (FTE)



Human resources development

Metro management planning: the development of key skills

Given its ambitious internationalization objectives, METRO AG is experiencing a growing need for internationally minded executives who show potential and can be assigned flexibly. Identifying these individuals, fostering their talents and deploying them within the Group in the best possible way represent a continuing challenge to H.R. development.

H.R. development schemes have been pursued in various divisions for several years without, however, any universal groupwide assessment system. A uniform system of executive personnel development endorsed by the divisions was therefore drawn up and introduced in 1998.

Management action decisions at local level, international focus and relentless pressure caused by change are characteristic of the challenges facing today's executives. The job specifications now defined are taking up this trend and describe key skills which have been jointly elaborated by Group managers at home and abroad:

- Analytic and strategic
- Leadership
- Interpersonal
- Profit earning
- Market and customer focus
- Managing change

These form the basis of executive planning and of all groupwide selection and advancement procedures for executives, young talents and managers-to-be.

1998 Executives Conference: A contribution to the transfer of knowledge and skills

A total 550 executives from around the world converged on Cologne in June 1998 for their first conference. Five key topics of great relevance to the Group's future formed the platform for discussions and the pooling of experience.

The event combined communication, interaction and teamwork with team members rotating, and a detailed presentation of the results in the course of a plenary session. At a general info exchange and in small workshops the actual situation and the Group's future development were discussed in an animated atmosphere. A night event offered the participants from 19 countries the opportunity to get to know one another outside of working hours and informally.

Investing in the future by developing junior staff

- Vocational training in 1998

  Both politicians and industry alike continue in Germany in their endeavors to combat youth unemployment. With its nationwide training offensive, METRO AG stepped up its own efforts in this direction and again increased its number of apprenticeships in 1998, taking on 3,184, a rise of 8.3 percent from the previous year. In 1998 the METRO AG Group again exceeded the 4.4-percent growth in apprenticeships registered in Germany as a whole.

  METRO AG also helped shape the structure and content of new occupations in information technology by assigning an expert to identify the required IT skills. The Company provided 16 IT apprenticeships and together with the 15 vocational trainees recruited in 1997, this makes METRO AG the largest trainer in this occupation within the district of the Cologne Chamber of Commerce & Industry.

  Efforts to promote initial vocational training to develop its own junior employees and to influence public opinion through corporate advertising – especially by spotlighting retail trade occupations – are in line with Metro's belief that endeavors on behalf of junior staff constitute a rewarding investment in the Company's future. It is again Metro's goal in 1999 to interest qualified applicants from all school types in the wide range of occupations on offer at Metro's divisions.

- H.R. development at international level

In view of its accelerated expansion abroad, the Group requires qualified up-and-coming executives for its key markets, to begin with and especially in Poland and Turkey. In addition to the divisions' own efforts in this respect, the first groupwide team of 21 junior executives was formed in Poland with the aim of teaching young people trade skills for cross-border deployment by METRO AG.

From the outset, METRO AG has been directly involved, at local level along with the divisions, in developing targeted training of junior employees for the outlet chains using a common corporate philosophy. The program lasts twelve months with the focus on acquiring the skills required directly on the future job wherever possible. So as to give participants a fairly broad insight, the training also comprises in-company transfers as well as familiarization with the central departments.

Furthermore, the Group's expansion effort was supported by intercultural skills-upgrading programs, project deployment spanning several countries and rotation abroad.

- Continuing training and networks

During the period under review, 23 junior executives participated in a six-week intragroup rotation program. The aim was to gather experience in a different division, to transfer that experience to the actual job performed and to promote communication. In addition, participants had the opportunity to attend "networking seminars," English-language courses and specialized continuing training (working techniques and methods).

In 1998, data processing and H.R. development experts elaborated a special know-how platform on "new media in H.R. development." The aim of this working group comprising representatives from the divisions and service companies, is a concerted and coordinated approach to the planning, development and introduction of new media in apprenticeship and continuing training. The use and expansion of the intranet for teaching purposes play a key role. Experience gathered within the Group is also passed on through the use of data media such as the CD-ROM, for instance in teaching method skills, videos on the euro as well as print media. This know-how platform also facilitates the pooling of information and experience between project teams and personnel developers. A case in point: It provided effective support for the video training envisaged under the euro project.

As a result of the harmonization of regulations governing food processing and distribution in the EU states, the German foodstuffs hygiene ordinance ("LMHV") had to be amended. Inter alia, this amendment (in force since February 8, 1998) prescribes staff training and in-house controls in the food sector. In a joint action, broadcasts were produced for the Group's internal television system and video recordings made to train all the staff affected. In two divisions staff were trained via satellite broadcasts and in the others video recordings were used for instruction purposes.

METRO AG's promotional schemes

- Metro Academy

Twenty tier-2 managers attended a 7-module course held by the Metro Academy and intended as preparation for top-ranking positions within the divisions. The Metro Academy program provides skills upgrading through seminars and other events, individual support and personal coaching, as well as accompanying projects for tomorrow's top management tasks within the Group.

- Metro management sponsoring group (MMF)

  The MMF program is a one-year advancement scheme for middle management indicating potential to take on more demanding tasks. The program allows participants to tackle hands-on projects (in-house consultancy), at the same time leading to cross-divisional know-how transfer. A total of 25 persons from all the divisions successfully took part in the 1998 program.

  In its sponsoring and advancement programs in 1999, METRO AG will continue to interlink on-the-job and classroom skills-enhancing programs on the basis of systematically defined potential profiles.

Introduction of the euro

With the irrevocable setting of exchange rates to the euro, European Economic and Monetary Union was launched on January 1, 1999, with the following participating countries: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal, and Spain.

Monetary union gives rise to a capital market offering much broader investment and financing opportunities than national ones. Competition in the financial market, between financial centers as well as between banks and insurance companies is set to rise substantially, placing new demands on METRO AG with regard to its positioning in the capital market. METRO AG through its divisions is represented in virtually all the countries of the European Union and fully endorses the introduction of the euro as a common currency functioning in today's Euroland (eleven nations).

Until the introduction of euro coins and notes at January 1, 2002, EMU is in a transition phase, during which consumers will gradually warm to the new currency. Trading companies are playing an important part in this process. At METRO AG a euro task force has been working since the end of 1996 on all the measures relating to the euro's launch in the following areas:

- Stock redenomination (completed)
- Procurement/logistics
- Marketing and sales
- Accounting
- Payment transactions
- Financial management
- Controlling/reporting
- Contract drafting
- Human resources management

For METRO AG, of course, European Economic and Monetary Union means more than the switchover to a new currency with consequent changes to operations. Metro's long-term strategy is also affected, meaning expected changes in market conditions, shifts in competitive strength and new situations in procurement markets. The individual outlet chains will carry out the required strategic adjustments in their respective market segments.

The Central Association of German Retail Traders ("HDE") has made a "voluntary pledge by the German retail trade to consumers in connection with the introduction of the euro." This involves handling the euro's launch as transparently as possible for consumers, even without statutory pressure. Key elements include in some cases dual-price tags, comprehensive information for customers and employees, and the acceptance of noncash payments in euro starting from 1999.

METRO AG together with its divisions has – like other major retail companies in Germany – given this pledge. At the beginning of January 1999, various measures were taken to familiarize customers with the new currency, thus encouraging its acceptance:

- Information on euro issues through posters, brochures, advertising messages, and handouts
- Displaying conversion tables for the most common prices showing the official exchange rate; handing out euro calculators
- Advertising in the print media with prices of selected items given in DM and euro

- Sales receipt totals printed out in DM and €
- Acceptance of payments in € by euro check, ec, external and internal credit card
- Start of dual-price tags in DM and €
- Intensive employee training on the euro to ensure that customers are given the information they need

As regards the introduction of euro cash as of January 1, 2002, the Federal Ministry of Finance and the associations of the retail trade, the vending machine industry and the banking sector have agreed on a "modified cut-off date," under which the retail trade will continue to accept DM banknotes and coins as payment until the end of February 2002 and hand them over to the banks for disposal. The aim is to withdraw DM currency from circulation as quickly as possible.

When European Economic and Monetary Union was launched, the listings of stocks traded on German stock markets were converted into euro. Since the adoption of legislation permitting no-par shares of stocks, these can now also be traded in Germany. METRO AG – like most of the major listed companies – introduced no-par shares of stock in 1998. It quantifies the share held in the respective company, its launch making it possible to implement the currency conversion without having to increase or reduce capital.

New technologies

As customer expectations relating to reliable, up-to-date and comprehensible information and advice become ever more demanding, so the need grows to intensively and methodically explore the possibilities offered by new technologies, especially multimedia. Here the focus is on stationary information systems at the point of sale (POS), which provide the customer as well as Metro's own sales staff with all the relevant product information, on request and readily understandable. Intensive tests are being conducted especially at Kaufhof Warenhaus AG, where just at present 28 different multimedia systems are being deployed in the various in-store merchandise segments. The successes achieved to date give grounds for continuing these tests systematically.

Apart from the information systems at the POS, attention is concentrated on the increasingly influential Internet, on which companies belonging to the METRO AG Group distribute information about their activities. These Internet websites are in great public demand and have been favorably reviewed in the media. It is becoming apparent that they will form an integral part of the media mix aimed at appealing to customers at all levels.

METRO AG (www.metro.de)

On the Internet, METRO AG offers information about its press and corporate communication activities, investor relations, internationalization, personnel and trade association policy. Internet users called up METRO AG's pages almost six million times in 1998, with job vacancies, stock prices and Group news attracting special interest.

The system is also being used increasingly as an intranet for communications within the Group, including in all the countries where Metro operates. At present, more than 20,000 employees are connected to the network.

Kaufhof Warenhaus AG (www.kaufhof.de)

Owing to the special expectations associated with the experience-oriented Galeria Kaufhof format, the multimedia systems used in its department stores have already become very important to sales. By the end of 1998 some 700 multimedia systems had been installed in the Galeria stores, their deployment being expanded in selected areas. Galeria Kaufhof is regarded as the market leader in terms of the diversity, quality and comprehensive use of stationary multimedia systems. In 1998 Kaufhof Warenhaus AG received two awards for its forward-pointing activities in this field, viz. the German Multimedia Gold Award for its "Styling Experience Mirror" voted the "best multimedia production in the German-speaking countries," as well as the 1998 German Retail Trade Prize at the 15th Cologne Trade Forum.

Apart from focusing on the use of stationary multimedia systems in the Galeria stores, fashion CD-ROMs and an Internet website are being tested. The Galeria online magazine contains alongside general sections, separate Internet presentations of 50 stores: a first in Germany.

Media-Saturn-Holding GmbH (www.media-markt.com) (www.saturn.de)

Media-Markt and Saturn use the Internet to provide information on branded products, present their specialty stores and range of services, and carry news. On feedback pages customers can express their views – both complimentary and critical – emailed directly to the relevant store manager. These messages are then forwarded to the recipient via the in-house intranet. Media Markt's pages are produced in German, French, Italian, Polish, and Hungarian, to be extended to include Spanish and Dutch from 1999.

Metro Grosshandelsgesellschaft mbH (www.metro-cc.com)

As part of a multistage strategy to exploit the Internet's potential, an initial step has been taken with a homepage presenting the company and its product mix. A standardized international website is already in place. The individual Metro C&C countries boast their own national pages tailored to Metro Grosshandelsgesellschaft's homepage design.

Metro Immobilien Holding GmbH (www.mih.de)

MIH's range of services includes the development, construction, marketing and management of shopping centers and retail properties. The real-estate management company operates throughout Europe, with its main activities currently in Germany, Poland, and Turkey. Forty-five locations from these three countries are presented on the Internet in detail with facts about the location, aerial photos, site plans and leasing options.

Praktiker Bau- und Heimwerkermärkte AG (www.praktiker.de) (www.wirichs.de)

These websites offer information to stockholders, customers, the press and job seekers while allowing them to communicate with the company. Customers can call up the services and special features of the Praktiker range, including the addresses of home improvement centers, details of how to get there, and opening hours. Under the Offer of the Week, attractive items can be ordered either for cash on delivery to the customer's home or for collection from a home improvement center of the customer's choice.

Ensuring Y2K compliance

For METRO AG and its subsidiaries timely efforts to tackle problems relating to the millennium bug enjoy top priority. To this end a comprehensive Y2K project was initiated back in 1996.

Importance for METRO AG

Conversion problems may occur in all areas, but especially with information technology. The Metro Group uses several thousand programs in various programming languages on a wide variety of operating systems and a number of hardware platforms. All systems have to be checked for Y2K compliance, adapted, tested and put back into use.

The international use of applications and high level of networking among companies call for a coordinated procedure. In addition, the interlinked conversion problems relating to the onset of the year 2000 and European Monetary Union have to be tackled in line with the development of new systems and updating of existing ones.

Other areas of application, such as theft-proofing techniques or time-controlled cooling systems, have to be included, too. Malfunctions among important partners – suppliers and forwarding agents – can adversely affect business operations leading to delivery problems.

Y2K project at METRO AG

The strategic project to resolve Y2K-related problems was tackled as follows:

- METRO AG together with all its companies conducted an in-depth examination of business structures and information systems for their Y2K compliance.
- Based on a survey and study of all computer-controlled systems in the companies, Y2K noncompliant components were identified and then plans to convert the systems were drawn up and implemented.
- Project organization, responsibilities, courses of action and procedures up to March 2000 were laid down in the form of a Y2K schedule.
- Contingency plans are developed for external January 2000 breakdowns beyond METRO AG's control.

The specific Y2K conversions are concentrated in the following areas:

- Replacement of outdated and noncompliant hardware
- Introduction of new market-leading and future-oriented standard software solutions, new in-house developments (especially inventory control systems) and reengineering of noncompliant software
- Testing of systems and their interaction with regard to Y2K compliance
- Adjustment of procurement guidelines for hardware and software
- Testing of electronic data interchange with selected partners

Apart from minimizing risks, the opportunity to improve systems is an important aspect – irrespective of, yet prompted by, the millennium bug.

Milestone report

This was the position at the end of 1998:

- All Y2K projects are progressing on schedule and have achieved important milestones; most have already been completed.
- METRO AG and its subsidiaries will carry on with the measures methodically and complete them with a safety margin of several months before January 1, 2000.
- The focus during the first six months of 1999 is on dress-rehearsing or live-testing the converted systems and predefined modifications to locally installed facilities.
- Regular reports on Y2K project progress are given to various committees and the need to make adjustments is analyzed.

METRO AG is well poised for January 1, 2000. The challenge is to ensure a smooth transition to the new year despite the project's intensity and the complexity of the issues involved, and to carry out the required conversions without hampering day-to-day business relations.

Environmental protection

With the expansion of the environmental management system throughout the divisions, METRO AG is not only meeting statutory requirements but also practicing environmental protection through its own pledges. In constant contact with METRO AG, the locally operating outlet chains ensure that decisions of environmental relevance are implemented and followed up on.

A first environmental report was distributed to interested customers, social groups, executive employees and suppliers in the summer of 1998. It is also available to the general public on the Internet (in German language) and to our own workforce through Metro's intranet. The response is encouraging, with over 80 percent of the eco-impact assessments producing favorable results. Internally, too, the environmental report has motivated Metro's staff to continue the drive to implement the measures recognized as necessary.

METRO AG's environmental handbook, a practical reference manual, was produced in 1998 in consultation with the divisions. METRO AG is responsible for its further development, layout and constant updating.

Together with Metro's suppliers, environmentally sustainable products, processes and services are being gradually developed. A handbook with packaging guidelines was completed with the aim of reducing, harmonizing and recycling packaging in order to save resources, offer appealing goods presentation nonetheless and, ultimately, save avoidable costs. One successful example of the recycling policy practiced by the Metro Group is the program for recycling the 36 odd million coat hangers circulated annually. On average 60 percent are reused. The others are recycled above all by making new coat hangers and other recycled plastic products such as see-through storage boxes, dowels, flowerpots, etc. METRO AG is thus playing a pioneering role in the industry. Improvements in monomaterials sorting mean that about 90 percent of all waste is now recycled. The speedy conversion to CD-ROM files for information provision and the introduction of a largely paperless exchange of information within the Group not only save tons of paper but also cut costs.

Efforts are currently under way to introduce an environmental information system at Group level. This includes improved data collection and the development of codes for products and ranges, logistics and floor space management as part of eco-auditing. The aim is to ensure environmental optimization by drawing comparisons between the individual divisions and to pass on the relevant experience.

METRO AG – as the METRO AG Group's holding company – is discharging the trade's responsibility as interface between producers and consumers by playing a lead role in the dialogue being conducted with environmentalists and scientific organizations on the reconciliation of ecological and economic concerns.

Investor Relations

Forthright, timely and regular financial information is an essential ingredient to raising METRO AG's shareholder value.

In the past fiscal year, METRO AG staged presentations at all major financial centers in Europe and the United States. Besides the meeting with financial analysts after the annual accounts conference, a roadshow was organized in the spring of 1998, followed by another in June when the convertible bond issue was placed. On November 12, METRO AG introduced in a telephone conference its extensive action program for concentrating on four redefined lines of business. In the run-up to the capital increase for funding the full takeover of the C&C business from Metro Holding AG/Ligapart AG, management informed the capital market on the details at an analysts' meeting and subsequent roadshow in late November 1998.

More than 130 one-on-one discussions with financial analysts and investors rounded off the year's Investor Relations activities. In the course of 1998, personal contact was maintained with altogether 670 representatives of the financial community were attended to at events, discussions, and visits.

The advent of the euro will internationalize the capital markets even further. METRO AG will pay due regard to this development and be present in 1999 at all major financial centers to intensify communication with investors.

Additional information

Metro stock

Reuters codes:	
Common stock	MEOG.F
Preferred stock	MEOG_p.F
Bloomberg codes:	
Common stock	MEO GR
Preferred stock	MEO3 GR
ISIN codes:	
Common stock	DE 000 725 750 3
Preferred stock	DE 000 725 753 7
Trading in Metro stock:	Düsseldorf*, Frankfurt/Main*, Xetra*, Geneva, Vienna (*official listing)

Metro convertible bonds

Reuters code	DE248 600=F
Bloomberg code	ID248600
ISIN	DE 000 248 600 8
Stock exchange	Frankfurt/Main

Investor Relations diary

Annual accounts conference/analysts' meeting 1999	May 26, 1999
Annual stockholders' meeting 1999	July 6, 1999
Interim report 1999	late August 1999
Sales report 3rd quarter 1999	late October 1999
Quiet period	December 1999 to January 2000
Provisional sales report for 1999	early February 2000
Sales report 1st quarter 2000	late April 2000

Annual accounts 1998 of the METRO AG Group

Notes to the METRO AG Group's financial statements

(1) Legal bases

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 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 513 (down from 577) German and 296 (up from 175) foreign companies in which METRO AG directly or indirectly holds the majority of voting rights.

Pursuant to Art. 271(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 lines under "nonconsolidated Group companies."

Under the terms of Art. 296 HGB, 23 subsidiaries of minor significance (down from 31) are not consolidated.

In comparison with December 31, 1997, the group of consolidated companies changed as follows:

Number at January 1, 1998	**753**
Changes in fiscal 1998:	
companies merged into other consolidated subsidiaries	**– 41**
shares divested	**– 239**
companies newly formed	**+ 89**
shares acquired	**+ 253**
other	**– 5**
Number at December 31, 1998	**810**

The METRO AG Group's number of consolidated companies was strongly affected by acquisitions to strengthen the divisions, as well as by extensive divestments.

The biggest, 2-stage, acquisition involved the European cash & carry operations (206 companies) of SHV Makro NV and Metro Holding AG/Ligapart AG as of January 1, 1998.

In addition and also as of January 1, 1998, the 16 Allkauf Group companies were acquired, and as of March 1, 1998, the enterprises of the Kriegbaum Group.

Under the METRO AG Group's structural realignment program, 175 companies (mostly as of December 31, 1998) were transferred to the Frankfurt/Main-based Divaco Group ("Divaco") at the book values to the Group. Divaco will realize the companies contributed which include those of Discount Stores, Computer Centers, Fashion Centers, Footwear Centers, as well as Kaufhof and Kaufhalle outlets and many real-estate enterprises related to these operations. Also contributed to the Divaco Group were all such Allkauf and Kriegbaum companies as were not core businesses, along with the marginal operations acquired together with the aforesaid C&C companies (84 companies).

The investments in one (down from 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, 10 (down from 21) associated affiliates of minor significance are stated at book value. The number of associated affiliates stated at equity fell sharply after the spin-off to Divaco.

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 one single step, the cost of subsidiaries is directly offset against the Group's share in the subsidiaries' equity as of the date of first-time consolidation. In accordance with legislative provisions, any resultant net equity under cost is applied to the reserves hidden in the consolidated subsidiaries' assets after allocating any hidden burdens. The residual net equity under cost, if any of value, is disclosed as goodwill.

The investee company included at equity is capitalized according to the book value method at its prorated equity. Any net equity under cost from the inclusion at equity of the associated affiliate shown as of December 31, 1998, is carried as goodwill.

The minority shares of outside stockholders in the capital of consolidated subsidiaries are disclosed separately pursuant to Art. 307(1) HGB.

Under the terms of Art. 308 par. 3(1) HGB, the untaxed/special reserves set aside in the individual financial statements are principally carried forward 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, intragroup 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 that reverse the income tax position substantially after 3 years, deferred taxes are provided for income tax effects of 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 2 or 3 years.

(4) Currency translation

All balance sheet captions (including net earnings) denominated in non-DM currencies are translated at the mean current rate. To translate expenses and income, the annual average rate is used. Currency translation differences are thus produced in the income statement which, contrary to previous year's practice, are posted to the other reserves retained from earnings and hence not recognized in income. This accounting procedure reduced the Group's net income by DM 12 million. Consolidation-related differences from currency translation are also offset against the reserves retained from earnings and not recognized in net income.

The temporal method is used to translate currencies for companies based in high-inflation countries, meaning that the assets and liabilities of such subsidiaries are reflected in the Group's functional currency (DM). Consequently, monetary items are translated at the current, and nonmonetary ones at the historical, rate. This method implies that depreciation and equivalent charges as well as any gain or loss from real property are determined on an historical-rate basis.

(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 personal property (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 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. Fixed assets are written down whenever a long-term impairment of their values is anticipated. 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/ADR) 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

Contrary to the prior year's accounting practice, depreciation and equivalent charges in the fixed-asset analysis are translated at the average rate and, therefore, they fully agree with the corresponding income statement lines.

Where the equity interest held is of minor significance, investments in associated affiliates and shares in nonconsolidated Group companies are valued at cost. Any investment other than insignificant in associated affiliates is 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 at equity 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 and shown at their present values.

Inventories are priced at the lower of cost or market.

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

Risks from changing fads, vogues 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"). The additional provision for pension accruals which was required by the application of the new mortality tables is shown as extraordinary expense. Same-amount accruals provide for the deficient cover resulting from nonconsolidated Supplementary Pension Funds. Other noncurrent 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 or itemwise and predicated on the German imparity principle (which requires unrealized losses to be accrued and prohibits recognition of unrealized gains). 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 currency 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 the consolidated balance sheet

The consolidated balance sheet is materially biased by both the M&A and divestment transactions in 1998 and the related structural realignment of the METRO AG Group.

By transferring a plurality of companies to Divaco, the Discount Stores, Computer Centers, Fashion Centers and Footwear Centers divisions have been given up.

Since most of the spin-off or demerger transactions took effect at December 31, 1998, the income statements of the companies affected were still included in consolidation, while the asset and liabilities were no longer fully consolidated. Altogether, the deconsolidation of companies transferred to Divaco did not affect the Group's net income.

(6) Fixed assets

DM million	Balance at 1-1-1998	Currency adjustment	Change in group of of consol. companies
Intangible assets			
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	357.998	(0.585)	221.874 (66.826)
Goodwill	3,261.032	–	– –
Prepayments on intangibles	14.576	–	6.166 (0.820)
	3,633.606	(0.585)	228.040 (67.646)
Tangible assets			
Land, equivalent titles, and buildings (including buildings on leased land and leasehold improvements)	10,599.695	(25.439)	4,461.519 (3,028.007)
Production plant and machinery	124.787	(0.756)	383.775 (36.156)
Other plant, factory and office equipment	3,924.361	(8.624)	1,536.600 (533.005)
Prepayments on tangibles, construction in progress	546.288	(4.445)	94.946 (165.144)
	15,195.131	(39.264)	6,476.840 (3,762.312)
Financial assets			
Shares in nonconsolidated Group companies	55.479	–	4.934 (55.515)
Loans to nonconsolidated Group companies	87.718	(0.929)	– (29.374)
Other investments	46.126	–	240.596 (11.912)
Investments in associated affiliates	86.876	–	– (8.915)
Loans under investor/investee relations	25.966	–	31.169 (17.317)
Other long-term securities	4.307	–	7.640 (1.150)
Other long-term loans	235.157	–	60.300 (57.220)
	541.629	(0.929)	344.639 (181.403)
Total	19,370.366	(40.778)	7,049.519 (4,011.361)

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

[2] Including net income prorated at DM 10.597 million (= addition), net loss prorated at DM 0.600 million and profits distributed at DM 15.015 million (= disposals)

At cost					
Additions	Book transfers	Disposals	Charges [1] accumulated	**Balance at 12-31-1998**	Charged [1] in 1998
66.363	(9.919)	91.378	317.707	**159.820**	66.946
6,297.459	26.809	489.112	1,205.540	**7,890.648**	636.785
10.385	(15.867)	2.590	–	**11.850**	–
6,374.207	1.023	583.080	1,523.247	**8,062.318**	703.731
904.849	256.616	333.080	3,475.356	**9,360.797**	638.771
82.642	(9.662)	46.779	321.232	**176.619**	56.676
1,110.429	47.675	830.878	3,416.594	**1,829.964**	972.229
488.764	(297.022)	236.084	0.536	**426.767**	0.605
2,586.684	(2.393)	1,446.821	7,213.718	**11,794.147**	1,668.281
69.685	(0.010)	0.100	–	**74.473**	–
–	–	6.048	51.367	**–**	–
556.015	4.009	213.874	33.735	**587.225**	4.765
11.409 [2]	–	78.407 [2]	0.050	**10.913**	–
11.244	(13.242)	–	–	**37.820**	–
1.865	–	0.922	0.001	**11.739**	–
17.289	10.613	152.678	3.097	**110.364**	0.878
667.507 [2]	1.370	452.029 [2]	88.250	**832.534**	5.643
9,628.398	–	2,481.930	8,825.215	**20,688.999**	2,377.655

The DM 7,049.519 million increase in the column headed "change in group of consolidated companies" largely mirrors the addition of the European C&C operations of SHV Makro NV and Metro Holding AG/ Ligapart AG (at DM 6,196.810 million), the Allkauf Group (at DM 734.615 million), and the Kriegbaum Group (at DM 30.868 million). The total decrease shown in the same column at DM 4,011.361 million substantially reflects the companies transferred to the Divaco Group, as well as Polish real-estate enterprises.

The 1998 additions due to capital expenditures (excluding goodwill and financial assets) are allocable to the divisions as follows:

DM million	**12-31-1998**	12-31-1997
Metro Wholesale	**688.094**	188.043
Hypermarkets	**318.367**	236.496
Food Stores	**81.884**	83.648
Consumer Electronics Centers	**174.364**	163.654
Home Improvement Centers	**78.121**	79.525
Department Stores	**348.655**	394.127
Real Estate	**623.729**	536.683
Restaurant & Catering	**13.359**	15.345
Discount Stores	**32.293**	40.242
Computer Centers	**53.314**	45.867
Fashion Centers	**24.717**	22.485
Footwear Centers	**39.485**	18.528
Others	**187.050**	66.220
	2,663.432	1,890.863

The higher capital expenditures of Metro Wholesale resulted mainly (i.e. at DM 487.911 million) from the European C&C operations acquired from SHV Makro NV and Metro Holding AG/Ligapart AG.

The increase at Hypermarkets includes the DM 54.053 million additions at the Allkauf and Kriegbaum Groups.

The capital expenditures incurred by Real Estate chiefly (i.e. at DM 99.659 million) rose as real-estate enterprises were acquired along with the takeover of the European C&C operations of SHV Makro NV and Metro Holding AG/Ligapart AG.

The DM 108.494 million growth shown for the Others division is also connected with the acquisition of the European C&C operations and trade-related service enterprises from SHV Makro NV and Metro Holding AG/Ligapart AG.

(7) Intangible assets

Breakdown as of December 31, 1998, of the total goodwill of DM 7,890.648 million:

DM 7,780.610 million net equity under cost from capital consolidation
DM 2.268 million difference from the inclusion at equity
DM 107.770 million goodwill carried over from individual financial statements

The higher book values of goodwill basically resulted from the addition of the C&C operations of SHV Makro NV and Metro Holding AG/Ligapart AG (DM 2,842.680 million), the Allkauf Group (DM 2,229.248 million), and the Kriegbaum Group (DM 231.874 million).

In the two capital increases against contributions in kind (transfer of shares in the European operations of SHV Makro NV and Metro Holding AG/Ligapart AG), the option of valuing the cost of such shares at the issued Metro stock's par value was exercised, which resulted in METRO AG's equity being DM 4,157 million lower and in accordingly lower goodwill in the consolidated accounts.

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

The change in the group of consolidated companies caused substantial variances from the previous year. Book values rose chiefly upon addition of the European C&C operations of SHV Makro NV and Metro Holding AG/Ligapart AG, the Allkauf Group, and the Kriegbaum Group. When initially consolidating these companies, conservatively valued hidden reserves were disclosed.

Most of the disposals resulted from the transfer to Divaco of operations other than redefined core activities.

In fiscal 1998, it was decided to transfer the financing volume for the retail operations' real estate in Poland to outside investors who are to participate in all future opportunities and risks to a material extent. The related share transfer meant that the Polish real-estate enterprises were deconsolidated. The real-property expenditures incurred in the period under review were reclassified as current assets where sold by year-end.

Depreciation of tangible assets includes write-down at DM 40.089 million (up from DM 14.239 million) and ACR charges of DM 7.008 million (up from DM 0.399 million) under the terms of Art. 6b EStG.

(9) Financial assets

The additions to investments in associated affiliates include DM 10.597 million of prorated net incomes. The disposals show dividends distributed (at DM 15.015 million) and prorated net losses (at DM 0.600 million).

The disposals of investments in associated affiliates mainly refer to Roller GmbH & Co KG.

The additions to investments of a total DM 342.790 million reflect Divaco AG & Co KG and Divafon Beteiligungsgesellschaft mbH. Along with the acquisition of the European C&C operations from SHV Makro NV and Metro Holding AG/Ligapart AG, investments totaling DM 84.026 million were taken over. The acquisition of the Allkauf Group raised the book value of investments by DM 107.241 million, that of the Kriegbaum Group, by DM 7.639 million.

DM 115.029 million of the disposals of other long-term loans refer to loans assigned to Divaco and maturing June 30, 2002.

(10) Inventories

DM million	**12-31-1998**	12-31-1997
Raw materials and supplies	**111.043**	175.141
Work in process	**–**	6.310
Finished products, merchandise	**8,710.529**	6,858.807
Prepayments made	**16.862**	63.200
	8,838.434	7,103.458

Inventories showed an acquisitions-related rise of DM 2,828.772 million versus 1997 (Metro Wholesale accounting for DM 1,935.991 million thereof, Allkauf for DM 493.100 million, Kriegbaum for DM 143.847 million, and Others for DM 255.834 million), while they decreased due to the divestments to Divaco.

Breakdown of inventories by division as of December 31, 1998:

DM million	**12-31-1998**	12-31-1997
Metro Wholesale	**2,728.616**	804.678
Hypermarkets	**1,631.027**	974.638
Food Stores	**646.720**	598.133
Consumer Electronics Centers	**1,074.868**	923.805
Home Improvement Centers	**1,074.753**	1,012.582
Department Stores	**1,366.244**	1,727.104
Restaurant & Catering	**7.212**	8.118
Discount Stores	**–**	93.135
Computer Centers	**–**	463.470
Fashion Centers	**–**	155.878
Footwear Centers	**–**	154.424
Others	**308.994**	187.493
	8,838.434	7,103.458

(11) Receivables and sundry assets

DM million	12-31-1998	12-31-1997
Trade receivables	603.196	805.189
thereof with a remaining term above 1 year	[3.060]	[1.644]
Due from nonconsolidated Group companies	369.667	79.937
thereof with a remaining term above 1 year	[–]	[0.560]
thereof trade receivables	[62.095]	[46.861]
Receivable under investor/investee relations	59.699	44.260
thereof with a remaining term above 1 year	[2.783]	[–]
thereof trade receivables	[–]	[0.006]
Sundry assets	2,989.317	2,511.361
thereof with a remaining term above 1 year	[77.457]	[141.944]
	4,021.879	3,440.747

The accounts due from nonconsolidated Group companies rose primarily as the Makro/Metro Holding countries were newly consolidated.

Sundry assets are mainly short-term receivables typically disclosed at balance sheet date (creditors with debit balances, rebates and similar credits receivable from merchandise management, purchase price claims from share transfer and property alienation, and tax reclaims). The increase versus the year before is substantially attributable to the net balance of acquisitions (Makro/Metro DM 853.658 million, Allkauf DM 198.006 million, Kriegbaum DM 61.620 million) and divestments (DM 437.683 million). The opposite effect had the settlement of purchase price claims in connection with the transfer of the stake in Hapag-Lloyd AG.

(12) Short-term securities and note loans

DM million	12-31-1998	12-31-1997
Shares in nonconsolidated Group companies	3.625	1.359
Other short-term securities	54.253	42.903
Note loans	42.594	–
	100.472	44.262

(13) Cash on hand and in bank

DM million	12-31-1998	12-31-1997
Checks	73.998	9.987
Cash on hand	157.521	117.498
Cash in bank	3,003.542	1,381.251
	3,235.061	1,508.736

The higher total of checks and other cash is largely due to liquid funds which were received shortly before annual closing as payment for the transfer of companies to the Divaco Group but could not fully be applied to repay liabilities.

(14) Net deferred tax assets

These represent the net balance of DM 48.243 million from consolidation transactions.

(15) Prepaid expenses and deferred charges

Besides loan discount of DM 16.402 million (up from DM 1.208 million), which is amortized by systematic charges over the underlying liabilities' term, this caption reflects a plethora of accounting technicalities.

(16) Equity

The METRO AG Group's equity presented the following changes since January 1, 1998:

DM million	METRO AG's capital stock	METRO AG's reserve from capital surplus	Reserves retained from earnings	Group's unappropriated retained earnings	Third-party equity shares	Total
Balance at Jan. 1, 1998	1,217.952	2,161.063	280.949	489.711	812.284	4,961.959
Noncash capital raise	262.208					262.208
Cash capital raise	133.089	2,183.267				2,316.356
Option right exercise	20.688	183.119				203.807
Grant of conversion rights		14.400				14.400
Net income			(80.876)	654.623	161.500	735.247
Currency translation/other nonoperating items			16.122			16.122
Net equity over cost of shares acquired					124.561	124.561
Distributed net earnings				(489.711)		(489.711)
Profit carryover distributed to third parties					(33.074)	(33.074)
1998 profit distributed to third parties					(28.875)	(28.875)
Balance at Dec. 31, 1998	**1,633.937**	**4,541.849**	**216.195**	**654.623**	**1,036.396**	**8,083.000**

(17) Capital stock

The July 7, 1998 stockholders' meeting resolved to convert the capital stock into no-par shares and authorized the Supervisory Board to redenominate DM amounts in the memorandum & articles of association into euros. The Supervisory Board meeting of February 25, 1999, decided the switch-over to the euro. Consequently, the capital stock broke down as follows at December 31, 1998:

Class	Number	Par value € mill.	Par value DM mill.
Common stock	303,786,183	776.617	1,518.931
Preferred stock	23,001,312	58.802	115.006
Total stock	326,787,495	835.419	1,633.937

The following details describe how the capital stock changed in 1998:

As of December 31, 1997, a conditional capital I of DM 20.700 million existed to issue METRO AG common stock to holders of the 2% DM 1986/1998 warrant bond issue floated by Metro Finance BV upon exercise of their option rights. In fiscal 1998, by September 1, the option issue's maturity date, a total of 4,137,600 new shares of common stock were issued thereunder, their prorated total of such common stock amounting to DM 20.688 million. The remaining conditional capital I of DM 0.012 million has lapsed.

In addition, a conditional capital II of DM 100.000 million exists in connection with the Executive Board's authority to issue warrant and/or convertible bonds for an aggregate maximum par value of DM 2,000.000 million 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 million.

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 bearer bonds guaranteed by METRO AG and totaling DM 1,500.000 million were floated on July 9, 1998, entitling their holders to convert the bonds into bearer shares of METRO AG preferred stock. These 15-year DM convertible bonds will be redeemed at the accrued principal amount on 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.

Furthermore, the Executive Board is authorized, after first obtaining the Supervisory Board's approval, to raise the capital stock by up to DM 250.000 million 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). As resolved on November 18, 1998, the Executive Board exercised part of this authority, with the consent of even date by the Presidential Committee duly authorized by the Supervisory Board, and raised the capital stock by DM 133.089 million. 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. The authorized capital I existing thereafter amounted to DM 116.911 million.

Moreover, the Executive Board has the authority, with the Supervisory Board's prior approval, 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 million against noncash contributions (authorized capital II). 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 million 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. Based on the underlying audit report of January 2, 1998, issued by Wollert-Elmendorff Deutsche Industrie-Treuhand GmbH, this noncash contribution and the entry of the implemented capital increase in the Commercial Register were made on January 6, 1998.

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 million 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) 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 87.792 million.

(18) Reserve from capital surplus

This reserve includes the stock premiums earned in the scope of noncash capital raises, mergers, as well as the exercise of option rights.

In fiscal 1998, the reserve from capital surplus rose by DM 183.119 million upon exercise of option rights. The cash capital increase at November 20, 1998, increased this reserve by DM 2,183.267 million, the fee for conversion rights granted under the 1998/2013 convertible bond issue raising it by another DM 14.400 million.

(19) Third-party equity shares

The shares of outside stockholders in capital and reserves amount to DM 903.771 million (up from DM 756.269 million). After distributions already made, the Group's equity includes DM 132.625 million as third-party P&L share (up from DM 56.015 million).

(20) Accruals

DM million	12-31-1998	12-31-1997
Pension accruals	**1,563.850**	1,431.477
Tax accruals	**512.110**	376.548
Other accruals	**2,845.571**	2,154.684
	4,921.531	3,962.709

Pension accruals provide for company-specific direct pension commitments, as well as for obligations under various pension schemes handled by independent pension funds.

Pension accruals are based on actuarial expert opinions. Application of the new 1998 mortality tables caused this caption to rise by DM 143.613 million.

The tax accruals mainly provide for corporation income tax and 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:

DM million	12-31-1998	12-31-1997
Personnel-related commitments	**600.731**	440.537
Commodity trade commitments	**435.296**	208.567
Closedown and restructuring	**424.408**	159.038
Invoices outstanding for capital expenditures and costs	**232.371**	207.447
Rental obligations	**217.686**	466.851
Litigation fees and risks	**79.072**	46.430
Maintenance and building reinstatement obligations	**47.713**	38.925
Rehabilitation/ decontamination	**39.858**	–
Impending loss from financial transactions	**37.850**	11.315
Guaranty obligations	**37.744**	52.968
Deferred maintenance	**36.827**	47.243
Audit and publication of annual accounts	**33.633**	33.828
Impending losses on investees	**32.404**	112.355
Suretyship, guaranty and warranty risks	**25.233**	28.381
Sundry	**564.745**	300.799
	2,845.571	2,154.684

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

Personnel-related obligations result from an increase in profit shares and cash incentives, as well as accrued vacation.

The higher accruals for commodity trade commitments basically refer to goods and merchandise not yet invoiced and related to the C&C operations acquired from SHV Makro NV and Metro Holding AG/Ligapart AG.

The accruals for closedown and restructuring augmented primarily since the Allkauf and Kriegbaum Group companies had been added.

Most of the decrease in accruals for rental obligations is attributable to companies having been transferred to the Divaco Group.

The accruals for impending losses on investees substantially reflect various risks inherent in non-German shareholdings. These accruals plunged versus 1997 as the losses anticipated from Mayer Schuh GmbH needed no longer to be provided for after this investee's inclusion.

(21) Liabilities

DM million	12-31-1998	12-31-1997
Bonds	**2,755.994**	1,856.582
Due to banks [1]	**5,712.222**	2,597.310
Prepayments received on orders	**41.079**	224.825
Trade payables	**12,387.652**	7,309.064
Notes payable	**568.460**	2,363.230
Due to nonconsolidated Group companies [2]	**171.485**	403.552
Payable under investor/ investee relations [3]	**426.855**	3.742
Sundry liabilities	**1,685.047**	1,229.701
thereof for taxes	**[676.507]**	[455.978]
thereof for social security	**[264.053]**	[227.314]
	23,748.794	15,988.006

[1] thereof to finance land: DM 1,332.143 million (down from DM 2,095.685 million)
[2] thereof trade payables: DM 31.271 million (up from DM 22.495 million)
[3] thereof trade payables: DM 0.000 million (down from DM 0.255 million)

The bonds have been floated by Metro Finance B.V. and Metro International Finance BV and guaranteed by METRO AG. The increase in bonds due to the July 1998 issuance of DM 1.5 billion in convertible bonds was partly offset by the redemption of bonds matured.

The higher total due to banks is substantially attributable to the 1998 acquisitions. A clearly smaller, offsetting, decrease was caused by the deconsolidation of the Polish real-estate partnerships and the Hawesko Group.

Acquisitions meant that trade payables fell DM 5,065.347 million (DM 4,642.573 million at Metro Wholesale, DM 422.774 million at Allkauf) versus 1997, the divestments to Divaco reducing the total by DM 390.023 million.

After the launch of the euro and the ensuing lapse of the Bundesbank and its discount rates, notes/bills of exchange lost their attractiveness and are, therefore, no longer used as a pure finance tool within the METRO AG Group. Notes payable dwindled accordingly.

The accounts payable under investor/investee relations include one of DM 373 million to Divaco, which has meantime been settled.

The sundry liabilities chiefly cover personnel-related obligations, taxes payable, and loans of benevolent funds whose amount substantially climbed after the European C&C operations of SHV Makro NV and Metro Holding AG/Ligapart AG (DM 585.679 million), the Allkauf Group (DM 55.808 million), and the Kriegbaum Group (DM 42.963 million) had been added. Divestees transferred to the Divaco Group diminished sundry liabilities by DM 141.926 million.

The analysis below ages the liabilities as of December 31, 1998:

	12-31-1998	Remaining term		Thereof collateralized by	
DM million	Total	up to 1 year	above 5 years	land charges	other liens and interests
Bonds	**2,755.994**	502.908	2,011.258		
Due to banks	**5,712.222**	1,766.271	3,163.723	1,332.143	94.826
Prepayments received on orders	**41.079**	41.079			
Trade payables	**12,387.652**	12,387.652			
Notes payable	**568.460**	568.460			
Due to nonconsolidated Group companies	**171.485**	171.485			
Payable under investor/investee relations	**426.855**	426.855			
Sundry liabilities	**1,685.047**	1,641.631	26.934	4.794	
	23,748.794	17,506.341	5,201.915	1,336.937	94.826

(22) Deferred income

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

(23) Contingent liabilities

DM million	12-31-1998	12-31-1997
From suretyships and guaranties	**1,308.275**	739.563
From guaranty/ warranty contracts	**4,872.652**	3,799.508
From collateralization of third-party debts	**7.338**	0.400
	6,188.265	4,539.471

DM 2,850.000 million of the gross increase in contingent liabilities from guaranty/warranty contracts is allocable to the guaranty furnished by METRO AG for Divaco loans to finance the acquisition of METRO AG Group companies and the related takeover of such companies' loans.

(24) Other financial obligations

DM million	12-31-1998	12-31-1997
Obligations from rental and leasing contracts (per annum)	**2,202.669**	2,430.228
Commitments from share tender rights	**767.031**	2,909.355
thereof to nonconsolidated Group companies	**[–]**	[1,986.452]
Purchasing commitments	**67.447**	169.789
Liability as general partner	**44.960**	4.463
Lending commitments	**100.000**	140.000
Obligations from financial derivatives	**177.447**	7.325
Sundry	**61.420**	183.746
thereof to nonconsolidated Group companies	**[–]**	[4.830]
	3,420.974	5,844.906

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

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

(25) 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	1,956.000	(2.205)
	2,125.000	(2.104)
OTC products:		
Interest rate swaps	4,098.595	(143.217)
Caps/collars/floors	400.000	0.001
	4,498.595	(143.216)
Currency transactions		
OTC products:		
Futures	627.642	7.827
Interest rate/currency swaps	117.402	(15.468)
	745.044	(7.641)
Total	7,368.639	(152.961)

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 20). 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 5 for details of the accounting and valuation principles applied to financial derivatives.

Currency futures/forwards mature throughout within one year.

Comments on the consolidated income statement

(26) Sales

The 1998 net sales break down as follows:

DM million	1998	1997
Metro Wholesale [1]	**36,150.171**	10,179.190
Hypermarkets [2]	**15,504.743**	9,740.306
Food Stores [3]	**5,547.049**	5,498.149
Consumer Electronics Centers	**9,069.229**	7,529.393
Home Improvement Centers	**4,909.515**	4,053.448
Department Stores [4]	**9,490.529**	9,970.976
Restaurant & Catering	**409.619**	432.297
Discount Stores	**1,406.868**	1,425.359
Computer Centers	**4,900.325**	3,918.176
Fashion Centers	**1,257.979**	1,176.191
Footwear Centers [5]	**909.941**	707.497
Others [6]	**2,147.875**	2,209.044
	91,703.843	56,840.026

[1] DM 25,463.162 million of the increase results from the acquisition of the European C&C operations from SHV Makro NV and Metro Holding AG/Ligapart AG.

[2] The growth is mainly due to the acquisition of the Allkauf and Kriegbaum Groups (at DM 4,310.823 million and DM 1,040.130 million, respectively).

[3] The takeover of Kriegbaum outlets raised this division's sales by DM 387.318 million.

[4] Kaufhalle sales prorated from January through November.

[5] The higher sales are attributable to Mayer Schuh GmbH's inclusion.

[6] In 1998, largely sales from the added SHV Makro NV and Metro Holding AG/Ligapart AG operations but not allocable to Metro Wholesale, as well as from Divi-Möbel, MGE Warenhandel, and Massa-Ausbauhaus are shown hereunder. The prior-year sales figure substantially refers to Möbel Unger/Massa-Einrichtungsmärkte, Free Com Die Telekommunikationsgesellschaft, Oppermann, the Rungis-Express Group, Hawesko, Jacques' Weindepot.

DM 32,276.175 million of sales (up from DM 3,884.442 million) is allocable to Group companies based outside of Germany.

(27) Other operating income

DM million	1998	1997
Advertising services	**999.795**	494.078
Rentals	**917.162**	738.782
Building/construction work	**469.099**	303.477
General services	**294.754**	212.022
Release of accruals	**218.514**	216.805
Gains from fixed-asset disposals	**150.233**	46.360
Central A/P clearing for divisions	**163.855**	154.374
Commissions	**116.210**	40.553
Foreign-exchange gains	**97.172**	26.449
Sundry	**789.168**	473.101
	4,215.962	2,706.001

Income from advertising services rose particularly in the wake of acquisitions.

The higher income from rentals, general services and commissions is the net result of acquisitions/business expansions and divestments.

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

The income from the release of accruals refers to a large number of transactions, including (but not limited to) accruals for deficient rental, closedowns and restructuring, invoices outstanding for costs, litigation risks, as well as for employment anniversaries.

The income from central A/P clearing for divisions is related to the settlement of trade payables via a central clearing office, viz. Metro International AG (MIAG).

(28) Cost of materials

DM million	1998	1997
Raw materials, supplies, and merchandise purchased	**71,042.273**	41,266.318
Services purchased	**257.234**	65.690
	71,299.507	41,332.008

The heightened cost of materials is primarily due to the fiscal year's takeovers (including Makro/Metro at DM 24,237.843 million, Allkauf at DM 3,443.704 million, Kriegbaum at DM 1,110.650 million).

(29) Personnel expenses

DM million	1998	1997
Wages and salaries	**8,662.315**	6,567.948
Social security taxes, expenses for pensions and related fringe benefits	**2,001.576**	1,446.337
thereof pension expense	**[181.706]**	[142.828]
	10,663.891	8,014.285

The higher 1998 personnel expenses were largely caused by the acquisitions (including Makro/Metro at DM 1,860.632 million, Allkauf at DM 486.038 million, Kriegbaum at DM 130.767 million).

In the year under review, expenses for social plans under restructuring programs were incurred at DM 167.613 million (up from DM 106.806 million).

(30) Amortization of intangible and depreciation of tangible assets

DM million	1998	1997
Goodwill amortization from capital consolidation	**607.890**	189.423
Goodwill amortization from inclusion at equity	**5.887**	26.932
Goodwill amortization from individual annual accounts	**23.008**	23.224
Amortization of other intangibles	**66.946**	76.904
Depreciation of tangible assets	**1,668.281**	1,042.588
	2,372.012	1,359.071

Goodwill amortization from capital consolidation soared mainly on account of the fiscal year's additions (thereof DM 206.562 million attributable to Makro/Metro, DM 159.232 million to Allkauf, DM 13.621 million to Kriegbaum).

Depreciation of tangible assets also rose in the wake of the acquisitions, Makro/Metro accounting for DM 424.730 million of the increase, Allkauf for DM 43.763 million, and Kriegbaum for DM 16.020 million.

The amortization of goodwill carried over from the individual to the consolidated financial statements includes write-down at DM 20.752 million (up from DM 20.423 million). Depreciation of tangible and amortization of intangible assets (excluding goodwill) also cover ACR charges of DM 40.089 million (up from DM 14.638 million).

(31) Other operating expenses

DM million	1998	1997
Rentals	**2,765.917**	2,468.016
Advertising/promotion	**2,014.784**	1,569.331
Maintenance	**595.595**	491.140
Energy	**575.530**	455.578
Personnel-related	**475.739**	304.798
Outside building/ construction work	**415.276**	285.226
Transportation of goods	**272.621**	278.477
Cleaning/waste disposal	**269.812**	264.267
Materials consumption	**252.273**	182.824
Legal, audit and similar fees	**197.341**	125.296
Postage, etc.	**178.308**	142.169
EDP	**153.639**	66.093
Payment transactions	**149.674**	70.852
Closedowns and restructuring	**140.724**	48.246
Vigilance/security	**127.074**	89.677
Insurances	**99.730**	75.022
Foreign-exchange losses	**90.324**	33.314
Write-down of current assets	**70.368**	99.104
Dues and subscriptions	**67.274**	44.264
Sundry	**929.364**	699.096
	9,841.367	7,792.790

The sundry other operating expenses largely involve administrative, annual closing, litigation and other expenses.

The increase versus 1997 is primarily attributable to the 1998 acquisitions (thereof Makro/Metro at DM 1,453.941 million, Allkauf DM 491.515 million, and Kriegbaum DM 176.556 million).

(32) Income from investments

DM million	1998	1997
Net P/L from associated affiliates	**11.157**	(41.638)
Income from other investments	**54.503**	5.813
	65.660	(35.825)

The year before, the net P/L from associated affiliates was considerably affected by Mayer Schuh GmbH's net loss of DM 53.208 million.

The 1998 income from other investments includes DM 24.348 million from companies acquired and transferred in 1998 to Divaco. Among these are Gastronoom Holding BV, Business Office Supply CV, and Allkauf-Touristik-Vertriebs GmbH. Another DM 22.763 million was earned from investees acquired from Metro Holding AG/Ligapart AG.

(33) Net financial result

DM million	1998	1997
Other interest and similar income	**289.742**	192.067
thereof from nonconsolidated Group companies	**[8.441]**	[1.707]
Other financial income	**53.802**	142.109
Income from other long-term securities and loans	**8.565**	4.300
Write-down of financial assets and of short-term securities	**(6.228)**	(1.673)
Interest and similar expenses	**(795.522)**	(268.297)
thereof to nonconsolidated Group companies	**[10.742]**	[12.866]
Other financial expenses	**(200.609)**	(163.606)
	(650.250)	(95.100)

Interest expenses leapt largely in the wake of the acquisition-related higher indebtedness and the first-time accounting for interest expenses from the real property newly consolidated as of December 31, 1997. The discharging effect of the transfer of shareholdings to the Divaco Group will be accounted for in 1999 only since the corresponding funds were not received until late December 1998.

(34) Extraordinary result

DM million	1998	1997
Extraordinary income:		
Gain from the Hawesko Group's divestment	**245.286**	–
Book gain from the Hapag-Lloyd stock's disposal	**–**	241.700
Income from deconsolidation	**–**	43.721
Book gain from Unger-Immobilien's disposal	**–**	18.946
	245.286	304.367
Extraordinary expenses:		
Expenses from the application of the new mortality tables	**(159.030)**	–
Loss on Möbel Unger GmbH's disposal	**–**	(304.121)
	(159.030)	(304.121)
	86.256	0.246

Extraordinary gains were realized when Hawesko AG went public. Extraordinary expenses were incurred when pension accruals were adjusted to account for the new 1998 mortality tables. The deconsolidation of companies into Divaco did on balance not affect the METRO AG Group's net income.

(35) Income taxes

DM million	1998	1997
Corporation income tax	**330.666**	138.266
Municipal trade tax on income	**184.096**	114.525
Non-German income taxes	**0.967**	(2.183)
	515.729	250.608
Deferred taxes	**(117.483)**	0.342
	398.246	250.950

At December 31, 1998, tax loss carryovers existed within the METRO AG Group at DM 2.6 billion for corporation income tax purposes (down from DM 3.1 billion) and at DM 2.3 billion as credit against municipal trade tax on income (down from DM 3.0 billion). Such loss carryovers can be applied for an indefinite period of time.

(36) Net income

METRO AG's net income amounts to DM 749.150 million, the Group's to DM 735.247 million. Major reasons for the difference are particularly such profits from non-German subsidiaries as were not taken over by METRO AG, as well as consolidation effects (including goodwill amortization) and the DM 161.500 million third-party P&L shares.

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

(37) Third-party shares in net income

The third-party shares in profit and loss amount to DM 196.017 million (up from DM 127.912 million) and DM 34.517 million (down from DM 59.026 million), respectively.

Additional data

(38) Employees

Average headcount	1998	1997
White-collar employees	**179,934**	134,537
Blue-collar employees	**61,130**	42,933
Apprentices/trainees	**9,297**	7,461
	250,361	184,931

The figures include 120,823 part-timers per capita (up from 88,529).

(39) Supervisory and Executive Boards

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

The emoluments paid to the Executive Board members totaled DM 15.744 million.

Former Executive Board members of METRO AG and of the companies absorbed by METRO AG, as well as their surviving dependants received DM 15.478 million; METRO AG provided a total DM 82.584 million for their accrued pensions.

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 31, 1999

THE EXECUTIVE BOARD

Dr. Körber

Dr. Loose

Mierdorf

de Raad

Suhr

Report of the Supervisory Board

During the year under review, the Supervisory Board, in due accordance with the duties incumbent on it under law and the Company's memorandum & articles of association, regularly oversaw and advised the Executive Board. At a total seven meetings, the Supervisory Board received and discussed the Executive Board's oral and written reports. All measures and actions requiring the Supervisory Board's approval, as well as the economic position of the Company and its divisions were dealt with in detail. Deliberations focused on the following issues:

- Concentration on four divisions with six outlet chains and the related divestment of non-core operations and their transfer to Divaco
- Focal capital investments, especially the acquisition of the stakes previously held by Metro Holding AG/Ligapart AG in the European cash & carry operations and in trade-related service enterprises, as well as that of the Allkauf and Kriegbaum hypermarket groups, in addition to safeguarding locations for further national and international expansion
- Integration of the acquired companies into the divisions with due regard to any sociopolitical implications
- Further structural changes in the divisions in order to boost profitability

All major transactions and the trend of financial indicators were reported in the course of a continuous flow of information and opinions between the Supervisory Board Chairman and the members of the Executive Board.

Also on the agenda for deliberation by the Supervisory Board were the economic position and prospects of the Group's major companies, as well as measures aiming at sharpening the competitive edge and strengthening the market position of the Group's core activities. Detailed discussions of envisaged business policies and fundamental corporate planning matters added to the exchange of information about business trend and the Company's situation; in this context, financial, investing and H.R. planning issues for 1998 and 1999 and their implications for strategic expansion, portfolio streamlining, rationalization, and productivity enhancement played a significant part. When the Supervisory Board met to approve the annual accounts, it was also briefed on details of the use and volume of financial derivatives for interest rate and currency hedging against the Group companies' operational risks.

At one meeting in the first half of November, the Supervisory Board decided to acquire Metro Holding AG's/Ligapart AG's stakes in European C&C companies and trade-related service enterprises. Another item on this meeting's agenda was the strategically important decision on the Group's future structural realignment by concentrating on four divisions only, viz. Cash & Carry, Food Retail, Nonfood Specialty and Department Stores, including the transfer to Divaco of the operations no longer considered core businesses.

After acquiring the C&C stakes and trade-related service companies from Metro Holding AG/Ligapart AG, as well as the Allkauf and Kriegbaum hypermarket groups, the Supervisory Board was comprehensively briefed on the progress of such operations' integration into the METRO AG Group. Reporting focused on the implications for the workforce structure, both from the integration and the decision to divest marginal operations.

The Supervisory Board has three committees with parity representation, viz. the presidential/staff committee, the slate submittal committee (under the terms of Art. 27 par. 3 German Codetermination Act – "MitbestG"), and the annual accounts committee. The slate submittal committee did not meet in 1998.

The accounting, the annual accounts as of December 31, 1998, and the combined Management Report of METRO AG and the Group have been audited by the statutory auditors, Duisburg-based Fasselt-Mette & Partner Wirtschaftprüfungsgesellschaft, who issued an unqualified opinion thereon.

The audit reports, together with METRO AG's and the Group's annual accounts and the Group management report, were submitted to all Supervisory Board members two weeks prior to the annual accounts meeting of the Supervisory Board. These documents were discussed at this meeting, as well as a joint meeting of the presidential and annual accounts committees of the Supervisory Board. The statutory auditors attended both meetings, answered queries about the annual accounts of METRO AG and the Group, and reported on the audit results respecting the focal subjects. The Supervisory Board agrees to the audit results and conclusions, which do not include any exceptions or findings.

The Supervisory Board examined and approved the annual accounts as of December 31, 1998, as submitted by the Executive Board, together with the combined management report of METRO AG and the Group. The annual accounts are thus adopted. The Supervisory Board concurs with the Executive Board's proposal for the appropriation of net earnings.

Further, the Executive Board submitted to the Supervisory Board the annual accounts and management report for the Group, together with the Group audit report. The Supervisory Board approved the Group accounts, including the Group management report.

In addition, in compliance with Art. 312 AktG, the Executive Board prepared, and submitted at the Supervisory Board's annual accounts meeting, a dependency report on the Group's affiliations in 1998; this report was also examined by the statutory auditors, who reported thereon in writing and issued the following opinion:

"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."

Following its own examination, the Supervisory Board did not raise any objections, whether to the representations made by the Executive Board in its report pursuant to Art. 312 AktG, or to the auditors' opinion thereon.

Since the number of board memberships has been limited by the German Act Governing Corporate Control & Transparency ("KonTraG"), Dr. Klaus Liesen and Dr. Henning Schulte-Noelle resigned their membership as stockholder representatives on the Supervisory Board on May 13, 1998, and as of the end of the annual stockholders' meeting on July 7, 1998, respectively. Also as of the end of this meeting, Ms. Ingeborg Janz, Mr. Hubert Haselhoff, Mr. Gerhard Herbst and Mr. Gustav-Adolf Munkert stepped down as employee representatives on the Supervisory Board after the groupwide employee representative election. We thank these former members for their competent and valuable services.

The 1998 stockholders' meeting reelected the remaining stockholder representatives and appointed Mr. Bernd Pischetsrieder and Dr. Thomas Middelhoff to succeed the two resigned stockholder representatives on the Supervisory Board. In accordance with codetermination legislation, Ms. Hildegard Schäfer, Mr. Peter Brenner, Mr. Fritz-Julius Nolden and Mr. Hans-Peter Wolf were newly elected as employee representatives on this Board.

Mr. Wolfgang Urban stepped down from the Executive Board on January 31, 1998, and so did Mr. Georg Kulenkampff on November 13, 1998, who with effect as from May 1, 1998, had been appointed as Executive Board member and deputy spokesman.

As of 1998 year-end, Mr. Klaus Wiegandt, Executive Board spokesman, went into retirement. We thank Mr. Wiegandt especially for his meritorious services in merging Metro Cash & Carry, Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG into METRO AG and the latter's development into Europe's leading trading group with a highly international focus.

Owing to the portfolio purge resolved by the Supervisory Board at its meeting of November 12, 1998, Mr. Siegfried Kaske stepped down from the Executive Board as of November 30, 1998, to become Executive Board Chairman of newly established Divaco Beteiligungs-AG as from December 1, 1998. We take this opportunity to thank Mr. Kaske for his worthy services.

The Supervisory Board appointed Dr. Hans-Joachim Körber as Executive Board spokesman and nominated Mr. Zygmunt Mierdorf as Executive Board member, both with effect as from January 1, 1999.

The Supervisory Board thanks the Executive Board, the executive managers of the divisions, outlet chains and service companies, the members of the works councils, as well as all employees of METRO AG and its Group companies for their dedicated work and commitment.

Cologne, May 1999

THE SUPERVISORY BOARD

Erwin Conradi
Chairman

Summary of major Group companies

Name	Registered office	% held by Group	Equity DM mill.
METRO AG	Cologne		7,356.255
Metro Wholesale			
Metro International Management GmbH	Düsseldorf	100.00	283.906
Metro Grosshandelsgesellschaft mbH	Düsseldorf	100.00	72.333
Metro Cash & Carry Beteiligungs GmbH & Co KG	Cologne	100.00	4,266.350
Metro Cash & Carry GmbH	Düsseldorf	100.00	4,299.608
Hypermarkets			
Real SB-Warenhaus Holding GmbH	Alzey	100.00	474.041
Viehof GmbH	Mönchengladbach	100.00	983.728
Food Stores			
Extra Verbrauchermärkte GmbH	Sarstedt	100.00	213.880
Consumer Electronics Centers			
Media-Saturn-Holding GmbH	Ingolstadt	73.18	520.645
Home Improvement Centers			
Praktiker Bau- und Heimwerkermärkte AG	Kirkel	75.00	833.110
Wirichs Vertriebs GmbH & Co KG	Kirkel	75.00	15.000
Wirichs Baumärkte GmbH	Kirkel	75.00	39.577
Department Stores			
Kaufhof Warenhaus AG	Cologne	87.50	330.000
Real Estate			
Metro Immobilien Holding GmbH	Saarbrücken	100.00	378.807
Asset Grundbesitz GmbH	Cologne	100.00	590.988
Horten AG	Düsseldorf	96.54	433.460
Restaurant & Catering			
Dinea Gastronomie GmbH	Cologne	100.00	16.050
Others			
Metro MGE Einkauf GmbH	Düsseldorf	100.00	2.350

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.

We audited the annual accounts prepared by Cologne-based METRO AG and the combined management report on METRO AG and the Group for the fiscal year ended December 31, 1998. The preparation of consolidated annual accounts and a group management report in accordance with German Commercial Code regulations is the responsibility of the Company's Executive Board. Our responsibility is, based on our audit, to express an opinion on said annual accounts and management report for the Group.

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 annual accounts and management report for the Group are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts and management report for the Group. The audit also involves evaluating the financial statements of companies included in the consolidated accounts, reviewing the definition of the group of consolidated companies, and assessing the accounting and consolidation principles used, and significant estimates made, by the Executive Board, as well as evaluating the overall presentation of the Group's 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 Group's annual accounts, with due regard to accounting principles generally accepted in Germany, present a true and fair view of the METRO AG Group's net-asset, financial and income position. The combined management report on METRO AG and the Group gives an overall pertinent presentation of the Group's position and a fair description of any risks related to future development.

Duisburg, April 20, 1999

FASSELT-METTE & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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

METRO AG Group
Consolidated balance sheet
as of December 31, 1998
Consolidated income statement
for the year ended December 31, 1998

METRO AG Group Consolidated balance sheet as of December 31, 1998

Assets

DM million	Note no.	Balance at Dec. 31, 1998	Balance at Dec. 31, 1997
Fixed assets	6		
Intangible assets	7	**8,062.318**	2,848.468
Tangible assets	8	**11,794.147**	9,919.703
Financial assets	9	**832.534**	406.029
		20,688.999	13,174.200
Current assets			
Inventories	10	**8,838.434**	7,103.458
Receivables and sundry assets	11	**4,021.879**	3,440.747
Short-term securities and note loans	12	**100.472**	44.262
Cash on hand and in bank	13	**3,235.061**	1,508.736
		16,195.846	12,097.203
Net deferred tax assets	14	**48.243**	25.562
Prepaid expenses and deferred charges	15	**152.419**	116.817
		37,085.507	25,413.782

Stockholders' equity and liabilities

DM million	Note no.	Balance at Dec. 31, 1998	Balance at Dec. 31, 1997
Stockholders' equity	16		
Capital stock	17	**1,633.937**	1,217.952
Reserve from capital surplus	18	**4,541.849**	2,161.063
Reserves retained from earnings		**216.195**	280.949
Unappropriated retained earnings		**654.623**	489.711
Third-party equity shares	19	**1,036.396**	812.284
		8,083.000	4,961.959
Untaxed/special reserves		**60.880**	83.096
Accruals	20	**4,921.531**	3,962.709
Liabilities	21	**23,748.794**	15,988.006
Deferred income	22	**271.302**	418.012
		37,085.507	25,413.782

METRO AG Group
Consolidated income statement for the year ended December 31, 1998

DM million	Note no.	1998	1997
Net sales	26	**91.703.843**	56.840.026
Change in inventories of finished products and work in process		**(37.389)**	7.393
Other work and material capitalized		**12.103**	5.860
Other operating income	27	**4,215.962**	2,706.001
Total operating performance		**95,894.519**	59,559.280
Cost of materials	28	**(71,299.507)**	(41,332.008)
Personnel expenses	29	**(10,663.891)**	(8,014.285)
Amortization of intangible and depreciation of tangible assets	30	**(2,372.012)**	(1,359.071)
Other operating expenses	31	**(9,841.367)**	(7,792.790)
Operating result		**1,717.742**	1,061.126
Income from investments	32	**65.660**	(35.825)
Net financial result	33	**(650.250)**	(95.100)
Result from ordinary operations		**1,133.152**	930.201
Extraordinary result	34	**86.256**	0.246
Income taxes	35	**(398.246)**	(250.950)
Other taxes		**(85.915)**	(56.690)
Net income	36	**735.247**	622.807
Third-party shares in net income	37	**(161.500)**	(68.886)
Transfer from/(to) reserves retained from earnings		**80.876**	(64.210)
Net earnings, Group		**654.623**	489.711