METRO AG

ANNUAL ACCOUNTS 1999 OF METRO AG

Annual accounts of METRO AG

The Management Report of METRO AG has been combined with that on the Group and is published in METRO AG's 1999 annual report.

METRO AG
Balance sheet as of December 31, 1999

Assets

DM million	Note no.	**Balance at Dec. 31, 1999**	Balance at Dec. 31, 1998
Fixed assets	2		
Intangible assets		**0.338**	0.344
Tangible assets	3	**3.848**	4.495
Financial assets	4	**10,911.312**	10,600.088
		10,915.498	10,604.927
Current assets			
Receivables and sundry assets	5	**7,406.001**	4,721.079
Short-term securities	6	**10.095**	13.570
Cash on hand and in bank		**48.455**	1,245.293
		7,464.551	5,979.942
Prepaid expenses and deferred charges	7	**13.526**	21.362
		18,393.575	16,606.231

Stockholders' equity and liabilities

DM million	Note no.	**Balance at Dec. 31, 1999**	Balance at Dec. 31, 1998
Stockholders' equity			
Capital stock	8	**1,633.937**	1,633.937
Capital reserve	9	**4,541.850**	4,541.850
Reserves retained from earnings	23	**798.190**	525.845
Unappropriated retained earnings	24	**656.512**	654.623
		7,630.489	7,356.255
Untaxed/special reserves	10	**–**	69.529
Accruals	11	**745.182**	640.106
Liabilities	12	**10,014.672**	8,539.005
Deferred income		**3.232**	1.336
		18,393.575	16,606.231

METRO AG
Income statement
for the year ended December 31, 1999

DM million	Note no.	1999	1998
Income from investments	16	**1,888.974**	1,362.802
Net financial result	17	**(117.665)**	(185.441)
Other operating income	18	**328.591**	440.516
		2,099.900	1,617.877
Personnel expenses	19	**(304.464)**	(105.702)
Amortization of intangible and depreciation of tangible assets		**(5.678)**	(3.879)
Other operating expenses	20	**(868.873)**	(711.576)
		(1,179.015)	(821.157)
Result from ordinary operations		**920.885**	796.720
Extraordinary result	21	**–**	(42.136)
Income taxes	22	**10.992**	(0.122)
Other taxes		**(3.020)**	(5.312)
Net income		**928.857**	749.150
Transfer to reserves retained from earnings	23	**(272.345)**	(94.527)
Net earnings	24	**656.512**	654.623

Notes to the financial statements of METRO AG

(1) Disclosure, accounting and valuation principles

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

Intangible assets are stated at acquisition cost, tangible assets at purchase or production cost, both less accumulated systematic amortization or depreciation, less write-down and less accelerated cost recovery (ACR) charges as applicable or required. Additions to 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 was as a rule used up to December 31, 1998, wherever permitted by tax regulations; as from January 1, 1999, straight-line depreciation has been adopted for personal property, too. From the year in which straight-line depreciation exceeds declining-balance charges, the former method is adopted thenceforth (for pre-1999 tangible assets). Assets are written down whenever any impairment in value is deemed to be of a long-term nature. So-called low-value assets (i.e., at net cost of DM 800 or less) are fully written off in the year of their addition.

Investments and shares in Group companies are capitalized at cost or any lower current value, lower values being maintained and carried forward unless the mandatory reinstatement of original values (applicable by law as from 1999) permits a higher carrying value to be stated (up to historical cost).

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

Receivables and sundry assets are principally stated at par or face value. Specific allowances provide for the risks inherent in doubtful receivables; non-interest receivables are discounted. To the extent permissible, income from investments is received as earned and capitalized in the year for which the dividend is distributed.

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

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

Liabilities are generally stated at the amount repayable.

Financial derivatives of interest rate and currency management are used to reduce risks, their valuation being separate and itemwise and predicated on the imparity principle (which requires unrealized losses to be accrued and prohibits unrealized profits to be recognized). Nonlisted financial instruments are either marked to the market, or valued by using generally accepted option pricing models or, for non-option-type derivatives, according to the present-value method.

Currency-related financial transactions are principally valued at the current mean spot price. Post-maturity exchange transactions are valued at the forward rates for the respective remaining terms.

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

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

Comments on METRO AG's balance sheet

(2) Fixed assets

DM million	At cost: Balance at 1-1-1999	Additions	Book transfers	Write-up	Disposals	A/D/W[1] accumu-lated	**Balance at 12-31-1999**	A/D/W[1] in 1999
Intangible assets								
Rights and licenses	0.597	0.231	–	–	0.179	0.311	**0.338**	0.237
Tangible assets								
Leasehold improvements	–	0.617	–	–	–	0.617	**–**	0.617
Sundry plant, business and office equipment	8.804	4.446	–	–	1.506	7.896	**3.848**	4.824
	8.804	5.063	–	–	1.506	8.513	**3.848**	5.441
Financial assets								
Shares in Group companies	10,189.031	1,658.868	(134.951)	–	1,635.763	106.291	**9,970.894**	25.664
Loans to Group companies	279.163	648.064	–	–	4.221	–	**923.006**	–
Investments	217.985	0.012	(208.089)	12.950	0.140	6.301	**16.417**	–
Other long-tem loans	0.858	0.100	–	0.037	–	–	**0.995**	–
	10,687.037	2,307.044	(343.040)	12.987	1,640.124	112.592	**10,911.312**	25.664
Total	10,696.438	2,312.338	(343.040)	12.987	1,641.809	121.416	**10,915.498**	31.342

[1] Amortization/depreciation/write-down

(3) Tangible assets

The additions to tangible assets of DM 5.063 million relate primarily to PC equipment and vehicles. The disposals of DM 1.506 million essentially refer to the expiration of the useful life. Total depreciation of DM 5.441 million includes write-down of DM 3.209 million under the terms of Art. 6b EStG.

(4) Financial assets

Additions to shares in Group companies of DM 1,658.868 million include DM 1,229.282 million for the 100-percent interest in the limited partnership Real Multi-Center Warenhaus GmbH & Co KG and for the acquisition of a 24.19-percent block of shares in Praktiker Bau- und Heimwerkermärkte AG. Moreover, METRO AG purchased a 7.50-percent stake in Kaufhof Warenhaus AG from Westdeutsche Landesbank Girozentrale ("WestLB").

Owing to Metro Immobilien Holding GmbH's merger into METRO AG, this mergee's subsidiaries (GBS Gesellschaft für Unternehmensbeteiligungen mbH, MRE Metro Real Estate Management GmbH Germany and Poland) are included at a total DM 383.544 million in the addition. Another DM 46.042 million is, inter alia, allocable to the noncash contribution of Levistone Ltd. to Metro MGE Einkauf GmbH, to the acquisition of a further 0.25 percent in Horten AG's capital stock, as well as to capital increases at subsidiaries in Poland and Turkey.

In addition, Metro International Management GmbH was contributed as of January 1, 1999, to Metro Cash & Carry GmbH.

The shares in Divacom Beteiligungs GmbH of DM 133.200 million were reclassified into current assets. This company will be liquidated after the companies transferred in 1998 to the Divaco Group have been marketed. DM 1.701 million relates to the reclassification of shares in Group companies into the micro-shares now held in previously wholly owned real-estate subsidiaries.

DM 417.892 million of the total disposals of DM 1,635.763 million of shares in Group companies is attributable to Metro Immobilien Holding GmbH's merger into METRO AG. The sale and transfer to WestBTL Handel-Beteiligungsgesellschaft mbH of Horten AG stock directly held by METRO AG were made at a price of DM 219.369 million, of which DM 19.369 million is stated as contribution in kind in exchange for shareholder rights, the balance of DM 200.000 million being shown as purchase price claim.

For marketing the retail properties, several real-estate enterprises were transferred as noncash contribution at a book value of DM 954.670 million to Asset Immobilienbeteiligungen GmbH, partly against the grant of shareholder rights, partly in exchange for a purchase price claim. The 49-percent interest in Asset Immobilienbeteiligungen GmbH & Co KG (the aforementioned company's parent) is shown as a current asset since such marketing activities are expected to be completed within 2 or 3 years, the remaining 51 percent being held by WestLB.

Another disposal of DM 60.000 million was due to the agreed price adjustment for purchasing the shares in AK SB-Warenhaus GmbH (formerly Viehof GmbH).

The statutory obligation to write shares in Group companies down to their lower current values required a total write-down of DM 25.664 million to be charged to METRO AG's shares in Real Sp.z o.o. (Poland) and two Turkish subsidiaries, Real Hipermarketler Zinciri AS and Praktiker Yapi Marketleri AS.

The total additions of DM 648.064 million to loans to Group companies include DM 500.000 million granted to Praktiker Bau- und Heimwerkermärkte AG, DM 129.048 million to Extra Verbrauchermärkte GmbH, and DM 18.958 million to Allkauf SB-Warenhaus GmbH & Co KG. The loans have different maturities, the latest expiring 2009.

The disposal of DM 4.221 million reflects the redemption of the loan granted to GKF Saar-Grund GbR.

Within investments, the stake in Divafon Beteiligungsgesellschaft mbH of DM 209.790 million was reclassified as a current asset since this investment will be disposed of after the companies transferred in 1998 to the Divaco Group have been marketed.

The mandatory reinstatement of original values, prescribed by law as from 1999, required the investment in Der Grüne Punkt – Duales System Deutschland AG to be written up by DM 12.950 million.

(5) Receivables and sundry assets

DM million	**12-31-1999**	12-31-1998
Due from Group companies	**3,378.677**	4,342.028
thereof with a remaining term above 1 year	**[–]**	[4.533]
Receivable under investor/investee relations	**26.748**	–
Sundry assets	**4,000.576**	379.051
thereof with a remaining term above 1 year	**[4.546]**	[22.545]
	7,406.001	4,721.079

Sundry assets include claims for tax refunds of a total DM 659.461 million, DM 444.573 million of which concerns tax credits on dividends received in the year under review. This line also covers investments destined for sale or marketing, as well as a purchase price claim against, due to the contribution of real estate to, Asset Immobilienbeteiligungen GmbH.

(6) Short-term securities

DM million	12-31-1999	12-31-1998
Shares in Group companies	**0.025**	0.025
Other short-term securities	**10.070**	13.545
	10.095	13.570

(7) Prepaid expenses and deferred charges

This caption includes DM 12.981 million of loan discount, being the difference between the redemption amount and the loan face value from the 1998/2013 convertible bond issue.

(8) Capital stock

In fiscal 1999, the amount of METRO AG's capital stock and its subdivision into shares of common and preferred stock remained unchanged versus December 31, 1998. After the exchange rate of 1 euro = DM 1.95583 had irrevocably been fixed at December 31, 1998, the Supervisory Board amended on February 25, 1999, the previous DM denominations in the memorandum & articles of association to read euros (€). This denominational amendment was meantime duly recorded by the Commercial Register and, therefore, the euro is the sole currency mentioned in METRO AG's memorandum & articles of association.

Contingent capital I and II

The conditional increase in the capital stock by DM 100,000,000 resolved on July 9, 1997 (contingent capital I) was not utilized in 1999. This contingent capital increase is connected with the Executive Board's authority to issue on or before July 9, 2002, warrant and/or convertible bonds for an aggregate maximum of DM 2,000,000,000 and to grant their holders option/conversion rights for new common and/or preferred METRO AG stock equivalent to an aggregate maximum par value of DM 100,000,000.

The annual stockholders' meeting of July 6, 1999, resolved to conditionally raise the capital stock by a maximum €14,316,173 (approx. DM 28,000,000) by issuing up to 5,600,000 shares of common stock to be provided for METRO AG's stock option plan (contingent capital II).

The contingent capital II will exclusively be used to grant subscription rights (stock options) to METRO AG's Executive Board members, to Executive and Management Board members of lower-tier Group companies, as well as to further managerial or executive staff of METRO AG and its downstream subsidiaries (unless listed).

The terms of stock option exercise, which have been stipulated by the Executive Board for METRO AG's stock option plan (SOP), also include an antidilution clause and, in particular, provide that the Company grant the qualifying SOP beneficiaries in lieu of the delivery of new common stocks, a cash compensation equal to the differential between the strike (exercise) price and the governing closing quotation of Metro stock prior to option exercise. Whether or not this alternative is used will be decided by the Company in each case when the stock options from the various tranches are exercised.

Authorized capital I

The annual stockholders' meeting of July 9, 1997, has authorized the Executive Board, after first obtaining the Supervisory Board's approval, to raise the capital stock by up to DM 250,000,000 by issuing once or several times on or before July 9, 2002, new common and/or preferred stock in exchange for cash contributions (authorized capital I).

DM 133,089,345 of the authorized capital I was utilized in 1998. The authorized capital I balance of DM 116,910,655 then remaining was redenominated into €59,775,468.73 by resolution of the Supervisory Board of February 25, 1999.

Authorized capital II

The extraordinary stockholders' meeting of September 11, 1997, resolved to create authorized capital II: The Executive Board was authorized, with the Supervisory Board's prior approval, (i) to raise the Company's capital stock by issuing once or several times on or before September 11, 2002, new bearer shares of common stock by an aggregate maximum of DM 350,000,000 for noncash contributions (authorized capital II), and (ii) to decide on the exclusion of the stockholders' subscription rights and stipulate all other details of the capital increase.

DM 262,208,190 of the authorized capital II was utilized in 1998. The authorized capital II balance of DM 87,791,810 then remaining was redenominated into €44,887,239.69 by resolution of the Supervisory Board of February 25, 1999.

Authorized capital III

The annual stockholders' meeting of July 6, 1999, authorized the Executive Board, with the Supervisory Board's prior approval, to raise the Company's capital stock on or before July 6, 2004, through one or several issues of new bearer shares of common and/or nonvoting preferred stock against contribution in cash by an aggregate total of up to €100,000,000 (authorized capital III) and granting stockholders a subscription right. However, the Executive Board is entitled, with the prior approval of the Supervisory Board, (i) to exclude the stockholders' statutory subscription right to the extent required to grant to the holders of such warrant and convertible bonds as have been issued by METRO AG or its wholly owned indirect or direct subsidiaries, a stock purchase right for new shares to such extent as they would be entitled to after exercise of their option/conversion rights, and (ii) to exclude the subscription right to compensate fractions of shares from rounding.

The Executive Board is further authorized, after first obtaining the Supervisory Board's approval, to exclude the stockholders' subscription right for one or several capital increases made within the scope of the authorized capital, provided that the aggregate total par value of such capital increases does not exceed 10 percent of that capital stock which after the first utilization of the authorized capital had been recorded at the Commercial Register and further provided each time that the issue price of the new shares of stock is not materially below the market price of same-category stock as quoted when the initial offering price of the new issue is finally fixed.

The Executive Board is further authorized, with the Supervisory Board's consent, in the event of capital increases made in the scope of the authorized capital, to exclude the common stockholders' right to subscribe for preferred stock and the preferred stockholders' right to subscribe for common stock, provided that in such capital increase shares of common and preferred stock are issued in the same ratio in which the capital stock broke down into these two stock classes at the time when the capital increase was resolved, and further provided that different issue prices of the new shares of common and of preferred stock are fixed in accordance with the stock price ratio which existed at the time when the underlying capital increase had been resolved.

Authorized capital IV

The annual stockholders' meeting of July 6, 1999, further authorized the Executive Board, with the Supervisory Board's prior approval, to raise the Company's capital stock on or before July 6, 2004, through one or several issues of new bearer shares of common stock against contribution in kind by an aggregate total of up to €125,000,000 (authorized capital IV). The Executive Board is authorized with the Supervisory Board's prior approval to decide on the subscription right being excluded and to determine all further details of the capital increase.

Capital stock at December 31, 1999

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

Breakdown of capital stock at December 31, 1999:

303,786,183 shares of common stock	= €776,617,044.94	= DM 1,518,930,915.00
23,001,312 shares of preferred stock	= € 58,801,920.41	= DM 115,006,560.00
326,787,495 shares of stock	= €835,418,965.35	= DM 1,633,937,475.00

No acquisition of treasury stock

On July 7, 1998, the annual stockholders' meeting authorized the Company on or before December 31, 1999, to acquire treasury stock up to an equivalent of ten percent of the capital stock (cf. that meeting's agenda item 9). To date, this authority has not been exercised, whether by METRO AG, or any company controlled or majority-owned by METRO AG, or any other party on behalf or for the account of METRO AG or any company controlled or majority-owned by METRO AG; cf. Art. 160(1)(2) AktG.

Other mandatory disclosures

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

Metro Holding AG, Baar, Switzerland, informed METRO AG on April 16, 1999, that Baar-based Ligapart AG owned more than 5 percent of METRO AG's voting stock and held 17.26 percent of such voting stock.

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

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

(9) Capital reserve

At December 31, 1999, this reserve totaled an unchanged DM 4,541,849,475.

(10) Untaxed/special reserves

Untaxed/special reserves were solely created under the terms of Art. 6b German Income Tax Act ("EStG"). DM 69.529 million thereof was released, DM 66.286 million was allocated to various real-estate limited partnerships which, in turn, used the ACR option to write down land and building values in the same amount to offset the transfer of such untaxed reserves under Art. 6b EStG. METRO AG utilized DM 3.209 million to write down tangible assets.

(11) Accruals

DM million	12-31-1999	12-31-1998
Pension accruals	**430.386**	326.458
Tax accruals	**166.951**	175.527
Other accruals	**147.845**	138.121
	745.182	640.106

Pension accruals of DM 255.081 million provide for direct pension commitments, another DM 174.578 million for the deficient cover of underfunded benevolent funds. The increase results from funding the deficient cover at one employee benevolent fund by an equivalent provision. This deficient cover had previously been funded by creating usufructuary rights in this Fund's favor in certain Group properties. The conveyance of the Group's real property to a marketing enterprise and the pending deregistration of such usufructuary rights required that cover for the deficiency be provided in the amount of DM 207.217 million, DM 101.203 million thereof being transferred to Kaufhof Warenhaus AG. This transfer was based on the reallocation of the Fund's cash assets that was required in view of the pending cancellation of the usufructuary rights as these were accruing and allocable to METRO AG only.

The tax accruals adequately provide for tax audit risks.

The other accruals account for the following:

DM million	12-31-1999	12-31-1998
Risks from investees	**78.411**	65.163
Litigation risks	**25.106**	21.473
Commitments to employees	**14.687**	14.419
Financial transaction risks	**5.315**	16.371
Risks from leases and realty sold	**4.494**	3.929
Other risks	**19.832**	16.766
	147.845	138.121

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

(12) Liabilities

DM million	12-31-1999	12-31-1998
Bonds	**–**	268.000
Due to banks	**2,418.647**	827.217
Trade payables	**6.442**	9.765
Notes payable	**–**	135.000
Due to Group companies	**6,687.082**	6,600.046
Payable under investor/investee relations	**–**	0.342
Sundry liabilities	**902.501**	698.635
thereof for taxes	**[265.157]**	[251.046]
thereof from social security	**[0.395]**	[0.430]
	10,014.672	8,539.005

Aging structure of liabilities as of December 31, 1999:

DM million	Total	≤1 year	>5 years
Due to banks	**2,418.647**	1,711.647	–
Trade payables	**6.442**	6.442	–
Due to Group companies	**6,687.082**	5,119.937	1,567.145
Sundry liabilities	**902.501**	902.414	0.071
	10,014.672	7,740.440	1,567.216

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

(13) Contingent liabilities

DM million	12-31-1999	12-31-1998
Guaranty and warranty contracts	**5,336.638**	7,930.293
thereof to Group companies	**[–]**	[144.302]
thereof for Group companies	**[3,764.358]**	[3,489.408]
Suretyships and guarantees	**496.267**	743.349
thereof to Group companies	**[0.788]**	[0.788]
thereof for Group companies	**[154.726]**	[211.831]
	5,832.905	8,673.642

(14) Other financial obligations

DM million	12-31-1999	12-31-1998
Commitments from share tender rights	**378.891**	767.031
Obligations from leases (per annum)	**165.687**	236.711
thereof to Group companies	**[49.753]**	[91.931]
thereof for Group companies	**[79.267]**	[221.333]
Obligations from financial derivatives	**4.682**	170.121
thereof to Group companies	**[0.119]**	[2.658]
Sundry	**0.397**	114.198
	549.657	1,288.061

(15) Derivative financial instruments

Risk-reducing financial derivatives as of December 31, 1999:

DM million	Notional amount (net positions)	Market value (net positions)
Interest rate transactions		
OTC products:		
Interest rate swaps	1,962.505	6.318
Caps/collars/floors	400.000	–
	2,362.505	6.318
Currency transactions		
OTC products:		
Forwards	62.054	(4.866)
Interest rate/ currency swaps	48.787	4.435
	110.841	(0.431)
Total	2,473.346	5.887

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

See Note 1 for details of the accounting for, and valuation of, financial derivatives.

Forward exchange transactions mature throughout within one year.

Comments on METRO AG's income statement

(16) Income from investments

DM million	1999	1998
Income from P&L transfer agreements	**1,316.832**	1,043.437
Income from investments	**675.195**	438.791
thereof from Group companies	**[673.598]**	[423.194]
Expenses from loss absorption	**(77.389)**	(119.426)
Write-down of financial assets	**(25.664)**	–
	1,888.974	1,362.802

The expenses from loss absorption refer to Metro Immobilien Holding GmbH (which due to the conveyance of the real estate to a marketing enterprise was merged into METRO AG as of November 30, 1999) and Real Multi-Markt Warenvertriebs GmbH & Co KG. The write-down of financial assets was charged to shares in Group companies and affected those in Real Sp.z o.o. (Poland), as well as in Real Hipermarketler Zinciri AS and Praktiker Yapi Marketleri AS (both Turkey).

(17) Net financial result

DM million	1999	1998
Income from long-term loans	**28.270**	17.505
thereof from Group companies	**[28.260]**	[12.596]
Other interest and related income	**154.506**	295.301
thereof from Group companies	**[139.099]**	[248.250]
Other financial income	**92.254**	32.640
thereof from Group companies	**[–]**	[6.123]
Interest and related expenses	**(347.013)**	(424.705)
thereof to Group companies	**[140.833]**	[160.492]
Other financial expenses	**(45.682)**	(106.182)
thereof to Group companies	**[–]**	[4.610]
	(117.665)	(185.441)

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

(18) Other operating income

DM million	1999	1998
Rents (realty/personalty)	**209.746**	267.062
Release of untaxed/ special reserves under Art. 6b EStG	**69.529**	101.079
Book gains from fixed-asset disposals and income from write-up	**13.844**	12.573
Administrative services for subsidiaries	**9.933**	17.837
Below-the-line income	**0.722**	3.907
Sundry	**24.817**	38.058
	328.591	440.516

Rents primarily reflect transitory realty rents posted in suspense accounts and income from personalty leasing.

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

METRO AG charged write-down of DM 3.209 million.

(19) Personnel expenses

DM million	1999	1998
Wages and salaries	**54.627**	79.714
Social security taxes, expenses for pensions and related employee benefits	**249.837**	25.988
thereof pension expense	**[246.147]**	[21.851]
	304.464	105.702

The stock option plan (SOP) was introduced in 1999 as long-term incentive. Altogether 134,650 stock options were granted to a total 18 METRO AG executives (including Executive Board members). For this purpose, METRO AG contracted a hedge in the form of a call option. The option premium amounts to €12 for one Metro share to be available on November 28, 2003, at a price of €54.59. The expense for the total option premiums is prorated on a straight-line basis over the option life. As of December 31, 1999, such hedging expenses are included in wages and salaries at DM 0.181 million.

Moreover, wages and salaries include DM 13.425 million in termination benefits and year-end payments.

The expenses for pensions and related employee benefits include the 1999 provisions for accruals for underfunded employee benevolent funds. The increase versus the year before results from the fact that at one benevolent fund, the difference between the commitment volume and this fund's total assets was covered by usufructuary rights. As the properties encumbered by such usufructuary rights were conveyed and transferred, DM 207.217 million was provided for the accrual for deficient pension cover.

(20) Other operating expenses

DM million	1999	1998
Income grants-in-aid	**358.305**	–
Rents (realty/personalty)	**225.697**	282.833
Transfer of untaxed/ special reserves under Art. 6b EStG to limited partnerships	**66.286**	101.079
Merger-related loss on Metro Immobilien Holding GmbH	**38.985**	–
Legal, audit and similar fees	**31.136**	19.106
Expenses for synergy allocation to outlet chains	**27.728**	3.960
Service fees charged by subsidiaries to METRO AG	**21.933**	19.107
General administrative expenses	**18.182**	19.339
Leasing and litigation risks	**11.355**	8.472
Losses on the contribution of subsidiaries to Divaco Beteiligungs AG & Co KG	**–**	166.922
Cost of capital increase	**–**	31.218
Sundry	**69.266**	59.540
	868.873	711.576

The income grants-in-aid refer to Kaufhof Warenhaus AG and Praktiker Bau- und Heimwerkermärkte AG. Kaufhof Warenhaus AG was granted an income contribution of DM 278.305 million to fund the deficient cover which existed as difference between the commitment volume and the total assets of an employee benevolent fund that is allocable to Kaufhof Warenhaus AG. Within the Group, this deficiency had already been covered by an accrual, which was now released in the consolidated accounts. Therefore, this is a mere accounting transaction without effect on the METRO AG Group's net income.

In addition, Praktiker Bau- und Heimwerkermärkte AG received an income grant in the form of a receivable of DM 80.000 million waived so that this company can provide for its merchandise remix.

(21) Extraordinary result

DM million	1999	1998
Extraordinary income	**–**	–
Extraordinary expenses	**–**	(42.136)
	–	(42.136)

In 1998, the extraordinary expenses mirrored the additional provision for pension accruals due to the application of the new 1998 mortality tables.

(22) Income taxes

This caption offsets tax refunds and tax accruals no longer needed and therefore released against tax expenses.

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

Under Art. 58(2) AktG, METRO AG's Supervisory and Executive Boards transferred DM 272.345 million from the year's net income of DM 928.857 million to the other reserves retained from earnings.

(24) Appropriation of net earnings

The Supervisory and Executive Boards propose that the net earnings of DM 656,512,241 be appropriated as follows:

	Number of shares	Cash dividend in €	Cash dividend in DM
Cash dividend of €1.020 (approx. DM 2.00) per share of common stock	303,786,183	**309,861,907**	**606,037,213**
Cash dividend of €1.122 (approx. DM 2.19) per share of preferred stock	23,001,312	**25,807,472**	**50,475,028**
	326,787,495	**335,669,379**	**656,512,241**

According to the amendment to the memorandum & articles of association which was resolved by the July 6, 1999 stockholders' meeting, preferred stockholders are entitled to receive an extra dividend of 10 percent if the common stock dividend equals or exceeds €1.02 per share.

Solely tax-exempt portions of distributable equity ("EK-01") will be used for dividend payment.

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

Further information

(25) Employees

METRO AG's workforce averaged 194 in fiscal 1999, calculated from the four quarterly mean headcounts, 3 and 191 being blue- and white-collar employees, respectively. Part-timers and temporary personnel were translated into full-time equivalents (FTE).

(26) Shareholdings

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

(27) Group affiliation

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

(28) Supervisory and Executive Boards

For their services on behalf of METRO AG, Supervisory Board members received DM 1.905 million.

The Executive Board's emoluments totaled DM 11.845 million.

In addition, the Executive Board members were granted 94,200 options for acquiring Metro stock under the SOP. Earliest option exercise date is one day after the annual stockholders' meeting in 2002; moreover, option exercise is subject to various conditions being satisfied in the future. The value, usually calculable on the basis of option price models, is strongly affected by the underlying assumptions, and its determination is therefore not practicable.

Former Executive Board members (and their surviving dependants) of METRO AG and companies merged into METRO AG received DM 5.831 million. METRO AG's pension accruals totaled DM 77.138 million for these persons.

Supervisory Board members

Erwin Conradi
Chairman
Baar, Switzerland
Executive Board Chairman of Metro Holding AG
(a) Allianz Versicherungs-AG, Munich
(b) Adecco SA, Lausanne, Switzerland
Bon appetit, Moosseedorf, Switzerland
Jetro Holdings Inc, Delaware, USA

Klaus Bruns
Vice-Chairman
Oberhausen
Chairman of the general works council of
Kaufhof Warenhaus AG

Peter Brenner
Hannover
Regional chairman of the HBV union,
District of Lower Saxony/Bremen
(a) DI Deutsche BauBeCon AG, Hannover
LBS Norddeutsche Landesbausparkasse, Hannover

Hans-Dieter Cleven
Baar, Switzerland
Executive Board Vice-Chairman of Metro Holding AG
(a) Debitel AG, Stuttgart (Vice-Chairman)
(b) Jetro Holdings Inc, Delaware, USA
Völkl Sports Holding AG, Baar, Switzerland
(President of the Board of Directors)
Walter Telemedien Holding GmbH & Co KG, Ettlingen
(Advisory Board Chairman)

Holger Grape
Hamburg
Head of the wholesale/retail and private services
employees' group at the DAG union
(a) Kaufhof Warenhaus AG, Cologne

Professor Dr. Erich Greipl
Düsseldorf
Management Board member of
Metro Vermögensverwaltung GmbH & Co KG
(a) Kaufhof Warenhaus AG, Cologne
(b) KGG Kredit Garantie-Gemeinschaft Handel
in Bayern GmbH, Munich
BBE Unternehmensberatung GmbH, Cologne

(a) Membership in other statutory supervisory boards of German companies
(b) Membership in comparable German or foreign corporate boards (board of directors, advisory board, etc.)

Hanns-Jürgen Hengst
Cologne
Department head of Kaufhof Warenhaus AG

Hermann Hesse
Düsseldorf
Vice-chairman of the general works council of
Kaufhof Warenhaus AG

Dr. Hermann Krämer
Seevetal
Former Executive Board member of Veba AG
(a) Babcock Borsig AG, Oberhausen
Deutsche Bahn AG, Berlin / Frankfurt/Main
PreussenElektra AG, Hannover
(b) Westdeutsche Landesbank Girozentrale, Düsseldorf
(Director)

Dr. Karlheinz Marth
Düsseldorf
Secretary to the central executive committee of the
HBV union
(a) Kaufhof Warenhaus AG, Cologne
Extra Verbrauchermärkte GmbH, Sarstedt

Dr. Thomas Middelhoff
Gütersloh
Executive Board Chairman of Bertelsmann AG
(a) Gruner + Jahr AG & Co, Hamburg
(b) Vivendi SA, Paris/France

Fritz-Julius Nolden
Cologne
Department head, H.O. of Kaufhof Warenhaus AG

Dr.-Ing. E.h. Dipl.-Ing. Bernd Pischetsrieder
Breitbrunn
Executive Board member of Volkswagenwerk AG
(as from July 1, 2000)
(a) Allianz AG, Munich (up to February 29, 2000)
Dresdner Bank AG, Frankfurt/Main
Viag AG, Munich
(b) Tetra-Laval Group, Lausanne, Switzerland

Hildegard Schäfer
Lollar
Member of the general works council of
Real SB-Warenhaus Holding GmbH

Professor Dr. Helmut Schlesinger
Oberursel
Former President of Deutsche Bundesbank
(b) Bank for International Settlements (BIS),
Basel, Switzerland (up to August 31, 1999)

Dr. Manfred Schneider
Leverkusen
Executive Board Chairman of Bayer AG
(a) DaimlerChrysler AG, Stuttgart
RWE AG, Essen
Allianz AG, Munich

Hans Peter Schreib
Düsseldorf
Lawyer, Member of the Board of
Deutsche Schutzvereinigung für Wertpapierbesitz eV
(a) Gildemeister AG, Bielefeld
K+S AG, Kassel
Thyssen Industrie AG, Essen
(up to April 2, 1999)

Peter Seuberling
Kirkel
Chairman of the general works council of
Praktiker Bau- und Heimwerkermärkte AG
(a) Praktiker Bau- und Heimwerkermärkte AG, Kirkel
(Vice-Chairman)

Dr. Joachim Theye
Bremen
Lawyer and notary public
(a) Babcock Borsig AG, Oberhausen
I-D Media AG, Esslingen-Forst
Axel Springer Verlag AG, Hamburg
Gerling-Konzern Globale Rückversicherungs-AG,
Cologne
Gerling-Konzern Rheinische Versicherungsgruppe AG,
Cologne (Chairman)
Gerling-Konzern Versicherungs-Beteiligungs AG,
Cologne
Messe Berlin GmbH, Berlin (Chairman)
(b) Zimmermann & Co Bauunternehmung, Bremen
(Advisory Board Chairman)
Gerling Security Rückversicherungs-Gesellschaft SA,
Luxembourg

Hans-Peter Wolf
Cologne
Member of the Porz Central Field Warehouse
management of Kaufhof Warenhaus AG

Executive Board members

Dr. Hans-Joachim Körber
Spokesman
(a) Metro Grosshandelsgesellschaft mbH, Düsseldorf (up to Jan. 26, 1999)
Kaufhof Warenhaus AG, Cologne (Chairman)
Debitel AG, Stuttgart (up to Oct. 25, 1999)
(b) Divaco AG & Co KG, Frankfurt/Main

Dr. Wolf-Dietrich Loose
(a) Metro Grosshandelsgesellschaft mbH, Düsseldorf (as from Jan. 26, 1999)
Real SB-Warenhaus Holding GmbH, Alzey (Chairman)
Extra Verbrauchermärkte GmbH, Sarstedt (Chairman)
Praktiker Bau- und Heimwerkermärkte AG, Kirkel
Kaufhof Warenhaus AG, Cologne
Dinea Gastronomie GmbH, Cologne
(b) Asset Immobilienbeteiligungen GmbH & Co KG, Saarbrücken

Zygmunt Mierdorf
(a) Horten AG, Düsseldorf (Chairman)
Metro Grosshandelsgesellschaft mbH, Düsseldorf (up to Jan. 26, 1999)
Praktiker Bau- und Heimwerkermärkte AG, Kirkel (Chairman)
(b) Josef Wagner GmbH, Markdorf

Theo de Raad
(a) Metro Grosshandelsgesellschaft mbH, Düsseldorf
(b) Aspiag Italia SRL, Padova, Italy
Metro Holding France SA, Paris, France (President)

Joachim Suhr
(a) Metro Grosshandelsgesellschaft mbH, Düsseldorf (up to Jan. 26, 1999)
(b) Gemex Trading AG, Baar, Switzerland (President of the Board of Directors)

Cologne, March 27, 2000

THE EXECUTIVE BOARD

Dr. Körber

Dr. Loose

Mierdorf

de Raad

Suhr

Auditor's opinion

We audited the annual accounts (including the accounting) of METRO AG and the combined management report it prepared on METRO AG and the METRO AG Group for the fiscal year ended December 31, 1999. The accounting and the preparation of the annual accounts and management report for the Company in accordance with German Commercial Code regulations and the supplementary provisions in METRO AG's memorandum & articles of association are the responsibility of the Company's Executive Board. Our responsibility is, based on our audits, to express an opinion on said annual accounts (including the accounting) and management report.

We conducted our audit of the 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 that any misstatement or fraud which has a material impact on the view of the net-asset, financial and P/L position as presented by the annual accounts in accordance with generally accepted accounting principles and by the management report is identified. When planning the audit procedures, knowledge and understanding of the Company's business, its economic and legal environment as well as sources of potential errors are given due consideration. An audit includes examining, largely on a test basis, the internal control system's effectiveness and the evidence supporting the amounts and disclosures in the accounting, annual accounts and management report. An audit also includes assessing the accounting principles used, and significant estimates made, by the Executive Board, as well as evaluating the overall presentation of said annual accounts and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not result in any objections or exceptions.

It is our opinion that the annual accounts, with due regard to accounting principles generally accepted in Germany, present a true and fair view of METRO AG's net-asset, financial and P/L position. The combined management report on METRO AG and the Group presents fairly both the Company's overall position and the risks inherent in its future development.

Duisburg, March 30, 2000

FASSELT-METTE & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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

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