METRO AG

ANNUAL REPORT 1999

At a glance

METRO AG Group in figures

	1999 DM mill.	1998 DM mill.	1997 DM mill.	1996 DM mill.
Net sales	**85,674**	91,704	56,840	55,034
Result from ordinary operations	**1,350**	1,133	930	1,062
Net income	**713**	735	623	717
Net income excl. third-party P&L shares	**542**	574	554	610
EBITDA	**3,968**	3,925	2,309	2,288
Result according to DVFA/SG before full deferred taxes	**552**	466	561	541
Result according to DVFA/SG after full deferred taxes	**417**	256	307	375
Return on equity after taxes	**9.6%**	9.1%	12.6%	14.9%
Capital expenditure[1]	**3,071**	2,663	1,891	1,639
Cash earnings acc. to DVFA/SG	**3,012**	3,008	1,981	1,898
Total assets	**37,126**	37,086	25,414	20,777
Equity	**7,462**	8,083	4,962	4,826
Capital stock	**1,634**	1,634	1,218	501

Per share [2]	**DM**	DM	DM	DM
EBITDA	**12.14**	12.01	9.48	9.51
Earnings according to DVFA/SG before full deferred taxes	**1.69**	1.43	2.30	2.25
Earnings according to DVFA/SG after full deferred taxes	**1.27**	0.78	1.26	1.56
Cash dividend[3]				
• common stock	**€1.020 ~ 2.00**	€1.02 ~ 2.00	2.00	1.67
• preferred stock I [4]	**€1.122 ~ 2.19**	€1.08 ~ 2.11	2.11	1.77
• preferred stock II [4]				1.77
Cash dividend incl. tax credit[3] [5] [6]				
• common stock	**€1.020 ~ 2.00**	€1.02 ~ 2.00	2.03	1.70
• preferred stock I [4]	**€1.122 ~ 2.19**	€1.08 ~ 2.11	2.14	1.80
• preferred stock II [4]				1.80
Cash earnings acc.to DVFA/SG	**8.69**	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 on July 23, 1997

[3] 1996 dividend incl. bonus equivalent to DM 0.83 per share of common/preferred stock

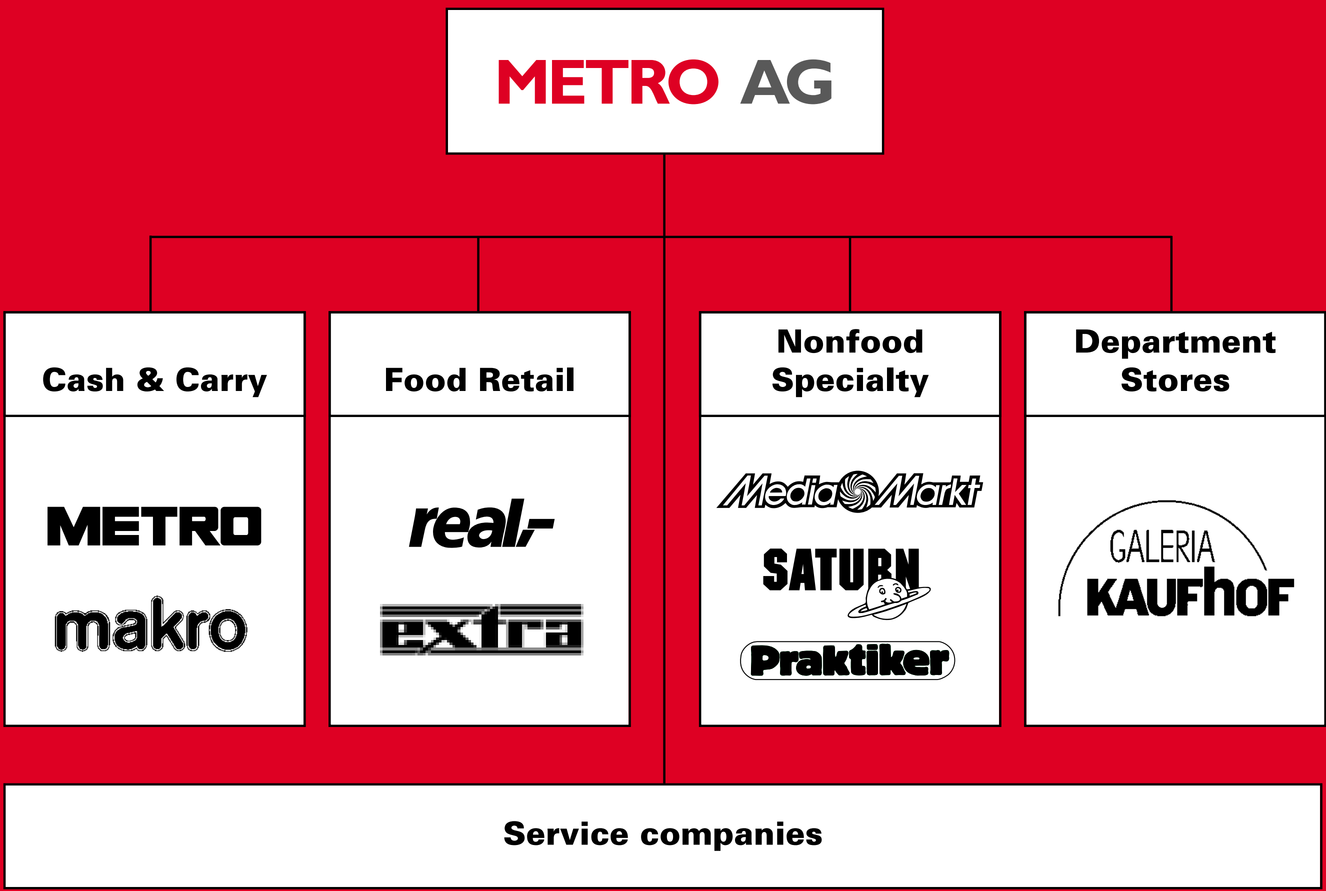
[4] As resolved by the July 9, 1997 stockholders' meeting, combined into one category of nonvoting preferred stock

[5] For German resident stockholders

[6] Solely tax-exempt equity portions were/will be used for the 1998/1999 dividend.

METRO AG Group profit/loss by division

	1999 DM mill.	1998 DM mill.	1997 DM mill.	1996 DM mill.
Cash & Carry	**1,382.8**	1,138.7	385.9	427.7
Food Retail	**32.7**	323.8	201.8	180.1
Hypermarkets	**105.0**	286.0	128.1	99.7
Food Stores	**(72.3)**	37.8	73.7	80.4
Nonfood Specialty	**593.0**	546.7	428.3	427.3
Consumer Electronics Centers	**554.3**	493.0	347.0	240.4
Home Improvement Centers	**38.7**	53.7	81.3	186.9
Department Stores	**243.4**	21.9	142.8	203.6
Others	**252.0**	305.8	246.0	236.5
Divisions' result from ordinary operations before goodwill amortization	**2,503.9**	2,336.9	1,404.8	1,475.2
less holding company's	**(551.3)**	(567.0)	(235.1)	(219.3)
less goodwill amortization	**(602.4)**	(636.8)	(239.5)	(193.9)
Result from ordinary operations	**1,350.2**	1,133.1	930.2	1,062.0
Extraordinary result	**–**	86.3	0.2	–
less income taxes	**(549.2)**	(398.3)	(250.9)	(274.5)
less other taxes	**(88.0)**	(85.9)	(56.7)	(70.3)
Net income of the Group	**713.0**	735.2	622.8	717.2


METRO AG
Cash & Carry
METRO
makro
Food Retail
real,-
extra
Nonfood Specialty
MediaMarkt
SATURN
Praktiker
Department Stores
GALERIA KAUFHOF
Service companies

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Letter to our stockholders

Dear Stockholders:

The past fiscal year 1999 was a period in which we progressed further along the path of profitable growth. Amid once more harsh conditions in Germany and despite radical repositioning drives at Real, Extra, and Praktiker, we managed to improve our earnings per share by 18.2 percent to DM 1.69 (according to DVFA/SG, before full deferred taxes).

Our company's fine performance was not mirrored in its stock price. The disappointing price trend (which we shared with our worldwide competitors, especially in the early months of this year) is especially due to the predilection of the international investment community for growth sectors in the technology, media and telecom markets (TMT). We regard this as a challenge to significantly enhance stockholder value through outstanding performance.

1999: a year of consolidation

Following the thoroughgoing realignment at the end of 1998, we spent the past year sharpening the competitive edge of our outlet chains. Another priority was to strengthen our position in international markets where METRO AG amplified its international presence with an additional 16 Cash & Carry (Metro/Makro), 10 Hypermarket and 47 Nonfood Specialty outlets. Non-German sales in 1999 accounted for 39.2 (up from 35.2) percent of Group sales.

Customer loyalty of growing significance

Our success will increasingly hinge on the extent of our ability to make routine decisions that reflect our awareness of the specific needs of customers. The newly launched loyalty program "Payback" which involves our Real and Kaufhof outlet chains, is a big step forward toward tightening customer ties. The advantage of this program, which kicked off to a good start, is its possibility of participating companies from other sectors.

Concentrating on what we do best: the trading business

Given the much lower returns derivable from real-estate assets compared with those obtainable from the trading business, the significant value-growing factor is not property ownership in itself but rather the unrestricted use of such property and the superior competitive wholesale/retail concepts applied in its deployment. The transfer and conveyance of our retail property portfolio to an independent marketing company at the end of 1999 are therefore the logical continuation of our policy of adding economic value. These untied cash resources of around DM 2.4 billion will allow us to accelerate the growth of our trading business.

A new style of business: e-commerce

METRO AG is set to develop into one of Europe's leading e-commerce players.

For METRO AG and its outlet chains, the Internet along with its manifold facilities represent vast opportunities and challenges, some of which have already been seized, e.g. at Kaufhof Warenhaus AG or Metro Cash & Carry. The Internet activities will be developed into a new division with the following nuclei selected for expansion:

- Business-to-business
- Business-to-consumer
- E-venturing

The Executive Board's e-commerce strategy envisages the following essential targets:

- Involvement of management in an entrepreneurial role
- Speed in implementation
- Promising benefits for customers and partners
- Intrinsic dynamic growth through an autonomous organization

The quality of network management is crucial to the success of all these factors.

We are convinced that our strategy in this forward-looking growth business will allow us to play an important role in the European market and to cement and expand our position.

Committed to value enhancement

Committed to sustained and continuous value enhancement, METRO AG's strategy contains the following basic components: portfolio and concept optimization, and internationalization.

For a trading company, the operational business must be the overriding concern, and the development of our outlet chains into wholesale/retail brand names in their own right we regard as the key to our success.

METRO AG is pushing ahead with its policy of expansion abroad: Cash & Carry is targeting the markets of Asia in future, and Media Markt/Saturn is set to expand its market leadership within Europe; Praktiker and Real have also earmarked a number of countries for internationalization, in particular Poland and Turkey.

Proactive role in the international consolidation process

As to the future, it is our conviction that five or six global players will shape the face of international wholesale/retail trading and battle among themselves for market shares in the United States, Europe, and Japan, the world's major consumer arenas which together account for 80 percent of world retail trade. Hence, the already apparent process of consolidation will continue, a process in which METRO AG is determined to play a lead role while carefully examining any viable strategic options.

Notwithstanding the strategic decisions in favor of further expansion (either organic or through M&As) and hence more profit in the medium and long term, the utmost priority is to sustain the manageability of our business, meaning the inspired interaction of people from various cultures in different countries. The successful integration of companies is not only reflected in adding up financial data or the realization of possible synergies. The successful interplay of management resources is the factor that is instrumental in our success and it is also the one posing the greatest challenges. Our management's ability to integrate has been impressively documented by the assimilation of parts of the international Cash & Carry business.

This globalization of trade is a process that METRO AG intends to actively mold with the aid of our efficient marketing concepts, a solid home base, a high level of system orientation in the international value chain, established access to the capital markets, and a management team endowed with multicultural interpersonal skills.

Our thanks go to you as our stockholders, to our customers and business partners, and our employees for their confidence and support during the past fiscal year.

The steady enhancement of METRO AG's shareholder value remains the maxim governing our business decisions.

Yours truly,

Dr. Körber

Dr. Loose

Mierdorf

de Raad

Suhr

Metro stock

Price trend of Metro stock in 1999

In fiscal 1999, Metro stock failed to continue the 1998 price uptrend. After the common stock price had soared by 116.3 percent in 1998, it eased off by 20.0 percent (adjusted for the dividend payment) in the year under review, whittling down part of the 1998 price gains and underperforming in comparison to the German DAX (by 39.1 percent), the Dow Jones Euro Stoxx 50 (by 46.7 percent), and the Dow Jones Euro Stoxx 50 Retail (by 24.6 percent).

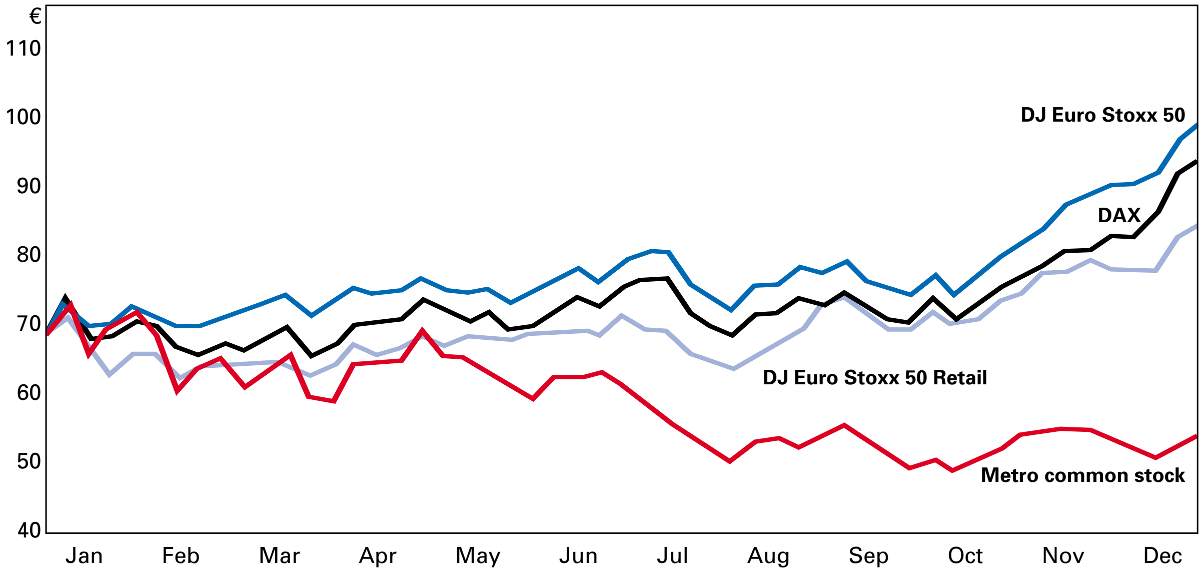
On January 4, 1999, Metro stock quotation was changed to euros (€).

Tough competitive situation impacting on price

The first week of 1999 saw Metro stock continuing its rise, its all-time high of €77.05 was recorded on January 7, 1999. Whereas news on M&As and divestments had determined the 1998 price trend, the 1999 corporate communications policy was devoted to the progress of the operations. Owing to the tough competitive environment, especially in food retailing, and sluggish consumption in Germany as compared with other European countries, Metro stock ailed as the year progressed. The Group's internationalization drive and the ensuing steady expansion of non-German business will further reduce dependency on the German market. This process is expected to be increasingly reflected in METRO AG's valuation by the market participants.

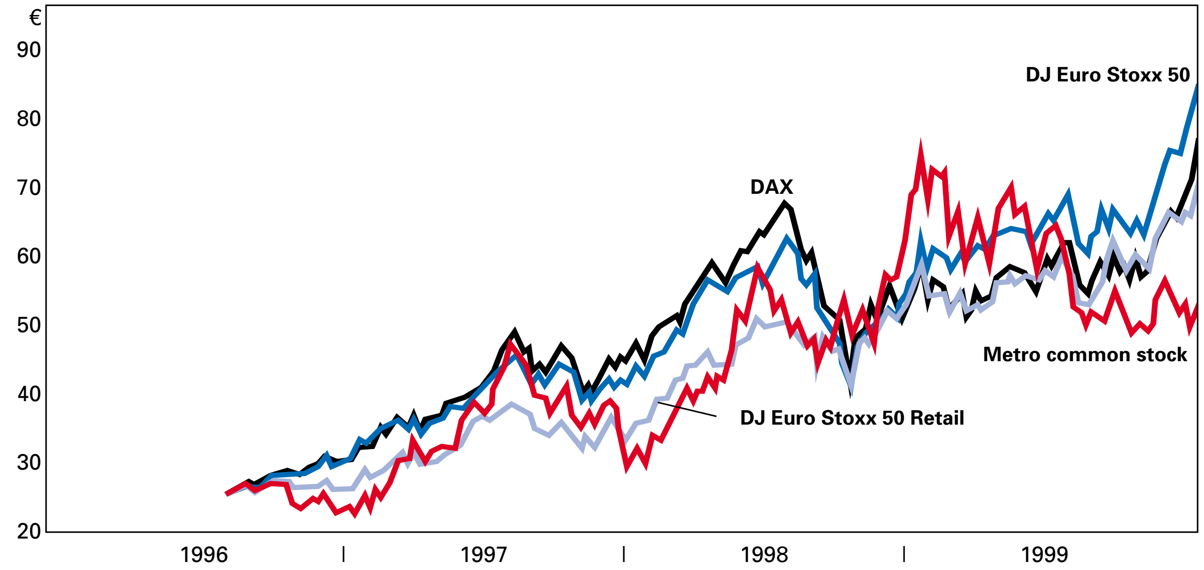
Moreover, a plethora of suspected and actual mergers had a predominant influence on the 1999 prices of European trade equities, albeit Metro stock prices failed to benefit from this trend. METRO AG's corporate policy aims at continuously raising the enterprise value.

Performance of Metro common stock in 1999[1]



[1] January 2 through December 30, 1999, Metro common stock in absolute terms; DAX, Dow Jones Euro Stoxx 50, Dow Jones Euro Stoxx 50 Retail indexed to Metro common stock. Source: Datastream

Price history of Metro common stock[1]



[1] July 25, 1996, through December 30, 1999, Metro common stock in absolute terms; DAX, Dow Jones Euro Stoxx 50, Dow Jones Euro Stoxx 50 Retail indexed to Metro common stock.Source: Datastream

Metro stock, key figures 1999

Basic data		1999	1998	1997	1996
Annual closing [1]					
Common stock	€/DM	53.40/104.44	133.00	64.50	51.67
Preferred stock	€/DM	30.00/58.67	80.30	50.20	36.25
Annual high [1]					
Common stock	€/DM	77.05/150.70	133.00	99.60	59.58
Preferred stock	€/DM	45.35/88.70	80.30	74.00	43.21
Annual low [1]					
Common stock	€/DM	47.60/93.10	59.64	50.00	50.21
Preferred stock	€/DM	25.50/49.87	46.49	35.00	36.04
Total outstanding [1]	shares	326,787,495	326,787,495	243,590,388	240,581,806
Common stock	shares	303,786,183	303,786,183	220,589,076	217,580,494
Preferred stock	shares	23,001,312	23,001,312	23,001,312	23,001,312

Profit distribution [1]		1999	1998	1997	1996
Common stock					
Cash dividend [2]	€/DM	1.02/2.00	1.02/2.00	2.00	1.67
Tax credit [3] [4]	DM	–	–	0.03	0.03
Total	€/DM	1.02/2.00	1.02/2.00	2.03	1.70
Dividend yield [5]	%	1.9	1.5	3.1	3.3
Preferred stock					
Cash dividend [2]	€/DM	1.122/2.19	1.08/2.11	2.11	1.77
Tax credit [3] [4]	DM	–	–	0.03	0.03
Total	€/DM	1.122/2.19	1.08/2.11	2.14	1.80
Dividend yield [5]	%	3.7	2.6	4.3	5.0

Data per share of Metro common stock [1]		1999	1998	1997	1996
EBITDA	DM	12.14	12.01	9.48	9.51
Earnings per share acc. to DVFA/SG					
before full deferred taxes	DM	1.69	1.43	2.30	2.25
after full deferred taxes	DM	1.27	0.78	1.26	1.56
Cash earnings according to DVFA/SG	DM	8.69	8.71	7.85	7.44
Ratio of price/book value		4.4	5.2	3.1	2.5

Market capitalization	DM bill.	33.08	42.25	15.38	12.07

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

[1] 1996 figures adjusted for the capital increase through the 7-for-5 capitalization issue of July 23, 1997
[2] 1996 dividend incl. bonus equivalent to DM 0.83 per share of common/preferred stock
[3] For German resident stockholders
[4] Solely tax-exempt equity portions were/will be used for the 1998/1999 dividends.
[5] Based on annual closing price

Long-term performance

An investor who spent €10,000 on METRO AG's common stock at the first quotation on July 25, 1996, would have held a total value of €19,485 by the end of 1999, a plus of 94.9 percent, assuming that all dividends and rights monies were reinvested. An investment in preferred stock would have climbed to €15,423 (up 54.23 percent) within the same period.

Metro stock among the most-traded DAX equities

At the end of 1999, METRO AG's market capitalization came to DM 33.1 billion. Among the DAX 30 companies, METRO AG thus ranked 18th (49th within the Dow Jones Euro Stoxx 50). In Germany, 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 European options exchange Eurex. Its 1999 trading volume rose to DM 71.8 billion, making it one of the 20 top-trading equities. Outside of Germany, Metro stock is also quoted for unofficial trading at the Vienna and Geneva stock exchanges.

Investor Relations activities further intensified

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, the United States, Southeast Asia, and the Far East. Regular events include the meeting with financial analysts after the May annual accounts press conference. Moreover, METRO AG presented itself to institutional investors at congresses for retail and wholesale operations in New York, London, Frankfurt/Main, and Paris. In late August, METRO AG's management informed the capital market in a telephone conference on the 1999 semiannual financial data. One-on-one discussions with financial analysts and investors rounded off the year's Investor Relations activities. Between January and December 1999, personal contact was maintained with representatives of more than 1,000 financial institutions at events, in-house presentations, discussions, and visits to outlets.

The advent of the euro has internationalized the capital markets even further. In response to this trend, METRO AG will be present in 2000 at all major financial centers to intensify communication with the capital markets.

Additional details

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*, 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	May 23, 2000
Annual stockholders' meeting	July 4, 2000
Interim report	late August 2000
Sales report 3rd quarter 2000	late October 2000
Quiet period	December 2000 to January 2001
Provisional sales report for 2000	mid-February 2001
Report 1st quarter 2001	early May 2001

Management report on the METRO AG Group and METRO AG

Developments within the METRO AG Group

For the METRO AG Group, a prime emphasis was the integration into Cash & Carry and Food Retail of the newcomers acquired in fiscal 1998. At Cash & Carry, this work has been completed and embraced the harmonization of structures, systems, processes as well as the assimilation of staff cultures. At Real, the job was to integrate the Allkauf and Kriegbaum outlets and make the related merchandise mix and organizational adjustments. Throughout the companies, improving the identity and profile of all the outlet chains was uppermost priority.

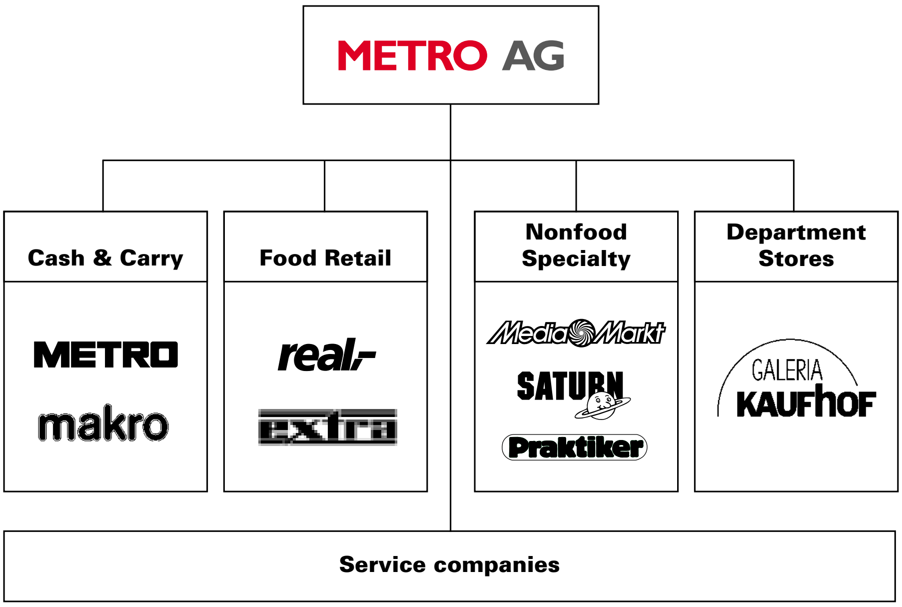
At Cash & Carry, new formats were successfully tested. To mark the occasion of the 35th anniversary, this division for the first time pooled its resources to buy a number of items appealing to customers throughout Europe which were then sold on a common marketing platform. Real's new nonfood policy was well accepted by shoppers and by the end of 2001, all of the suitable outlets are scheduled to be reformatted. The Extra food stores successfully started introducing a new marketing plan at various locations which enabled them to buck the sector trend with overproportionate growth rates. By 2001, by far most of the store network will have been converted. The Praktiker chain of outlets developed a new corporate strategy and so that this be implemented in the best way possible, METRO AG submitted to the outside stockholders of Praktiker Bau- und Heimwerkermärkte AG in October 1999 a takeover bid of €16.50 per share, expiring at December 10, 1999. This proposal proved popular with these stockholders, with the result that METRO AG was able to top up its Praktiker stake to 99.2 percent as of December 31, 1999.

The internationalization strategy being adopted at Metro/Makro, Real, Media/Saturn, and Praktiker has sharpened their edge within Europe. Cash & Carry opened 16 outlets outside of Germany (including its first three in newly accessed Bulgaria), and now has a footing in 19 nations. In Poland and Turkey, Real opened together 10 outlets while the Media/Saturn Group acquired stores in Italy and the Netherlands. Following its entry into the Spanish market, this group now operates in nine European countries. Praktiker meantime has 36 centers and is now present in seven European countries.

As part of its policy of adding economic value, METRO AG has redefined its real-estate strategy with the aim of concentrating resources on further developing and internationalizing its operational businesses. All of the retail real estate has been conveyed to a marketing enterprise, Asset Immobilienbeteiligungen GmbH & Co KG (AIB), in which METRO AG has a 49-percent interest. The shareholdings owning the real estate were transferred in December 1999 at the book values to the Group and, therefore, the retail properties were for accounting purposes treated as disposals from the METRO AG group of consolidated companies. However, the conveyance and transfer did not affect the consolidated income statement since the transaction was consummated toward 1999-end only, without being recognized in income.

The purpose of AIB is to alienate to investors on economically most favorable terms and conditions these properties through a structured marketing process extending over a period of two or three years. The net gain after deduction of a fair contingent fee will accrue to METRO AG and within the parameters of its strategic refocus, the Company will ensure its continued long-term use of these properties at fair market rates.

Group structure in 1999



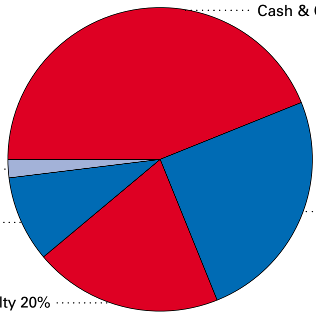
Group sales

In fiscal 1999, the METRO AG Group generated net sales of DM 85.7 billion, adjusted for company additions/transfers this represents a gain of 5.3 percent. The 6.6-percent decline in unadjusted Group sales was chiefly due to the transfer of certain companies to Divaco as of year-end 1998. The Italian Mercatone was sold in December 1999, with retroactive effect as of January 1, 1999. This company's nonfood specialty stores produced sales of DM 851 million in fiscal 1999.

To facilitate comparability, Media, Italy, which fell under "Others" in 1998, has now been moved to Consumer Electronics Centers since the latter took over this Italian business in fiscal 1999. The 1998 figures for Department Stores had still included sales from the Kaufhalle and Kaufhof branches meanwhile transferred to Divaco. The sharp drop in the sales revenues by "Others" is mainly attributable to the transfer of some of these companies to Divaco.

At DM 33.6 billion (up from DM 32.3 billion), non-German sales climbed from 35.2 to 39.2 percent of the total.

METRO AG Group's sales structure



Sales and performance trends by divisions

METRO AG Group: Trend of net sales

	1999 DM mill.	1998 DM mill.	Change vs. prev. year %
Cash & Carry	**38,045**	36,150	+ 5.2
Food Retail	**21,337**	21,052	+ 1.4
Hypermarkets	**15,586**	15,505	+ 0.5
Food Stores	**5,751**	5,547	+ 3.7
Nonfood Specialty	**16,918**	14,779	+ 14.5
Consumer Electronics Centers	**12,015**	9,870	+ 21.7
Home Improvement Centers	**4,903**	4,909	– 0.1
Department Stores	**7,824**	9,491	– 17.6
Others	**1,550**	10,232	– 84.9
METRO AG Group	**85,674**	91,704	– 6.6
thereof non-German sales	**33,555**	32,276	+ 4.0

During the period under review, the METRO AG Group showed a profit from ordinary operations of DM 1,350.2 million (up 19.2 percent) which, however, was influenced by several nonrecurring factors, mainly the one-off income from compensation for services no longer to be rendered by Real Estate after its spin-off, as well as one-time expenses related to remodeling and merchandise remixing at Food Retail and Home Improvement Centers.

Department Stores' 1998 performance had suffered from the Kaufhalle and Kaufhof branches having been transferred to Divaco at the end of the year only. To improve comparability, the year-earlier result of "Others" includes the results of the remaining companies transferred to Divaco.

Result from ordinary operations of the Group

	1999 DM mill.	1998 DM mill.	Change vs. prev. year DM mill.
Cash & Carry	**1,382.8**	1,138.7	+ 244.1
Food Retail	**32.7**	323.8	– 291.1
Hypermarkets	**105.0**	286.0	– 181.0
Food Stores	**(72.3)**	37.8	– 110.1
Nonfood Specialty	**593.0**	546.7	+ 46.3
Consumer Electronics Centers	**554.3**	493.0	+ 61.3
Home Improvement Centers	**38.7**	53.7	– 15.0
Department Stores	**243.4**	21.9	+ 221.5
Others	**252.0**	305.8	– 53.8
Divisions' result from ordinary operations before goodwill amortization	**2,503.9**	2,336.9	+ 167.0
less holding company's	**(551.3)**	(567.0)	+ 15.7
less goodwill amortization	**(602.4)**	(636.8)	+ 34.4
Result from ordinary operations	**1,350.2**	1,133.1	+ 217.1
Extraordinary result	**–**	86.3	– 86.3
less income taxes	**(549.2)**	(398.3)	– 150.9
less other taxes	**(88.0)**	(85.9)	– 2.1
Net income of the Group	**713.0**	735.2	– 22.2

Comments on sales and performance trends by divisions

Cash & Carry sales climbed 5.2 percent to DM 38.0 billion. Outside of Germany, where C&C sales produced 73.9 percent of the sales, 16 new C&C outlets opened up. Non-German business played its expected part in the result from ordinary operations of DM 1.4 billion (up from DM 1.1 billion), while C&C business in Germany generated a profit of DM 390.3 million (down by 3.9 percent).

Food Retail comprises Hypermarkets and Food Stores. The former's sales of DM 15.6 billion matched the year-earlier level. At DM 14.7 billion, sales in Germany were down by 2.2 percent due to reformatting work at a number of outlets while abroad, the expansion drive pushed sales up to DM 0.9 billion.

The result from ordinary operations came to DM 105.0 million, compared with the year-earlier DM 286.0 million, the 1999 figure containing start-up losses due to the internationalization efforts, reformatting expenses at Allkauf and Kriegbaum, and one-off income from compensation for services no longer to be rendered by Real Estate after its spin-off; such income was allocated to the outlet chains in accordance with the originator principle.

Food Stores boosted sales by 3.7 percent to DM 5.8 billion, thus putting a stop to the poor earlier-year trends. Space-adjusted sales bucked the market trend to rise 0.6 percent thanks to reformatting to the new Extra concept. The necessary remodeling work and a new pricing strategy shrank the result from ordinary operations to a loss of DM 72.3 million (previous year: a profit of DM 37.8 million).

Nonfood Specialty is made up of Consumer Electronics Centers and Home Improvement Centers. The former raised sales (partly because of acquisitions) by 21.7 percent to DM 12.0 billion, the additional 23 markets acquired from Media-World in Italy lifting sales by DM 1.1 billion. The Media Saturn Group augmented its branch network with another 16 stores abroad and 26 at home. Non-German sales already account for DM 3.3 billion or 27.6 percent of the total. Despite steep start-up expenditure due to expansion (Poland, Spain, Netherlands), the result from ordinary operations gained DM 61.3 million to reach DM 554.3 million.

At DM 4.9 billion, the Home Improvement Centers matched the year-earlier level of sales, like-for-like sales slipped by 4.2 percent. In Germany, sales receded by 4.0 percent to DM 4.3 billion. Outlets outside of Germany raised their share of total sales to DM 652.9 million or 13.3 percent (up from 9.5 percent). Poor sales, the slight increase in internationalization expenditure and the costs for reformatting the Praktiker Group all combined to depress the result from ordinary operations to DM 38.7 million, which includes one-time income from compensation for services no longer to be rendered by Real Estate after its spin-off.

Department Stores generated sales of DM 7.8 billion, after deduction of those branches transferred to Divaco in December 1998. Due to the conversion work, the Kaufhof outlets fell just short of year-earlier sales (down 1.1 percent). The 66 Galerias did well and gained 1.2 percent sales. At DM 243.4 million, the result from ordinary operations was up by DM 221.5 million, despite heavy expenditure. The year before, those stores meanwhile transferred to Divaco had still been a severe drain on the 1998 profits.

In the case of **Others**, the 1998 column includes sales generated by the outlet chains transferred to Divaco: Computer Centers (DM 4.9 billion), Discounters (DM 1.4 billion), Fashion Centers (DM 1.3 billion), and Footwear Centers (DM 0.9 billion). Also listed are the corresponding year-earlier results: Computer Centers (DM 27.1 million profit), Discounters (DM 98.1 million loss), Fashion Centers (DM 108.1 million profit), and Footwear Centers (DM 1.7 million profit). During the period under review, sales by Others were mainly generated by Gemex (DM 0.6 billion) and Dinea (DM 0.4 billion). Also included under this caption is the result from ordinary operations of Real Estate amounting to DM 128.3 million (down from DM 131.1 million).

Group profit and earnings per share according to DVFA/SG

In fiscal 1999, the Group's net income of DM 713.0 million fell 3.0 percent short of the prior year's. After deducting the third-party profit & loss shares, the Group's net income allocable to METRO AG's stockholders amounts to DM 541.8 million (down 5.6 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 eV (German Association of Financial Analysis and Investment Consultancy, or "DVFA") and Schmalenbach Gesellschaft für Betriebswirtschaft eV (German Society of Business Administration, or "SG"). Contrary to the prior-year practice, the DVFA/SG-based result was calculated without adjusting it for goodwill amortization.

For any fiscal year commencing after December 31, 1998, the result according to DVFA/SG must account for the full deferred taxes. METRO AG exercises the convenience option of solely accounting for differences between financial and tax accounting accruals and for the effects of tax loss carryovers. With a view to ensuring comparability with prior-year financial information, earnings per share (EpS) before full deferred taxes were determined, too: For the year under review, such EpS amounted to DM 1.69 (up from DM 1.43). Including the full deferred taxes, EpS according to DVFA/SG ran up to DM 1.27 (from DM 0.78).

The diluting effects of the convertible bond issue floated on July 9, 1998, and of the grant of stock options to executive staff are either inexistent or negligible.

METRO AG Group: Determination of 1999 earnings according to DVFA/SG

DM million	Income/expenses adjustable for 1999	Income/expenses adjusted in DVFA/SG account
Net income		**713.0**
Income:		
Gains from fixed-asset disposals	(83.9)	0.0
Income from the release of accruals	(261.6)	0.0
Net subtotal, income	**(345.5)**	**0.0**
Expenses:		
Transfer to untaxed/special reserves	19.9	10.6
Net subtotal, expenses	**19.9**	**10.6**
Result acc. to DVFA/SG before full deferred taxes		**723.6**
Third-party profit shares		(171.2)
DVFA/SG-based result before full deferred taxes excl. third-party profit shares		**552.4**
Number of shares outstanding and ranking for 1999 dividend (million)		326.8
Earnings per share acc. to DVFA/SG before full deferred taxes (DM)		**1.69**
DVFA/SG-based result before full deferred taxed excl. third-party profit shares		552.4
Deferred tax assets from individual financial statements		(135.8)
DVFA/SG-based result after full deferred taxes		**416.6**
Earnings per share acc. to DVFA/SG after full deferred taxes (DM)		**1.27**

Comments on the DVFA/SG account

In line with the DVFA/SG Commission's recommendations, adjustments totaling DM 10.6 million were added to determine the corresponding result. Adjustment amounts account only for the Group's share and are stated after taxes. The table below breaks down the 1996-1999 DVFA/SG-based results into the amounts before and after full deferred taxes.

	1999	1998	1997	1996
Result acc. to DVFA/SG before full deferred taxes (DM million)	**552.4**	466.3	561.2	540.8
Result acc. to DVFA/SG after full deferred taxes (DM million)	**416.6**	256.1	307.1	375.3
EpS according to DVFA/SG before full deferred taxes (DM)	**1.69**	1.43	2.30	2.25
EpS according to DVFA/SG after full deferred taxes (DM)	**1.27**	0.78	1.26	1.56

Cash flow and capital expenditure in the Group

The METRO AG Group's cash earnings were determined in accordance with DVFA/SG recommendations and reached DM 3,012.1 million (up 0.1 percent), thus just (1.9 percent) under the DM 3,071.3 million of funds used for investing in tangible and intangible assets (excluding M&A transactions). The 1999 DVFA/SG-based cash earnings per share amounted to DM 8.69 (excl. third-party P/L shares).

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

DM million	**1999**	1998
Group's net income	**713.0**	735.2
Amortization/depreciation/write-down of fixed assets	**2,306.5**	2,384.2
Straight cash flow	**3,019.5**	3,119.4
Change in noncurrent accruals	**19.2**	(27.0)
Transfer to untaxed/special reserves	**19.9**	10.3
Remaining noncash items, net	**(46.5)**	33.3
Cash earnings	**3,012.1**	3,136.0
Adjustment for major cash-based income	**–**	(128.1)
Cash earnings according to DVFA/SG	**3,012.1**	3,007.9
Third-party shares	**(171.2)**	(161.5)
Cash earnings acc. to DVFA/SG excl. third-party shares	**2,840.9**	2,846.4

Cash & Carry invested DM 893.5 million, mainly for the fresh produce areas at the existing outlets, for the development and implementation of new outlet formats, and for expanding within the eastern part of Europe and the PR China.

At Food Retail, the ongoing modernization and restructuring of the existing Real network and expansion outside of Germany together entailed expenditure to the value of DM 402.6 million while at Extra, the remodeling of the Food Stores and the integration of the newly acquired locations caused capital expenditure to accelerate to DM 150.1 million.

New locations and the revamping and expansion of existing Consumer Electronics Centers meant an appreciable upswing in Nonfood Specialty expenditure to DM 370.3 million while the Home Improvement Stores' expenditure of DM 74.3 million mainly concerned the newly opened and the remodeled stores, as well as replacement items.

Investments by Department Stores reached DM 386.6 million, chiefly for further Galeria reformatting, fitting out the Sportarena and Emotions outlets and opening two new Sportarena and one Lust-for-Life store.

Among the Others, Real Estate spent DM 566.5 million, primarily on securing properties in and outside Germany and on building construction. As the domestic retail properties were transferred to AIB only at the end of 1999, the expenses are still fully recognized in METRO AG's consolidated income statement.

METRO AG Group: Consolidated statement of cash flows[1]

DM million	1999	1998
Gross operating cash flow	**18,958.4**	19,881.1
Outflow of other operating funds	**(14,993.4)**	(16,663.2)
Cash flow from operating activities	**3,965.0**	3,217.9
Cash flow from investing activities	**(4,039.5)**	(5,757.2)
Cash flow from financing activities	**(881.1)**	4,268.9
Total cash flows	**(955.6)**	1,729.6
Exchange rate effects on cash and cash equivalents	**(7.2)**	(3.2)
Overall change in cash and cash equivalents	**(962.8)**	1,726.4
Cash and cash equivalents at January 1	**3,235.1**	1,508.7
Cash and cash equivalents at December 31	**2,272.3**	3,235.1

[1] Abridged; for full statement, see the annual accounts, Note (6).

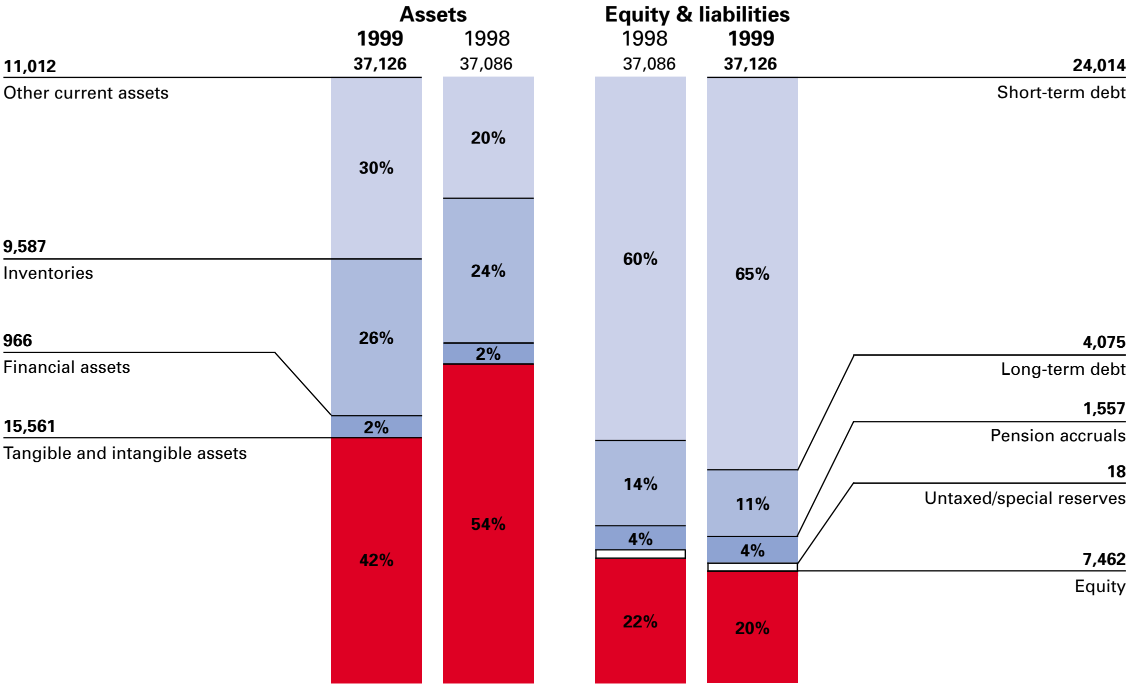
Asset and capital structure of the Group

METRO AG's 1999 consolidated balance sheet shows an equity capital of DM 7,462 million, which covers 45.2 percent of fixed assets. Total assets of DM 37,126 million bring the equity ratio to 20.1 percent. Net financial accounting indebtedness amounts to some DM 5,647 million, or 15.2 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 conveyance and transfer of the retail properties as of 1999 year-end.

METRO AG Group: Balance sheet structure

DM million



Liquidity, interest rate and currency management

Liquidity (or cash) management aims to provide sufficient liquid funds and to eliminate or reduce unforeseen financial eventualities (financing and investment risks) for the METRO AG Group. For these purposes, the Group had confirmed bank credit facilities as of fiscal year-end of DM 11.7 billion at its disposal, including DM 8.7 billion with a remaining term of one year or less.

In view of the increasing importance of the Euro-capital market as a refinancing source, a new 3.0-billion euro commercial paper program was set up in 1999 as an additional financing tool, to succeed the previous DM 2.5 billion CP program. Utilization averaged €0.7 billion in 1999.

With a view to hedging against interest rate and currency risks and exposures, 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. Contracting and settlement are segregated; derivatives contracting is strictly confined to prime banks as counterparts for which, moreover, specific transaction ceilings are stipulated on a case-by-case basis.

Translated into a financing term of ten years and based on the 1999 long-term finance plan, 87 percent of the entire long-term interest rate risk was covered by fixed-income or straight bonds and fixed-rate loans (63 percent), as well as by interest rate derivatives (24 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.

Business risks and risk management

As a trading organization, the METRO AG Group is exposed to the risks typical of such business, with demand for consumer goods, both retail and wholesale, largely determining sales and earnings throughout the business units. Such risks are abated by the variety of outlet chains and divisions, and by the policy of international diversification.

The METRO AG Group is committed to internationalization, specifically in the rapid-growth markets of central and eastern Europe and the PR China, markets where above-average business opportunities have been identified, however, whose economies are more volatile and crisis-prone as far as trading is concerned, with the attendant capital market and political imponderabilities.

The German Act on Corporate Control & Transparency ("KonTraG"), enacted in May 1998, makes clear the obligation on the executive board of a corporation to establish and document a risk management system so that potentially ruinous risks jeopardizing the company's existence as a going concern can be detected early on. Moreover, an executive board's scope of mandatory reporting to the supervisory board and stockholders has been widened.

What did METRO AG accomplish in fiscal 1999 to comply with the KonTraG requirements?

A Metro KonTraG Conference was organized to sharpen the awareness of executives throughout the Group with the requirements of this legislation. During the conference proceedings, groupwide risk management documentation was presented and will be further developed in conjunction with the subsidiaries. Besides questions of policy, a comprehensive documentation looks into the planning and reporting systems, as well as the control and early warning systems. To this end, the Group companies' risk-prone areas were charted; moreover, the statutory auditors of all the national and international Metro Group companies were familiarized with the corporate standards and policies.

The risk management system requirements identified at the KonTraG Conference have led to commensurate action on the part of the Group companies and the measures adopted are being continuously refined. A key aspect is to minimize the operating and organizational risks related to reliance on computer centers and networks as well as processes critical to Metro's business. All these functions are bundled at MGI, the IT subsidiary, where just as at other group companies, risks have been identified, itemized and then quantified according to probability of occurrence and financial repercussions. As part of the risk management system, risk minimization action has been defined along with the early warning threshold indicators.

In the fourth quarter of 1999, METRO AG's credit standing was assessed by the two notable rating agencies Moody's Investors Service and Standard & Poor's Ratings Services. The aim was an early positioning of METRO AG within the growing Eurocredit market where in 1999 the volume of corporate bonds more than quintupled.

At the end of March 2000, METRO AG was assigned the following ratings (long/short term):

- Baa1/P-2: Moody’s
- BBB+/A-2: Standard & Poor’s

For METRO AG, these credit ratings will facilitate a refinancing policy more closely focused on the capital market.

Another risk management priority was to minimize possible Y2K repercussions: there were no adverse effects on business operations.

How is risk management organized within the METRO AG Group?

Risk management systems are among the instruments of management and within the METRO AG Group they are configured to match the requirements of a diversified trading organization composed of locally managed trading units.

The empowerment of country management at the outlet chains reflects Metro's policy of delegating responsibility, a policy whereby each outlet chain and its entire management enjoy the freedom of autonomous operation. Each country management and each outlet chain parent have an extensive controlling system that monitors business within the outlet chain and then notifies management of any budget-actual variances.

During the current fiscal year each of the outlet chains and service companies will report to, and be assisted by, one of the members of the METRO AG Executive Board, regarding strategic, personnel, and organizational issues.

All of the outlet chains and service companies are integrated within a uniform corporate strategy, planning and budgetary process, which ranges from an analysis of the market and competitive environment via action programs to the quantifying of essential indicators which will benchmark targets and activities for operations management over the next three years. Another key element is a systematic benchmarking process at both national and international level. Reporting is weekly and monthly and any variances are identified, analyzed and reported to the Executive Board along with suggestions on how to seize offsetting opportunities and avoid possible risks.

Internal Auditing checks the Group's internal workings for such aspects as security, rule compliance and cost-efficiency. One of its focal points is to spot any weaknesses and irregularities as well as devise mechanisms to prevent possible repetition.

Any potential loss and liability are covered by insurance, so that the Group's liquidity, finances and earnings will not suffer from the consequences.

METRO AG has a number of service units and functions available to the Group in its entirety. These have the advantage of bundling some of the risks and risk management functions at one central point within the Group.

Each of the countries earmarked for international expansion is first thoroughly analyzed for feasibility. The general policy in entering new markets is for Cash & Carry as the outlet chain with most international experience, to assume the pioneering role, followed by the retail operations in measured steps. The action is undertaken by each of the divisions or outlet chains and masterminded by METRO AG. The purpose is to detect and quickly exploit any opportunities without losing sight of possible business risks. Additionally, political imponderabilities inherent to certain regions of the globe are covered by insurance.

In all, an analysis of the present risk status does not reveal any that might now or in future jeopardize the Company's survival.

Annual financial statements of METRO AG

In its annual financial statements as of December 31, 1999, METRO AG as parent company of the METRO AG Group shows total assets of DM 18.4 billion (up from DM 16.6 billion). On the asset side, financial assets, accounts due from Group companies, as well as the amount receivable from Asset Immobilienbeteiligungen GmbH prevail, the latter being due from the conveyance of the retail properties. Total financial assets rose largely through acquisitions and additional share purchases at Hypermarkets, Home Improvement Centers and Department Stores, as well as due to higher loans to Group companies, while they decreased in the wake of the real-estate disposal and Metro Immobilien Holding GmbH's merger into METRO AG. The net financial indebtedness soared by DM 2,385.3 million to DM 2,370.2 million (from a prior-year surplus of DM 15.1 million).

METRO AG's net income came to DM 928.8 million and was mainly earned from investments in subsidiaries. After retaining earnings of DM 272.3 million and their transfer to reserves, METRO AG's unappropriated retained earnings total DM 656.5 million. The Company's equity ratio is 41.5 percent (down from 44.3).

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 did the position of the court proceedings nor the arguments submitted by the applicants give rise to any reason for doubting the correctness of the exchange ratios determined in the merger agreements. Recently, the Regional Court of Cologne held in its (still appealable) decision of February 16, 2000 that the petitions by the former outside Kaufhof stockholders for additional cash compensation were unfounded.

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, 1999

Assets

DM million	Balance at Dec. 31, 1999	Balance at Dec. 31, 1998
Fixed assets		
Intangible assets	**0.338**	0.344
Tangible assets	**3.848**	4.495
Financial assets	**10,911.312**	10,600.088
	10,915.498	10,604.927
Current assets		
Receivables and sundry assets	**7,406.001**	4,721.079
Short-term securities	**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	**13.526**	21.362
	18,393.575	16,606.231

Stockholders' equity and liabilities

DM million	Balance at Dec. 31, 1999	Balance at Dec. 31, 1998
Stockholders' equity		
Capital stock	**1,633.937**	1,633.937
Capital reserve	**4,541.850**	4,541.850
Reserves retained from earnings	**798.190**	525.845
Unappropriated retained earnings	**656.512**	654.623
	7,630.489	7,356.255
Untaxed/special reserves	**–**	69.529
Accruals	**745.182**	640.106
Liabilities	**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	1999	1998
Income from investments	**1,888.974**	1,362.802
Net financial result	**(117.665)**	(185.441)
Other operating income	**328.591**	440.516
	2,099.900	1,617.877
Personnel expenses	**(304.464)**	(105.702)
Amortization of intangible and depreciation of tangible assets	**(5.678)**	(3.879)
Other operating expenses	**(868.873)**	(711.576)
	(1,179.015)	(821.157)
Result from ordinary operations	**920.885**	796.720
Extraordinary result	**–**	(42.136)
Income taxes	**10.992**	(0.122)
Other taxes	**(3.020)**	(5.312)
Net income	**928.857**	749.150
Transfer to reserves retained from earnings	**(272.345)**	(94.527)
Net earnings	**656.512**	654.623

Profit appropriation

METRO AG's Supervisory and Executive Boards will propose to the annual stockholders' meeting on July 4, 2000, to appropriate the profit of DM 656.5 million (€335.7 million), which remains after transfer to the reserves retained from earnings, as follows:

- Distribution of a cash dividend of €1.020 (~ DM 2.00) for each common share
- Distribution of a cash dividend of €1.122 (~ DM 2.19) for each preferred 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.

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 2000, METRO AG does not expect any sustained improvement in its trading climate, especially in Germany (some 60 percent of sales) where consumer demand is not likely to rally appreciably.

METRO AG is looking to a sales growth in the region of 5-7 percent for the Group, the main sales risk factors being weaker-than-forecast economic uptrends in Germany or elsewhere in Europe, apart from the repositioning programs within Food Retail and Home Improvement Centers.

Now that Department Stores and Cash & Carry have made their Internet debuts, METRO AG itself intends to e-commerce to an increasing degree.

The international drive being undertaken by Cash & Carry, Real, Media/Saturn, and Praktiker will help METRO AG strengthen its outstanding position in a Europe whose markets are converging.

The METRO AG Group has earmarked around DM 2.8 billion in order to further develop and revamp the merchandising formats within its stores as well as for the purpose of organic expansion.

METRO AG will therefore continue to pursue the 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 1999 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

German economic growth weakened markedly in 1999, with real gross domestic product rising by 1.5 percent (down from 2.2 percent). Any existing growth was driven by plant and equipment spending (up a real 5.1 percent) and sundry capital expenditures, which climbed a real 9.4 percent. Real capital outlays for new construction work idled unchanged at 0.0 percent, albeit the longstanding decline did not worsen. Private spending increased by a real 2.1 percent, falling slightly short of the 2.3-percent gain in the previous year.

The public sector on the other hand exercised, if anything, a constricting impact on market growth, with public spending persisting at about the prior-year level (up a real 0.2 percent). At DM 45.9 billion, the net financial deficit was much smaller than the preceding year's DM 64.5 billion. In addition, the deficit rate, at 1.2 percent of GDP, was well under the 3-percent ceiling set by the Maastricht Treaty. Exports failed to stimulate the German economy. In fact, imports rose more strongly (up 7.1 percent) in real terms than exports (up 4.2 percent), resulting in a drop in real net exports by some DM 27 billion.

During 1999, the disposable income of private households (in respective prices) climbed 2.3 percent compared with a 2.8-percent increase in 1998. This meant that growth in the population's nominal purchasing power was lower than that of private spending (up a nominal 2.9 percent). Consequently, less money was saved, the savings rate dropping from 10.0 percent to 9.3 percent. The cost-of-living index inched up just 0.6 percent.

The situation in the labor market improved slightly. On an annual average, some 4.1 million unemployed were registered (down 4 percent). The jobless rate (as a share of the civilian working population as a whole) fell on an annual average to 10.5 percent (down from 11.1 percent). In western Germany unemployment fell to 8.8 percent on average (down from 9.4 percent) and in the eastern part of the country to 17.6 percent (down from 18.2 percent).

Retail and wholesale trades

German retail sales climbed a nominal 1.3 percent in 1999, totaling DM 974.3 billion. In real terms, this represents an increase of 0.9 percent.

The Federal Statistics Office reported for 1999, in nominal terms, increased sales by pharmacies (up 4.3 percent) and car dealers (up 3.6 percent) as well as higher retail sales of radio and television sets and phono equipment (up 5.0 percent) and shoes (up 1.4 percent). On the other hand, retail sales of textiles (down 0.6 percent) and home furnishings (down 1.3 percent) and mail-order business (down 1.1 percent) fell short of their year-earlier levels. A.C. Nielsen measured a nominal sales decline of 0.1 percent for the German food retail trade. The Federal Association of German Do-It-Yourself Stores, Home Improvement & Garden Centers estimated sales growth at a nominal 1.3 percent for its sector.

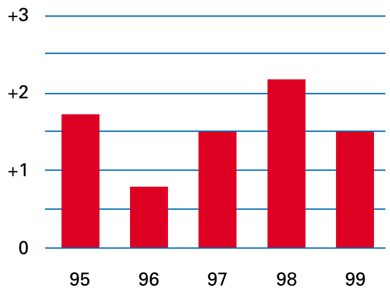
In 1999, strict retail trade sales (i.e., excluding motor car, fuel, gasoline, lubricant and pharmacy sales) increased by a nominal and real 0.7 percent, meaning for the sixth consecutive year a smaller rise than in the retail sector as a whole. Its share of private consumption expenditure was again down during the period. Given the only measured rise in disposable income, consumers cut back on durables and nondurables while spending more on travel, rent, and telecommunications.

Fierce competition coupled with sluggish demand led to falling food prices for consumers. The price index for food and nonalcoholic beverages fell by 1.3 percent whereas the strict retail price index remained unchanged.

In 1999, German wholesale trade sales (excluding motor cars) rose in nominal terms by 0.2 percent. Wholesale prices receded by 0.8 percent, meaning that real sales growth in the wholesale trade came to 1.0 percent. Whereas wholesale trading in food, beverages and tobacco performed poorly (down a nominal 2.6 percent), consumer durables and nondurables recorded sales growth of a nominal 2.9 percent.

Gross domestic product[1]

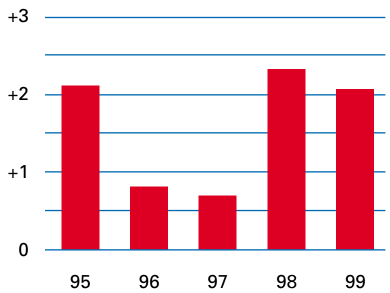
Real % change



[1] Basis 1995 = 100

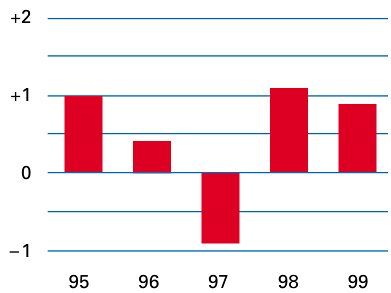
Private consumption expenditure

Real % change



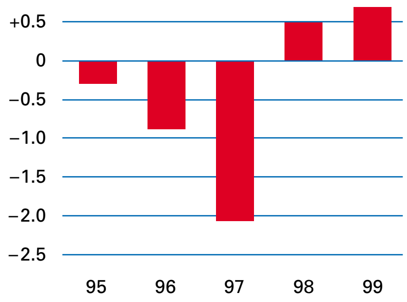
Retail trade sales

Real % change

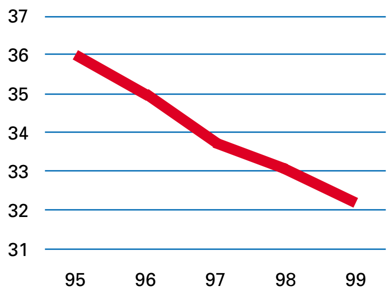


Strict retail trade sales[1)]

Real % change



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



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

Europe

Western European countries suffered loss of growth during the spring of 1999, not least owing to the difficulties in East Asia. Although the forces of economic upswing prevailed again during the second half of the year, the rise in real GDP failed to match the prior-year level, except in Sweden and Greece. On average, real macroeconomic growth in Western Europe came to 2.0 percent, although major players such as Germany, Italy and Great Britain failed to reach this level.

Virtually everywhere in Western Europe gross capital investment clearly out-grew overall demand. Private spending supported economic activity whereas creeping-up public spending had a somewhat dampening effect. Public-sector budgets remained on their austerity course throughout Western Europe – and especially in the Euroland countries.

The euro's depreciation together with again advancing raw material prices, particularly for crude oil, made imports much more expensive. Nevertheless, price movement in Euroland and in the other countries of Western Europe was very restrained. With consumer prices climbing 1.3 percent on average (up from 1.2 percent), there were no discernible inflationary trends.

In central eastern Europe macroeconomic growth slowed down somewhat in 1999, the reasons being the continuing effects of the Russian crisis and weaker business activity in Western Europe.

The central eastern European countries that have the status of EU accession candidates achieved a total rise in real GDP of 1.6 percent in 1999 (down from 1.7 percent). GDP contracted more strongly in Romania (down a real 3.9 percent) and Lithuania (down a real 4.0 percent). Economic growth was strongest in Poland, Hungary, and Slovenia.

Real GDP and consumer prices in industrialized nations

Real % change

	Relative weight	Gross domestic product		Consumer prices[2]	
	in %[1]	1999	1998	1999	1998
Germany	9.9	1.5	2.2	0.9	0.6
France	6.7	2.5	3.4	1.0	0.7
Italy	5.4	1.3	1.4	1.5	2.0
Spain	2.7	3.7	4.0	2.3	1.8
Netherlands	1.7	3.5	3.7	2.2	1.8
Belgium	1.1	1.9	2.9	1.2	0.9
Austria	1.0	2.1	3.3	0.7	0.8
Finland	0.6	3.9	5.6	1.3	1.5
Portugal	0.5	2.9	3.5	2.3	2.7
Ireland	0.4	7.9	8.9	2.2	2.2
Luxembourg	0.1	3.1	5.7	1.2	1.0
Euroland	**30.1**	**2.1**	**2.8**	**1.3**	**1.1**
Great Britain	6.4	1.6	2.2	1.5	1.6
Sweden	1.1	3.2	2.6	1.1	1.0
Denmark	0.8	1.5	2.7	2.0	1.4
Greece	0.5	3.0	3.0	2.6	4.6
European Union	**38.9**	**2.1**	**2.7**	**1.3**	**1.3**
Switzerland	1.2	1.5	2.1	0.6	0.1
Norway	0.7	1.0	2.1	2.2	2.0
Western Europe	**40.8**	**2.0**	**2.7**	**1.3**	**1.2**
USA	39.0	3.9	4.3	2.1	1.6
Japan	17.4	0.8	– 3.0	– 0.2	0.7
Canada	2.8	3.6	3.1	1.8	1.0
Total countries	**100.0**	**2.6**	**2.3**	**1.4**	**1.3**

[1] Based on gross domestic product for 1998; on a dollar basis at 1998 exchange rates (annual average)
[2] Western Europe (excluding Switzerland): harmonized retail price index

Source: DIW, the Berlin-based German Institute for Economic Research

Real GDP and consumer prices in central eastern Europe

Real % change

	Relative weight	Gross domestic product		Consumer prices	
	in %[1]	1999	1998	1999	1998
Bulgaria	4.3	2.5	3.5	0.3	22.3
Estonia	1.2	– 1.5	4.0	3.3	8.2
Latvia	1.4	– 0.5	3.6	2.0	4.7
Lithuania	2.4	– 4.0	5.1	0.9	5.1
Poland	38.3	4.1	4.8	7.3	11.7
Romania	14.8	– 3.9	– 7.3	45.8	59.0
Slovakia	6.5	1.5	4.4	10.0	6.7
Slovenia	3.6	3.7	3.0	6.1	8.0
Czech Republic	16.4	– 0.6	– 2.3	2.1	10.7
Hungary	11.1	4.0	4.9	10.2	14.4
Total countries	**100.0**	**1.6**	**1.7**	**12.0**	**18.5**

[1] As % according to 1997 GDP by purchasing power parity (PPP)

Source: Institut für Weltwirtschaft, Kiel

Country review

Country	Population in 1998[1) total in 1,000	per km²	Gross national product (GNP) per capita, in US$ based on 1998 purchasing power parities[1)	Gross domestic product (GDP) in US$ billion, 1999 total[2)	Private consumption expenditure in US$ billion, 1999 total[2)	Trading in consumer goods in US$ billion, 1999 total[3)	in % of Germany
Austria	8,088	96	22,740	207	115	46	9
Belgium	10,207	334	23,480	246	134	61	12
Bulgaria	8,243	74	4,040[4)	12	10	4	1
PR China	1,238,599	129	3,220	1,037	485	300	56
Czech Republic	10,286	130	10,521[4)	54	28	16	3
Denmark	5,303	123	23,830	175	88	40	8
France	58,782	108	22,320	1,435	788	331	62
Germany	**82,115**	**230**	**20,810**	**2,109**	**1,218**	**531**	**100**
Great Britain	59,055	244	20,640	1,431	935	451	85
Greece	10,548	79	13,010	123	88	38	7
Hungary	10,116	109	7,220[4)	49	28	16	3
Italy	57,589	191	20,200	1,165	697	367	69
Luxembourg	427	165	37,420	[5)	[5)	[5)	[5)
Morocco	27,811	62	3,120[4)	33	23	14	3
Netherlands	15,698	378	21,620	392	197	91	17
Poland	38,666	119	6,740	800	97	55	10
Portugal	9,951	108	14,380	107	71	37	7
Romania	22,485	94	3,970	32	24	14	3
Spain	39,325	78	16,060[4)	588	350	136	26
Switzerland	7,106	173	26,620	257	157	55	10
Turkey	63,451	82	6,297[4)	213	138	80	15

1) Source: World Bank 1999
2) Source: FERI forecast
3) Source: FERI forecast and Metro estimates
4) Source: World Bank, latest available figures 1995–1997
5) No data available

Division reports

Cash & Carry

Accounting for 44.4 percent of sales, Cash & Carry reconfirmed its ranking in 1999 as the prime source of business within the METRO AG Group. In 19 countries, the Metro and Makro outlet chains are offering business customers and large institutional consumers a broad and richly assorted range of food, with special emphasis on fresh produce, as well as a wide mix of nonfood items for general business needs. Compared with traditional wholesalers, the advantages of the Cash & Carry division are its low prices, the broad assortment of merchandise, extended business hours during the week, and off-the-shelf merchandise availability in both large and small quantities. With its multifold proven merchandise mix competence, Cash & Carry is a one-stop shopping outlet offering business customers exceptional service and value for money.

Well-known manufacturing brands and a strong range of private labels at attractive prices are essential elements of the Cash & Carry outlets. Quality is an overriding consideration in the selection of merchandise assortment, and in conjunction with shoppers and suppliers, Cash & Carry analyzes customer quality expectations while continuously monitoring outlet compliance.

This focus on low prices by Cash & Carry is reflected throughout the outlets in their highly functional design and fittings, plus a keen cost awareness by staff working at both the outlets and headquarters.

"Cash & Carry" stands for system orientation as expressed in clearly defined concepts and the use of the latest computerized processes and procedures. Customer focus and benefits enjoy the utmost priority when deploying this system with a view to satisfying customer demand even more efficiently and in the best way possible. The sales areas are designed to a specific pattern and hence easily transferable. A modular outlet concept has been developed and tailored to the local national competitive environments and customer potentials, along with a matching mosaic for the respective product mixes. Combined, these factors are ideal for promoting the ongoing expansion and internationalization of the Cash & Carry business.

Strategic activities during the fiscal year

The rollout in Bulgaria took place in March 1999 with two C&C outlets opening on one and the same day, followed by a third only a few months later in September. In its very first year of business METRO AG thus established itself as the most important trader in Bulgaria and both sales and profit have outpaced expectations.

From the central government in the PR China and after protracted negotiations, Metro Cash & Carry GmbH was the first Western trader to be awarded a national license for operating C&C outlets, an advantage that will facilitate dealings at local level and represents a breakthrough for accelerated expansion over the coming years.

A new C&C format is presently being tested in Germany, "Markt der Zukunft" or Outlet of Tomorrow. Existing branches in Mannheim and Duisburg were the first to undergo a thorough revamp to modern standards of store fittings while Ludwigshafen saw the opening of a totally new style of C&C, designed to the latest research and with 15,000 m² selling space. A hallmark of all three outlets is the innovative merchandise display within the nonfood zones while the food departments emphasize "freshness" (e.g., freshly caught fish and their own in-store self-service baker's shop). Sales figures and customer response prove that this is the direction to take. A London Makro C&C outlet likewise launched a new approach and here, too, the results exceeded expectations, encouraging the pursuit of this path.

In 1999, Metro's Cash & Carry, Europe's number 1, celebrated its 35th anniversary and to mark the occasion last September, items highly appealing to customers throughout Europe were for the first time pooled, purchased and marketed under an identical campaign. Customers were delighted with the attractive prices asked for well-known quality products. The campaign, accompanied by pan-European marketing, was a great success and will be followed by similar multinational projects in future.

The Metro and Makro outlet chains have now been completely and successfully integrated under the umbrella of Metro Cash & Carry GmbH. Structures, systems and processes have dovetailed and a feeling of "togetherness" has been fostered. A written poll among over 1,000 managers in all the Metro and Makro countries confirms that the process of cultural integration has succeeded.

International C&C business progressing well

The Cash & Carry business generated sales of DM 38.0 billion during the period under review, a growth of 5.2 percent (same-space sales, up 2.7 percent), with sales in Germany inching up 1.0 percent to DM 9.9 billion (same-space, up 1.7 percent). Business in Europe outside of Germany progressed well, rising 6.3 percent to DM 27.2 billion (like-for-like, up by 2.8 percent). In the PR China, sales climbed 33.5 percent to DM 575.3 million (LFL, up 19.5 percent). Non-German sales accounted for 73.9 percent (up from 72.8 percent) of the total.

Result from ordinary operations

The year under review was yet another period in which Cash & Carry business largely contributed to total earnings at METRO AG. Primarily due to the first-time inclusion of trade-related services plus improved earnings by the operating units, the result from ordinary operations advanced from DM 1.1 billion to DM 1.4 billion.

Branching out internationally

Metro Cash & Carry GmbH added another 16 outlets to its international network in the course of fiscal 1999. Expansion within central eastern Europe progressed briskly. The first three C&C branches opened in Bulgaria, while another three C&C outlets in both Poland and the Czech Republic cemented the division's position as the premier trader in these countries. In Hungary, a further newly opened C&C consolidated leadership in this market, too. Expansion in the PR China continued with two new branches while in France, another two Eco outlets came on stream in their function as specialty wholesalers satisfying the basic needs of food retailers and the horeca sector. One more C&C outlet was opened in both Spain and the Netherlands.

Strategic investments

Expenditure by Cash & Carry added up to DM 893.5 million in fiscal 1999, with expansion in central eastern Europe and PR China again enjoying high priority. Spending again went toward expanding the sophisticated fresh-produce business as well as developing and implementing new outlet concepts.

Workforce at home and abroad

Trading is a service and as such thrives on people that serve. The success of Cash & Carry hinges on the efforts and skills of the employees in 19 countries whose professional proficiency and cultural background serve as a valuable source of ideas and originality. Those working for Cash & Carry enjoy the advantage of international management succession and career planning schemes.

The annualized average number of employees came to 56,090 (translated into full-timers), hereof 14,745 in and 41,345 outside of Germany.

Strategic outlook

Well aware that their outlets will never stand out by standing still and that survival hinges on continuously improving service and value, both Metro Cash & Carry GmbH as management holding company and the national units are pushing ahead with strategic projects in order to promote innovation and the development of new business fields for customer benefit enhancement. Modern C&C concepts cover both the merchandise mix and outlet layout/fittings. Internationally reproducible concepts aim at making shopping even more efficient and more agreeable while sharpening the outlets' own profile amid competition. E-commerce opportunities have been tested in the course of pilot projects with commercial customers in Germany and the Netherlands, with professional customer marketing programs generating added information and emotional benefits aimed at strengthening customer loyalty.

The international expansion drive will continue unabated, especially in central eastern Europe and Asia, while steps are underway for a Vietnam launch (a representative office has already been established), alongside further growth in Chinese business. New outlets are amplifying C&C presence in central eastern Europe and consolidating the division's already achieved market leadership status. The year 2000 will see the entry into the Slovakian arena, which will be spearheaded by the national company in the Czech Republic.

Further modes of expanding into new countries are being systematically reviewed as are the potentials for organic growth and likely takeover candidates. The modularization of the Cash & Carry outlet concepts will open up additional expansion opportunities in countries already accessed, opportunities to be examined and tested in the course of pilot projects.

Market leadership in the self-service wholesale trade and establishing Metro and Makro as "global brands" in their own right, these are targets that require a consistent pursuance of the internationalization strategy and an ongoing development of business concepts. The existing human resources and structures are a sound base for operating successfully within a trade environment that is getting more and more dynamic.

Food Retail

Hypermarkets

Fiscal 1999 was a period in which Real consolidated its market leadership, primarily by integrating the Allkauf and Kriegbaum outlets acquired in 1998. In developing and implementing the Real format, customers and their perception of shopping were again the focal points of attention.

Nonfood ranges popular with shoppers

Increased merchandise mix competence, progressive goods presentation, customer service and attractive prices are the hallmarks of the new nonfood concept. Depending on outlet size, theme-focused product groups with proven customer appeal are displayed. The clear and self-service-friendly goods presentation, the modern furnishings, flooring and bright color patterns combine to create a pleasant ambience.

Branded goods, supplemented by attractive private labels, with the emphasis on quality and variety, help give the outlets their distinctive profile. Outstanding value for money is another factor that nurtures customer loyalty.

Initial results from the outlets hitherto converted confirm popularity of this concept. Now that the new Real nonfood profile had been already implemented at nine locations in 1998, another 84 hypermarkets followed suit in Germany in 1999, including the newly opened stores. By 2001 and after a thorough examination of the suitable candidates, the hypermarkets will have been converted to the new concept.

Strengthening customer loyalty

Real has fine-tuned its instruments for impressive customer orientation. Regular one-on-one interviews, supplemented by broad-based polls, provide the opportunity for improving customer ties and identifying any weak spots, with a nationwide hotline available for queries and complaints. An expert has been entrusted with the task of enhancing even further the customer focus of Real staff members with the aid of workshops, regular panel discussions, complaint desks, and personal interviews. The ultimate aim behind all these measures is to strengthen customer loyalty and achieve lasting improvements to the Real style of store.

International expansion surging

Hypermarkets is pursuing a selective internationalization strategy, directed specifically at Poland and Turkey. Launched two years ago, the internationalization drive continued through 1999 with ten newly opened outlets. The Polish network was increased by nine to a total 19 branches and now with a virtually nationwide presence, Real is in a position to consolidate and expand its market leadership in this country. In Turkey, Real opened up a further hypermarket but had to shelve another two due to the serious earthquake in August 1999.

Sales

Hypermarkets generated sales of DM 15.6 billion in fiscal 1999 (up from DM 15.5 billion). This is equivalent to a marginal 0.5-percent gain, albeit like-for-like sales dropped 2.6 percent. Sales in Germany inched down 2.2 percent to DM 14.7 billion (same-space, down 2.5 percent). Excluding the Allkauf/Kriegbaum outlets, the Real hypermarkets gained 1.0 percent (LFL, down 0.1 percent). Former Allkauf and Kriegbaum outlet sales suffered from the reformatting measures.

Outside of Germany, Real sales surged by DM 419.0 million to DM 883.6 million (up 90.2 percent), due to the expansion drive. In terms of same-selling space, sales slumped 6.0 percent on account of unfavorable exchange rates. Non-German sales rose from 3.0 to 5.7 percent of the total.

Performance

The profit from ordinary operations declined from DM 286.0 million the year before to DM 105.0 million, including start-up losses from internationalization. The profit was significantly affected by expenses for the integration and remodeling of the Allkauf and Kriegbaum hypermarkets taken over, as well as by one-off income from compensation for services no longer to be rendered by Real Estate after its spin-off.

Branch network progress

At the close of 1999, Real had 280 hypermarkets, hereof 259 in Germany and 21 abroad. Fiscal 1999 was a period in which the German branch network was further optimized, with 14 new large-space outlets contrasting with 14 small-space shutdowns and, for the purpose of portfolio streamlining, 19 outlets were transferred to Extra which in turn reassigned five of its stores to Real. As of year-end, aggregate selling space came to 1,813,500 m^2 in Germany and 180,200 m^2 abroad.

Capital expenditure

Capital expenditure amounted to DM 402.6 million, of which Germany absorbed DM 292.3 million and the foreign hypermarkets DM 110.3 million. Of the domestic expenditure, DM 221.5 million went toward modernization, remodeling and restructuring work at existing, and DM 70.8 million on the new, locations.

Workforce

Owing to expansion abroad as well as other changes in the branch network, the annual average Real workforce based on FTE and adjusted for the Divaco deal, climbed from 32,512 to 36,534 persons, of which 4,963 worked abroad.

Customer focus is being stepped up through staff training programs with emphasis on customer service, proactive selling, and motivation.

Strategic outlook

The ongoing conversion of the Allkauf and Kriegbaum outlets to the Real format, the opening-up of large new hypermarkets and portfolio streamlining measures within Germany are high on the agenda of strategic priorities. The improvement of nonfood merchandise ranges adapted to individual locations and the further development of the redesigned modes of operation, these are projects that require meticulous attention to detail. A clearly defined chain of command, more fluid internal communication and fewer interfaces will also improve the efficiency of central administration while relieving the outlets of administrative chores with the advantage of even closer customer focus.

Other projects planned for the year 2000: establishing nationwide the facilities for processing credit cards and the introduction of a new customer loyalty scheme. Real will join the first rebate savings program being launched in Germany under the name Payback by leading players from a variety of sectors. An important component for Real is not merely the monetary aspect of accumulating “miles” but also a range of additional benefits and advantages for Real Customer Club members, all devised to strengthen longer-term loyalty among both regular customers and bargain hunters.

Internationally, the expansion drive is continuing with four new hypermarkets each in Poland and Turkey.

Food Stores

The Extra outlets again found themselves having to contend with difficult market conditions during the year under review: lower volume growth contrasting with a sharp rise in selling space, which again inevitably entailed cut-throat competition. Despite this, a new marketing plan enabled Extra to buck the market trend and achieve overproportionate sales growth.

New marketing concept

The refocused marketing concept was the predominant component of fiscal 1999, Extra sees itself as a low-price full-range type of store selling everyday items amid budget-style store fittings and merchandise displays. The stores stock a good selection of food, with ample fresh produce, along with durables and nonfood convenience items. They are located in community neighborhoods, residential settlements, on the way from home to work, or wherever consumers congregate. Customers can shop quickly thanks to the choice of location and the provision of enough parking space, the broad aisles and suitable store fittings enabling them to select their goods and check in/out in no time at all. Fast-moving assortments and the strategic positioning of merchandise categories alongside the heavy-traffic lanes are features that make for the maximization of available space, with shelves stuffed to allow additional merchandise accommodation, thus offsetting any space reductions. To round off the program, Extra is giving the outlets a uniform appearance for instant identification. Throughout 1999, a total of 95 stores were either reformatted to this concept or newly opened.

Customer response reflected in sales gains

Extra managed to put a stop to preceding years' unsatisfactory sales, while also bucking the industry downtrend. Sales in 1999 advanced by 3.7 percent to DM 5.8 billion, adjusted for the additional 18 Kriegbaum food stores acquired in 1998, up by 3.3 percent (like-for-like selling space, up by 0.6 percent). Extra's performance ran contrary to food store trends in Germany and it was particularly the reformatted Extra stores that pushed up their sales appreciably, thus endorsing customer acceptance.

Income hurt by conversion work

The result from ordinary operations receded from a profit of DM 37.8 million to a loss of DM 72.3 million, on account of the altogether 95 newly opened or reformatted outlets. A new pricing policy squeezed gross profit while impersonal expenses climbed DM 20 million, chiefly due to added advertising expenditure. In contrast, some costs were saved through the shutdown of smaller, unprofitable food stores.

Branch network again more competitive

At year-end, Extra's German organization consisted of 511 outlets with a combined selling space of 856,700 m^2, the addition and integration of 18 large Kriegbaum stores during 1998 having amplified the southern German network to an appreciable extent. In the western region of Germany, the branch network was enhanced in cooperation with Real: 19 small Real centers suitable for the Extra format went to Extra and in return five Extra food stores (each over 4,500 m^2) were remodeled into Real hypermarkets. Both Real and Extra thus gained from a more pronounced profile as well as an improved market position.

Fiscal 1999 saw the debut of another 17 outlets and the shutdown of 43 smaller ones, of which 11 were franchised.

Capital expenditure at a record high

Whereas previous periods had concentrated on updating available technology (e.g., scanners for recording incoming/outgoing merchandise, setting-up a data warehouse or developing a new merchandise management system), considerable expenditure during fiscal 1999 went toward the branch network in terms of refurbishing the existing outlets and integrating newly acquired ones. Expenditure rose from DM 81.9 million (the previous year) to DM 150.1 million, of which DM 84.2 million went toward the revamping of the branch network and DM 41.0 million on the former hypermarkets taken over from Real.

Workforce

Special teams were formed for the purpose of implementing the new concept, some members of which were temporarily drawn from additional workforce capacities. This was accompanied by accelerated HR development efforts, especially training courses for store managers. Per capita productivity rose through the deployment of state-of-the-art technology.

In terms of annual average FTE in 1999, Extra's workforce totaled 14,346 (up by 3.7 percent).

Strategic outlook

By pursuing the path now taken, it is Extra's intention to expand its position in the German food retail trade with the aim of strengthening customer loyalty and improving sales per square meter. All the measures undertaken such as concept implementation, capital expenditure, HR development and additional advertising expenditure are designed to position Extra for maximum market effect and significant sales increases.

Over the years to come Extra will again invest heavily and by 2001, by far most of the store network will have been reformatted to the new concept. Rising sales at the same gross margin will contrast with reduced impersonal expenses, with personnel expenses then down after completion of the conversion program. Another component of the concept is for the outlets to offer additional facilities such as a baker's shop, and postal and banking services. At present, the Extra branches include 12 such post and 37 baker's shops.

Nonfood Specialty

Consumer Electronics Centers

In fiscal 1999, the Media/Saturn Group celebrated its 20th anniversary and repeated its extremely successful business progress. An extensive advertising campaign helped the outlet chain cement its position as Europe's number one amid the consumer electronics centers, "Media Markt" and "Saturn" meanwhile enjoying 92 percent awareness within Germany. Indeed, market surveys conducted at the end of 1999 show that one-third of the population of Germany opts to shop at the Media/Saturn Group outlets for their consumer electronics products, new media, electrical household appliances, photographic equipment, and recording/storage media. Innovative branded technical products at permanently low prices go to sharpen the profile of these centers.

Locational diversity proved to be an important competitive asset during 1999, with a choice of four configurations allowing local circumstances to be catered for in the best possible way. Media and Saturn centers are found on a stand-alone basis in downtown areas, on the periphery of towns, as in-store floors in Kaufhof branches and at large shopping centers. Depending on the locality, spaces range between 2,000 and 12,000 m^2.

During the period under review, Saturn opened its fiftieth consumer electronics center in Germany and, with its biggest outlet so far in Hamburg (8,400 m^2) in the fall of 1999, reached a new record. Year-end saw the roll-out of Saturn's first nationwide TV and movie theater ad campaign within Germany.

Media/Saturn expands market leadership

On the basis of its strong position in the German market, the Media/Saturn Group is continuing its internationalization drive at a brisk pace. Having acquired the Media World Group in Italy (23 outlets), having accessed the Spanish market and taken over a company in the Netherlands, Media/Saturn is now present in nine European countries. The purchase of the Media World centers in Italy has allowed Media/Saturn to rapidly achieve market leadership in that country, the Mega-Elshout takeover in the Netherlands has laid the foundation for organic growth, while in Spain the opening of the first specialty store has given the group an impressive, customer-focused identity.

Elsewhere in countries such as Austria and Switzerland where Media/Saturn is already represented, additional outlets are deepening market penetration and tightening the branch network.

1999: another new sales record

Despite adverse conditions, the Media/Saturn Group achieved a new sales record in fiscal 1999, the steep growth being due to acquisitions, organic expansion in Germany and abroad, and added sales at the already existing outlets. The group increased its sales from DM 9.9 billion to DM 12.0 billion (up 21.7 percent), on a same-space basis up by 6.6 percent. Consumer Electronics Centers raised sales outside of Germany from DM 2.6 billion to DM 3.3 billion, non-German business thus climbing from 26.4 to 27.6 percent.

Profit improvement despite expansion drive

Fiscal 1999 saw another improvement in the profitability of Consumer Electronics Centers, despite higher start-up losses in the wake of internationalization and expansion at home. The result from ordinary operations gained 12.4 percent, from DM 493.0 million to DM 554.3 million. The figure includes the start-up losses incurred through expansion in Poland, Spain, and the Netherlands.

European network branching out

At year-end, the Media/Saturn Group comprised 276 consumer electronics centers within Europe. The German network grew with the opening of 18 Media and 8 Saturn outlets to 201 locations. Besides the integration of the 23 Italian stores, another 16 new branches opened up abroad: five in Poland, four in Switzerland, two each in Austria and the Netherlands, and one each in Spain, Hungary, and France. The selling space advanced by 27.5 percent, from 571,600 m^2 to 729,000 m^2.

Capital expenditure up

Owing to the additional locations, as well as the modernization and expansion of existing centers, capital expenditure exceeded the year-earlier volume by DM 195.9 million and reached a new record of DM 370.3 million.

The Media/Saturn Group as job creator

During the period under review, an average of 16,402 people (in FTE) were employed by Media/Saturn. With its workforce up by 29.5 percent, this group is among the leading job generators.

Training was stepped up in 1999, specifically in the skills of selling. The courses were individually tailored to nurture local improvement potentials which had been established through customer surveys. Other sessions were attended by staff in after-sales service, the infotheques, and switchboard operators.

Strategic outlook

Expansion is continuing at a brisk rate with over 50 new outlets (29 of these outside of Germany) planned for 2000. Outside of Germany, the countries targeted for growth are Italy, Spain, the Netherlands, Hungary, and Poland, where the networks of outlets will branch out appreciably.

More than ever, the Media/Saturn Group is investing in the burgeoning businesses of tomorrow. Together with industry it is pushing ahead with products of high promise such as digital technology, integrated computer packages or WAP technology (Wireless Application Protocol). Innovative products and services will generate new customer demand and hence sales markets.

Media-Saturn E-Business GmbH is a sales operation set up to process business-to-consumer tasks. Media Markt and Saturn plan on establishing an Internet marketing platform commensurate with their significance as retail brands. E-commerce in the sense of website transactions as well as entertainment and brand-link Internet access are all under preparation.

Home Improvement Centers

Praktiker Bau- und Heimwerkermärkte operated in 1999 in an environment that was again difficult. The market is moving toward large home improvement centers with selling space still outpacing sales growth and ever changing structures displacing market contenders. Alongside the traditional price competition, more customer-focused approaches are gaining in significance. Within such an environment, Praktiker laid the foundations for a strategic realignment which is also allowing for international trends.

Praktiker evolving into a "retail brand" in its own right

Fiscal 1999 saw the formulation of a new corporate strategy designed to establish Praktiker as a retail brand with a clear positioning, distinctive identity, and highly competitive merchandise ranges. The objective is to develop Praktiker into a preferred shopping center for all kinds of jobs around the house and in the garden, and to combine the already very favorable price image among customers with associations of even better value.

The cornerstone of this realigned strategy is a thoroughly revised policy regarding selection and range of the core product assortment which will take stronger account of trend products. This, in turn, will lead to the accessing and exploitation of existing customer potentials. Gardening items are among the growth segments of particular significance. Rounding off the product mix are extended range-related services.

Marketing teams staffed by merchandise group managers and salespersons have defined detailed product mix modules which, depending on available space and the local competitive situation, may be deployed at the respective location. Further, they explored possibilities for making maximum use of existing selling space. A range rollout program will ensure that revised assortments will be introduced virtually throughout Germany in 2000. The test centers already converted at the end of 1999 have gained good customer response.

It is Praktiker's strategy to aim for large outlets when prospecting for new, and additional space for its existing, branches. The integration of gardening centers is an important aspect when planning locations and outlet space. The taken-over Wirichs home improvement centers have been renamed Praktiker so that all these outlets now operate under a common identity throughout Germany.

For the purpose of improving customer ties, Praktiker conducted during the period under review a detailed poll among shoppers and staff. The findings indicate improvement potentials for each of the branches. The measures worked out aim at strengthening the competence of the sales staff and helping to relieve them of non-sales jobs through improved computer systems and internal procedures.

Optimized structures for closer customer focus

The organization and structures for an effective control of essential functions were set up in 1999 and, moreover, the period saw the completion of the reorganization of buying initiated back in 1998. The outcome is a modern merchandise group management system that integrates the entire chain of processes, from procurement to marketing. The reorganization of the sales outlets into four regions with around 20 sales districts allows the branches to be served for improved customer focus and hence impact. Administration, logistics and imports have been combined into one unit and this integrated responsibility spells advantages in terms of both logistics and the organization of processes, while the IT unit now acting as an in-house systems supplier can devote its entire efforts toward updating the IT infrastructure.

Sales at the year-earlier level

In fiscal 1999, Home Improvement Centers generated sales of DM 4.9 billion, the level of fiscal 1998, on a same-space basis, sales fell by 4.2 percent.

German sales shrank 4.0 percent to DM 4.3 billion (like-for-like, by 4.9 percent). The Extra Bau & Hobby franchisees showed sales of DM 143.9 million (up from DM 137.1 million) at their 39 outlets.

Abroad and due to expansion, sales climbed 35.4 percent from DM 482.4 million to DM 652.9 million, on an LFL basis an improvement of 4.0 percent. Discounting the Italian branches sold off in 1998, the non-German outlets' share of sales climbed from 9.5 to 13.3 percent.

Performance

The result from ordinary operations receded from DM 53.7 million to DM 38.7 million, chiefly due to poor sales in Germany and start-up losses in the wake of expansion. The preoperating expenses for the new outlets in Germany came to DM 11.9 million (down from DM 12.3 million), abroad the expansion-related costs added up to the level of 1998.

Capital expenditure just under the year-earlier level

Capital outlays totaled DM 74.3 million (down from DM 78.1 million) and concerned chiefly the 13 newly opened outlets, as well as remodeling work and replacements at the existing branches. Expenditure in Germany of DM 50.5 million went toward the four newly opened centers as well as into remodeling and replacements at the existing network, while the DM 23.8 million expended abroad focused on the eight new outlets and one relocation.

Branch network growing abroad

On balance, the number of Praktiker centers rose by two to 319 in 1999. Inside Germany, four outlets opened and ten unprofitable small stores closed, the German network thus declining to 283 locations. In contrast, newly opened centers outside of Germany (three in Hungary, four in Poland, and one in Turkey) raised the total abroad from 28 to 36. This means that Praktiker has widened its market leadership in strategically important expansion countries, while consolidating market predominance in Luxembourg and Greece by revamping their existing network of branches.

Expansion increases workforce abroad

Translated into full-time staff and adjusted for the Divaco deal, Praktiker employed an annualized average of 15,119 people (up from 14,747). Whereas the number in Germany fell by 430 to 12,072, expansion abroad pushed up the headcount by 802 to 3,047.

The period under review was another in which Praktiker stepped up staff training in order to enhance their product knowledge and improve in-store customer focus.

Strategic outlook

Fiscal 2000 is concentrating on product range rollout within Germany and most of the domestic Praktiker centers will have changed their assortments to the new modular concept by the end of the year.

Six locations are scheduled for expansion and about another 25 will undergo major remodeling. Mid-2000 will see the debut of Germany's first new-generation Praktiker with selling space in excess of 10,000 m^2. In all, eight Praktiker home improvement centers will be opened in 2000, including the relocations.

Over a span of three years (2000 through 2002), Praktiker is going to spend over DM 300 million on repositioning itself within the market. In addressing prospective customers, the outlet chain is also treading new terrain with a creative image campaign designed to advertise the new identity. All this will help establish Praktiker within the minds of consumers as a value-for-money retail brand.

Further expansion is planned for abroad, in future again chiefly in Poland, Hungary, and Turkey. Praktiker's plans for Poland envisage additions to the branch network in Warsaw and an amplification of presence in other major cities. Plans for Hungary have prioritized metropolitan Budapest while the strategy in Turkey targets the conurbations of Istanbul, Ankara, and Izmir.

Department Stores

Teeming with visitors and enjoying plenty of prestige, downtown areas are an ideal location for department stores, one that is being held in ever higher public esteem. Local authorities are increasingly successful in enhancing inner-city appeal with a rich variety of stores, restaurants, cultural attractions, emphasized by multifunctionality and quality experience.

Developing new formats

Kaufhof's efforts focused on the rapid changeover from conventional department stores to the Galeria format and by the end of 1999 and including an additional nine, as many as 66 stores (accounting for 70 percent of space) have been reformatted, a step toward a sustained improvement in competitiveness.

In order to promote inner-city growth and as a supplement to the Galerias, a further vertical-style format was launched in the shape of Emotions, following up on Sportarena and Lust for Life. This addresses the woman's world. With the latter accounting for 70 percent of downtown visitors, the new lifestyle concept has ample and promising market potential to penetrate. Perfumes, lingerie, beauty and fitness/ wellness products offer a combination of style and sophistication. The first three Emotions stores were opened at attractive downtown locations in 1999.

Another such high-impact lifestyle concept is Sportarena. Its hallmarks: a brand assortment befitting a specialty store, remarkable architecture, a wide variety of multimedia attractions and a lively program of events. The range of merchandise targets 10 themes, emphasizing prestigious brands, leisure time, and fashion, thus addressing the growing interest of large sections of the population in sporting activities and self-fulfillment. Following the successful launch, another eight same-model outlets were opened and by year-end there were already eleven such Sportarenas.

A new type of outlet has been developed with the profile of a fairly young department store stocking select ranges of merchandise and featuring a progressive identity. These Lust for Life stores are characterized by fashion, sport, music and a variety of international brands. The second of these stores opened in Hamburg in October 1999 at the former Horten building and next door to Galeria Kaufhof. The space is being shared with the Media/Saturn Group.

Alongside work on refining the stationary outlets, Kaufhof project teams were busy examining possibilities for deploying the new media, and during 1999 those activities were integrated under a separate unit, Gemini Medienvertriebsgesellschaft, for the purpose of ensuring an independent mode of operation within the market, rapid expansion of the stationary kiosk system, business TV, and e-shopping. The foundation stone has thus been laid for integrating brick-and-mortar retailing and online shopping.

Organization and logistics further refined

With the aid of the latest IT, especially radio communication, certain functions within the branch logistics were refined and accelerated. These techniques were used to further improve processes and procedures.

The development and deployment of IT software specially customized to the needs of the branches enabled merchandise management and the related processes to be optimized.

An ECR (Efficient Consumer Response) program has fine-tuned the entire process chain stretching from production to POS. New modes of supplier interaction, such as JIT replenishment and industry-controlled warehousing and inventory management, were refined and extended. Indeed, the ECR program presently covers some 300 suppliers and easily more than 100,000 items. Category Management is a subprogram which, together with pioneering partners from industry, analyzes and reformats the merchandise mixes. The basis for all the ECR activities is efficient communications via electronic data interchange (EDI) and email.

Sales at 1998 level

With consumer demand still frail, sales of Department Stores totaled DM 7.8 billion. Adjusted for the operations transferred to Divaco and because of remodeling work at the outlets, sales were 1.1 percent short of the 1998 level. During the period under review, ten erstwhile Kaufhalle branches were reformatted or integrated as extensions to existing Galeria outlets. Like-for-like, sales inched up 0.3 percent. The Galeria outlets, in contrast, raised sales by 1.2 percent, a good performance that upheld their competitive position.

Performance up

The operating result for fiscal 1999 benefited from a number of factors: the good performance by the Galerias, cost-pruning programs and the further improvements to the internal process chain. At DM 243.4 million, the result from ordinary operations was up by DM 221.5 million, despite heavy capital outlays. The previous year, those branches since transferred to Divaco had still been a severe drain on income. On a same-space basis, the gain over the prior year came to 13.0 percent.

New formats, new expenditures

DM 386.6 million was spent on reformatting nine branches into Galerias, setting up six Sportarenas and three Emotions stores at former Kaufhalle locations and opening up another two Sportarenas and one Lust for Life store. Other expenditure went for the brisk further development of multimedia within the outlets and improving data processing facilities.

Motivated staff: a competitive asset

Translated into full-timers, the annual average workforce totaled 22,425 (down from 23,443 and adjusted for the Divaco operations).

Once again, innovative instruments orchestrated to enhance staff skills, encourage self-improvement and strengthen self-responsibility and team spirit all enjoyed high priority. As part of the corporate identity efforts, assessment interviews and customer/staff polls were regularly conducted and, for the first time in 1999, managerial employees, too, were appraised bottom-up with a view to tapping any potentials for improving individual leadership skills. In combination with the business TV project, IQ-TV (Information & Qualification), a training program on customer-focused leadership was developed and implemented.

Strategic outlook

Ongoing Galeria reformatting (with repeated refinements for an even sharper competitive edge) is continuously upgrading the quality of the department store portfolio. The ever tighter network of Galeria outlets very popular with shoppers, is establishing Galeria Kaufhof as a “retail brand” within Germany.

At the start of 2000, the Sportarena, Lust for Life and Emotions outlets were spun off to form subsidiaries of Kaufhof Warenhaus AG in order to underscore their own independent store identity. This step into autonomy will stimulate creativity and flexibility for operating successfully in the marketplace while retaining the option to fully tap the synergy potentials of the existing administration system. The year 2000 will see further outlets opened in order to amplify as planned the downtown presence of these lifestyle stores.

E-shopping efforts are being stepped up in every respect in order to enable future servicing of both stationary and on-line customer potential. Now that this operation has been spun off as an independent unit it can press forward developing the e-commerce activities successfully introduced with the on-line programs of the various outlet chains. With its lean and flexible organization, Gemini is ready to respond to rapidly changing market circumstances. Now in its autonomous format, it can reap synergies in know-how, production resources, strategies, systems, and facilities.

Department Stores will build on existing fortes such as its buying and product mix expertise in order to develop additional distinctive and specific styles of outlet scheduled to be positioned in the retail market as from the year 2000.

Others

This segment comprises the real-estate units, the trade-related service enterprises, as well as other operations unassigned to the divisions, such as the in-store and freeway restaurants.

Media World, Italy, previously included under Others, was reassigned to Nonfood Specialty at the start of 1999. As part of the program to revamp the Group's structure at 1998-end, the shares held in the Divi-Möbel and Massa-Ausbauhaus furniture centers were transferred to Divaco as of December 31, 1998. Mercatone, Italy, was sold at the end of 1999 and deconsolidated retroactively as of January 1, 1999.

After allowing for the disposals and the reclassification of Media World, Italy, sales by Others shrank to DM 1.5 billion; adjusted for the above changes, sales by the remaining companies and enterprises climbed 111.8 percent. The result from ordinary operations amounted to DM 252.0 million. Others invested DM 794.0 million and the average workforce came to 10,524 (FTE).

Real Estate

With the objective of concentrating all available resources on the four divisions as defined a year ago, as well as building a new E-Commerce division, METRO AG has reformulated its retail property strategy, transferring this real estate as of December 31, 1999, to Asset Immobilienbeteiligungen GmbH & Co KG (AIB), a marketing enterprise. Including the Horten AG sites, these are altogether 290 properties (downtown department stores, specialty stores, hypermarkets, food stores, home improvement centers, and other properties accommodating a number of different outlet chains) in Germany, Turkey, Greece, Hungary, and Luxembourg. The international C&C properties are retained.

As of December 31, 1999, the Group still had 247 C&C properties with a useful area totaling 2,603,395 m^2 and 48 miscellaneous covering altogether 23,607 m^2.

Metro Real Estate Management GmbH, which has basically stepped into the shoes of former Metro Immobilien Holding GmbH, provides construction, facility and center management services.

In 1999, the average workforce in and outside Germany came to 996 (FTE).

Service companies

The Group's service companies perform the following functions for the divisions:

- Strategic procurement and private-label management
- Procurement and distribution logistics, food storage logistics
- Production, agency and media services
- Central A/P clearing and assumption of collection risks
- IT services
- Energy and recyclables management
- Insurance and financial services

The pooling of these services generates measurable incremental value. The synergies achieved and the costs sustained are allocated to the originating outlet chains.

Metro-Gruppen-Einkauf (MGE)/ Gemex Trading AG

MGE is the central procurement organization of METRO AG and its operating subsidiaries and as such its task is to optimize the sourcing activities of the Group's outlet chains. Ongoing improvements to buying prices, terms and conditions without compromising existing quality standards help to strengthen the strategic position and marketing concepts of the outlet chains. This bundling and strategic control potential gives MGE substantial organizational leverage in its negotiations with German and foreign suppliers, thus generating sustained competitive advantages for the entire METRO AG Group.

Fiscal 1999 saw work on developing the international procurement organization. For matching merchandise mixes, the emphasis was on a transnational harmonization of prices, terms and conditions, as well as the pooling of quantities at item level. As part of METRO AG's internationalization drive, MGE set up Polish and Turkish subsidiaries whose purposes are to consolidate the purchase of identical merchandise ranges sold by the METRO AG Group's outlet chains.

Parallel to internationalization, efforts were directed at pursuing a uniform private-label policy. European quantity pooling and the integration of national trade brands into the international program of private labels will achieve good customer acceptance and a sharper profile for all the Group's outlet chains. Indicative of the strength of the private labels is that the extended EU implied warranty periods were introduced as early as 1999, with independent test laboratories continuously monitoring quality. The ultimate objective is to strengthen customer loyalty through a common private-label program offering good value for money.

MGE's administrative work centered on preparing the payment, terms and conditions systems for the arrival of euro currency as of January 1, 2002. Even now staff are being conditioned to the new price ratios by indicating amounts in both DM and euro and accompanying training courses are under preparation.

An average of 291 employees (FTE) was accountable for a buying volume of around DM 66 billion.

Founded in 1998, Metro Energie Management GmbH was reassigned as an MGE subsidiary in fiscal 1999 and incorporated in the procurement organization. Its job is to exploit any advantages accruing from the deregulation of the energy markets.

As the import purchase commission agent for the METRO AG Group's outlet chains, Gemex Trading AG is in charge of worldwide procurement processes. Its core capabilities are sourcing, bidding, RFQs, order placing, finance and quality assurance services, and logistics. During the period it concentrated on tapping new sources in the newly industrialized and developing nations. Gemex handled a procurement volume of DM 2.4 billion in 1999. The company's average workforce totaled 676 (FTE) worldwide.

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 from invoicing to logistics advice.

The system of procurement logistics, successfully applied in Germany, achieves synergies through consolidating and optimizing haulages. Fewer doorstep deliveries, either at the warehouse or the outlet, also result in more efficient handling of incoming goods. Experience with the self-collection concept developed by MGL has been quite encouraging. Because of the substantial inherent advantages, the existing procurement logistics systems are being expanded and improved at an accelerated pace.

A variety of logistics services are provided, from shipments arriving at the central warehouses to the doorstep distribution of imported goods from the warehouses to the outlets, and by combining such services and by transferring know-how, synergies are achievable. Alongside enhancements to project handling, further programs were put into effect in 1999. Fresh-produce logistics is based on an integrated sourcing and distribution concept. Chilled goods are channeled to the outlets from suppliers via special handling terminals. Cost savings are possible when assembling the merchandise destined for the stores and by fine-tuning structures and processes.

High up on the agenda during the period under review was setting up an international logistics system, and the groundwork was laid for transferring MGL logistics services to other European countries. This year, subsidiaries due to start up at the beginning of 2000, are being established in Austria, Poland, and Turkey. Their priority will be procurement logistics.

A common feature of all these concepts is to arrive at interdivisional haulage pooling through central data maintenance and analysis. Logistics concepts are enhanced by setting up monitoring and early warning systems for spotting any changes in the composition of the consignments. In many areas, such process optimization has enabled MGL to improve administrative work flows, especially with the aid of electronic data interchange (EDI).

During 1999, MGL employed an average of 50 people (FTE).

Metro-Distributionslogistik (MDL) is the logistics services provider for the Real and Extra outlet chains. In the eight 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 Real and Extra outlets. Imported goods are chiefly distributed through a national nonfood warehouse. A warehouse & inventory management system is being installed at all the depots in order to further improve the logistics processes. A new scheduling system allows significant reductions in stocks.

In fiscal 1999, MDL's workforce averaged 2,792 persons (FTE).

Metro-Gruppen-Informatik (MGI)

Besides the advancing internationalization, the development and interdivisional use of wholesale/ retail application systems are factors that require the restructuring of IT functions within the METRO AG Group, with the primary objective of concentrating at one location development, advisory and production responsibilities, alongside a reallocation of decision-making processes. One consequence was the integration of Metro International Informatik (MII) into MGI in 1999, the result being that the Group's IT resources are now consolidated under one roof.

The new Metro Merchandise Management System (MMS) was successfully introduced at headquarters and 55 German C&C outlets while in Italy, a merchandise management and logistics system was also launched. Another milestone was the application of the MMS master database management systems at Real, Extra, Schaper, and MDL. In the area of logistics systems, the new warehouse management system was interlinked with the merchandise management system.

During the period, data warehouse technologies enabled information systems to be made available to a broader range of users. Close analyses lead to improved exploitation of existing potentials and to cost reductions in sourcing and selling. Category management processes received increasing support.

Capital spending concentrated on both the ongoing update of existing hardware and software systems and a rapid and comprehensive expansion of the data warehouse systems. Sizable amounts were also spent on merchandise management and administrative systems.

MGI set up its own subsidiaries in Poland and Turkey where (just as MGI, Germany) their job is to seize synergies and potential benefits by bundling IT responsibilities and resources.

MGI's application systems are being further harmonized with a view to supporting METRO AG's expansion efforts. This mainly involves the internationalization of the various applications and the standardization of application systems throughout the various countries and outlet chains.

Overarching IT services are getting to be more and more of a critical success factor that generates measurable added value for the Group, with further developments focusing on an expansion of competence in all aspects of IT and improving service and customer focus. Key success ingredients and tasks are the ability to implement new ideas throughout the IT services sectors, further upgrading staff skills and the deployment of project management instruments at all levels for the purpose of accelerating the circulation of new IT solutions. In order to measure up to the outlet chains' expectations regarding the quality of IT services, MGI staff skills must continuously be updated and upgraded: hence the never-ending expenditure for further educating IT employees.

The international pooling of purchasing functions gives MGI plenty of leverage when negotiating with IT suppliers in Germany and abroad, and over the past years substantial savings were obtained through bundled buying and hence best possible prices and conditions when sourcing IT purchases. Additional potentials exist in shortlisting the number of hardware and software suppliers, supply agreements having international validity, and more efficient procurement paths.

The integration of MII and the takeover of the Düsseldorf computer center were the main reasons for average staff numbers to jump from 343 to 567 (FTE) during 1999.

Metro-Werbegesellschaft (MWG)

Pooled buying of advertising production, agency and media services, as well as the management of an image databank and procedure harmonization in the run-up to advertising campaigns all enable Metro-Werbegesellschaft to achieve cost savings and service consistency for METRO AG's outlet chains.

Internationalization occupied center stage in 1999 and so MWG is supporting the Group in all countries in buying, quality assurance as well as technical and organizational matters. Poland saw the formation of Metro Reklama Polska Spólka, Warsaw, entrusted with the following functions: production and circulation of advertising materials, project control, the running of advertising campaigns, PR.

MWG's briefing is to strengthen national and international market positions with regard to advertising services and materials while also optimizing work flows in the field of advertising, specifically document management, electronic transmission and checking of invoices as well as further developing the processes that go into advertising materials production.

During the period MWG's workforce averaged 72 (FTE).

Other service enterprises

Metro International (MIAG) handles the payment of supplier invoices and assumes the attaching collection risk on behalf of suppliers from mainly Western European countries. Metro SB-Handel is in charge of private-label management, while Metro Finance, Metro International Finance, Metro Euro Finance, and Assevermag provide finance and insurance services.

Restaurant and catering (Dinea)

Dinea is the leader in the German market for instore restaurants and at year-end operated 260 eateries mainly in METRO AG Group outlets under the names Dinea (department stores and shopping centers), Grillpfanne (hypermarkets and specialty stores) and Axxe (freeway service-area restaurants).

During the period, 13 of the restaurants taken over from Allkauf and Kriegbaum were slotted into the existing organizational edifice, two freeway restaurants opened and 18 loss-makers closed as part of the revamping drive. A comprehensive relaunch concept has already been successfully implemented for Grillpfanne at five of the locations. A new mini-restaurant format was also developed and is due for launch starting from 2000.

The Dinea Group generated sales of DM 404.5 million, the decline of 1.2 percent being mainly due to the shutdowns. Capital expenditure of DM 18.9 million went mainly into refurbishing/remodeling eight Dinea and five Grillpfanne eateries in the wake of the relaunch program.

During the period, the Dinea Group employed an average of 3,604 staff (FTE).

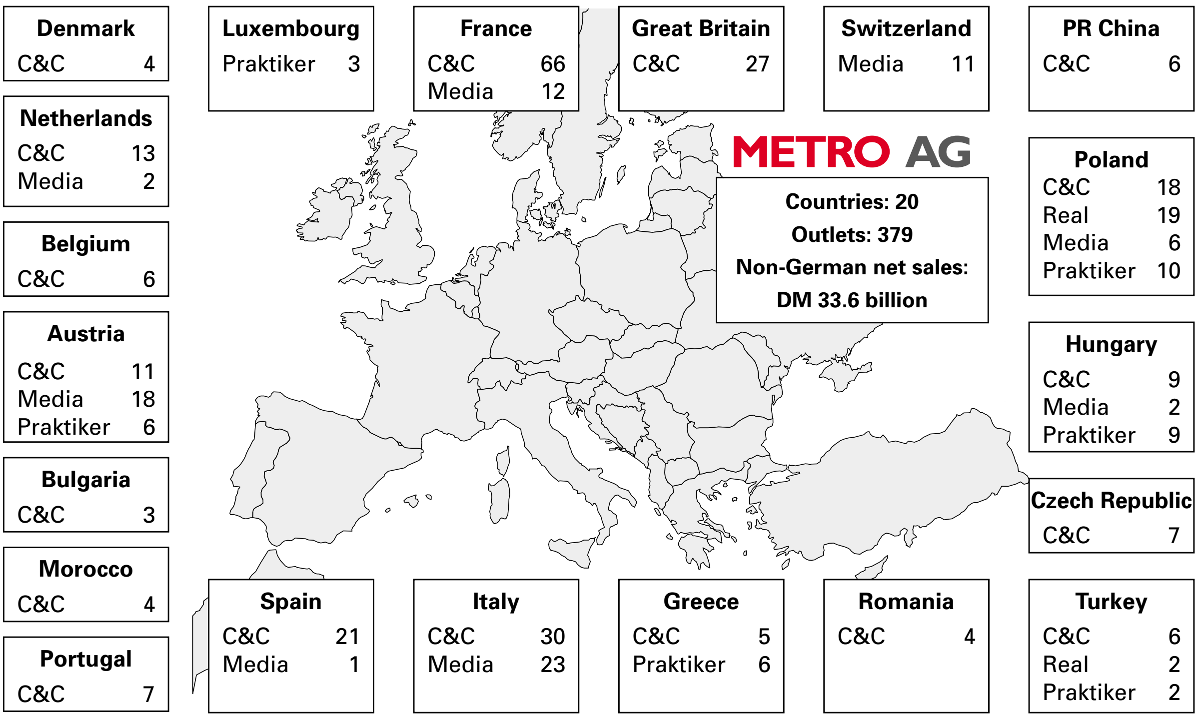
Internationalization

One of the centerpieces of METRO AG's corporate strategy is to systematically set up and position in markets outside of Germany certain of its outlet chains deemed suitable for this purpose. At the close of the year under review, the Group had 379 outlets in 20 countries besides Germany: 247 Cash & Carry (Metro/Makro), 75 Consumer Electronics Centers (Media/Saturn), 36 Home Improvement Centers (Praktiker), and 21 Hypermarkets (Real).

These outlets together accounted for 39.2 percent (up from 35.2 percent) of Group sales in 1999.

Ambitious plans for amplifying presence in international markets are again high up on the agenda for 2000.

METRO AG Group: Internationalization status as of Dec. 31, 1999



Corporate governance

Economic value added (EVA)

METRO AG has decided to introduce EVA (Economic Value Added) as a controlling and management tool to assess and rate all strategic and operational activities of the Group according to their contribution to EVA and to (re)route available funds to where the highest potential exists for the Group. EVA is an instrument designed to measure successful performance on every tier, from store managers to board members. The persistent focus of all executive and managerial staff on creating value is ensured by pegging certain incentives to an improvement in EVA.

In planning, in operational and strategic decisions and in controlling processes, EVA figures are already the center of attention. Moreover, capital expenditures are throughout the Group assessed according to their EVA contribution, i.e. their potential to increase METRO AG's economic value. The EVA system is not only used to trigger continuous improvement processes within the entire Group but also to simplify, or even replace, complex controlling systems.

Actual EVA computation is predicated on an economic principle according to which no additional value is created unless a business or project earns in the long term at least the cost of total capital employed or the opportunity costs of equity and debt. This principle is reflected in the EVA formula:

EVA = NOPAT – capital cost
EVA = NOPAT – (capital employed x WACC)

- EVA is hence calculated from the net operating profit after taxes (NOPAT) and before interest on financing, less the cost of capital employed (CE). This cost of capital (CoC) corresponds to the weighted returns on investment (ROI) required by lenders and stockholders.
- Capital employed comprises the fixed assets and net working capital tied up during a specific period.
- The weighted average cost of capital (WACC) is computed from the weighted market rates applied to both equity and debt. WACC equals the minimum ROI expected by lenders and stockholders when investing in METRO AG. This in turn is derived from the return which the investors would earn from an alternative investment in a portfolio of stocks and bonds involving like risks.
- The cost of capital (CoC) is determined by multiplying the WACC by CE and represents the anticipated return to investors for the capital they provided and the risk they incurred.

Under the Group's pay restructuring scheme and as from fiscal 2000, significant percentages of variable compensation (incentives) will be linked to EVA. Executive staff will thus directly share in the Group's newly created value. Value orientation in business conduct and management will become the prevailing element of day-to-day work.

As from 2001, the EVA concept will have been introduced groupwide in the form of local benchmarks throughout the outlet chains and outlets; EVA will by then be METRO AG's binding parameter for corporate governance. Future annual reports will disclose the divisional EVA earned (or otherwise) and clearly show any major changes that have occurred within certain segments during the period under review.

Stock options/stock appreciation rights

METRO AG's redesigned incentive system for managerial and executive staff provides, besides fixed pay and a largely EVA-oriented profit share, for a third groupwide component, the grant of stock options and stock appreciation rights. Qualifying staff are tier 1 and 2 executives, viz.

- METRO AG's Executive Board members (group 1),
- management board members of the nonlisted outlet chains and of the major service companies (group 2), as well as
- tier 2 staff members of both METRO AG and the group 2 companies; management board members of small service companies; other staff who, due to their responsibilities and performance, make an outstanding contribution to the Group's success (group 3).

METRO AG and service company executives will receive "genuine" options under the Stock Option Plan (SOP), while the executives of outlet chains will be granted stock appreciation rights (SARs). The economic benefit is the same for all beneficiaries.

The July 6, 1999 stockholders' meeting resolved to conditionally raise the capital stock by a maximum €14,316,173 (DM 28 million) by issuing up to 5,600,000 shares of common stock under the Metro SOP. Out of the total stock option volume, 133 executives of the METRO AG Group were granted 351,560 options from the first tranche. Another 285 executives of the METRO AG Group received SARs, which do not entitle the holders to subscribe for new stock and were therefore assigned outside the contingent capital. Accordingly, the breakdown is as follows:

Group	Persons	No. of stock options	Persons	No. of SARs
1	5	94,200	0	0
2	9	45,330	28	156,280
3	119	212,030	257	423,410
Total	133	351,560	285	579,690

The options, limited to about one year, can only be exercised after a 3-year qualifying period, also with a view to tying beneficiaries more strongly to the Group.

The strike price for acquiring common stock from the first tranche 1999 is the minimum of €54.59 fixed by the Company. Option exercise is contingent upon the satisfaction of a condition that underlines the ambitious value creation envisaged by the Group: Stock options may not be exercised unless, after expiration of the qualifying period, the stock price during the last 20 successive public trading days prior to option exercise is 30 percent or more above the stock price quoted at the time the stock options were granted, i.e. amounts to a minimum of €70.97.

The stock option exercise period will commence at the end of the first Frankfurt/Main banking day after METRO AG's annual stockholders' meeting in 2002 and expire eight weeks after the annual stockholders' meeting in 2003.

Personnel and social policy

Personnel structure

On average the METRO AG Group employed 216,457 persons in 1999 (excluding apprentices; down from 241,064). Translated into full-timers (FTE), this was equivalent to a workforce of 171,440 (down from 181,282), of whom 63.3 (down from 66.8) percent were women.

The net decrease by 5.4 percent (FTE) is attributable to the end-1998 transfer to Divaco of companies no longer considered core businesses, and to the expansion drive. The proportion of staff (FTE) employed abroad came to 32.4 percent (up from 28.3 percent). Within the Group, the average length of service with the employer was 7.5 years (up from 7.3), the average age 36.8 years (down from 37.8).

The proportion of part-timers within the total workforce fell from 50.1 percent to 47.8 percent because companies with a traditionally higher share of part-timers no longer belong to the Group.

Any adverse impact of the new low-income reform legislation, enacted in the spring of 1999 and reversing exemption from social security taxes, was less than initially feared. The already comparatively small proportion of Extra and Real employees below the lower exemption limit did decline, primarily by transferring staff to employment which is fully subject to social insurance. A smaller number of employees than initially expected handed in their notice owing to the reform's disadvantages. The intention is to offer customers improved advice and service through more flexible use of skilled full-timers instead of part-timers. This will also give many young people who complete their initial vocational training within the Group the opportunity of meaningful and market-oriented continued employment.

Wage policy

Following the 1998 pilot settlement achieved in the Bavarian retail trade and aimed at promoting pre-retirement part-time work, similar agreements were reached in all the wage-bargaining regions during the period under review. Preretirement part-time work offers above all the Kaufhof Galeria and Real outlet chains interesting scope for rejuvenating their workforces and qualitatively improving their staffing patterns.

The pay negotiations in the German retail trade were again accompanied by wide-scale industrial action. The settlements finally achieved, a linear rise of 3.0 percent given an aggregate increase of 2.6 to 2.8 percent in the western German wage-bargaining regions and 1.7 percent in eastern Germany, came below that of comparable economic sectors but were relatively high in view of the retail trade's weak business.

The structural changes to the retail trade employer associations will also fundamentally affect the basic framework of wage policy in this industry. In particular, the movement by the Federal Working Party of Midsize and Large Retail Outlets ("BAG") to pursue its own wage policy in future will lead to the abolition of the industrywide wage agreement which was generally regarded as binding. At the same time, the opportunity to join an association without the obligation to pay in line with a collective wage agreement together with the elimination of universal validity will relax the binding effect of wage agreements, gradually bringing about a revival of company pay agreements. METRO AG regrets this development but is also poised for such a change. The participation of the executives involved in wage policy will remain an integral part of association work. In certain units of the METRO AG Group the proven policy of company pay agreements concluded through the Group's internal rate-making association AHD will be continued. Thanks to an amendment to its bylaws, the AHD has been opened up to third-party companies, thus enabling further scope for development.

Internal labor office

METRO AG and Divaco made a pledge to preserve the METRO AG Group's welfare standards for the companies transferred to Divaco in 1998. This concerned in particular the commitment to seek alternative employment within the METRO AG Group for those affected by layoffs due to operational changes. On the basis of this pledge, suitable employment was found for 235 Divaco Group employees through the METRO AG Group's internal labor office, albeit many did opt for termination benefits rather than alternative employment.

New procedures, outlet shutdowns and managerial restructuring led to further staff cuts in 1999. The internal labor office was used to redeploy 262 METRO AG Group employees at other locations. This helped prevent the layoff of these employees, keep specialist knowledge and skills within the Group and reduce financial expenditure for social plans and external staff recruitment.

Reform of pay structures

When the Asko, DSBK and Kaufhof Groups were merged and Metro Wholesale integrated, the greatly varying pay structures in place at the individual Group companies were left untouched initially. Once the tasks linked to the integration process had been carried out and in view of the forthcoming introduction of the EVA (Economic Value Added) control and management system, the time had come in 1999 to harmonize the remuneration of executive staff. The focus was on directly involving executives in the risks and rewards of corporate processes by linking a clear proportion of their incentive pay to EVA. A system geared to international competition had to be drawn up with which highly skilled employees could be hired and held within the Group in the long term.

In future the remuneration system of executives will therefore generally consist of a fixed salary and an annual incentive, the level of which will depend on the value added to the METRO AG Group or relevant EVA center and on the achievement of agreed targets. Staff in the two top tiers will also have a long-term incentive in the form of stock options or stock appreciation rights so as to promote an interest in EVA.

Euro Forum

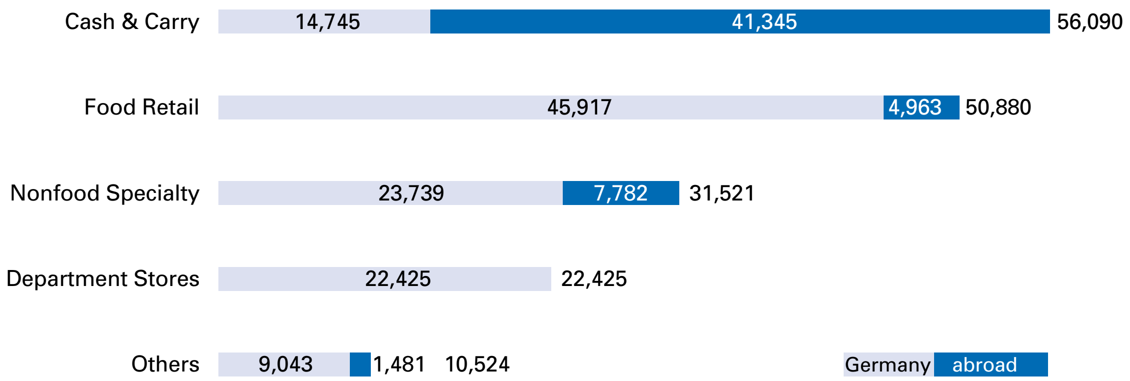
At the end of November 1999, the Euro Forum, a cross-border information and consultative body made up of METRO AG managers and employee representatives and performing the function of a European works council, met in Krefeld for the first time. Its aim is to enhance the traditionally open and constructive employee/employer relations. Over and above legal requirements, employees are represented from all the European states in which METRO AG operates through its outlet chains. This demonstrates the high priority enjoyed by the countries of Central and Eastern Europe in the Group's activities. METRO AG's Executive Board informed the delegates on the business situation, development trends and strategies while the employee representatives made contributions on supranational topics. The Euro Forum will be held once a year in future.

Work Plus 1999 award for Dinea

The Protestant Church in Germany regularly acknowledges exemplary company commitment to the labor market by awarding its Work Plus Seal. Following assessment by the Institute of Economic and Social Ethics at the Philipps University of Marburg, the recipients of this award in 1999 included the Dinea restaurant/catering company. Owing to its standardized processes, Dinea offers jobs mainly to unskilled or semi-skilled workers, thus helping to employ job seekers who cannot cope with the demands of increasing specialization and constantly rising skill requirements. Sixteen percent of all Dinea vacancies were filled by long-term unemployed.

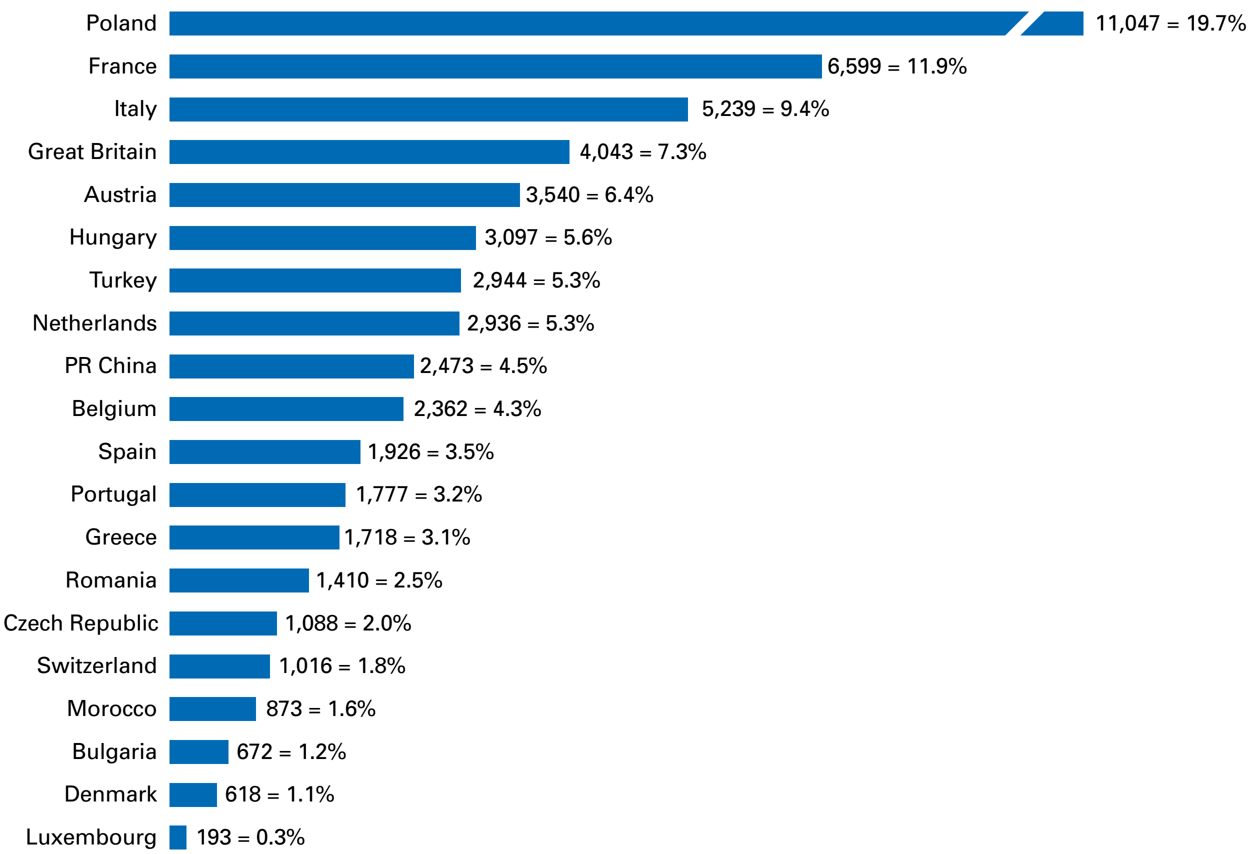
METRO AG Group employees

171,440 on an annual average (FTE)



METRO AG Group employees outside of Germany

55,571 on an annual average (FTE)



Human resources development

Management planning and development at Metro

Since its inception a year ago, METRO AG's executive development program has become an integral part of the Group's HR activities. Analyses of staff potential based on jointly defined key abilities, selection interviews and succession planning help to promote and deploy skilled employees more purposefully. This not only lays the foundations for systematic and efficient development of executives but also encourages know-how transfer. The METRO AG Group offers able employees many career opportunities thanks to its broad range of activities. Vacant executive positions are advertised on the intranet and interdivisional assessment-center schemes are held for junior executives and outlet managers. An assignment program enables talented junior staff to extend their skills and the areas in which they can be deployed through work on projects lasting several months.

METRO AG's promotional schemes

The Metro Academy program for the top executives of METRO AG and its subsidiaries was revised in 1999 and given an international focus; the language used in seminars is English. Candidates from six countries attended a total of five general-management modules, two of which were developed specifically for wholesale/retail requirements and supplement the strategic consultations with METRO AG's Executive Board, the discussion groups and the project work, the results of which flow into the way in which the Company works.

The Metro management sponsoring group program is a one-year advancement scheme for young managers indicating potential to take on more demanding tasks. The focus is on hands-on projects leading to cross-divisional know-how transfer. A large number of young executives have taken part in this scheme, seen their careers advance and helped, through the experience gained and conveyed, to promote integration within the Group.

In the fall, a corporate seminar was introduced for newly appointed second-tier managers, which prepares them for assuming increased responsibilities within the Group. The one-week training course comprises workshops on leadership, managing change and intercultural skills as well as open discussion sessions with Executive Board members on Group strategy and policy. Five further seminars in German or English are planned up to the fall of 2000.

HR development at international level

In view of the METRO AG Group's accelerated expansion abroad, its HR development is also becoming more international in focus. The promotion of regional teams of young executives in Poland and now also in Turkey is helping through cross-border projects and training initiatives to meet the growing need for executives suitable for transnational deployment. Poland has become the first country to establish a management platform from which executives from various divisions and outlet chains can present their business concepts and identify and deal with topics of joint interest. This also provides an opportunity to present the Group's policies and principles and advance their implementation.

Skills for tomorrow: new IT apprenticeships

Since 1997 and as one of the pioneers in Germany, Metro-Gruppen-Informatik (MGI) has been training young people in the new IT apprenticeships. The emphasis is on systems integration and applications programming to facilitate familiarity with the Company's requirements and prepare the vocational trainees for their complex duties as IT service providers within the Group.

At the end of the fiscal year, 48 youngsters were undergoing such training and the extremely positive response has prompted MGI to raise the number of apprenticeship vacancies to 24 in 2000, up 50 percent.

Right from the start, the MGI apprentices are taught to deploy their skills in the best interests of the customers. Assignments in various specialist departments and outlets sharpen their awareness of specific user needs while allowing them to gain valuable insight into how things work.

Application programmers as future software experts and system integrators as network and computer center specialists-to-be receive regular support during their apprenticeship. Alongside traditional classroom training, they are given the opportunity to attend many in-house and outside courses. In-house instruction, in particular, provides an opportunity to become acquainted with the latest advances in IT. In this way, the company makes sure that teaching methods and curricula are kept updated and young people are given the skills for finding fast and efficient solutions to the problems of tomorrow.

Classical modes of training

In an initiative to reduce youth unemployment, politics and industry joined forces in 1999 to offer all young people in Germany skilled training and thus hopes ahead. Despite the currently weak retail sector, the METRO AG Group maintained its range of vacancies at a high level, recruiting 3,170 apprentices. Adjusted for the Divaco operations, this was equivalent to a rise of over 8 percent. It supported the government's emergency program, aimed at creating 100,000 jobs for young people, with 500 training and work experience places. Its training courses and schemes to develop teams of junior executives at home and abroad are also intended to promote young talent.

Various efforts are being made to improve the image of wholesale/retail professions. For instance, the Apprentice Social Commitment '99 initiative offered twenty-five of the best trainees from all Metro outlet chains the opportunity to demonstrate their efficiency and flexibility in a joint project. This initiative met with an enthusiastic response both within the company and in the regional press. The young people displayed team spirit, determination and the ability to cope with pressure, thus demonstrating the quality of their training in the METRO AG Group operations.

Learning from one another: networks and internal benchmarking

In a constant skills-enhancing process, the outlet chains are taking advantage of the know-how transfer within the METRO AG Group, with HR development creating the necessary platform. A regular newsletter allows the HR experts to exchange their views. The first international HR fair was attended by 170 people from all Metro countries. The topics covered by workshops included systematic shaping of processes of change, codetermination in Europe, managing integration and divestment, and intercultural cooperation. Specific projects from the national units rounded off the conference, which is to be held every two years in future.

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. The euro zone's capital market gives rise to much broader investment and financing opportunities than national ones. Competition on the financial market, between financial centers as well as among banks and insurance companies is set to rise substantially, placing new demands on leading companies with regard to their positioning in the capital market.

When European EMU was launched, the listings of stocks traded on German exchanges 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 introduced no-par in 1998. Such shares quantify the ownership interest held in the respective company.

For the METRO AG Group, 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 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.

Until the introduction of euro coins and bills 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. METRO AG together with its divisions has signed up to a “voluntary pledge by the German retail trade to consumers in connection with the introduction of the euro,” which involves handling the euro's launch as transparently as possible. Various measures have been taken to familiarize customers with the new currency, thus encouraging its acceptance among buyers:

- Information on euro issues through posters, brochures, advertising messages, and handouts; employee training on the euro to ensure that customers are given the information they need
- Displaying conversion tables for the most common prices showing the official exchange rate
- Advertising in the print media with prices given in DM and €
- 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 €

METRO AG has set up a project team to prepare for the physical advent of the euro while MGI is helping to adapt applications to euro requirements. The target is to have all application systems set to go as of December 31, 2000.

The final phase of monetary union begins on January 1, 2002, with the introduction of euro cash as legal tender throughout Euroland. In Germany, the euro will be the sole legal tender as from January 1, 2002, under the 3rd Euro Introduction Act. In addition to this Act, 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 DM bills and coins will be accepted as payment until the end of February 2002.

Date change to year 2000

In view of foreseeable problems relating to the year 2000 date change in electronic data processing, METRO AG initiated a comprehensive Y2K project as early as 1996, which focused on analyzing and adapting programs and the technical infrastructure. With regard to building systems and facilities, transport systems and warehouse technology numerous measures had to be taken and organizational arrangements made with suppliers. As a result of all these steps, the whole Group, in all countries, locations and companies, was prepared for the date change in good time.

During the final phase, in 1999, risk management had to be organized so as to remedy possible system malfunctions in the complex interaction of production based on the division of labor and even to counter any external failures experienced by suppliers, power providers or telecommunications operators. To this end, all companies had to draw up lists of measures with defined substitute processes, to plan increased staffing, and to prepare intensive checks and tests for the days leading up to and immediately following the date change.

To ensure groupwide coordination a Y2K center was established in Düsseldorf and reporting methods were defined to enable a direct exchange of information with all Group companies at any time. At the turn of the year, a great many staff were at work in order to check critical systems, resolve any problems arising, oversee order processing programs and continuously update the Y2K center regarding the status in 21 countries.

On January 1, 2000, the successful date-change conversion was confirmed by messages received from all the countries and companies: there were no breakdowns. It turned out that readiness to sell and faultless transaction handling were ensured in all the Group's business establishments at the start of the first sales and working day in the year 2000, with METRO AG thus successfully concluding an extremely complex project going back several years.

Environmental protection

During the period, environmental protection efforts concentrated on the following areas:

- Optimizing procurement logistics

  By integrating another 2,000 suppliers into Metro's own logistics concept with its full-load principle, which had included as many as 3,000+ suppliers at the end of 1999, further savings of tonne/kilometers and truck journeys were made by bundling the flow of transport. In addition to the dried goods range, fresh produce and clothing logistics were included in the system.

- Advertising / promotion / marketing

  Consistent implementation of the CTP (computer-to-plate) process makes exposing films superfluous, largely eliminating the need for ecologically dubious film material and developing fluids. The aim is to dispense with film in the preproduction stage of printed matter. In the printing sector the feasible has been achieved, with emissions falling below statutory levels. About 70 percent of the paper used in outlet chain advertising is made from recycled waste paper.

  The paper industry cooperating with METRO AG is currently working on a certification system for timber, which is used as a raw material in various grades and types of paper.

- Tropical timber products

  METRO AG has made a pledge only to purchase products made from tropical timber in future if the timber comes from forests managed in accordance with environmentally sound and socially acceptable principles and bears the internationally recognized FSC (Forest Stewardship Certification) label.

- Company environmental prize

  Kaufhof Warenhaus AG's central Frechen warehouse has achieved considerable savings by introducing a fully automatic bale press with which paper, paperboard and cardboard can be disposed of in an environment-friendly manner. The waste disposal journeys have been reduced from 350 to about 50 per year. This around 85-percent reduction in traffic volume means an annual saving of 11,000 truck kilometers. For its efforts the central warehouse has been awarded this year's company environmental prize by the Frechen municipal authorities.

- Agenda 21: shaping the future

  Kaufhof Warenhaus AG has together with the Brauweiler Abtei high school (initiated by the Cologne-based Environmental Education Institute of Nature and Culture) agreed to conduct a cooperation project based on the principle of sustainable development, as defined by the UN conference Earth Summit held in Rio de Janeiro in 1992. In order to put Agenda 21 into practice in industry, the working world, school and everyday lives, learning processes are needed in which the close link between economic, environmental and social issues is conveyed practically and thus brought to life. Constructive cooperation between protagonists from industry and the educational system plays a key role in bringing this about.

- Environmental report

  METRO AG published its first environmental report in June 1998. The next edition is planned for the year 2000.

Annual accounts 1999 of the METRO AG Group

METRO AG Group
Consolidated balance sheet
as of December 31, 1999

Assets

DM million	Note no.	Balance at Dec. 31, 1999	Balance at Dec. 31, 1998
Fixed assets	8		
Intangible assets	9	**7,893.762**	8,062.318
Tangible assets	10	**7,667.002**	11,794.147
Financial assets	11	**966.017**	832.534
		16,526.781	20,688.999
Current assets			
Inventories	12	**9,586.635**	8,838.434
Receivables and sundry assets	13	**8,219.164**	4,021.879
Short-term securities and note loans	14	**207.708**	100.472
Cash on hand and in bank	15	**2,272.285**	3,235.061
		20,285.792	16,195.846
Net deferred tax assets	16	**143.058**	48.243
Prepaid expenses and deferred charges	17	**170.192**	152.419
		37,125.823	37,085.507

Stockholders' equity and liabilities

DM million	Note no.	Balance at Dec. 31, 1999	Balance at Dec. 31, 1998
Equity	18		
Capital stock	19	**1,633.937**	1,633.937
Capital reserve	20	**4,541.850**	4,541.850
Reserves retained from earnings		**237.685**	216.194
Unappropriated retained earnings, Group		**656.512**	654.623
Third-party equity shares	21	**392.394**	1,036.396
		7,462.378	8,083.000
Untaxed/special reserves		**18.001**	60.880
Accruals	22	**5,058.548**	4,921.531
Liabilities	23	**24,433.577**	23,748.794
Deferred income	24	**153.319**	271.302
		37,125.823	37,085.507

METRO AG Group
Consolidated income statement
for the year ended December 31, 1999

DM million	Note no.	1999	1998
Net sales	28	**85,674.022**	91,703.843
Change in inventories of finished products and work in process		**(10.588)**	(37.389)
Other work and material capitalized		**8.330**	12.103
Other operating income	29	**4,470.121**	4,215.962
Total operating performance		**90,141.885**	95,894.519
Cost of materials	30	**(67,159.534)**	(71,299.507)
Personnel expenses	31	**(9,850.794)**	(10,663.891)
Amortization of intangible and depreciation of tangible assets	32	**(2,271.459)**	(2,372.012)
Other operating expenses	33	**(9,113.367)**	(9,841.367)
Operating result		**1,746.731**	1,717.742
Income from investments	34	**15.138**	65.660
Net financial result	35	**(411.717)**	(650.250)
Result from ordinary operations		**1,350.152**	1,133.152
Extraordinary result	36	**–**	86.256
Income taxes	37	**(549.218)**	(398.246)
Other taxes		**(87.965)**	(85.915)
Net income	38	**712.969**	735.247
Third-party shares in net income	39	**(171.195)**	(161.500)
Transfer from reserves retained from earnings		**114.738**	80.876
Net earnings, Group		**656.512**	654.623

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

Besides METRO AG as the parent, the Group accounts comprise 312 (down from 513) German and 279 (down from 296) 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 Baar-based Metro Holding AG which indirectly holds 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, 18 subsidiaries of minor significance (down from 23) are not consolidated.

In comparison with December 31, 1998, the group of consolidated companies changed as follows:

Number at January 1, 1999	**810**
Changes in fiscal 1999:	
companies	
merged into other consolidated subsidiaries	– 40
divested	– 247
newly formed	+ 34
acquired	+ 17
other	+ 18
Number at December 31, 1999	**592**

The group of consolidated companies changed in 1999 mainly due to the transfer of the METRO AG Group's retail real estate to Asset Immobilienbeteiligungen GmbH & Co KG ("AIB"). In this context, altogether 209 German and 7 foreign enterprises were transferred to AIB as a real-estate marketing enterprise, at the book values to the Group and with effect as of end-December 1999. Deconsolidation of the transferred companies did on balance not affect the Group's income. Since their transfer took effect at the end of 1999 only, these companies' income statements are still included in the consolidated accounts while their assets and liabilities are not.

The 51 companies added chiefly reflect 29 Media-Saturn Group companies, as well as 100% of the interest in Real Multi-Center Warenhaus GmbH & Co KG which METRO AG acquired as of January 1, 1999. Furthermore, 15 companies of the Italian Mercatone Group were divested and deconsolidated in December 1999 with retroactive economic effect as of January 1, 1999.

The investment stated in 1998 at equity pursuant to Arts. 311, 312 HGB was disposed of as part of the transfer to AIB of the Group's retail properties. A total 7 (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, as statutory assumption, 20 percent or more of whose voting rights are held) of minor significance are stated at book value in accordance with Art. 311(2) HGB.

Since Media Italy was reclassified from the "Other" companies into Consumer Electronics Centers, the prior-year figures were adjusted accordingly.

Where the effects of changes in the group of consolidated companies are significant, they are detailed in the appropriate Notes.

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 and may, moreover, be obtained directly from METRO AG.

(3) Consolidation principles

For consolidation, the so-called book value method of accounting is adopted as a rule: 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.

Any third-party shares in the equity 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 created 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 temporary differences that reverse the income tax position, deferred taxes are provided for income tax effects of consolidation transactions recognized in net income.

(4) Currency translation

All balance sheet captions (including unappropriated retained earnings) denominated in non-DM currencies are translated at the mean current rate. To translate expenses and income, the annual average rate is used. Differences from the currency translation of assets and liabilities versus prior-year translation are not recognized in income, nor are any differences between balance sheet and income statement, nor any consolidation-related differences from currency translation.

The modified current-rate (a.k.a. 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, rates. This method results in depreciation and equivalent charges as well as any gain or loss from real property being 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 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. 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 wherever an impairment in their values is anticipated to be long-term. 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. 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)
Business and office equipment:	3–10 years

Where of minor significance, investments in associated affiliates and shares in nonconsolidated Group companies are valued at cost.

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 retail (a.k.a. inverse) method to the selling prices. Where the retail 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 a yearly interest rate of 6 percent, all pursuant to Art. 6a German Income Tax Act ("EStG"). Same-amount accruals provide for the deficient cover resulting from nonconsolidated Supplementary Pension Funds. Other noncurrent accruals, such as for deficient rent 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 unrealized gains to be recognized). Nonlisted financial instruments are either marked to the market by using generally accepted option pricing models or, for non-option-type derivatives, according to the present-value method.

Currency-related financial transactions are principally valued at the current mean spot price. 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 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.

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.

(6) Consolidated statement of cash flows, METRO AG Group

DM million	1999	1998
Gross profit (net sales less cost of materials)	**18,514.5**	20,404.3
Change in trade receivables and prepayments received	**(561.6)**	14.9
Increase in inventories	**(787.0)**	(133.5)
(Decrease)/Increase in trade payables	**1,792.5**	(404.6)
Change in trade-related working capital	**443.9**	(523.2)
Gross operating cash flow	**18,958.4**	19,881.1
Personnel expenses	**(9,850.8)**	(10,663.9)
Other operating expenses and income	**(4,643.3)**	(5,625.4)
Adjustments for		
net gain/loss from fixed-asset disposals	**(53.3)**	(122.2)
increase/(decrease) in pension and Other accruals	**156.1**	182.7
other items	**(239.9)**	(31.8)
Taxes paid in fiscal year	**(362.2)**	(402.6)
Cash flow from operating activities	**3,965.0**	3,217.9
M&A transactions	**(1,278.8)**	(5,800.9)
Expenditure for tangible assets	**(2,967.2)**	(2,586.7)
Expenditure for other fixed assets	**(904.2)**	(600.7)
Decrease in non-interest liabilities from investing activities	**(8.1)**	(9.5)
Disposal/transfer of shareholdings[1]	**(92.6)**	2,143.5
Fixed-asset disposals	**1,091.3**	1,046.1
Decrease/(Increase) in receivables from divestments	**120.1**	51.0
Cash flow from investing activities	**(4,039.5)**	(5,757.2)
Profit distributed to		
METRO AG stockholders	**(654.6)**	(489.7)
other stockholders	**(266.7)**	(61.9)
Capital increases	**–**	2,534.6
Change in third-party shares in capital and reserves	**(214.3)**	147.5
Incurrence of financial debts	**1,711.7**	6,860.8
Repayment of financial debts	**(922.4)**	(4,182.5)
Interest paid	**(607.6)**	(790.0)
Interest received	**188.8**	324.6
P&L transfers and other financing activities	**(116.0)**	(74.5)
Cash flow from financing activities	**(881.1)**	4,268.9
Total cash flows	**(955.6)**	1,729.6
Exchange rate effects on cash and cash equivalents	**(7.2)**	(3.2)
Overall change in cash and cash equivalents	**(962.8)**	1,726.4
Cash and cash equivalents at January 1	**3,235.1**	1,508.7
Cash and cash equivalents at December 31	**2,272.3**	3,235.1

[1] Meantime the cash funds for the retail properties' conveyance have been received.

The consolidated statement of cash flows was prepared in accordance with German Accounting Standard No. 2 and describes the Group's 1999 and 1998 business trends in terms of its cash position.

The cash flow from operating activities rose by 23.2 percent to DM 4.0 billion, mainly due to the increased negative working capital. The items changed versus the previous year in line with the changed group of consolidated companies. One major reason for the difference between the cash flow from operating activities and the operating result as shown in the consolidated income statement was the noncash amortization/depreciation of intangible/tangible assets at DM 2.3 billion.

The prior-year cash flow from investing activities had strongly been affected by major M&As and divestments while in 1999, such transactions were conducted to a substantially lesser degree. The cash outflow from M&As is shown net after deducting the cash and cash equivalents taken over from the groups acquired. One sizable acquisition was Real Multi-Center Warenhaus GmbH & Co KG, another involved the purchase of additional stakes in Praktiker Bau- und Heimwerkermärkte AG and in Kaufhof Warenhaus AG. Additions to tangible assets were 14.7 percent above the prior-year level.

The cash flow from the disposal/transfers of shareholdings is disclosed net, too. The cash from conveying the retail properties had not yet flowed in by December 31, 1999, whereas liquid assets had, in fact, flowed out. This is the reason why the "disposal/transfer of shareholdings" line shows a negative DM 92.6 million. Meantime the cash funds for the retail properties' conveyance have been received. At DM 1,091.3 million, fixed-asset disposals virtually remained at the prior-year level.

(7) Segment reporting

Segment information 1999 by divisions

DM million	Cash & Carry	Food Retail	Nonfood Specialty	Department Stores	Others/consolidation	Group
Net external sales	38,045.435	21,336.471	16,918.156	7,824.415	1,549.545	85,674.022
Net intercompany transfers	406.020	47.816	0.462	8.880	(463.178)	–
Net total sales	38,451.455	21,384.287	16,918.618	7,833.295	1,086.367	85,674.022
Net interest result	66.046	(57.999)	(3.818)	(25.140)	(414.591)	(435.502)
Result from ordinary operations	1,382.779	32.725	592.979	243.414	(901.745)	1,350.152
Return on sales (%)	3.6	0.2	3.5	3.1	–	1.6
Total assets	16,369.103	5,962.754	8,547.387	2,748.593	3,497.986	37,125.823
Capital expenditures	893.494	552.657	444.591	386.568	793.987	3,071.297
Depreciation	381.756	350.926	345.282	250.508	340.579	1,669.051
Operational liabilities	10,089.941	4,135.608	5,755.494	1,490.054	(5,010.282)	16,460.815
Employees (annual average, FTE)	56,090	50,880	31,521	22,425	10,524	171,440
Selling space (1,000 m^2)	2,787	2,850	2,428	1,299	106	9,470
Number of outlets	337	791	595	130	260	2,113

Comments on the segments

The segment report was prepared in accordance with German Accounting Standard No. 3. Segmenting by divisions and geographical markets makes the profitability and prospects of the METRO AG Group's lines of business more transparent.

Segmentation of the METRO AG Group into four divisions is in line with the Group's controlling and reporting after the previous year's strategic realignment. Segment reporting details the METRO AG Group's operations, which were restructured and assigned to the following divisions: Cash & Carry, Food Retail, Nonfood Specialty, and Department Stores. METRO AG being the Group's nonoperating holding company was grouped together with further operations not allocable to the divisions to form a fifth segment, Others.

Explanation of segment information

Intercompany transfers correspond to the internal sales among Group companies and are principally based on fair market transfer prices as if at arm's length.

Return on sales is the ratio of the result from ordinary operations to net external sales.

Total assets comprise fixed and current assets, as well as prepaid expenses and deferred charges.

Capital expenditures and depreciation (including amortization) refer to tangible and intangible assets (excluding goodwill).

The operational liabilities shown here do not equal the accounting debts.

Segment information 1999 by geographical markets

DM million	Germany	Western Europe (excl. Germany)	Eastern central Europe	All other countries[1]	Group
Net external sales	52,119.332	23,406.845	8,746.893	1,400.952	85,674.022
Total assets	22,772.821	11,411.012	2,349.666	592.324	37,125.823
Capital expenditures	1,723.297	514.730	770.023	63.247	3,071.297
Depreciation	1,172.863	330.024	142.152	24.012	1,669.051
Employees (annual average, FTE)	115,869	31,975	20,250	3,346	171,440
Selling space (1,000 m²)	6,825	1,735	817	93	9,470
Number of outlets	1,716	279	108	10	2,113

[1] The "all other countries" column combines the operations in Morocco and the PR China.

Comments on the consolidated balance sheet

(8) Fixed assets

DM million	Balance at 1-1-1999	Currency adjustment	Change in group of consol. companies
Intangible assets			
Franchises, concessions, industrial-property and similar rights and assets, as well as licenses thereto	477.527	0.261	2.665 (11.929)
Goodwill	9,096.188	0.553	– –
Prepayments on intangibles	11.850	(0.003)	– (0.455)
	9,585.565	0.811	2.665 (12.384)
Tangible assets			
Land, equivalent titles, and buildings (including on leased land and leasehold improvements)	12,836.153	55.260	109.178 (6,748.816)
Production plant and machinery	497.851	1.349	– –
Other plant, business and office equipment	5,246.558	34.737	128.003 (22.590)
Prepayments on tangibles, construction in progress	427.303	(8.540)	30.480 (405.138)
	19,007.865	82.806	267.661 (7,176.544)
Financial assets			
Shares in nonconsolidated Group companies	74.473	(0.008)	– (68.454)
Loans to nonconsolidated Group companies	51.367	–	– –
Other investments	620.960	(0.010)	– (89.660)
Investments in associated affiliates	10.963	–	– (8.714)
Loans under investor/investee relations	37.820	–	– –
Other long-term securities	11.740	–	– (2.044)
Other long-term loans	113.461	–	– (10.098)
	920.784	(0.018)	– (178.970)
Total	29,514.214	83.599	270.326 (7,367.898)

[1] Amortization, depreciation, write-down, write-off
[2] Including net losses prorated at DM 0.889 million

		At cost			
Additions	Book transfers	Disposals	Charges [1] (accumulated)	**Balance at 12-31-1999**	Charged [1] in 1999
84.876	4.165	42.690	351.961	**162.914**	62.721
761.143	–	364.340	1,788.745	**7,704.799**	602.408
19.187	(4.165)	0.365	–	**26.049**	–
865.206	–	407.395	2,140.706	**7,893.762**	665.129
954.521	424.291	364.853	2,211.190	**5,054.544**	563.934
75.247	19.056	50.725	341.447	**201.331**	59.296
1,276.884	78.118	778.361	3,866.338	**2,097.011**	983.617
660.582	(295.167)	95.403	0.001	**314.116**	(0.517)
2,967.234	226.298	1,289.342	6,418.976	**7,667.002**	1,606.330
12.832	–	5.823	–	**13.020**	–
–	–	–	51.367	**0.000**	–
45.707	(343.687)	27.919	39.627	**165.764**	34.673
–	–	1.189 [2]	0.050	**1.010**	–
22.362	(23.727)	–	–	**36.455**	–
1.008	–	0.402	0.001	**10.301**	–
731.680	2.687	95.891	2.372	**739.467**	0.324
813.589	(364.727)	131.224 [2]	93.417	**966.017**	34.997
4,646.029	(138.429)	1,827.961	8,653.099	**16,526.781**	2,306.456

The DM 7,367.898 million disposal disclosed in the "change in group of consolidated companies" column is largely attributable to the deconsolidation of real-estate enterprises and the divestment of the Mercatone Group. The additions of DM 270.326 million resulted mainly from the acquisition of the entire interest in Real Multi-Center Warenhaus GmbH & Co KG as of January 1, 1999 (at DM 122.679 million) and from the first-time consolidation of Metro C&C Bulgaria (at DM 88.041 million).

The 1999 additions (excluding goodwill and financial assets) are allocable to the outlet chains as follows:

DM million	12-31-1999	12-31-1998
Cash & Carry	**893.494**	688.094
Food Retail	**552.657**	400.251
Hypermarkets	**402.573**	318.367
Food Stores	**150.084**	81.884
Nonfood Specialty	**444.591**	252.485
Consumer Electronics Centers	**370.324**	174.364
Home Improvement Centers	**74.267**	78.121
Department Stores	**386.568**	348.655
Others	**793.987**	973.947
	3,071.297	2,663.432

Cash & Carry's capital expenditures rose particularly through the expansion of the sales network in eastern central Europe and the PR China.

Hypermarkets raised its capital outlay volume largely in the wake of the integration of the Allkauf and Kriegbaum outlets taken over in 1998, as well as through the further expansion in Poland and Turkey.

The increase at Food Stores is mostly attributable to the modernization of the existing branch network and to the integration of the former hypermarkets taken over from Real.

Capital spending by Consumer Electronics Centers soared mainly as this outlet chain opened a total 42 new branches in Germany and abroad as well as modernized and extended existing outlets.

The decline in expenditures by the Others is due to the 1998 demerger of companies and their spin-off to Divaco.

(9) Intangible assets

Breakdown as of December 31, 1999, of the total goodwill of DM 7,704.799 million:

DM 7,617.129 mill. net equity under cost from consolidation,
DM 87.670 mill. goodwill carried over from individual financial statements.

The acquisition of the free-floating minority stakes (altogether 24.19 percent) in Praktiker Bau- und Heimwerkermärkte AG resulted in 1999 in a total goodwill of DM 379.747 million. Another addition of DM 323.654 million refers to the purchase of the entire interest in Real Multi-Center Warenhaus GmbH & Co KG as of January 1, 1999. Divesting the Mercatone Group meant a goodwill disposal of DM 173.619 million.

Besides goodwill, intangible assets basically include purchased software.

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

(10) Tangible assets

Book values decreased largely after deconsolidating real-estate enterprises.

The 1999 depreciation of tangible assets includes write-down at DM 45.151 million (up from DM 40.089 million).

(11) Financial assets

The shares in nonconsolidated Group companies decreased mainly due to the initial consolidation of companies stated in 1998 in this line.

The reduced total of other investments is, in particular, attributable to the reclassification as current assets of the shares in Divafon Beteiligungs GmbH (at DM 209.790 million) and of the participating interest in Divaco AG & Co KG (at DM 133.000 million) since these investments will be liquidated once the companies transferred in 1998 to the Divaco Group have been sold. Further disposals were due to the retail properties having been conveyed and transferred (DM 47.372 million) and to the first-time consolidation of Metro Cash & Carry, Bulgaria (DM 36.345 million). The disposals contrast with additions of a total DM 45.707 million.

The other long-term loans chiefly rose as the refinancing volume for real estate increased at Metro Finance BV.

(12) Inventories

DM million	12-31-1999	12-31-1998
Raw materials and supplies	**30.237**	111.043
Finished products, merchandise	**9,529.379**	8,710.529
Prepayments made	**27.019**	16.862
	9,586.635	8,838.434

Stocks on hand basically grew as the Cash & Carry and Consumer Electronics Centers outlet chains pushed ahead with their expansion.

Breakdown of inventories by division/outlet chain as of December 31, 1999:

DM million	12-31-1999	12-31-1998
Cash & Carry	**2,963.916**	2,728.616
Food Retail	**1,907.116**	1,962.239
Hypermarkets	**1,407.350**	1,497.339
Food Stores	**499.766**	464.900
Nonfood Specialty	**2,953.454**	2,318.986
Consumer Electronics Centers	**1,902.884**	1,244.233
Home Improvement Centers	**1,050.570**	1,074.753
Department Stores	**1,332.758**	1,366.244
Others	**429.391**	462.349
	9,586.635	8,838.434

For enhanced comparability, the inventories of Media, Italy, shown in 1998 under Others at DM 169.365 million were reclassified into Consumer Electronics Centers. Moreover, the 1998 inventories of Metro-Distributionslogistik (MDL), the warehousing organization for Food Retail, were reclassified at DM 315.508 million from the outlet chains into Others.

(13) Receivables and sundry assets

DM million	12-31-1999	12-31-1998
Trade receivables	**1,154.370**	603.196
thereof with a remaining term above 1 year	**[5.807]**	[3.060]
Due from non-consolidated Group companies	**11.999**	369.667
thereof trade receivables	**[0.480]**	[62.095]
Receivable under investor/investee relations	**30.774**	59.699
thereof with a remaining term above 1 year	**[1.009]**	[2.783]
thereof trade receivables	**[0.066]**	[–]
Sundry assets	**7,022.021**	2,989.317
thereof with a remaining term above 1 year	**[67.787]**	[77.457]
	8,219.164	4,021.879

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 real property conveyance, and tax reclaims).

The increase versus the year before is substantially attributable to the purchase price claim of DM 2,409.235 million due to METRO AG from Asset Immobilienbeteiligungen GmbH from the transfer of the real-estate enterprises.

Further additions resulted from the shares in Divafon Beteiligungs GmbH and interest in Divaco AG & Co KG, which were reclassified as current assets at DM 209.790 million and DM 133.000 million, respectively, because such entities represent operations spun off in 1998 into Divaco and available for sale. Also shown under sundry assets is METRO AG's 49-percent interest in Asset Immobilienbeteiligungen GmbH & Co KG, a limited partnership to which all of the shares in Asset Immobilienbeteiligungen GmbH were contributed.

Moreover, tax claims receivable rose in comparison with the previous year by DM 525.942 million.

(14) Short-term securities and note loans

DM million	**12-31-1999**	12-31-1998
Shares in nonconsolidated Group companies	**0.045**	3.625
Other short-term securities	**153.936**	54.253
Note loans	**53.727**	42.594
	207.708	100.472

(15) Cash on hand and in bank

DM million	**12-31-1999**	12-31-1998
Checks	**87.797**	73.998
Cash on hand	**213.045**	157.521
Cash in bank	**1,971.443**	3,003.542
	2,272.285	3,235.061

(16) Net deferred tax assets

This caption represents the net balance of DM 143.058 million from consolidation transactions.

(17) Prepaid expenses and deferred charges

Besides loan discount of DM 24.075 million (up from DM 16.402 million), which is amortized by systematic charges over the underlying liabilities' term, this caption reflects a plethora of accounting technicalities.

(18) Equity

The METRO AG Group's equity presented the following changes since January 1, 1999:

DM million	METRO AG's capital stock	METRO AG's capital reserve	Reserves retained from earnings	Group's unappropriated retained earnings	Third-party equity shares	Total
Balance at 1-1-1999	1,633.937	4,541.850	216.194	654.623	1,036.396	8,083.000
Net income			(114.738)	656.512	171.195	712.969
Currency translation/ other nonoperating items			136.229		1.950	138.179
Net equity over cost of shares acquired					(550.371)	(550.371)
Distributed net earnings				(654.623)		(654.623)
Profit carryover distributed to third parties					(215.443)	(215.443)
1999 profit distributed to third parties					(51.333)	(51.333)
Balance at 12-31-1999	**1,633.937**	**4,541.850**	**237.685**	**656.512**	**392.394**	**7,462.378**

(19) 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 million 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 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.

The annual stockholders' meeting of July 6, 1999, resolved to conditionally raise the capital stock by a maximum €14.316 million (approx. DM 28.000 million) 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 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).

DM 133.089 million of the authorized capital I was utilized in 1998. The authorized capital I balance of DM 116.911 million then remaining was redenominated into €59.776 million 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 million 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 million of the authorized capital II was utilized in 1998. The authorized capital II balance of DM 87.792 million then remaining was redenominated into €44.887 million by Supervisory Board resolution 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 million (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% 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 million (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 million; on February 25, 1999, this figure was changed by the Supervisory Board into €835.419 million, 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:

Class	Number	€ mill.	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

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 meantime 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.

(20) Capital reserve

At DM 4,541.850 million, this reserve remained unchanged versus 1998.

(21) Third-party equity shares

At balance sheet date, the shares of outside stockholders in capital and reserves amounted to DM 272.532 million (down from DM 903.771 million). The decline is mainly the result of the acquisition of a 7.5-percent stake in Kaufhof Warenhaus AG (DM 257.244 million, previously held by WestLB) and reflects the acquisition of the free-floating minority stakes (altogether 24.19 percent) in Praktiker Bau- und Heimwerkermärkte AG (DM 194.144 million).

After distributions already made, the Group's equity includes DM 119.862 million as third-party P&L share (down from DM 132.625 million).

(22) Accruals

DM million	12-31-1999	12-31-1998
Pension accruals	**1,556.598**	1,563.850
Tax accruals	**719.927**	512.110
Other accruals	**2,782.023**	2,845.571
	5,058.548	4,921.531

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.

The tax accruals mainly provide for corporation income tax and municipal trade tax 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	12-31-1999	12-31-1998
Personnel-related commitments	**623.336**	600.731
Merchandise trade commitments	**491.348**	435.296
Invoices outstanding for capital expenditures and costs	**337.170**	232.371
Closedown and restructuring	**314.772**	424.408
Rent obligations	**173.323**	217.686
Litigation expenses and risks	**66.702**	79.072
Guaranty obligations	**33.632**	37.744
Impending losses on shareholdings	**31.483**	32.404
Impending losses on financial transactions	**29.515**	37.850
Audit and publication of annual accounts	**26.308**	33.633
Suretyship, guaranty and warranty risks	**25.540**	25.233
Sundry	**628.894**	689.143
	2,782.023	2,845.571

Noncurrent other accruals, such as for deficient rental cover or employment anniversary obligations, are disclosed at par, i.e. not discounted.

(23) Liabilities

DM million	12-31-1999	12-31-1998
Bonds	**2,313.631**	2,755.994
Due to banks [1]	**5,121.700**	5,712.222
Prepayments received on orders	**89.569**	41.079
Trade payables	**13,886.887**	12,387.652
Notes payable	**537.431**	568.460
Due to nonconsolidated Group companies [2]	**7.467**	171.485
Payable under investor/investee relations	**14.754**	426.855
Sundry liabilities	**2,462.138**	1,685.047
thereof for taxes	**[812.424]**	[676.507]
thereof for social security	**[201.886]**	[264.053]
	24,433.577	23,748.794

[1] thereof to finance land DM 0 million (down from DM 1,332.143 million)
[2] thereof trade payables DM 2.984 million (down from DM 31.271 million)

The bonds have been floated by Metro Finance BV and Metro International Finance BV and guaranteed by METRO AG. The decrease was due to the redemption of bonds matured.

In comparison to the year before, trade payables rose particularly at Consumer Electronics Centers (by DM 1,036.729 million), Hypermarkets (by DM 401.204 million), and Cash & Carry (by DM 232.097 million). The conveyance to AIB of the retail properties reduced the total by DM 172.721 million.

The accounts payable under investor/investee relations had in 1998 included one of DM 373.134 million to Divaco, which was settled in 1999.

The sundry liabilities chiefly cover personnel-related obligations, taxes payable, and loans of Supplementary Pension Funds. The increase from the prior-year level was primarily attributable to current inter-company accounts with enterprises that once the retail properties had been transferred to AIB were deconsolidated.

The analysis below ages the liabilities as of December 31, 1999:

DM million	12-31-1999 Total	Remaining term up to 1 year	above 5 years	Thereof collateralized by liens and interests
Bonds	**2,313.631**	31.409	1,816.784	
Due to banks	**5,121.700**	1,730.161	2,253.511	101.498
Prepayments received on orders	**89.569**	89.569		
Trade payables	**13,886.887**	13,886.887		
Notes payable	**537.431**	537.431		
Due to nonconsolidated Group companies	**7.467**	7.467		
Payable under investor/investee relations	**14.754**	14.754		
Sundry liabilities	**2,462.138**	2,444.245	5.045	
	24,433.577	18,741.923	4,075.340	101.498

(24) Deferred income

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

(25) Contingent liabilities

DM million	12-31-1999	12-31-1998
From suretyships and guaranties	**715.778**	1,308.275
From guaranty/ warranty contracts	**1,964.582**	4,872.652
From collateralization of third-party debts	**–**	7.338
	2,680.360	6,188.265

Contingent liabilities from suretyships and guaranties were substantially reduced as the retail properties were conveyed to AIB. The contingent liabilities from guaranty/warranty contracts decreased when the DM 2,850.000 million guaranty furnished in 1998 by METRO AG for Divaco bank loans to finance the acquisition of METRO AG Group companies lapsed.

(26) Other financial obligations

DM million	12-31-1999	12-31-1998
Obligations under leases (per annum)	**2,541.444**	2,202.669
Commitments from share tender rights	**378.891**	767.031
Purchasing commitments	**34.364**	67.447
Liability as general partner	**–**	44.960
Lending commitments	**–**	100.000
Obligations from financial derivatives	**6.287**	177.447
Sundry	**1.318**	61.420
	2,962.304	3,420.974

The commitments from share tender rights decreased since (i) in 1999 METRO AG acquired a total 7.5-percent stake in Kaufhof Warenhaus AG and (ii) Divaco assumed METRO AG's obligation to accept the third-party rights to tender Roller shares.

(27) 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	2,049.189	10.483
Caps/collars/floors	400.000	0
	2,449.189	10.483
Currency transactions		
OTC products:		
Forwards	1,082.518	34.431
Interest rate/currency swaps	265.645	(21.111)
	1,348.163	13.320
Total	3,797.352	23.803

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 impending losses on financial transactions (see Note 22). 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 5 for details of the accounting for, and valuation of, financial derivatives.

Forward exchange transactions mature throughout within one year.

Comments on the consolidated income statement

(28) Net sales

Breakdown of net sales:

DM million	1999	1998
Cash & Carry	**38,045.435**	36,150.171
Food Retail [1]	**21,336.471**	21,051.792
Hypermarkets	**15,585.910**	15,504.743
Food Stores	**5,750.561**	5,547.049
Nonfood Specialty	**16,918.156**	14,779.496
Consumer Electronics Centers [2]	**12,015.032**	9,869.981
Home Improvement Centers	**4,903.124**	4,909.515
Department Stores [3]	**7,824.415**	9,490.529
Others [4]	**1,549.545**	10,231.855
	85,674.022	91,703.843

[1] When the Kriegbaum Group was acquired as of March 1, 1998, altogether 20 hypermarkets and 18 food stores were taken over.

[2] The 1998 Media, Italy sales of DM 800.752 million had been shown under "Others" and were now reassigned to Consumer Electronics Centers to enhance comparability. The corresponding 1999 Media, Italy sales (for the first time assigned to Consumer Electronics Centers) amounted to DM 1,057.256 million.

[3] The 1998 sales included the 11-month sales of 25 Kaufhof and 143 Kaufhalle outlets which were deconsolidated as of December 1, 1998, and transferred to Divaco.

[4] The 1999 sales substantially include the revenues of the Gemex Group (DM 589.413 million), Dinea Group (DM 404.500 million), and MGE Warenhandels KG (DM 219.111 million). The 1998 sales stated hereunder are largely allocable to the following outlet chain operations transferred by 1998 year-end to Divaco (deconsolidation date in parentheses):
Computer Centers (12-31-1998): DM 4,900.325 million,
Food Stores (12-1-1998): DM 1,406.868 million,
Fashion Centers (12-31-1998): DM 1,257.979 million,
Footwear Centers (12-31-1998): DM 909.941 million.
No longer disclosed under the 1999 Others sales are those of the Mercatone Nonfood Specialty outlets as these were divested in December 1999 with retroactive effect as of January 1, 1999, in the wake of the Group's refocus on its core business.

DM 33,554.690 million (up from DM 32,276.175 million) of total net sales was generated by Group companies based outside of Germany.

(29) Other operating income

DM million	1999	1998
Advertising services	**1,122.092**	999.795
Rents	**827.297**	917.162
General services	**345.168**	294.754
Building/construction work	**272.137**	469.099
Income from real estate	**268.158**	–
Release of accruals	**261.588**	218.514
Supplier refunds	**160.752**	55.590
Income from central A/P clearing for outlet chains	**150.578**	163.855
Commissions	**90.454**	116.210
Gains from fixed-asset disposal	**83.923**	150.233
Foreign-exchange gains	**70.920**	97.172
Sundry	**817.054**	733.578
	4,470.121	4,215.962

Income from building/construction work contrasts with expenses of DM 249.180 million (down from DM 415.276 million).

The income from real estate mirrors compensation for services no longer to be rendered by Real Estate after its spin-off.

The income from the release of accruals refers to a large number of transactions, including (but not limited to) accruals for deferred maintenance, litigation risks, personnel-related expenses, and invoices outstanding for costs.

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

(30) Cost of materials

DM million	1999	1998
Raw materials, supplies, and merchandise purchased	**66,955.723**	71,042.273
Services purchased	**203.811**	257.234
	67,159.534	71,299.507

The reduced cost of materials is substantially due to the 1998-end demerger of noncore businesses and their spin-off to Divaco.

(31) Personnel expenses

DM million	1999	1998
Wages and salaries	**8,031.310**	8,662.315
Social security taxes, expenses for pensions and related employee benefits	**1,819.484**	2,001.576
thereof pension expense	**[150.498]**	[181.706]
	9,850.794	10,663.891

The lessened personnel expenses are substantially due to the 1998-end demerger of noncore businesses and their spin-off to Divaco.

In the year under review, restructuring required social plan expenses of altogether DM 102.247 million (down from DM 167.613 million).

For the stock option plan (SOP) introduced in 1999 for executives, 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 €54.95. 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 1.253 million.

(32) Amortization of intangible and depreciation of tangible assets

DM million	1999	1998
Goodwill amortization from capital consolidation	**579.163**	607.890
Goodwill amortization from inclusion at equity	**0.189**	5.887
Goodwill amortization from individual annual accounts	**23.056**	23.008
Amortization of other intangibles	**62.721**	66.946
Depreciation of tangible assets	**1,606.330**	1,668.281
	2,271.459	2,372.012

Depreciation of tangible and amortization of intangible assets (excluding goodwill) also cover ACR charges of DM 45.151 million (up from DM 40.089 million).

(33) Other operating expenses

DM million	1999	1998
Rents	**2,738.020**	2,765.917
Advertising/promotion	**1,943.852**	2,014.784
Maintenance	**572.388**	595.595
Energy	**535.562**	575.530
Personnel-related	**477.551**	475.739
Cleaning/waste disposal	**267.739**	269.812
Transportation of goods	**262.253**	272.621
Materials consumption	**260.621**	252.273
Outside building/ construction work	**249.180**	415.276
Legal, audit and similar fees	**194.009**	197.341
EDP	**185.155**	153.639
Postage, etc.	**146.337**	178.308
Vigilance/security	**139.924**	127.074
Payment transactions	**117.979**	149.674
Insurances	**83.248**	99.730
Closedowns and restructuring	**79.057**	140.724
Foreign-exchange losses	**70.957**	90.324
Write-down of current assets	**64.980**	70.368
Dues and subscriptions	**62.370**	67.274
Sundry	**662.185**	929.364
	9,113.367	9,841.367

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

(34) Income from investments

DM million	1999	1998
Net P/L from associated affiliates	**(0.889)**	11.157
Income from other investments	**21.394**	54.503
Expenses from loss absorption	**(5.367)**	–
	15.138	65.660

The prior-year figure for associated affiliates includes at DM 10.766 million the prorated net profit of companies transferred at the end of 1998 to Divaco. The 1998 income from other investments includes DM 24.348 million from companies also transferred to Divaco at the close of 1998.

(35) Net financial result

DM million	1999	1998
Other interest and similar income	**214.570**	289.742
thereof from nonconsolidated Group companies	**[19.365]**	[8.441]
Other financial income	**120.332**	53.802
Income from other long-term securities and loans	**15.731**	8.565
Write-down of financial assets and of short-term securities	**(34.998)**	(6.228)
Interest and similar expenses	**(650.072)**	(795.522)
thereof to nonconsolidated Group companies	**[0.008]**	[10.742]
Other financial expenses	**(77.280)**	(200.609)
	(411.717)	(650.250)

The other financial income/expenses basically reflect the results from caps/collars/floors, including gains and losses from securities and currency transactions.

(36) Extraordinary result

DM million	1999	1998
Extraordinary income:		
Gain from the Hawesko Group's divestment	–	245.286
Extraordinary expenses:		
Expenses from the application of the new mortality tables	–	(159.030)
	–	86.256

(37) Income taxes

DM million	1999	1998
Corporation income tax	**432.813**	330.666
Municipal trade tax on income	**118.520**	184.096
Non-German income taxes	**0.674**	0.967
	552.007	515.729
Deferred taxes	**(2.789)**	(117.483)
	549.218	398.246

At December 31, 1999, tax loss carryovers existed within the METRO AG Group at DM 1.2 billion for corporation income tax purposes (down from DM 2.6 billion) and at DM 1.7 billion as credit against municipal trade tax on income (down from DM 2.3 billion). Such loss carryovers can be applied for an indefinite period of time. The corporation income tax mainly results from non-German companies.

(38) Net income

METRO AG's net income amounted to DM 928.857 million, the Group's being DM 712.969 million.

Major reasons for the difference are particularly (i) the disposal of book values that differ between METRO AG's consolidated and individual financial statements due to the conveyance and transfer to AIB of the retail properties, as well as (ii) the DM 171.195 million third-party P&L shares.

(39) Third-party shares in net income

The third-party shares in profit and loss amount to DM 202.269 million (up from DM 196.017 million) and DM 31.074 million (down from DM 34.517 million), respectively.

Additional data

(40) Employees

Average headcount	1999	1998
White-collar employees	**159,401**	179,934
Blue-collar employees	**57,056**	61,130
Apprentices/trainees	**8,808**	9,297
	225,265	250,361

The figures include 103,433 part-timers per capita (down from 120,823).

(41) Supervisory and Executive Boards

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

The emoluments paid to the Executive Board members 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

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

(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.)

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, April 10, 2000

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 five 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 outlet chains were dealt with in detail. Deliberations focused on the following issues:

- Realignment of the Food Retail division and the Home Improvement Centers outlet chain
- Focal capital investments, with particular emphasis on the eligible divisions' expansion strategies in Germany and abroad
- Assessment of the performance of the outlet chains and service companies, as well as orientation of investment or divestment decisions according to the Economic Value Added (EVA)
- Launch of the stock option plan and EVA-based incentive pay components for executives
- Preparations for adding e-commerce to brick-and-mortar business
- Intensified measures to fully integrate acquired companies into their outlet chains
- Deconsolidating conveyance of the entire retail properties to an outside marketing enterprise

The members of the Supervisory Board were thoroughly informed about all major transactions related to such key issues wherever of special significance to the Company's further development. All important transactions and the trend of financial indicators were reported in the course of a continuous interchange 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 outlet chains, as well as measures aiming at sharpening their competitive edge and strengthening their market position. Detailed discussions of envisaged business policies and fundamental corporate planning matters added to the exchange of information about business trends and the Company's situation; in this context, financial, investing, earnings and HR planning issues for 1999 and 2000 and their implications for strategic alignment, expansion, 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 underlying operational risks.

At the December meeting, the Supervisory Board decided to convey and transfer METRO AG's retail properties to an outside enterprise and to deconsolidate such real estate. This move will release the funds tied up in real property and deploy them to higher-return operations with a view to accelerating core business expansion through organic growth and M&As.

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 presidential/staff committee met three times, the annual accounts committee once, while it did not prove necessary to convene the slate submittal committee in 1999.

The accounting, the annual accounts as of December 31, 1999, 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. 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. The statutory auditors' reports on such accounts were also presented to the Supervisory Board members.

These documents were discussed at the annual accounts meeting, as well as a prior joint meeting of the presidential and annual accounts committees of the Supervisory Board. The statutory auditors attended both meetings and commented on queries about the annual accounts of METRO AG and the Group. 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 of METRO AG and the Group as of December 31, 1999, as submitted by the Executive Board, together with the combined management report. METRO AG's annual accounts are thus adopted. The Supervisory Board concurs with the Executive Board's proposal for the appropriation of net earnings.

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 1999; 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.

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

Cologne, May 2000

THE SUPERVISORY BOARD

Erwin Conradi
Chairman

Summary of major Group companies

Name	Registered office	% held by Group	Equity DM mill.
METRO AG	Cologne		7,630.489
Cash & Carry			
Metro Cash & Carry GmbH	Düsseldorf	100.00	4,583.514
Metro Grosshandelsgesellschaft mbH	Düsseldorf	100.00	72.335
Metro Cash & Carry International Holding GmbH	Düsseldorf	100.00	6,304.240
Food Retail			
Real SB-Warenhaus GmbH	Alzey	100.00	401.460
AK SB-Warenhaus GmbH	Mönchengladbach	100.00	975.031
Extra Verbrauchermärkte GmbH	Sarstedt	100.00	91.144
Nonfood Specialty			
Media-Saturn-Holding GmbH	Ingolstadt	73.18	594.621
Praktiker Bau- und Heimwerkermärkte AG	Kirkel	99.19	848.613
Department Stores			
Kaufhof Warenhaus AG	Cologne	95.00	330.000
Others			
Metro MGE Einkauf GmbH	Düsseldorf	100.00	3.050
Gemex Trading AG	Baar, Switzerland	100.00	10.658
Metro International AG	Baar, Switzerland	99.00	397.808
Dinea Gastronomie GmbH	Cologne	100.00	16.050
MRE Metro Real Estate Management GmbH	Saarbrücken	100.00	18.997
Metro MGI Informatik GmbH	Düsseldorf	100.00	2.859

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.

Auditor’s opinion

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, 1999. The preparation of consolidated annual accounts and a group management report in accordance with German Commercial Code regulations is the responsibility of METRO AG's Executive Board. Our responsibility is, based on our audit, to express an opinion on said Group accounts and management report.

We conducted our audit of the consolidated 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 consolidated accounts in accordance with generally accepted accounting principles and by the management report on METRO AG and the METRO AG Group is identified. When planning the audit procedures, knowledge and understanding of the METRO AG Group'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 consolidated accounts and management report.

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 consolidated 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 P/L position. The combined management report on METRO AG and the Group presents fairly both the METRO AG Group's overall position and the risks inherent in its future development.

Duisburg, April 12, 2000

FASSELT-METTE & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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

METRO AG
Administrative head office:
Ivo-Beucker-Strasse 43
40237 Düsseldorf
Germany

Postal address:
Postfach 23 03 61
40089 Düsseldorf
Germany

Internet:
http://www.metro.de

Investor Relations:
Phone: (+49 211) 68 86-19 36
Fax: (+49 221) 68 86-37 59
Email: investorrelations@metro.de

Press & Corporate Communications:
Phone: (+49 211) 68 86-28 70
Fax: (+49 211) 68 86-20 00
Email: presse-duesseldorf@metro.de

Design and production:
Advantage, Frankfurt
http://www.advantage.de

Translation:
EXPERTEAM
Rheinbach