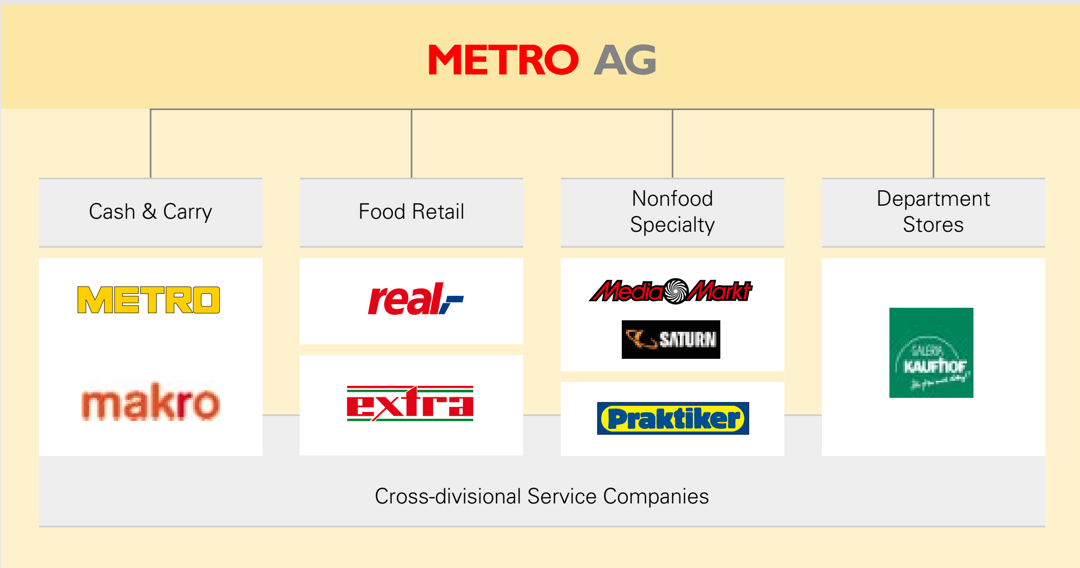
METRO AG

ANNUAL REPORT 2001

Consolidated Financial Statements of METRO AG

Metro Group at a Glance

At the top there is METRO AG as the strategic management holding company. In the operating business six sales divisions act independently in the market with their individual brands. Cross-divisional service companies provide services to all sales divisions right across the group, like procurement, logistics, IT, advertising, financing and insurance.



At a glance

Metro Group in figures

	2001 [1] € mill.	2000 [1] € mill.	1999 [1] € mill.	1998 [2] € mill.	1997 [2] € mill.
Net sales	49,522	46,930	43,833	46,888	29,062
EBITDA	2,383	2,183	2,038	2,007	1,181
EBIT	1,130	1,025	1,000	794	486
Earnings before tax	673	754	681	579	476
Net income	449	423	305	376	319
Net income after minority interests	401	359	234	293	283
Capital expenditure [3]	1,572	1,620	1,446	1,362	967
Net assets	22,320	22,333	22,402	18,962	12,994
Equity capital	4,242	4,146	4,022	4,133	2,537
Return on equity after taxes	10.6%	10.2%	7.6%	9.1%	12.6%
Per share	€	€	€	€	€
EBITDA	7.29	6.68	6.24	6.14	4.85
Earnings per share	1.23	1.10	0.72	–	–
DVFA/SG earnings per share after full deferred taxes	–	–	–	0.78	1.26
Cash dividend					
• Common stock	1.020	1.020	1.020	1.02	1.02
• Preferred stock	1.122	1.122	1.122	1.08	1.08
Cash dividend including tax credit [4] [5]					
• Common stock	1.020	1.020	1.020	1.02	1.03
• Preferred stock	1.122	1.122	1.122	1.08	1.09

[1] Annual accounts according to IAS
[2] Annual accounts according to HGB (German Commercial Code)
[3] Additions to fixed assets, intangible assets exclude goodwill
[4] For shareholders with unlimited tax liability
[5] Only tax-exempt portions of the distributable equity capital were used for the 2000/1999/1998 dividends.

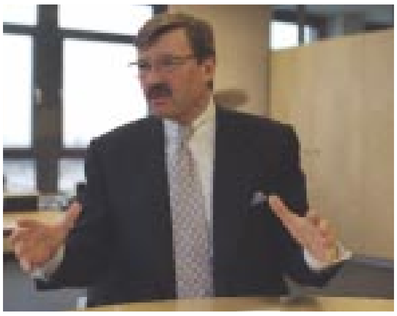
Metro Group performance by sales divisions

	2001 € mill.	2000 € mill.	Changes € mill.	%
Metro Cash & Carry [1]	625.5	554.4	71.1	12.8
Real	117.8	52.7	65.1	123.5
Extra	(14.4)	(39.9)	25.5	63.9
Media/Saturn	223.9	266.0	- 42.1	- 15.8
Praktiker	(9.7)	(29.2)	19.5	66.7
Kaufhof	187.0	180.8	6.2	3.4
EBIT Metro sales divisions [1] [2]	1,130.1	984.8	145.3	14.8
Others [1] [2]	0.1	40.0	- 39.9	- 99.8
Total EBIT Metro Group	1,130.2	1,024.8	105.4	10.3
Financial result	(456.9)	(270.7)	- 186.2	- 68.8
Earnings before tax	673.3	754.1	- 80.8	- 10.7
Income taxes	(224.3)	(331.6)	107.3	32.4
Group net income	449.0	422.5	26.5	6.3
Earnings per share	1.23 €	1.10 €	0.13 €	11.9 %

[1] Prior year's value after adjustment for reallocation of real estate in Great Britain and the Czech Republic from Cash & Carry to Others.
[2] E-business was reclassified as Others.

In order to improve readability, some decimal places have been left out of the text and also in some tables. For calculations of the changes over previous year however, the numbers used include exactly all decimal places, which may result in rounding off discrepancies.

Dear Stockholders:



In fiscal year 2001 the Metro Group showed consistency in implementing its corporate strategy. In a difficult economic environment group sales were increased by 5.5 percent. The share of our foreign businesses in total group sales was boosted to 44.4 percent. And we also exceeded our earnings per share growth target of 10 percent.

In all of the METRO AG business units we can see clear progress being made even though not all our sales divisions have yet managed to reach their target profitability or to cover their capital costs. We are confident, however, that with the help of our programs they will generate their target returns in the medium term.

Strategy of profitable growth. METRO AG will continue its strategy of profitable growth developing its sales divisions Metro Cash & Carry, Real, Extra, Media/Saturn, Praktiker and Kaufhof into strong retail brands that have a distinctive profile for our customers. An important measure in the positioning of the Real and Kaufhof outlet chains is their participation in the ‘Payback’ customer loyalty program which is the market leader in Germany with more than 15 million cards issued. The program improves our knowledge of the buying behavior of our customers and therefore enables us to make our product offerings even more efficient to our customers´ advantage.

International expansion – a growth engine. International expansion is a growth engine within the group. By entering the market in one or two countries every year we consistently continue this course of expansion. The most international division in the Metro Group is Metro Cash & Carry. At the end of 2001 it operated in 22 countries. With the opening of two wholesale stores in Moscow Metro Cash & Carry entered the Russian market. In addition, the first wholesale store was opened in Zagreb/Croatia. Over and above this, we vigorously pushed ahead the preparations for the strategic expansion in Asia. Market entry in Vietnam is imminent and the preliminary work for the opening of the first wholesale stores in Japan and India is progressing at full speed. The consumer electronics centers also increased their international presence abroad with 21 new stores being opened in the year 2001. In this way Media/Saturn was able to further expand its market leadership in Europe.

EVA promotes entrepreneurial thinking. One of our special concerns in the last few years has been the introduction of the Economic Value Added (EVA) as the central management tool and as the variable compensation benchmark for executive staff to the level of the store manager. Today we can say that a sustainable entrepreneurial spirit has developed in the group as a result. Value creation as a joint objective in the Metro Group has become a matter of course for our employees.

Requirements of the capital market met. Our capital market orientation, our adoption of the International Accounting Standards as the first European trading group as well as the increased transparency that this spelt for the capital market were pioneering achievements by METRO AG in fiscal year 2000. We continued this capital market orientation in fiscal 2001 by introducing comprehensive quarterly reporting. By international standards METRO AG is today perceived as an open and transparent company firmly committed to meeting the needs of the capital market.



HR development – an important factor of success. We can only keep up the forceful international expansion of our divisions with qualified, flexible employees who are ready to support our strategy of profitable growth with dedication and hard work. This is why we pay special attention to HR development, and specifically the development of junior executive staff. Only a company capable of gaining and retaining young people with high potential will manage to stay at the top in the long run. With an eye on the future we have therefore established an internationally oriented executive development program that ensures the recruitment of highly qualified and motivated management staff in line with our precise needs. Our decentralized management structures and our presence in many foreign markets open up the opportunity to dedicated junior staff to assume management responsibilities at an early age. With its intercultural alignment METRO AG offers an interesting and exciting working environment.

Outlook. In spite of the difficult conditions in the overall economy in Germany and Europe we will continue our strategy of profitable growth in the future. The focus will be on organic growth. We want to continue to generate above average growth rates in terms of sales and earnings. However, we will also keep an open mind for acquisitions and for any form of cooperation under the proviso that they offer our stockholders a recognizable potential for an increase in value.

METRO AG is one of the most international trading groups in the world. This is a position we will further enhance.

To you, the Metro stockholders, to our customers and business partners, as well as to our employees we would like to offer a heartfelt vote of thanks for the trust and support in the fiscal year just ended. We are heading in the right direction to position METRO AG even better in the domestic and foreign markets and to boost its profitability even further. We hope that our corporate strategy will continue to gain your unrestricted support and trust in the year 2002.

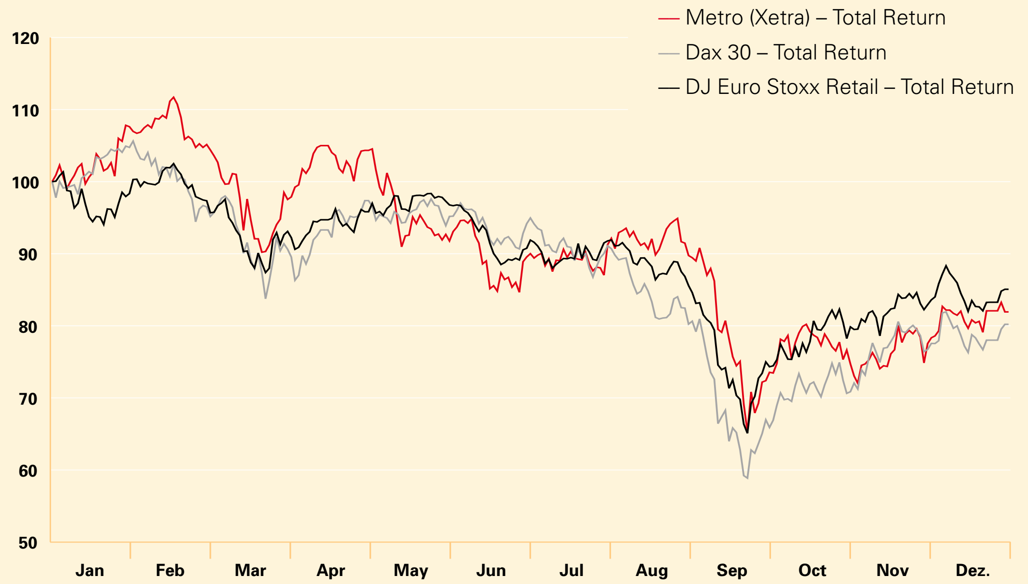
Düsseldorf, in March 2002

Dr. Hans-Joachim Körber

Metro stock

Stock price trend in 2001

Performance of Metro common stock in 2001*



*Metro common stock with reinvested dividend rebased as 100; Dax 30 and Dow Jones Euro Stoxx Retail Return indexed to Metro common stock.
Source: Datastream

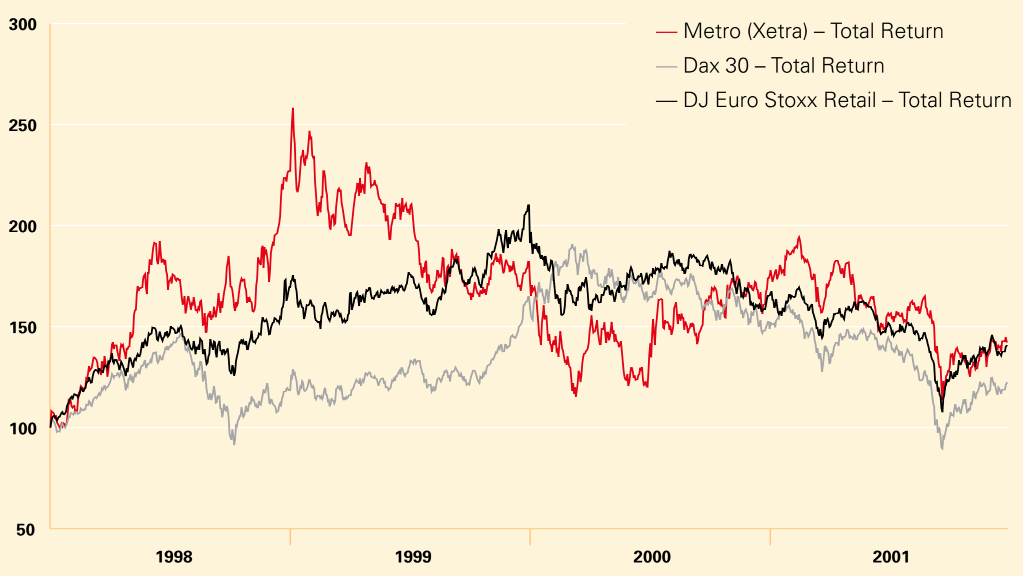
The year 2001 was on the whole a difficult year for the stock markets. The reasons were not just the recession trends in the essential economic regions of the world and the persistent disillusionment of investors due to the dramatic profit declines in many companies but also the effects of the devastating terrorist attacks in the USA. The German stock index Dax lost 19.8 percent in 2001, the Dow Jones Euro Stoxx Retail – the sector index for European retail stocks – lost 14.9 percent in the same period after allowing for dividends. With a price decline of 20.0 percent – or 18.1 percent after allowing for dividends paid – the Metro stock developed in line with the general trend in the stock markets.

In the first half of the year 2001 the Metro stock, thanks to good economic prospects for Europe and especially for Germany, took a comparatively positive development. In addition, the stock benefited from the good performance of the Real Hypermarkets in Germany in the first and second quarters. From the middle of the year the declining dynamism of the US economy as well as the clear deterioration of economic prospects for Europe, above all for Germany however, began to have a profound impact on the events in the stock markets. The same applied to the development of the Metro stock price. In addition, the slowing down of the growth dynamics of the consumer electronics centers in Germany impaired the development of the Metro stock, especially in the third quarter. The free float regulation of the Morgan Stanley Capital International (MSCI) indices launched in the second half of the year triggered a shift in the portfolios from Continental Europe to Great Britain that also burdened the Metro stock temporarily in the second half.

The events of 11 September in the USA finally impeded the world economy on a massive scale exacerbating the already difficult economic situation in many countries. The consequence was a large measure of insecurity in the worldwide capital markets that also had a negative impact on the Metro stock. After September it was not able to maintain its edge over the Dax and Dow Jones Euro Stoxx Retail development and only partially recovered by the end of the year.

Stock price history since 1998

Performance of Metro common stock 1998-2001*



*Metro common stock after reinvestment of dividends rebased at 100; Dax 30 and Dow Jones Euro Stoxx Retail Return indexed to Metro common stock. Source: Datastream

Since early 1998 the Metro stock increased its value by 42.5 percent with the reinvestment of dividends. This put it slightly above the level of other international retail stocks as measured by the Dow Jones Euro Stoxx Retail Return Index (40.6 percent). The Metro stock clearly outperformed the Dax 30 (22.2 percent).

Market capitalization of € 13 billion

At year-end 2001 the market capitalization of METRO AG amounted to € 13 billion. In comparison with the previous year the company was able to advance by two slots among the Dax 30 companies and is now in 16th place. Also measured in terms of the volume traded at the German stock exchanges the Metro stock is among the twenty most frequently traded Dax securities. In Germany the Metro stock is listed for official trading at the Frankfurt and Düsseldorf stock exchanges and included in the Xetra electronic trading system and the European options exchange Eurex. In addition the Metro stock is also quoted at the Swiss Exchange.

Metro stock key figures

Basic data		2001	2000	1999	1998	1997
Annual closing price						
common stock	€	39.50	49.80	53.40	68.00	32.98
common stock/ challenged	€	38.50	47.50	–	–	–
preferred stock	€	44.60	26.00	30.00	41.06	25.67
Annual high						
common stock	€	55.25	51.25	77.05	68.00	50.92
common stock/ challenged	€	53.60	50.00	–	–	–
preferred stock	€	44.75	37.00	45.35	41.06	37.84
Annual low						
common stock	€	32.20	33.60	47.60	30.49	25.56
common stock/ challenged	€	31.00	43.50	–	–	–
preferred stock	€	26.00	18.76	25.50	23.77	17.90
Total outstanding	shares	326,787,529	326,787,529	326,787,495	326,787,495	243,590,388
common stock	shares	303,786,183	303,786,183	303,786,183	303,786,183	220,589,076
common stock/ challenged	shares	20,323,380	20,323,380	–	–	–
preferred stock	shares	2,677,966	2,677,966	23,001,312	23,001,312	23,001,312
Profit distribution per share		2001	2000	1999	1998	1997
Common stock						
dividend	€	1.02	1.02	1.02	1.02	1.02
tax credit [1) 2)]	€	–	–	–	–	0.01
total dividend	€	1.02	1.02	1.02	1.02	1.03
dividend yield [3)]	%	2.6	2.0	1.9	1.5	3.1
Preferred stock						
dividend	€	1.122	1.122	1.122	1.08	1.08
tax credit [1) 2)]	€	–	–	–	–	0.01
total dividend	€	1.122	1.122	1.122	1.08	1.08
dividend yield [3)]	%	2.5	4.3	3.7	2.6	4.3
Metro common share data		2001	2000	1999	1998	1997
EBITDA [4)]	€	7.29	6.68	6.24	6.14	4.85
EpS [4)]	€	1.23	1.10	0.72	0.40	0.64
Ratio of price/book value [4)]		3.0	3.9	4.2	5.2	3.1
Market capitalization	€ bill.	12.90	16.16	16.91	21.60	7.86

1) For stockholders resident in Germany
2) Solely tax-exempt portions of distributable equity will be/were used for the 2000/1999/1998 dividends.
3) Based on annual closing price
4) Prior-year data not comparable due to the consolidated accounts 2000 and 1999 being based on IAS

Current status of conversion of preferred into common stock

The actions for avoidance brought by four owners of METRO AG common stock against the resolution passed by the ordinary General Stockholders' Meeting of METRO AG on 4 July 2000 have not yet been concluded. After the "Landgericht" (regional court) of Cologne dismissed the action for avoidance on 7 March 2001 the plaintiffs launched an appeal at the "Oberlandesgericht" (higher regional court) of Cologne. In its judgement handed down on 20 September 2001 the higher regional court also dismissed the action. However, the judgement has not yet become final and the plaintiffs have already lodged an appeal with the Bundesgerichtshof (federal supreme court).

Investor relations

METRO AG pursues a dedicated and transparent communication policy with stockholders and investors. In fiscal 2001 METRO AG further intensified its Investor Relations activities making regular presentations to institutional investors and analysts at all important financial centers in Europe, USA and Asia on the strategy, the business development and the future perspectives of the group. In May the annual analysts' meeting took place on the occasion of the presentation of the company's annual financial statements. At the same time the first fully fledged IAS quarterly report was submitted and explained. During two telephone conferences at the end of July and October the METRO AG Executive Board explained to members of the capital market the second and third quarter reports 2001.

METRO AG used six international investors' conferences for trading companies as a platform to inform more than 500 institutional investors on its strategy and expected development. Additionally, METRO AG conducted more than 200 further presentation events, individual talks and visits to establishments in Germany and abroad. All investors were given continuous and up-to-the-minute information on the current development of the company via the ‚Investor News' published on the Internet. The website of METRO AG (www.metro.de) was intensively used as the most important information medium for the Investor Relations work and supplemented by the Analysts' Forum in which investors can download topical ratings and recommendations by analysts.

Management report

Macro-economic environment

World economy: extremely weak cyclical development

After years of growth the development of the world economy was marked by stagnation and even signs of a recession in the year 2001. While in the year 2000 the worldwide gross domestic product in real terms still reached a growth rate of almost 5 percent growth in the year under review was slightly below 2 percent. However, there were considerable regional variations. The cyclical weakness affected mainly the industrialized countries, Latin America and the fast-developing countries in East Asia. The Central European reform countries were much less strongly impacted by this development. Russia and China even reported stable growth. The weakness of the world economy in 2001 also manifested itself not least in the development of world trade. While it had still grown by 13 percent in 2000 it hardly increased at all in the year under review.

In the USA the longest period of growth in the recent economic history of the country came to an end in 2001. While the USA had given the world economy strong growth impulses for almost 10 years the economic decline in the year 2001 constituted a serious burden on the world economy. Industrial production in the USA dropped dramatically, export and import volumes shrank and unemployment went up substantially. Under the impression of a seriously shaken consumer confidence the growth rate of private consumption in real terms dropped from about 5 percent in the previous year to 2.7 percent in the year 2001. The terrorist attacks of 11 September dealt an additional heavy blow to the US economy during a very critical phase.

Japan, behind the USA the second largest economic nation with a major influence on the world economy, reported the poorest economic performance among the industrialized countries in 2001. The gross domestic product in real terms declined, private consumer spending stagnated. The Japanese economy is undergoing a profound structural crisis characterized by surplus capacities, overdue reforms in the labor market, deflation, a banking system that needs revamping, and a stifling level of state indebtedness.

In the People's Republic of China the high speed of growth of the previous year continued unaffected by the cooling-off of the world economy. Economic growth in real terms amounted to about 7.5 percent. The newly industrialized countries of East Asia, i.e. the whole of East Asia except China and Japan, did however suffer a substantial economic decline, above all in the IT industry.

In the twelve countries of the Euro zone economic growth came almost to a complete standstill in the course of the year 2001. Euroland's annualized gross domestic product in real terms rose by only about 1.5 percent. Thus, the Euro zone was unable to separate itself from the negative economic development in the USA. Private consumption increased by some 2 percent in real terms.

Germany with its real economic growth of as little as 0.6 percent had the second poorest development in Europe. Especially the domestic demand developed very slowly. It was only the increase in exports by 4.7 percent in real terms that prevented an even more dramatic cyclical downturn. In spite of the tax cut at the beginning of the year 2001 private consumer spending remained disappointing. Real growth amounted to only 1.1 percent. The German retail trade benefited only very slightly from this tiny increase since the decline of the share of retailing in total private consumer spending observed over several years continued in 2001. At the moment, only about one in three Euros of every private household budget is spent in the classical retail trade.

Retail industry in Germany

Total turnover of the retail trade rose in nominal terms by 1.7 percent from € 505 billion to € 513 billion. In real terms this was equivalent to an increase of 0.2 percent.

Retailing proper – i.e. excluding motor car, fuel, gasoline, lubricant and pharmacy sales – increased its turnover by nominally 1.1 percent to € 379 billion. Corrected for inflation this represents a decline of 0.7 percent. The difficult economic situation of German retailing was additionally exacerbated by a further growth in selling space and even tougher competition. In the year 2001 the German wholesale trade also sustained a decline in real terms. While wholesaling including the food, beverage and tobacco segments dropped by 1.9 percent in real terms the wholesale trade in consumer durables and consumables had to cope with losses in sales of nominally 4.5 percent representing as much as even 6.0 percent after correction for inflation.

Group sales

In fiscal year 2001 the Metro Group increased its sales from € 46.9 billion by 5.5 percent to € 49.5 billion. The share of the international business in total sales increased from € 19.8 billion to € 22.0 billion. This is equivalent to an increase from 42.2 percent to 44.4 percent.

Metro Cash & Carry

Metro Cash & Carry developed extremely positively even in 2001 in spite of the generally weak economy. Total sales of the sales division rose in 2001 by 8.1 percent from € 21.0 billion to € 22.7 billion. On a like-for-like basis the growth rate amounted to 3.5 percent. In Germany sales could be increased by 5.1 percent from € 5.2 billion to € 5.4 billion. On a like-for-like basis this is equivalent to a growth of 3.2 percent. The share of international business in the total sales of Metro Cash & Carry went up to 76.1 percent, i.e. 0.6 percentage points higher than in the previous year.

At the end of 2001 the first two wholesale stores in Russia and the first store in Croatia were opened. The further expansion of the Metro Cash & Carry outlet chain was promoted as vigorously in fiscal year 2001 as in the previous year. After the opening of 31 new stores the outlet chain included 384 Cash & Carry stores in 22 countries. As a result, the total selling space of all wholesale stores increased from just about 3 million square meters in the previous year to 3.2 million square meters. The expansion was driven ahead especially forcefully in China where seven new stores were opened almost doubling the number of store locations there. In France, Italy and Romania four new stores each were added to the existing outlet chain. On the whole, in 2001 one Classic store and eight ECO stores were opened in Western Europe as well as 22 Junior stores, including the first two Junior stores in Germany.

Real

Despite the fierce competitive environment the Real Hypermarket business development again showed a positive trend in the year 2001. Real was able to increase sales by 2.6 percent from € 8.2 billion to € 8.4 billion. On a like-for-like basis this is an increase in sales of 2.6 percent. In Germany annual sales at € 7.4 billion were 1.8 percent, and on a like-for-like basis 2.7 percent higher than those of the previous year amounting to € 7.3 billion. The development of sales in the year 2001 shows that the structural measures taken in the context of the repositioning like refurbishments, expansion of the shop-in-shop concept or the creation of additional in-store bakeries did indeed lead to an improvement of the market position. Thus, ten stores were comprehensively refurbished. In addition, 33 "Bluestar Exchange" shops of the Giordano fashion group, 23 book shops of the "B.O.B. Best of Books" company as well as 19 additional in-store bakeries, 12 "Beauty & More" drugstore departments and six "Baby, Kids & Co." departments were established. A special stimulus for sales was the "Payback" customer loyalty program. More than half of total sales, 51 percent to be precise, was generated by the Real Hypermarkets with Payback customers. In the previous year the Payback share in total sales amounted to only 38 percent. On average, Payback customers spend 50 percent more per shopping expedition than customers who do not participate in the Payback program. This proves the attractiveness of Payback as a customer retention program.

In the year 2001 five stores were closed and five new hypermarkets were opened in Germany. As a result the total selling space in Germany at 1.8 million square meters was slightly higher than the equivalent figure for the previous year. With one new hypermarket the position of market leadership could be expanded in Poland and the total selling space increased from 197,000 to 206,000 square meters. At the end of 2001 Real operated 277 hypermarkets, 246 of which are in Germany and 31 abroad.

Extra

In 2001 the Extra convenience stores generated sales of about € 3 billion. In comparison with the previous year's figure of € 2.9 billion this constitutes a rise of 2.0 percent. On a like-for-like basis the growth in sales was 0.9 percent. In view of the weak industry environment marked by fierce competition and excessive selling space capacities the positive business development proves the success of the innovative Extra marketing concept. In the year under review 34 stores were converted to this concept. The sales of the total of 268 Extra stores already converted to the new convenience store concept developed clearly better than the sales of the stores not yet converted. The business development of the Extra stores was also positively influenced by the increase in the number of in-store bakeries by 41 over the previous year to the new total of 135.

After 28 stores had been closed or transferred to franchise operation and 30 new outlets had been opened in the course of the year Extra was operating 500 locations nationally at year-end. The optimization of the outlet chain increased the total selling space from 828,000 square meters to 867,000 square meters.

Media/Saturn

The consumer electronics centers of the Media/Saturn sales division increased their total sales by 9.5 percent from € 7.6 billion to € 8.3 billion. On a like-for-like basis sales dropped slightly by 1.0 percent. On the whole, Media/Saturn continued to expand its position of market leadership significantly in the year 2001. In Germany the Media/Saturn Group was able to increase sales from € 5.3 billion to € 5.5 billion which is equivalent to a rise of 3.4 percent. While the like-for-like sales figure in Germany declined by 3.1 percent it increased by 4.0 percent in the foreign markets. The share of foreign business in total sales rose from € 2.3 billion to € 2.8 billion amounting to 33.8 percent at the end of 2001.

As a result of its forceful expansion in the year 2001 involving the opening of a total of 43 new outlets the Media/Saturn Group substantially extended its outlet chain boosting total selling space to 976,000 square meters by the end of the year. In Germany 22 new locations were opened including 12 Media Markt outlets and 10 Saturn stores. Abroad 21 new locations were added in France, Italy, the Netherlands, Poland, Spain and Hungary. The emphasis of the expansion measures was on Italy and Poland with six new stores each as well as Spain with five newly opened outlets. By the end of 2001 the Media/Saturn Group was operating 357 consumer electronics centers, 115 of them abroad.

Praktiker

The Praktiker home improvement centers generated sales of € 2.5 billion in 2001 almost matching the previous year's total. On a like-for-like basis sales declined by 4.8 percent. In Germany sales dropped by 5.2 percent, on a like-for-like basis by 6.7 percent, from € 2.2 billion to € 2.1 billion because of the reduction in the size of the outlet chain and due to the generally difficult market conditions. This decline mirrored the general development in the industry. Foreign sales, on the other hand, could be increased in the course of the expansion by 18.9 percent from € 406 million to € 483 million in fiscal year 2001. On a like-for-like basis this corresponds to an increase of 4.7 percent.

By consistently improving its outlet portfolio Praktiker reduced the number of its locations from 351 to 347 stores in 2001. In Germany five new stores were opened and 15 small, unprofitable outlets were closed. So the German outlet chain was reduced to 297 stores. However, the total selling space remained almost the same. Abroad the number of locations went up to 50 as a result of six new stores being opened in Greece, Hungary, Poland and Turkey. These increased the total selling space of the Praktiker Group abroad by 15.8 percent.

Kaufhof

In the fiscal year under review the Kaufhof department stores including the Inno stores acquired in April 2001 generated sales worth € 4.0 billion thus increasing the previous year's sales of € 3.9 billion by 0.8 percent. On a like-for-like basis this is equivalent to a decline in sales of 3.7 percent. In the process department stores converted to the Galeria concept developed significantly better than the others. The Belgian Inno department stores consolidated since April 2001 contributed € 177 million to total sales thus reporting an increase in sales of 6.1 percent in the period from April through December 2001 as well as a positive business development in comparison with the previous year.

At the end of 2001 the outlet chain consisted of 148 stores. In Germany five stores were converted to the Galeria concept. This also includes the two new stores at Leipzig and Chemnitz. Three „Sportarena" stores were newly opened. One store was closed and one „Lust for Life" location in Hamburg was transferred to Saturn. The acquisition of the 15 Belgian Inno department stores marked the beginning of the European expansion of Kaufhof Warenhaus AG.

Development of group sales and divisional sales (net)	2001 € million	2000 € million	Changes over previous year € million	%
Metro Cash & Carry	22,726	21,032	1,694	8.1
Real	8,375	8,166	209	2.6
Extra	2,980	2,921	59	2.0
Media/Saturn	8,341	7,619	722	9.5
Praktiker	2,543	2,579	- 36	- 1.4
Kaufhof	3,971	3,941	30	0.8
Metro sales divisions	48,936	46,258	2,678	5.8
Other companies	586	672	- 86	- 12.8
Metro Group	49,522	46,930	2,592	5.5
of which abroad	21,979	19,789	2,190	11.1

Portfolio of locations in Germany and abroad

Number of establishments per country

	METRO makro		real		extra		Media Markt Saturn		Praktiker				Metro Group[1]	
Country	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
Germany	83	81	246	246	500	498	242	220	297	307	133	132	1,734	1,726
Belgium	6	6									15	0	21	6
Bulgaria	6	6											6	6
PR China	15	8											15	8
Denmark	4	4											4	4
France	75	71					14	13					89	84
Greece	6	6							7	6			13	12
Croatia	1	0											1	0
Great Britain	28	27											28	27
Italy	35	31					34	28					69	59
Luxembourg									3	3			3	3
Morocco	5	5											5	5
Netherlands	14	14					6	4					20	18
Austria	11	11					20	20	6	6			40	40
Poland	19	18	25	24			15	9	16	14			75	65
Portugal	9	8											9	8
Romania	11	7											11	7
Russia	2	0											2	0
Switzerland							11	11					11	11
Slovakia	4	3											4	3
Spain	23	23					9	4					32	27
Czech Rep.	9	9											9	9
Turkey	7	6	6	6					6	4			19	16
Hungary	11	9					6	5	12	11			29	25
Abroad	301	272	31	30	0	0	115	94	50	44	15	0	515	443
Total	384	353	277	276	500	498	357	314	347	351	148	132	2,249	2,169

[1] Including 236 (previous year: 245) Dinea restaurants, thereof 233 (previous year: 242) in Germany and 3 (previous year: 3) abroad.

Capital expenditure

In fiscal year 2001 total capital expenditure of the Metro Group amounted to € 1.9 billion and was thus 2.5 percent higher than the previous year's total. The investment priorities were the international expansion of the group, primarily of the high-return sales divisions Metro Cash & Carry and Media/Saturn that are already represented in other countries with many outlets, as well as the further optimization of the merchandising concepts in Germany. 56.2 percent of all investments were accounted for by the Metro Cash & Carry and Media/Saturn sales divisions.

In the year under review the capital expenditure volume of Metro Cash & Carry amounted to € 839 million thus exceeding the previous year's level of € 577 million. Investments in new locations and in the modernization of existing Classic stores were concentrated mainly in the regions of Western and Eastern Europe. In fiscal 2001 a total of 21 stores were fitted out as „Stores of the Future", five of them in Great Britain and four in Germany. The Metro Cash & Carry capital expenditure also included investments for the purchase of shares held by other partners in France and Hungary.

The Real sales division made investments totalling € 248 million in 2001. Due to 14 new store openings the capital expenditure volume amounted to € 323 million in the previous year. In 2001 investments were concentrated mainly in Germany where they were used for the continued optimization of the outlet chain.

In the year under review the Extra convenience stores invested a total of € 66 million among others for the conversion of 34 stores to the Extra marketing concept. On the whole, capital expenditure in the year 2001 was clearly below the spending in the year 2000 when about half the investments were used for the concept conversion.

The capital expenditure of the Media/Saturn Group in the year 2001 amounted to € 264 million, this is slightly below the level of the previous year of € 267 million. In Germany investments were declining. They were spent for the opening of new locations as well as the modernization and expansion of existing selling space. The forceful investment program abroad increased capital expenditure there.

The investments of the Praktiker sales division amounted to € 39 million in fiscal 2001. In Germany the capital expenditure was spent on new store openings and on conversions of the assortment concept. Abroad Praktiker spent the investment volume mainly to add new stores to its international outlet chain.

The investment volume of the Kaufhof department stores amounted to € 202 million in 2001 as opposed to € 167 million in the previous year. The investments were spent on reconstruction work, on the modernization of facilities, the conversion of the merchandise presentation to a merchandise category approach as well as on necessary software developments. Furthermore the sales division invested in efficiency improvements and the optimization of business processes. In the Inno department stores the investment emphasis was on the reconstruction of the Charleroi store as well as a number of modernization and refurbishment measures.

Group cash flow statement [1)]

The cash flow statement serves to identify and portray the cash flow that the Metro Group generated or employed in the fiscal year from and/or for ongoing business, investment and financial activities. In addition, it lists the cash positions at the beginning and at the end of the fiscal year.

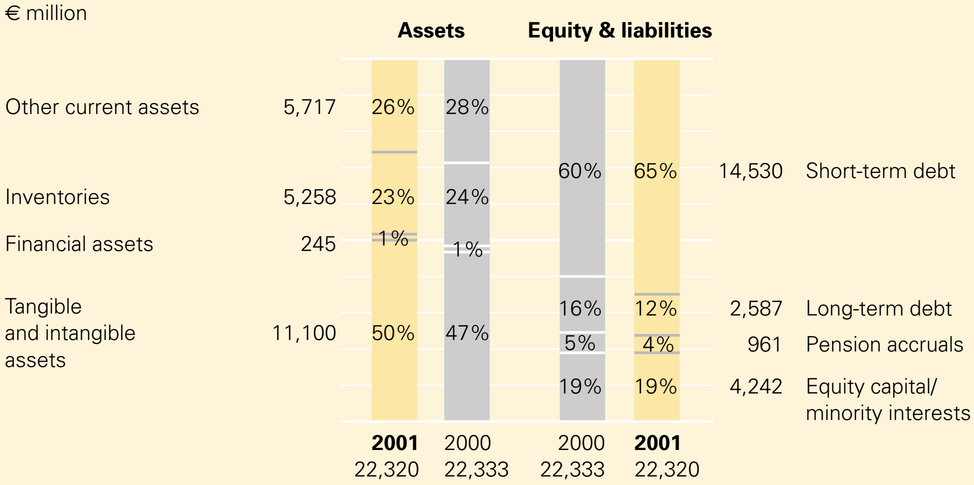
€ million	2001	2000
Gross operating cash flow	11,154	10,683
Outflow of other operating funds	(8,550)	(8,911)
Cash flow from operating activities	2,604	1,772
Cash flow from investment activities	(1,315)	280
Cash flow from financial activities	(841)	(1,986)
Total cash flows	448	66
Exchange rate effects on cash & cash equivalents	(18)	(7)
Overall change in cash & cash equivalents	430	59
Cash & cash equivalents at January 1	1,221	1,162
Cash & cash equivalents at December 31	1,651	1,221

[1)] Abridged version: For full statement see consolidated financial statements.

Asset and capital structure of the Metro Group

METRO AG's 2001 consolidated balance sheet shows an equity capital including minority interests of € 4,242 million, which covers 37.4 percent of fixed assets. Total assets of € 22,320 million bring the equity ratio to 19.0 percent. Net financial accounting indeptedness amounts to € 1,698 million, or 7.6 percent of the balance sheet total, after netting interest-bearing assets and liabilities.

Metro Group: Balance sheet structure
€ million



EBIT / EBITDA

In the period under review the Metro Group generated earnings (EBIT) of € 1,130.2 million. This corresponds to an increase of 10.3 percent over the previous year's result of € 1,024.8 million. The EBITDA of the group was improved by 9.2 percent from € 2,182.7 million to € 2,382.6 million.

Development of group EBIT and divisional EBIT

	2001 € million	2000 € million	Change € million	%
Metro Cash & Carry [1]	625.5	554.4	71.1	12.8
Real	117.8	52.7	65.1	123.5
Extra	(14.4)	(39.9)	25.5	63.9
Media/Saturn	223.9	266.0	- 42.1	- 15.8
Praktiker	(9.7)	(29.2)	19.5	66.7
Kaufhof	187.0	180.8	6.2	3.4
EBIT Metro sales divisions [1, 2]	1,130.1	984.8	145.3	14.8
Others [1, 2]	0.1	40.0	- 39.9	- 99.8
Total EBIT Metro Group	1,130.2	1,024.8	105.4	10.3
Net financial result	(456.9)	(270.7)	- 186.2	- 68.8
Earnings before tax (EBT)	673.3	754.1	- 80.8	- 10.7
Income taxes	(224.3)	(331.6)	107.3	32.4
Consolidated net income	449.0	422.5	26.5	6.3
Earnings per share	1.23 €	1.10 €	0.13 €	11.9 %

[1] Value of year 2000 adjusted for transfer of Metro Cash & Carry real estate in Great Britain and Czech Republic to Others
[2] E-business was reclassified as Others.

Earnings development of the sales divisions

Because of the good business development the Metro Cash & Carry sales division increased its EBIT from € 554.4 million in 2000 by 12.8 percent to € 625.5 million in 2001. This performance was achieved in spite of higher start-up losses caused by expansion measures.

The Real Hypermarkets achieved an EBIT of € 117.8 million mainly because of the positive sales development in Germany. This equates to an increase of € 65.1 million over the previous year's EBIT of € 52.7 million. Another positive effect on the result was the reduction of start-up losses from € 69.4 million to € 41.5 million.

In the year 2001 the EBIT of the Extra convenience stores improved by 63.9 percent from € -39.9 million to € -14.4 million. Major factors driving this positive earnings development are not only the good performance of the operating business but above all the consistent adjustment of cost structures as well as the reduction of repositioning expenses.

The consumer electronics centers of the Media/Saturn Group generated an EBIT of € 223.9 million after € 266.0 million in the year 2000 thus once again proving its earnings power in a difficult economic environment even though the result of the previous year was not quite matched. The reasons for this are a like-for-like sales decline in Germany on the one hand as well as the expenditure for the continued concentration of the outlet chain in Germany and the further internationalization on the other hand.

Thanks to the consistently implemented repositioning of the Praktiker home improvement centers in the domestic market and the generally positive business development abroad a significant improvement of EBIT was achieved from € -29.2 million in the year 2000 to € -9.7 million in the year 2001.

The Kaufhof department stores were able to increase their EBIT by 3.4 percent from € 180.8 million to € 187.0 million. This is the result of the higher Return-on-Sales (ROS) of the Galeria locations on the one hand and the positive profit contribution by the Inno department stores on the other hand.

Consolidated net income and earnings per share

At € 449.0 million the consolidated net income for the year 2001 is 6.3 percent higher than that of the previous year. After deduction of minority interests the group's net income allocable to METRO AG stockholders amounts to € 401.5 million, up 11.9 percent on the previous year.

The Metro Group generated earnings per share of € 1.23 in the fiscal year 2001. This key indicator calculated on the basis of IAS 33 (Earnings per Share) shows an increase of 11.9 percent over the figure of € 1.10 for the previous year computed on the same basis.

A dilution effect that might result from so-called potential shares (stock options) existed neither in the year under review nor in the previous year.

In fiscal year 2001 the calculation was based on a weighted number of 326,787,529 shares. The net income of € 401.5 million due to the stockholders was distributed among that number of shares.

				Change	
		2001	2000	absolute	%
Consolidated net income	€ million	449	423	26	6.3
Minority interests	€ million	48	64	- 16	- 25.0
Consolidated net income after minority interests	€ million	401	359	42	11.9
Number of shares issued	shares	326,787,529	326,787,524	–	–
Earnings per share	€	1.23	1.10	0.13	11.9

Balance sheet profit of METRO AG and profit appropriation

In the year under review METRO AG received income from shareholdings of € 1,154 million from its subsidiaries in comparison with € 1,095 million in the previous year. After write-downs on financial assets (€ 319 million) and inclusion of other income, expenditures and taxes it shows an annual net income of € 334 million in contrast to € 510 million in the year 2000.

Supervisory Board and Executive Board of METRO AG will propose to the General Stockholders' Meeting on 23 May 2002 to use the reported balance sheet profit of € 334 million (previous year: € 334 million) as follows:

- Distribution of a dividend of € 1.020 per common stock
- Distribution of a dividend of € 1.122 per preferred stock

EVA – Instruments of corporate governance

Progress in value-oriented corporate governance

METRO AG is dedicated to a management approach geared to boosting corporate value. All strategic and investment decisions of the group are guided by this principle. The central benchmark by which to measure economic success is Economic Value Added (EVA).

EVA as the central benchmark to measure value growth

A positive EVA is achieved when net income exceeds the capital cost required for the financing of the business assets.

Net income is defined as the net operating profit before financing cost but after the deduction of income tax. To determine the cost of capital the working capital is multiplied by the capital cost rate resulting from the weighted mean value of the cost of equity capital and borrowed capital. The business assets are made up of the sum total of fixed assets tied up over the period under review and the net current assets. Thus, the following formulae can be used to calculate EVA:

EVA = net income minus capital cost
or
EVA = net income minus (business assets multiplied by weighted cost of capital rate)

EVA is calculated by deducting the cost of capital from the net income of the group and/or the divisions. The crucial value for the assessment of entrepreneurial success is delta EVA, i.e. the comparison of the current EVA with that of the previous year.

Translated consistently into corporate practice EVA will always channel capital into those areas that promise the highest value enhancement. In this sense, EVA performs the function of controlling resources. Therefore, the development of EVA constitutes the major element in the variable compensation system of the Metro Group executives. All the way from the Executive Board of METRO AG to the level of the store managers of the sales divisions the major portion of their variable income is linked to the delta EVA of the respective business unit.

EVA and delta EVA within the Metro Group

Substantial progress has been made in the year under review on the way towards earning capital costs. In fiscal year 2001 the group was able to increase EVA by a total of 286 million € over the previous year. The business result was improved by 318 million €. Although business assets could be reduced by about 400 million € to 19.94 billion € in 2000 despite ongoing expansion this fact was not reflected in the capital costs which increased by 32 million € over the previous year's figure because of the rise in WACC (see footnote 1 below the following table).

EVA and delta EVA

€ million	NOPAT	2001 CE	CoC[1)]	EVA	2000 EVA	Delta EVA[2)]
Metro Cash & Carry	607.8	4,735.4	345.7	262.1	197.2	64.9
Real	281.5	5,071.6	370.2	(88.7)	(174.6)	85.9
Extra	34.6	1,518.9	110.9	(76.3)	(85.3)	9.0
Media/Saturn	195.3	897.3	65.5	129.8	139.7	(9.9)
Praktiker	107.9	2,608.8	190.4	(82.5)	(100.9)	18.4
Kaufhof	156.0	2,330.6	170.1	(14.1)	(25.6)	11.5
Sales divisions	**1,383.1**	**17,162.6**	**1,252.8**	**130.3**	**(49.5)**	**179.8**
Others/consolidation	25.4	2,774.5	202.6	(177.2)	(283.2)	106.0
Group	**1,408.5**	**19,937.1**	**1,455.4**	**(46.9)**	**(332.7)**	**285.8**

1) The average capital cost rate (weighted average cost of capital = WACC) is calculated on the basis of the CAPM (capital asset pricing model). The input variables relevant to the year 2001 are a beta of 1.0, a market risk premium of 6.0 percent, a risk-free interest rate of 4.8 percent and, resulting from all this, equity capital costs of 10.8 percent. On the side of borrowed capital a risk premium of 150 basic points has to be added to the risk-free interest rate of 4.8 percent. At a marginal tax rate of 40 percent this leads to costs of borrowed capital of 3.8 percent. The ratio of equity capital to borrowed capital at market values means that both rates are given the same weighting in terms of the average cost of capital. This in turn produces a WACC of 7.3 percent. The Metro Group will adjust the WACC only if and when changes of more than 25 basic points occur.

2) Of the € 285.8 million of delta EVA an amount of € 263.6 million is of an operational nature while the balance of € 22.2 million is structurally induced due to the adjustment of capital costs, country-specific marginal tax rates as well as other external factors.

In the past fiscal year an increase of € 180 million was achieved in the delta EVA of the sales divisions. The generally positive development of EVA is a reflection of the successful corporate strategy aiming at profitable sales growth. It is primarily attributable to the forceful expansion of the Metro Cash & Carry and Media/Saturn outlet chains marked by a high return on investment. In addition, it is based on the repositioning measures implemented with great success at Real and Extra as well as on the rollout of the Galeria concept at the Kaufhof department stores.

At the end of fiscal 2001 Metro Cash & Carry reported a positive delta EVA of € 65 million. The sales division again demonstrated its operating efficiency in this way. The net income of the sales division could be improved from € 497 million by more than 22 percent to € 608 million. Because of the high self-financing power of the merchandising concept the business assets increased only by 10 percent even though Metro Cash & Carry again expanded substantially in 2001 with 31 new stores being opened.

The Real hypermarkets ended the fiscal year with a positive delta EVA of € 86 million. On the strength of the significant like-for-like sales growth in Germany Real boosted its net income by almost 41 percent while reducing business assets at the same time as a result of which a cut in the cost of capital was achieved.

The Extra convenience stores reached a positive delta EVA of € 9 million. Net income rose from € 23 million to € 35 million. This success depends above all on the continuous conversion of stores belonging to this outlet chain to the new, customer-focused convenience store concept. In spite of the optimization of the store network the business assets did not increase but was reduced compared to previous year.

In the Media/Saturn Group that has been operating extremely successfully in the last few years the business assets increased by some 28 percent as the consequence of rapid expansion – a total of 43 new stores were opened. Net income could slightly be improved compared to the level of the previous year in spite of the fierce competitive environment in Germany. Under the influence of all these factors the delta EVA of the sales division showed a minus of € 10 million.

The Praktiker home improvement centers reached a positive delta EVA of more than € 18 million. While sales developed slowly in line with the industry trend in Germany net income increased by € 15 million. Business assets were reduced by about € 155 million – both effects resulting from the consistently implemented repositioning in the years 2000 and 2001.

The Kaufhof department stores recouped their cost of capital with a positive delta EVA of € 12 million. Because of the major progress made in the rollout of the Galeria concept to the department stores belonging to this outlet chain net income could be boosted by 16 percent over the previous year to a total of € 156 million. The business assets increased slightly in spite of the acquisition of Innovation S.A. in Belgium.

The "other companies" ended fiscal year 2001 with a positive delta EVA of € 106 million and business assets reduced by 18 percent compared to the previous year. This item includes the cross-divisional service companies, the holdings in Divaco and AIB, METRO AG's own result, the loss carried forward by the group as well as the effects of the consolidation.

Increased employee identification with value-oriented corporate governance

The consistent implementation of the concept of value-oriented corporate governance requires the support of this corporate strategy by the employees, especially the executive staff of the Metro Group. A situation must be achieved in which EVA significantly determines entrepreneurial thinking and action at all levels of the group. In order to increasingly focus the attention of the decision-makers within the group on the knowledge and the advantages of EVA the trade simulation „tradelife" was developed in the Metro Group that communicates specific know-how about the EVA concept. The trade simulation „tradelife" helps employees to recognize the EVA variables that they themselves can control and to identify the causes and effects in generating value enhancements.
All in all, some 16,000 executives and employees have so far been trained in the EVA methodology in the group.

Risk management

Business risks and general risk management

Risk management is the target-oriented protection of existing and future success potentials. This protection is achieved by a systematic process of risk identification, assessment and control. By controlling risks in this way the Metro Group's assets as well as its financial and earnings situations are secured and group management is enabled to recognize unfavorable developments early, i.e. before any damage is done, and to take corrective action promptly.

EVA as a benchmark. In the Metro Group the acceptance of risks is guided by the principle of the lasting improvement of corporate value. The crucial benchmark by which to measure corporate success is the Economic Value Added (EVA) principle that is firmly anchored in the entire group and is used especially for investment decisions. Entrepreneurial risks will be accepted in those cases in which the opportunities involved promise an increase of EVA and in which risks are manageable.

Principles of risk policy. Risks incurred in conjunction with the core processes of wholesale and retail trading are born by the Metro Group itself. Core processes in this context are the development and implementation of the business models concerned, the procurement of merchandise and services, location decisions, securing liquidity as well as executive development. Risks from support processes like IT, for example, are systematically reduced within the group or, to the extent that this makes economic sense, outsourced to third parties. Risks emanating from neither core nor support processes are not accepted by the group as a matter of principle.

Decentralized responsibilities. As a diversified trading group the Metro Group is divided into a management holding company with operating sales divisions and cross-divisional service companies that support the operating processes. The management principle of decentralization inherent in this structure is also reflected in the way in which risks are dealt with. These are managed at the point where they occur and where they can therefore be controlled most effectively. Liability for this is vested in the individual business units.

Clear responsibility for risk identification and analysis. In order to facilitate a coordinated deployment of measures the Metro Group has defined clear responsibilities and a framework for action. Responsibility for risk management is laid down in numerous sets of rules, for example in the articles of association and the bye-laws of the group companies, the service contracts and internal group guidelines. The METRO AG Risk Manual offers a comprehensive overview of possible risk areas as well as the responsibility for their monitoring and handling. So as to make certain that relevant business risks are not overlooked a „bottom-up approach" is followed in the personnel hierarchy when it comes to identifying risks throughout the group. Within the framework of an early warning system business risks are assessed in terms of their potential repercussions for a planning horizon of three years.

Central role of Group Reporting in the internal risk communication. The Group Reporting System is the major element for the internal communication of opportunities and risks. Annual risk audits, monthly projections and risk statements as well as regular contacts between the operating units and their controlling companies ensure a continuous and timely exchange of information. The ongoing monitoring of risk areas is achieved with the help of certain indicators. If and when certain threshold values are exceeded the risk reporting system will alert the management in charge to the relevant developments.

Consistent risk monitoring. Monitoring the implementation and the effectiveness of risk management measures is part of the brief of every member of the executive staff. In addition, special risk management officers guarantee the smooth functioning of the risk management system as a whole.

The group audit department of METRO AG checks the centralized and decentralized risk management measures for their topicality, completeness, reliability and effectiveness. It reports directly to the Chairman of the Executive Board. In addition, audits are performed at group company level by the appropriate Internal Audit Departments. The auditors of the METRO AG and the consolidated financial statements also audit the risk management system in place according to the pertinent legal provisions (Law on Control and Transparency in the Corporate World – KonTraG).

The major risk areas of the Metro Group are:

Business risks. Fierce competition in the international wholesale and retail business and the rivalry between different merchandising concepts, product offerings and service qualities are characteristic features of trading. Risks are also inherent in the typical dependence of the trade on the consumer's readiness to spend money. The increasing internationalization of the Metro Group business admittedly reduces its dependence on the economic and legal framework conditions in Germany, yet at the same time the group has to face additional economic, legal and political risks in the other countries, not least the newly industrialized countries. These risks are systematically reduced by comprehensive feasibility studies, for example, in which framework conditions and opportunities for a business involvement in the country concerned are analyzed in great detail, as well as by taking appropriately constructive action. Examples of risks emanating from the legal environment are proposed EU directives for consumer protection, responsibilities resulting from the German electronic scrap ordinance and/or the implementation of the new packaging ordinance (with its mandatory deposits on bottles and cans) that is currently under discussion.

Changes in consumer behavior require the constant adjustment of merchandising concepts. The Metro Group supports this process by regularly evaluating internal information and selected external sources so as to be able to recognize changes in consumer demands and behavior at an early point in time. Internal group market research uses well-known quantitative methods like time series analyses (e.g. the observation of products in the market over a certain period of time) or trend extrapolations (forecasts of the market development) based on internally available sales figures or on the results of market research. Consistent benchmarking against competitors provides ideas for the qualitative improvement of merchandising concepts. The practicability and acceptance of concepts are first of all verified in test markets and subsequently the concepts are rolled out nationally with the help of a clearly structured project organization. Continuous capital expenditure makes sure that the sales divisions always have a competitive portfolio of store locations.

Operational risks. Since the bricks-and-mortar trade is characterized by a high merchandise turnover and a large diversity of products there are organizational, IT and logistics risks involved. The international focus of the Metro Group that calls for merchandise assortments to be adapted to national and local habits even increases these risks. Interferences in the value chain, for example in the supply of goods, may be fraught with the risk of business interruption. Risks of this kind are counteracted by way of internal backup systems, the parallel use of several service providers as well as special contingency plans. By the same token an efficient division of labor and systematic peer control help reduce operational risks.

Supplier risks. As a trading company METRO AG depends on third party providers for its supply of goods and services. Careful monitoring of market conditions, a broad base of suppliers as well as the company's own controls and purchasing policy measures help reduce the imponderables of the procurement of goods and services. One example of such a measure is the Food Safety Initiative that was started to ensure a high level of food safety at all levels of production, processing and distribution.

Personnel risks. For the implementation of its strategic objectives the Metro Group depends on its highly qualified functional and management staff. It is a permanent challenge to gain and retain these employees for the group in an environment of intense competition. Especially in the expansion-oriented countries there is a considerable need for qualified staff. This requires appropriate efforts in the area of in-company skills improvement measures. At all levels of the Metro Group further education and training activities for employees are vigorously promoted to give staff the indispensable edge in functional competence.

Personnel management as well as training and HR development measures make sure that staff at all levels of the company develop an entrepreneurial mode of thinking and acting. This is additionally supported by the introduction of variable, business performance related pay elements on at least three management levels. Direct participation in corporate success boosts staff identification with METRO AG and sharpens the awareness for opportunities and risks in all entrepreneurial decisions.

Financial management of METRO AG

Financial Management at METRO AG is the central financial function for all group companies worldwide and is as such responsible for the management of the financial risks of the group. These are specifically

- the liquidity risk,
- the interest rate risk and
- the currency risk.

In the organization of the financial management function METRO AG has taken into account the requirements resulting from this: The financial management division within METRO AG fully meets the requirements of the law on control and transparency in the corporate world (KonTraG) and has strictly separated the conclusion of financing transactions and their practical implementation by adopting the "Minimum Requirements for the Conduct of Trade Transactions" (German acronym MAH) which is really quite typical of banks.

The central organization of the financial management function within the Metro Group guarantees a uniform appearance of the group in the financial markets, an optimum utilization of synergy effects resulting from the pooling of the financing volumes of the group companies and a risk management that takes into consideration all factors.

Liquidity management. Liquidity management makes sure that sufficient liquidity is available for the ongoing business operations and for capital expenditure. The information required for this is provided by a regularly updated rolling group budget. In addition, liquidity management must ensure that the group always has an adequate liquidity reserve. As a result the group will not have its financial flexibility impaired if and when unexpected events with negative financial consequences occur.

For short-term financing METRO AG uses the usual capital market programs like for example the Euro Commercial Paper Program launched in the year 1999 with a usable volume of € 3 billion. As an average for the year 2001 the program utilization ran to € 808 million. In addition, the Metro Group can fall back on syndicated and bilateral credit lines from banks. In the year under review these credit lines were supplemented by a syndicated Euro credit with a maximum credit volume of € 1.5 billion. At year-end 2001 the Metro Group had access to confirmed bank credit lines of € 4.4 billion (same time previous year: € 4.1 billion) € 1.2 billion of which with a residual maturity of up to one year (previous year: € 2.2 billion).

For long-term financing the Debt Issuance Program with a nominal volume of € 3 billion launched in 2000 is available to the company. Within the program bonds with maturities of up to 30 years can be floated on the basis of German or English law in any desired currency. In the year 2001 the group's finance company located in the Netherlands, Metro Finance B.V., backed by a guarantee of METRO AG, issued public bonds with a nominal value of € 550 million and made private placements with a nominal value of € 173 million within the framework of the program.

An important prerequisite for the successful use of the capital market for the purposes of corporate financing was already created in March 2000 by obtaining credit ratings from the two leading rating agencies – Moody´s and Standard & Poor´s. Their ratings have since remained unchanged and even been qualified as a "stable outlook".

- Moody´s (long-term Baa1 / short-term P-2)
- Standard & Poor´s (long-term BBB+ / short-term A-2)

However, it is indispensable to gain and retain the trust of both investors and rating agencies by means of an open and up-to-the-minute information policy. In METRO AG's Financial Management Division a special Creditor Relations Team has been created to perform this task.

Interest rate risk. Interest rate risks are caused by market-induced fluctuations of interest rates. On the one hand they impact the level of interest payments within the Metro Group. On the other hand they influence the value of borrowed capital for which fixed interest rates were agreed. Such fluctuations may produce advantages, but also disadvantages for the company.

By determining a target structure that reflects as closely as possible the needs of the ongoing business operations in terms of the mixture of short-, medium and long-term financing, and by adjusting the actual financing structure to this target structure, such interest rate risks are effectively reduced.

Currency risk. In the individual countries in which the Metro Group operates merchandise is mainly purchased locally and paid for in local currency. Sales are also made primarily in the local currency. The currency risk element involved in this merchandise cycle is therefore very low. However, the Metro Group does face risks from changes in exchange rates when buying merchandise internationally that is mostly invoiced in US dollars, and because of costs incurred by the foreign subsidiaries in currencies other than the local currency. For example, in some countries landlords link rental payments to the development of the local currency vis-à-vis the Euro.

Interest rate and currency risk management. The management of interest rate and currency risks takes place within the framework of Treasury Guidelines that follow the general principle of risk containment. As a matter of principle hedging activities are limited to the reduction of risks resulting from the business activities of the group ("Basic Risks"). For hedging purposes the group exclusively employs generally marketable derivative financial instruments. These instruments are as a rule reported in the balance sheet together with the underlying basic business transactions („Hedge Accounting").

Only partners with an excellent credit standing are eligible as business partners for the hedging transactions. In a systematic approach to controlling these credit standings, specific minimum requirements and individual hedging ceilings have been defined for all potential hedging candidates within the Metro Group.

The Metro Group's credit risk exposure is fairly limited. To the extent that credit risks are incurred by the individual outlet chains through the acceptance of credit cards the risks involved lie with third parties, i.e. the credit card companies. With the other types of cash-less means of payment the overall risk is tightly controlled.

Summary of the risk situation

On the whole, the examination of the current risk situation has shown that there are no risks endangering the continued existence of the company and that such risks are at the moment not discernible for the future either.

Employees

The Metro Group created many new jobs in 2001

In the fiscal year under review the continuous growth of the Metro Group was accompanied by a rise in the number of employees. In the year 2001 the Metro Group employed an average of 230,848 staff (excluding trainees). Translated into full time equivalents the group's headcount increased from 179,561 to 186,814 employees. It was thus 4.0 percent higher than in the year 2000. The share of women was 60.5 percent as opposed to 61.3 percent in the previous year. Taking into consideration the headcount adjustments mainly made in the home improvement centers there is a net increase in the number of full-time jobs of 7,253.

The number of part-timers in the entire group declined from 45.4 percent in the year 2000 to 44.5 percent in the year under review. Staff retention in the Metro Group could be increased and the average length of service was further enhanced. While the average length of service was 7.5 years in 1999 and 7.8 years in the year 2000 the equivalent figure went up to 8.2 years in the year under review.
The average age of our employees rose from 37.2 years in 2000 to 37.6 years in 2001.

Number of employees in foreign markets continues to grow

The consistently promoted international expansion of METRO AG led to an increase in the share of employees abroad in the total headcount in the year 2001. Converted to FTEs their number rose from 64,835 in the year 2000 by 14.6 percent to 74,309 in the year under review. Their share in total staff numbers thus went up from 36.1 percent to 39.8 percent. This development is mainly attributable to the expansion of the Metro Cash & Carry and Media/Saturn sales divisions abroad as well as to the acquisition of the Inno department stores in Belgium.

The number of employees working abroad, in full-time equivalents, shows the following distribution: The list is headed by Poland with 13,617 employees. In this country METRO AG is among the most important employers in the area of the wholesale and retail trade. Next in line are France and Italy with 8,169 and 6,169 employees respectively. The most dramatic increase in headcount, namely from 3,142 to 4,840 employees, was reported by the Metro Group in China. In the year 2001 some 6.5 percent of all group employees working abroad were already being employed in China.

The headcount increase abroad in 2001 was contrasted with a socially compatible adjustment of staff numbers in the domestic market due to changed market conditions. The number of employees in Germany dropped from 114,726 by 1.9 percent to 112,505.

Internationally differentiated development in the outlet chains

Abroad Metro Cash & Carry reported an increase in employee numbers of more than 5,328 staff while there was a slight decline in the domestic market. The number of full-time employees in 2001 increased on average by 8.5 percent over the previous year to 66,966 employees. At 35.8 percent Metro Cash & Carry holds the largest percentage of the total headcount of the Metro Group.

In the Real and Extra outlet chains the restructuring measures by now implemented have led to a drop in the number of employees, translated into FTEs, of 1,476. The headcount at Real went down from 36,497 in the previous year to 35,352 staff in fiscal year 2001 mainly because of the streamlining of the outlet chain at home and abroad. In the Extra convenience stores the average headcount dropped only slightly from 13,948 in 2000 to 13,617 in 2001.

The consumer electronics centers of the Media/Saturn sales division reported an increase in staff of 4,209 people to 23,133 employees in 2001 because of the continuous, intensive expansion in Germany and abroad. In the Praktiker outlet chain of home improvement centers the headcount dropped to 15,681 on an annual average mainly because of the running out of limited time service contracts that had been concluded to cope with the change-over of the assortment at the Praktiker stores.

Concerning the department stores the headcount in the year 2001 with 22,032 employees including the Belgian Inno department stores was roughly at the same level as the 21,840 employees in the previous year.

Collective bargaining policy

Adjustment of old age pensions. The pension reform of the Federal Government passed in the year under review gave rise to a revamping of the in-company pension scheme in the Metro Group. With the objective of providing material security in old age to our employees after they leave active service the existing regulations of the in-company pension scheme were adjusted to the new legal requirements. The new ruling negotiated by group management and the group works council provides on the one hand for the collectively agreed employer grant towards the private pension insurance to be increased by 5 percent on the basis of a voluntary commitment on the part of the employer. On the other hand, employees covered by the provisions of the collective bargaining agreements of the retail trade will receive a voluntary benefit of 25 € from the company over and above the collectively agreed old age pension allowance of 300 €.

Extra costs of the amendment of the Industrial Constitution Law. The amendment of the Industrial Constitution Law passed in the year 2001 will cause extra costs of € 10 million in the Metro Group. The fact that works council members have a 77.6 percent higher claim to be released from normal work alone, resulting from the lowering of the release limit from 300 to 200 employees in the company, causes additional costs in the order of magnitude of € 3.9 million.

Social partnership

Commitment to the severely handicapped increased. In the year 2001 the Metro Group intensified its commitment to severely handicapped people. In line with the amended law on the severely handicapped a group representative body for the severely handicapped was created in 2001. At the same time a working group was formed at group level that included representatives of the sales divisions, the cross-divisional service companies as well as the new group representative body for the severely handicapped. The objective of this working group is to stimulate the group's internal exchange of experience on the employment of severely handicapped people and to promote the employment of the severely handicapped within the group.

In the year 2001 the Metro Group also actively supported the honorary activities of 24 trainees from the different sales divisions. In the context of the „International Year of Volunteers" promulgated by the UN these young people looked after physically handicapped people for two days. In recognition of this voluntary endeavor on the part of its trainees METRO AG assumed the costs for the acquisition of a new bus specially fitted for the handicapped.

Vocational training

Number of trainees increased. In the year 2001 a total of 3,328 people began a training in the sales divisions of the Metro Group in Germany as a result of which the total number of trainees in Germany increased by 3.9 percent to 8,536. The high quality of the training is reflected in the fact that 95 percent of the trainees successfully passed the final examination in 2001. 67 percent of them were offered a permanent job.

Polish promotion project „Metro Edukacja" meets with high level of acceptance. The Metro vocational training project „Metro Edukacja" started in September 2000 at three Polish schools in Lodz, Poznan and Czestochowa has successfully passed its acid test at a practical level. It is a project in one of the most important foreign markets of the group designed to specifically promote young people and to prepare them for the requirements of a modern trading company. The students are coached according to a practice-oriented curriculum developed in cooperation with METRO AG and undergo practical training in the Makro, Real and Praktiker outlet chains. In the year 2001 three new schools were included in the project.

Introduction of Euro notes and coins

Hitch-free introduction of the Euro

The introduction of the Euro notes and coins on 1 January 2002 marked the beginning of a new currency era in Europe. As an international trading group METRO AG has operations in ten of the twelve countries in which the new European single currency was introduced. Because of their excellent preparations the sales divisions of the Metro Group coped successfully with the conversion everywhere. In 2001 the standard software as well as the internally developed software and the hardware were checked for their Euro suitability and, to the extent that this was necessary, new software solutions were developed to ensure fitness for the Euro. Therefore, the switch to the Euro proceeded without a hitch not only at the checkouts but also in the worldwide accounting system and in the internal reporting system of the Metro Group. Since 1 January 2002 the Euro has been the only in-house currency of the Metro Group.

Smooth payment transactions in the transitional phase

The outlet chains of the Metro group had ample stocks of Euro coins and Euro notes to be able to give small change in Euro as of January 2002. During the transitional phase until the end of February 2002 when DM cash was still accepted as legal tender in German retailing customers had a choice of paying either in the old currency – depending on the country – or in Euro at the cash registers of the Metro outlet chains in Germany. It was also possible to pay partial amounts in cash in the former local currency and the rest in cash or cashless in Euro. The checkout systems were able to cope with all these ramifications without any difficulty.

Competent and comprehensive consumer information facilitated the introduction process

The employees of the Metro Group's outlet chains made a major contribution to the smooth conversion of the currency. They had been thoroughly prepared for the handling of the Euro and all the topics around the Euro in comprehensive seminars. As a result they were accepted by customers as the competent partners to answer any questions about the new currency. In addition, the Metro Group launched comprehensive communication campaigns in 2001 to inform consumers about all relevant subjects around the introduction of Euro notes and coins and about company-specific issues like the handling of the new currency at the checkouts and the price tagging policy of the Metro Group. The dual pricing in DM and Euro practiced since 1999 significantly contributed at an early point in time to removing the customers' reservations and fears vis-à-vis the new currency. During the transitional period METRO AG maintained dual pricing. With these measures the group was able to consolidate its image among consumers of being a modern, competent and customer-oriented trading company.

Environmental protection

Towards the middle of the year 2002 Metro AG will publish a sustainability report under the title „Nachhaltig handeln". It will contain statements on all major aspects of the Metro Group's environmental management and explains how METRO AG meets its responsibilities towards the environment, its employees and its customers. Anyone interested in the subject can send for a copy.

All environmentally relevant services of the Metro Group's sales divisions are organized by the cross-divisional service company Metro Wertstoff Circle Services GmbH ("MWCS") and executed by outsourcing partners. METRO AG's own environmental management activities have been integrated into MWCS. A brief description of this company is contained in the section on „Cross-divisional service companies of the Metro group" of this annual report.

Important post-year-end developments

Events that might be of special relevance to the assessment of the assets and the financial and earnings situations of METRO AG and the Metro Group did not occur after the end of the fiscal year.

Outlook

METRO AG will continue to improve its market position in spite of the unfavorable economic background conditions prevailing in a number of countries by consistently pursuing its corporate strategy geared to profitable growth. In the process the focus will very much be on a consistent ROS-oriented optimization of the merchandising concepts, their adjustment to the needs and expectations of the customers and the development of the sales divisions into unique and unmistakable Retail Brands. This will further increase the profitability of the sales divisions.

A major driving force for the continuous growth of the company will continue to be the consistent course of internationalization in the future. As in previous years the focus of the expansion will be on the Metro Cash & Carry and Media/Saturn sales divisions that are marked by a high return on capital and already today generate a large portion of their sales abroad. In the current year METRO AG will in all probability move into three new countries extending its distribution network to 27 countries in the process. At the same time the existing distribution network will be further consolidated.

For the year 2002 the group is striving for a further profitable growth in sales, a further improvement of the earnings per share and an increase of EVA. Capital expenditure of about € 2 billion has been earmarked to achieve these targets.

In order to secure the persistently dynamic growth of the Metro Group we need to give high priority to the recruitment of talented junior executive staff as well as to efficient human resources development. In the year 2002 the target of METRO AG is again to create some 8,000 new jobs worldwide. Within the framework of the career event "Meeting Metro" staged with great success at the beginning of the year 2002 for the first time METRO AG will again present itself and its sales divisions in the current year to people interested in working for the company as an attractive and versatile employer.

In addition, METRO AG will continue to strengthen its profile as a highly efficient, capital market oriented trading company by way of a transparent and dedicated communication policy.

Metro Cash & Carry

The Metro Cash & Carry sales division is the international market leader in the self-service wholesale trade. In the year 2001 it comprised 384 wholesale stores with a total selling space of some 3 million square meters. The outlets are operated under the brand names Metro or Makro in 22 countries.

They all work according to an identical distribution concept: "Cash & Carry" means that customers pick their own orders in the store, then pay cash and carry their merchandise away themselves. Metro Cash & Carry outlets are exclusively open to business customers and large institutional consumers with hotels, restaurants, kiosks and independent retailers constituting the most important target groups.

The outstanding features of Metro Cash & Carry are above all its broad assortment competence, its strong customer focus and its favorable price-performance ratio. Depending on the format and the size of the store a comprehensive assortment of up to 17,000 food items and up to 30,000 items in the nonfood sector is on offer. The comprehensive range of branded goods is supplemented by strong private labels with a broad price and quality spectrum. Cases in point are "Aro" and "Metro Quality" among food products as well as "Watson", "Fleurelle" and "Steinbach" among nonfood merchandise. In terms of food Metro Cash & Carry enjoys a worldwide reputation for freshness and high product quality.

Favorable prices, reliable supplies ensured by the permanent availability of large merchandise volumes and easy accessibility account for the special attractiveness of the Metro and Makro wholesale stores from the customer's point of view.

Consistent internationalization. With the self-service wholesale distribution concept Metro Cash & Carry has not only become the Number One in Germany as its home market but also occupies a leading position worldwide. The crucial competitive advantage is that this distribution concept is capable of being implemented in all foreign markets while at the same time specific national mar-

Metro Cash & Carry

World market leader in Cash & Carry

Sales	**€ 22.7 billion**
EBIT	**€ 625.5 million**
Locations	**384 in 22 countries**
Total selling space	**3.2 million square meters**
Employees (full-time equivalent)	**66,966**

ket requirements and customer expectations can be met in an optimum way, for example in the composition of the assortment. Between 80 and 90 percent of the merchandise on offer is sourced from local dealers and producers. The staff employed are primarily recruited from the local labor market – and that includes management staff. At the end of 2001 Metro Cash & Carry was represented in 22 countries making it the operation with the highest level of internationalization in the METRO AG sales division portfolio. In the year 2001 the process of internationalization was further pushed ahead. The self-imposed and rather ambitious target of going into one or two new countries every year was again achieved in 2001 as a result of the opening of the first of two new wholesale stores in Moscow and the store opening in Croatia.

At the same time the distribution network in countries with an existing Metro Cash & Carry presence was further expanded by opening a total of 28 new outlets in Western and Eastern Europe as well as in Asia.

To open up foreign markets whose potential is such that only a limited number of Metro wholesale stores would be an economically viable proposition and where for cost reasons the establishment of a fully-fledged local management must be ruled out a special transnational form of organization has been developed. It provides for all major administrative functions like accounting or logistics coordination to be performed as a service by the management of a neighboring country. The local Head Office is then free to concentrate on operational core functions like purchasing fresh produce or personnel management. In the year 2001 this mode of operation was successfully tested in Slovakia whose business activities were supported by the management team in the Czech Republic. This management system will make it possible for Metro Cash & Carry to also move into markets with a limited potential on an economically successful basis in the future.

Further development of the distribution concept and modernization of the store formats. In order to further promote Metro Cash & Carry's profitable growth comprehensive measures to optimize the distribution concept were implemented in 2001. They specifically focused on the modernization of the stores to meet customer wishes as well as on the optimization of business processes within the division.

Metro Cash & Carry pursues the objective of gearing its range of products and services as closely as possible to customer expectations and

requirements. One consequence of this is the continuous development and adjustment of customer-focused store formats. This is the reason why under the general umbrella of Metro Cash & Carry there are the three store formats Classic, Junior and ECO. The first mark of differentiation between these formats is the selling space. The Classic stores are large space outlets with a selling space of between 10,000 and 16,000 square meters. Junior and ECO stores, on the other hand, have selling spaces of between 7,000 and 9,000 on average and between 2,500 and 4,000 square meters on average respectively. The three formats also differ in terms of their assortments. While Classic stores carry a comprehensive assortment in both food and nonfood the Junior, and even more so the ECO outlets, concentrate more on food, especially fresh produce. ECO stores with a food share of 90 percent of their overall merchandise offering are mainly geared to meeting the needs of hotel and catering customers who require large quantities of fresh, high quality food products on a daily basis. After the opening of the first two German Junior stores at Siegen and Neu-Ulm in the year 2001 additional Junior and ECO stores will be established in Germany in the future in order to make better use of regional potentials.

Both in Germany and abroad Metro Cash & Carry sees an important task of the future in the design and remodeling of its stores to respond even more to customer wishes. The store concept formulated in the years 1999/2000 under the title "Store of the Future" will determine the future direction while being continuously further developed. In the year 2001 21 wholesale stores in Germany and Europe were converted according to the principles of this concept. The main feature of the converted stores is a particularly clear and appealing store layout that makes for quick and convenient shopping in a bright and pleasant atmosphere. In addition, items of the assortment that are much in demand will be particularly highlighted. A major emphasis will also be on freshness competence in the food area. Admittedly, freshness has always

been a hallmark of the Metro and Makro wholesale stores, but in 2001 very intensive efforts were made to further increase the already high standards and thus meet customer demands even better. For example, Metro Cash & Carry has implemented a worldwide system that makes it possible to permanently track and control the supply chain for fruit and vegetable, fresh meat, fresh fish and other food products from the point of origin to the ramp of our store or warehouse. These high standards are guaranteed by a professional quality assurance system. It involves experts in all the countries in which the division has operations. These experts ensure not only the quality control of products but also the monitoring of raw materials, manufacturers and transport logistics. At the initiative of METRO AG and in cooperation with other sales divisions of the group, Metro Group Purchasing (MGE) as well as other major trading companies Metro Cash & Carry is also actively involved in national and international efforts to develop concrete measures to increase food safety and improve consumer protection.

The international harmonization of work processes and organizational procedures constituted another priority topic within the sales division in the year 2001. So far, many work processes like ordering merchandise, accounting or shelf management have been handled differently in different stores, often using different organizational tools and data systems. A harmonization of these processes will increase the efficiency of the business processes worldwide, bring about substantial cost reduction and, as a direct consequence, lead to an increase in the earnings power of Metro Cash & Carry. It will also have positive repercussions on customer satisfaction. After a comprehensive analysis of the organizational processes in the individual countries and a comparison with in-company and external benchmarks the first step was to redefine important core processes as prototypes in 2001. The objective now is to make sure that Metro Cash & Carry worldwide will implement the same work procedures based on identical process designs at all locations.

Outlook. Based on its position of market leadership Metro Cash & Carry is excellently placed to continue to grow profitably worldwide. Also in the current year the international expansion activities will focus on the countries of Eastern Europe and Asia. For the year 2002 the first store openings are planned in Vietnam and – towards the end of the year – in India and Japan. Metro Cash & Carry will meet the major challenges resulting from entry into the sophisticated Japanese food market by teaming up with the leading Japanese universal trading company Marubeni (Tokyo) in a joint venture. The excellent market know-how of Marubeni in conjunction with its access to supply sources and logistics networks will be instrumental in establishing Metro Cash & Carry successfully in the Japanese market.

Real

The retail brand Real represents the successful concept of the large selling space hypermarket.

On an average area of between 5,000 and 8,000 square meters the Real stores offer their customers a comprehensive assortment of about 70,000 products of everyday use from food via electrical appliances all the way to clothing. Roughly one million customers shop at Real in Germany every day. More than half of them visit a Real outlet at least once a week. With a distribution network of 277 hypermarkets, 246 of them in Germany, this sales division with its successful distribution concept holds a position of market leadership in the hypermarket segments in Germany and Poland.

In the food department whose share in total sales amounts to 77 percent Real's special feature is exceptionally high product quality. The quality assurance system meets the most stringent requirements. The competence for freshness of the Real hypermarkets is confirmed day after day by a vast offering of fish, meat, fresh fruit and vegetable, dairy products of every kind as well as bread and rolls straight from the oven baked every hour in one of the 195 Real in-store bakeries.

The nonfood assortment offered in the Real stores is target group focused and open to innovative sales concepts because of its modularization. For example, in March of the year 2001 the first 33 outlets of the fashion group Giordano with its jeans and leisure clothing brand "Bluestar Exchange" were established in the Real hypermarkets as a shop-in-shop program. The diverse product offering of "Bluestar Exchange" makes a major contribution to increasing the attractiveness of the Real outlets for younger, brand and fashion conscious customers. The shop-in-shop concept of the B.O.B "Best of Books" company that was implemented in 23 additional Real stores in the year 2001 has also been positively received by our customers. These are book shops offering a range of some 6,000 titles ranging from detective stories to travel guides, health surveys, financial how-to books as well as cookery books. Both shop-in-shop concepts have developed successfully in terms of sales and earnings. The same applies to the department called "Baby, Kids & Co." with its comprehensive offerings of food and non-food products for kids up to six years. With these mer-

Real

Hypermarkets with leading market positions in Germany and Poland

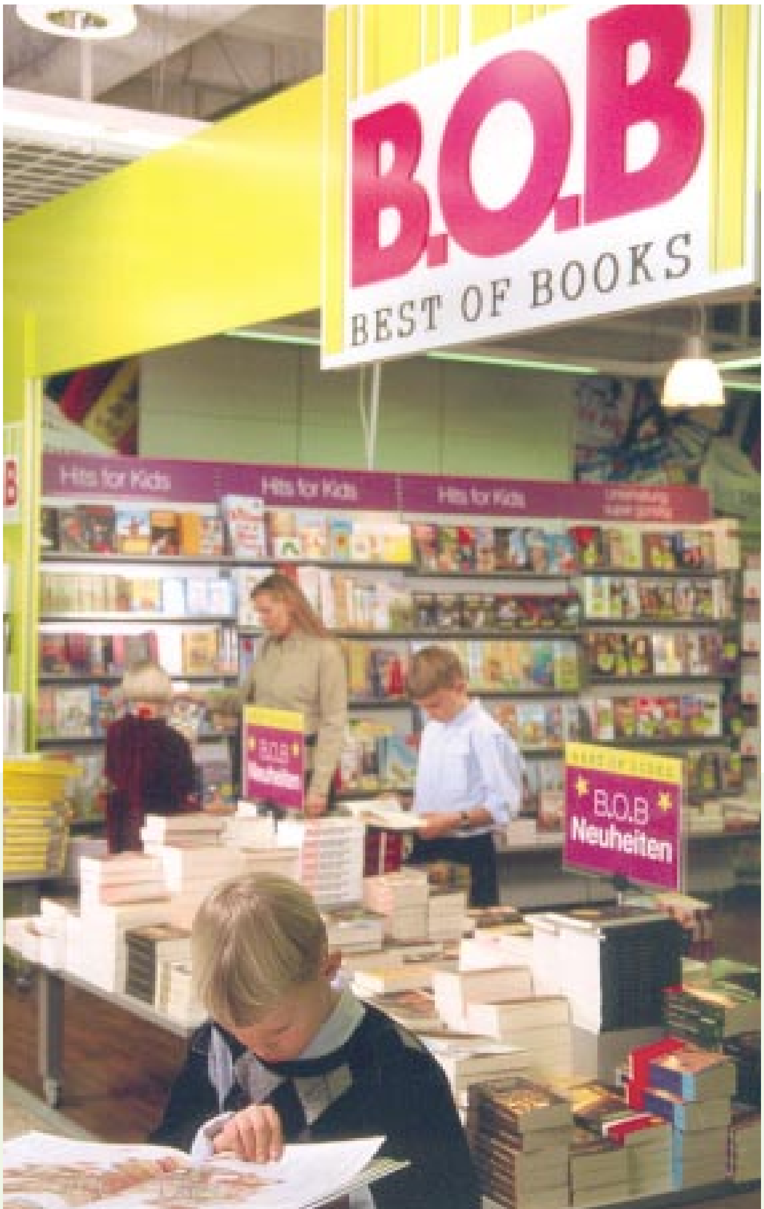
Sales	**€ 8.4 billion**
EBIT	**€ 117.8 million**
Locations	**277 in 3 countries**
Total selling space	**2.0 million square meters**
Employees (full-time equivalent)	**35,352**

chandise assortments targeted at specific consumer groups Real has succeeded in attracting new customers.

Payback increases customer loyalty. A vital factor of corporate success in the fiercely contested hypermarket segment is customer retention. For Real the most important instrument in this regard is participation of its Real Customer Club in the Payback system that has 15 million members and can therefore claim to be the market leader in the area of customer loyalty programs in Germany. At year-end 2001 some 35 percent of all Real customers were owners of a Payback card. That customers use the advantages of their Payback cards intensively is, among other things, shown by the fact that card holders generate 50 percent higher retail sales. In addition, a more individual customer appeal and precisely targeted marketing measures are possible. This is a good basis on which to build a long-term customer relationship.

"Kompass" increases efficiency of work processes. With the staff guidance program "Kompass" launched in 2001 Real has initiated a permanent improvement process. The objective of the program is to increase the problem awareness and the personal initiative of employees, to avoid mistakes and weaknesses, be it deficiencies in the inventory or faulty price tags, and as a result, to make the work processes in our hypermarkets on the whole more efficient. These improvements will benefit customers and make sure that they can do their shopping under the best possible conditions. The improvement process initiated with the launch of the "Kompass" program will also provide lasting support to the growth of Real's earnings.

Outlook. In the year 2002 Real will continue to optimize its distribution concept. Thus, individual areas of the assortment will be examined with a view to focusing even more on customer needs and the successful shop-in-shop concepts will be further developed. The hypermarket stores will be modernized to meet the growing demands of customers. With one new hypermarket outlet to be opened in Germany and three abroad the expansion of this successful distribution concept will also be systematically advanced in this fiscal year.



Extra

The name Extra stands for a food store chain successfully positioned in food retailing in the demanding German market.

Extra stores are large selling space outlets characterized by a wide assortment at favorable prices and a high level of quality and freshness of the merchandise. The very customer-oriented Extra marketing concept introduced in 1999 is recognized to be among the most innovative food store formats in Germany and has been well received by customers. Major features of the concept are not only the qualified assortment but also a high level of customer support and the friendly and personal relationship that staff have with customers underlining the character of the Extra stores as competent partners in neighborhood shopping – in contrast to the anonymity of many a food discounter. To the tune of 89 percent the Extra merchandise assortment consists of a comprehensive offering of food items ranging from bread from the in-store bakery to products of the strong private label brand TIP while the remaining 11 percent is made up of nonfood items for everyday use. With its 500 stores all located close to consumers Extra has a dense distribution network in Germany and has established itself as the reliable, quality-oriented neighborhood store.

Modernization of the distribution concept and remodeling of the stores making good progress. In order to continuously improve the position of the Extra stores, also against the backdrop of the general decline in the development of small selling space outlets in food retailing, as well as to increase the profitability of the sales division, the modernization of the distribution network and the conversion of additional stores to the new Extra marketing concept continued to be given priority in the year 2001. Important features of the remodeling of the stores are attractive selling spaces with wide aisles, an easy-to-read customer guidance system, an assortment-focused and clearly structured store layout, an easy-to-under-

Extra

Most modern food store concept in Germany with high quality standard

Sales	**€ 3.0 billion**
EBIT	**€ -14.4 million**
Locations	**500**
Total selling space	**866,820 square meters**
Employees (full-time equivalent)	**13,617**

stand and logical arrangement of the merchandise categories, as well as generously dimensioned check-out areas. All these improvements make shopping easier for the customer and create a more pleasant shopping atmosphere. Another major element of the profile of the Extra stores is their concentration on the freshness and quality of the merchandise offered. A new system of product presentation in the fruit and vegetable department, by now also protected by a design patent, has for example turned out to be particularly successful. It makes it possible to display 33 percent more merchandise in the same space and give products a higher value appeal. As a result, the customer has access to a wider and more clearly arranged product selection. The system significantly increases selling space productivity. Measures are always taken to boost the quality level, not only in the fresh produce area but also in other departments. These include a more comprehensive offer of branded goods and the range of strong private labels. In the year 2001 more in-store bakeries were also established in the Extra outlets. The offer of fresh bakery products saves the customer the separate trip to the baker's shop and improves the service offering of the food stores in an important area of day-to-day food requirements.

By year-end 2001 a total of 268 stores were being operated according to the new Extra concept. Since stores with a selling space of less than 1,500 square meters do not lend themselves to the attractive presentation of Extra's typical high quality merchandise assortment the streamlining of the store portfolio was continued with 28 stores being closed or handed over to independent franchisees. 30 new stores were opened in the course of 2001. The average selling space per store rose from 1,663 to 1,734 square meters with the largest stores offering their merchandise on an area of up to 4,000 square meters.

In order to attain an even more intensive level of customer loyalty training courses for staff were conducted at the Extra stores to impart know-how on the major aspects of achieving a maximum of customer focus, like for example the friendliness and competence of staff, but also fast service in the service departments and the reduction of waiting times at the checkouts.

The success of the conversion to the new Extra marketing concept is reflected in the above average growth rates and the increased profitability of the stores involved.

Another set of measures to optimize the Extra distribution concept was implemented in the area of increasing the efficiency of processes by automation in 2001. For example, the use of the Data Warehouse made it possible to optimize inventory management and to simplify ordering processes. These improvements are having positive repercussions on the cost structures of the Extra stores.

Outlook. In the year 2002 another 43 Extra stores will be converted to the modern marketing concept. In addition, it is planned to open 11 new stores. At the end of the year it is expected that 322 stores will be in line with the new Extra concept.

Media/Saturn

Media Markt and Saturn are operators of consumer electronics centers who significantly expanded their leading market positions in fiscal year 2001. The two brands are managed separately under the umbrella of the Media-Saturn-Holding company.

They demonstrated their strengths and, as in previous years, reported vigorous growth in spite of the stagnation in the domestic PC and the telecommunications markets. This successful business development is due to the convincing distribution concepts that combine a broad selection of brand products with a low price policy in each case. Media Markt and Saturn have different priorities in their assortments but both cover all the segments of the electronics market from computers, telecommunication devices and consumer electronics all the way to photographic equipment, electronic household appliances and sound media. In addition, customers are fully informed about up-to-the-minute technical developments and product innovations. Thus, the stores do not just show products equipped with the latest digital technology but also demonstrate how devices can be networked in many different ways. A distinguishing feature, especially of the Saturn stores, is the vast range of CDs on offer usually running to about 60,000 titles but as many as 300,000 titles at the Cologne store. Another quality hallmark of the consumer electronics centers in the Media-Saturn Group is the offer of a comprehensive range of services from competent customer consulting, fast and expertly performed repairs to the financing of purchases or the customized configuration of computers.

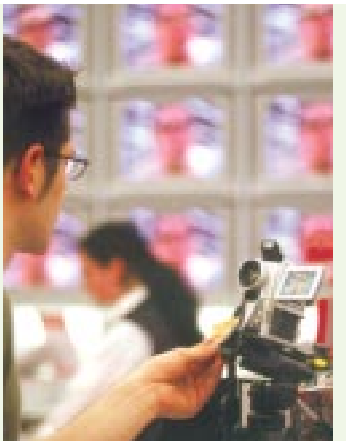
With these core competences and more than 357 stores in nine European countries Media Markt and Saturn have established themselves as successful Retail Brands in the market. In Germany the dense distribution network consists of more than 242 stores. 98 percent of German consumers know these consumer electronics centers.

Brand profiling through advertising and the Internet. In the year under review Media Markt and Saturn emphatically underlined their price and assortment leadership with distinctive advertising campaigns. Their unique advertising styles attracted a great deal of attention also outside the immediate group of potential customers. The

Media-Saturn

Consumer electronics centers with leading market positions in Europe

Sales	**€ 8.3 billion**
EBIT	**€ 223.9 million**
Locations	**357 in 9 countries**
Total selling space	**976,400 square meters**
Employees (full-time equivalent)	**23,133**



measures significantly supported the profiling of the outlet chains as strong retail brands. In addition, they further increased their already high awareness level. The advertising always focuses on up-to-the-minute, innovative and especially attractively priced products. In the year 2001 the advertising campaigns again received a number of awards.

The advertising activities of Media Markt and Saturn with their powerful appeal to customers were supplemented by the Internet measures of the two companies. For example, the Media Markt web site was expanded into an entertaining information and communication platform. Here the user does not only find information on selected products but can also get himself thoroughly briefed on current topics from the digital world. Special offers and target-oriented marketing activities complement the information provided on the Internet. Part and parcel of the online site is an exciting portal offering topical reports on technology, lifestyle and entertainment as well as many different download offers. Some 70 million customers visiting the Internet pages of Media Markt and Saturn at home and abroad in 2001 are ample evidence of the high level of customer interest and at the same time underline the importance of this modern communication instrument in the area of electronic specialty retailing.

Expansion at home and abroad. In Germany the leading market position was consistently strengthened in the year 2001 with 22 new stores being opened, 12 of them Media Markt stores and 10 of them Saturn outlets. The opening of the Saturn metropolitan store in Hamburg's Mönckebergstrasse which, with a unique selling space of 15,651 square meters is allowed to describe itself as "the world's biggest consumer electronics center", was acclaimed as a very special event in the industry both by the trade press and by interested customers. The Media/Saturn presence in the European countries was also substantially increased. With the opening of six new outlets each in Italy and Poland, five stores in Spain, two in the Netherlands and one each in France and Hungary international expansion was pushed ahead even more vigorously than in the previous year. In the course of this development the European Metropolitan concept was successfully continued in the cities of Budapest, The Hague, Madrid, Milan and Warsaw. The stores opened in these locations take into consideration the special customer demands and the tougher competition in big cities and conurbations by going for an exceptionally dominant presentation of a broad offering of top brands at attractive prices.

Outlook. The general economic weakness in most European countries increases the consumer's sensitivity for high quality brand offerings at favorable prices. The Media-Saturn Group will respond to the increasing demand for favorably priced brand products with organic growth at home and abroad maintaining its attractive pricing structure and expanding its market share at the same time. Existing stores will be modernized and their selling space will be constantly adapted to changing customer demands and growing product assortments.

Praktiker

Praktiker Bau- und Heimwerkermärkte AG is the specialist for home improvement and DIY products and is the second largest company in this market segment in Germany.

In the domestic market Praktiker is represented with a dense, nationwide network of 276 stores plus 21 "Top" home improvement centers and 37 home improvement and DIY centers operated under a franchise system. Because of the very targeted and vigorously promoted expansion strategy pursued in the last three years the company operates another 50 stores in Greece, Luxembourg, Austria, Poland, Turkey and Hungary and is also among the market leaders in each of these countries.

In view of the largely stagnating domestic demand in the home improvement and DIY market sector in the last few years and the resulting tougher competition Praktiker AG initiated a fundamental restructuring of the company in the year 2000 that was vigorously continued in the year under review. The program mainly focuses on the improvement of the company's profitability, the adjustment of capacities to the changing market requirements as well as an even stronger customer orientation.

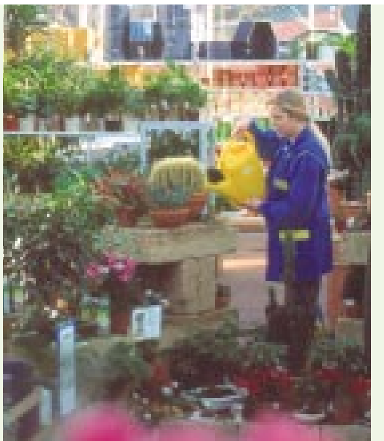
For this reason 15 home improvement centers with insufficient selling space and inadequate profitability were closed in Germany in the last fiscal year while five new, large selling space Praktiker stores with a high level of assortment competence were opened. At the same time Praktiker AG stepped up its business commitment in foreign markets in 2001 with a view to the growth rates to be expected in the future. The visible sign of this strategy is the opening of new stores in Greece, Poland, Turkey and Hungary with the result that the share of foreign business in the company's total sales again increased in the year under review.

Attractive merchandise offering and favorable price-performance ratio. Praktiker home improvement centers offer customers an exceptionally broad assortment in the areas of building, workshop, decorating and gardening products: from small items via lamps, bathroom ceramics and painting utensils to parquet flooring and garden fences. The offering appeals to the professional

Praktiker

Customer-focused operator of home improvement and DIY centers

Sales	**€ 2.5 billion**
EBIT	**€ -9.7 million**
Locations	**347 in 7 countries**
Total selling space	**1.9 million square meters**
Employees (full-time equivalent)	**15,681**



craftsmen as well as to the layman. Whether high-value branded article or inexpensive private label – all products carried by Praktiker home improvement centers are marked by quality and a favorable price-performance ratio.

Service and consulting further intensified. However, Praktiker AG does not only want to sharpen its profile in the market by way of assortment diversity and quality. Additionally, the company has set itself the objective of positioning itself in the marketplace as a unique, distinctive and particularly efficient brand by offering even more expert and customized advice as well as new, customer-friendly services. To this end further training for employees was intensified in these areas in 2001. The optimization of the service offering includes the acceptance and processing of special cut-to-size orders including home delivery if requested. On the other hand Praktiker offers its customers a free service to help them find qualified craftsmen who will provide professional support in all the work around the house and garden.

Re-launch of the Internet site. Another contribution to further improved customer service was made by the fundamental re-launch of Praktiker's online activities in the year 2001. Do-it-yourselfers and hobby gardeners will find comprehensive information on house and garden topics on Praktiker's new Internet sites. Under the four headings "Building and Renovating", "Decorating and Furnishing", "Garden and Leisure" as well as "Workshop and Technology" Praktiker offers detailed expert advice on the Internet. The pages covering these topics are followed by shopping pages whose offerings are constantly updated. For specific questions on house and garden projects the customer can also consult an online product advisor, i.e. a virtual problem solution program that asks for details of the project step by step and then calculates the quantities and prices of the materials needed. Finally, another feature of the Praktiker Internet site that is extremely useful for the customer is the comprehensive Do-It-Yourself Encyclopedia.

With this comprehensive service offering on the Internet Praktiker has assumed a pioneering role in the industry.

Outlook. In fiscal year 2002 the establishment of Praktiker as a unique and distinctive retail brand that stands for a broad merchandise assortment, high quality, favorable prices, customer focus, expert advice and customer-friendly service will continue to be at the center of Praktiker's business policy. The strategy of closing down small, unprofitable stores in exchange for modern outlets with a large selling space and better cost structures will be continued. Praktiker's international expansion will also be further advanced. For example, market entry in Romania is planned for the year 2002.

Kaufhof

By focusing on the successful Galeria Kaufhof concept Kaufhof Warenhaus AG, a very model of innovation and earnings power, set out in 2001 to strengthen its outstanding market position in Germany, to further expand its recognized systems leadership and, over and above this, to gain an international profile.

On the basis of this corporate strategy Kaufhof Warenhaus AG acquired 15 department stores in inner city locations in Belgium of Innovation S.A. ("Inno") which, with a few exceptions, will be converted to the Galeria concept in the medium term. This has been a first step towards expanding Kaufhof operations beyond the German borders with an innovative distribution concept.

In the course of the acquisition and reopening of the department stores at Chemnitz and Leipzig and after adding the stores of the Sportarena and Emotions outlet chains that also belong to Kaufhof Warenhaus AG the total number of stores increased to 148 and the selling space to 1.4 million square meters in 2001.

Galeria concept guarantees economic success. More than 80 percent of the stores belonging to Kaufhof Warenhaus AG have by now been converted to the successful Galeria concept. Their share in total sales accounted for 81 percent in 2001. Their earnings power was substantially above that of conventional department stores. The business policy of Kaufhof Warenhaus AG therefore mainly focused on further optimizing the concept and converting three additional stores to this new distribution format. In the year under review the objective of establishing the "Galeria Kaufhof – Ich freu´ mich drauf!" (Galeria Kaufhof – I can't wait!) concept as a retail brand was further pursued with great emphasis.

The success of the Galeria concept is due to the fact that the composition of the merchandise assortment and the form of presentation all the

Kaufhof

Conceptual market leader in the German department store segment

Sales	**€ 4.0 billion**
EBIT	**€ 187.0 million**
Locations	**148**
Total selling space	**1.4 million square meters**
Employees (full-time equivalent)	**22,032**

way to a customer-friendly atmosphere in the sales areas are consistently geared to current customer wishes and can be continuously adjusted to them. The latter is ensured by the employment of a set of sophisticated market research and controlling instruments.

With a broad diversity of merchandise mainly including the products of nationally and internationally well-known brand manufacturers, with high quality, with an attractive price-performance ratio and with a comprehensive service offering Galeria Kaufhof appeals specifically to demanding as well as brand-conscious customers. The entire assortment is presented in easy-to-grasp and clearly structured 'merchandise worlds' attractively complemented by dedicated brand shops operated under license. Topical lifestyle and fashion themes are powerfully highlighted and brought to the customer's attention in imaginative events. The physical environment like large and well lit premises, a clear aisle layout, a memorable display concept, dramatic lighting effects as well as panorama windows additionally stimulate a customer-friendly shopping atmosphere. The slogan "Galeria Kaufhof – Ich freu' mich drauf!" specially developed for the Galeria Kaufhof outlet chain is therefore designed to project the holistic image of an exciting and varied shopping experience totally geared to the well-being of the customer.

Multimedia supplements personal customer care. Galeria Kaufhof's attractiveness is additionally enhanced by a broad range of multimedia information and consultation systems in the different merchandise worlds.

These technical facilities offer entertainment, information and service thus supplementing personal contact and advice to the customer. The terminals allow the combination of text, image, sound, interaction and smell making it possible for customers to experience the merchandise worlds with all their senses. Electronic guidance systems help customers find their way around the stores. A "Personal Style Guide" enables ladies to get fashion advice that precisely matches their personalities and to "try things on without taking things off". In the household world an electronic gift service gives brides and grooms the opportunity to put together their wedding list at the PC. In addition, touch screen systems provide valuable help to customers in the Fabiani perfumery, in the book world, in the wine department of the gourmet paradise as well as in the sports world.

Kaufhof Galeria Card fosters customer loyalty. An important element in the effort to retain Kaufhof customers in the long term and to position the Galeria concept in the market as a retail brand has been the introduction of the Kaufhof Galeria Card within the framework of the Payback system. In Germany Payback is the market leader in the area of customer retention schemes with a total of 15 million customer cards issued. By the end of the year 2001 more than 20 companies in the online and offline markets had joined the Payback system. Customers benefit from ownership of the Kaufhof Galeria Card in a number of different ways. On the one hand card holders receive attractive discounts. On the other hand they are constantly kept up to date on the latest trends in the different merchandise worlds. However, that is by far not the end of the story. After the elimination of the German law on discounts and the ordinance on free give-aways the prerequisites have been created for a fundamentally new development of the Payback card. Its potential as an instrument to secure customer loyalty has been substantially enhanced which Kaufhof Warenhaus AG intends to use in a number of different and creative ways. For example, card holders can be granted the privilege of getting priority access to particularly attractive special offers. The Kaufhof stores made use of this facility for the first time in the summer sales of last year when owners of the Kaufhof Galeria Card were allowed to enter the business premises one hour before the official opening time. The Kaufhof Galeria Card also makes for a more precisely targeted, more individualized customer appeal. This means that the effectiveness of ad campaigns can be substantially increased in the future.

Sportarena and Emotions open up new target groups. Using the new distribution formats of Sportarena and Emotions the Kaufhof Warenhaus AG group is addressing itself to clearly defined target groups with specific wishes and interests.

With their diverse, high quality, attractively priced merchandise offerings the 15 Sportarena stores want to appeal primarily to groups of consumers with a special interest in sports, fitness, wellness and active leisure time pursuits. However, in the Sportarena stores customers will not only find an exceptionally high quality product assortment but also an ambience and an atmosphere specifically geared to the mentality of a youthful clientele with sporty ambitions. A highly qualified offering of consulting and information services underlines the specialist store character of these outlets. Shopping at Sportarena becomes an unforgettable experience thanks, for example, to the tartan tracks in individual stores that are an open invitation to customers to test the inline skates they want to buy. At the Sportarena store in Oberhausen there is even a possibility for alpine sportsmen to directly test their newly acquired mountaineering equipment on an artificial rock face built for climbing practice.

The Emotions distribution format which is still in the test phase appeals to the modern, self-confident, sophisticated woman. The merchandise offering specifically geared to the wishes and aspirations of the fair sex ranges from linen, lingerie, sports and leisure clothing all the way to fragrances with the product range including almost all famous brand manufacturers.

However, the attractiveness of the Emotions stores is not only determined by the products on

offer. Rather, a positive and unmistakable atmosphere is created in these outlets by way of an emphatically individual customer appeal, comprehensive information about new fashion trends as well as competent and friendly customer service. These stores are also marked by a store design that appeals to female wishes, creates a feeling of well-being and thus stimulates the desire to shop.

Outlook. Kaufhof Warenhaus AG will continue to make intensive use of the opportunities for profitable growth that result from its leadership in the field of concept development. The profiling of the sales division as a retail brand is a permanent task in the context of which the positioning of "Galeria Kaufhof" as a brand will continue to have top priority.

By taking on new branded products and extending the shop-in-shop systems that are already in place the brand competence of the Galeria stores will be further strengthened. As a result, national and international lifestyle and designer brands, supplemented by attractive private labels, will provide a strong platform for continued profitable growth. The elements of visual merchandising will be further refined to achieve a harmonious interplay between emotional and rational product presentation and customer appeal. With the further optimization of the Galeria concept Galeria Kaufhof will be established as a brand in the consumer's mind. The higher level of customer loyalty achieved by the use and the wider distribution of the Kaufhof Galeria Card will have positive repercussions both on the sales revenues and the earnings of the sales division.

In the next three years another 10 to 12 department stores in Germany will be converted to Galeria stores and three new stores will be opened. During the same period 10 Inno outlets will be brought into line with the Galeria concept and refurbished to meet current needs. In individual cases construction activities will be initiated to increase selling space.

Cross-divisional service companies of the Metro Group

In the year 2001 the cross-divisional service companies of the Metro Group further increased their efficiency in meeting the service needs of the sales divisions.

The group wide pooling of services in the cross-divisional service companies makes it possible to use synergies and cost cutting potentials as a result of which the profitability of METRO AG can be further enhanced.

Purchasing. Metro MGE Einkauf GmbH (the acronym "MGE" standing for Metro Group Purchasing in German) pools and controls merchandise procurement within the group. Nationally and internationally it is responsible for the buying of food and nonfood products in close coordination with the sales divisions. In 2001 MGE including its subsidiaries in Poland and Turkey employed a total of 1,048 staff. Of these, some 285 people in strategic purchasing handled a procurement volume of € 41 billion between them securing on behalf of the sales divisions not only the maintenance and improvement of stringent quality standards but also favorable prices and terms. Both these aspects are instrumental in creating crucial competitive advantages for the Metro Group. Further gains in procurement efficiency are expected to result from the Metro Group's efforts to open up new procurement potentials and optimize procurement processes with the help of e-commerce platforms. To this end the group has joined forces with other trading companies to create the Internet platform GlobalNetXchange ("GNX"). After successful test runs in the year 2000 the practical use of the GNX platform started in early 2001 with the implementation of auctions that turned out to be an interesting alternative procurement approach. Thus, MGE conducted some 150 auctions in 2001 in the food and nonfood areas with a volume of about € 315 million achieving relatively favorable purchase prices. In the future the Metro Group will strive for an even more intensive use of the GNX platform with the objective of attaining additional cost and efficiency improvements.

Gemex Trading AG acts on behalf of Metro companies and third parties as the agent for worldwide imports. It operates nine subsidiaries in several European countries and in the Far East. Its 669 staff handle an import volume of € 1.1 billion. As in the previous year Gemex concentrated on the development of new supply sources in Eastern Europe, Russia and South East Asia. In the year 2001 branch offices were opened in Pakistan and Poland. Under the name "Gemex-Trading.com" an

Internet portal was started in December of 2001 to further increase the effectiveness and efficiency of import processes. As a result, significant improvements in the process chain have been achieved. The portal has online links to the Gemex merchandise management systems in Switzerland and Hong Kong.

Logistics. The Metro Group makes every effort to control merchandise flows as efficiently as possible and to keep logistics expenditure down. for the coordination and handling of the various logistics tasks within the Metro Group the logistics companies Metro MGL Logistik GmbH (Metro Group Logistics, "MGL") and Metro Distributions-Logistik GmbH & Co. KG ("MDL") are responsible.

MGL has group-wide responsibility for the organization and handling of merchandise transports for all sales divisions. Its 77 staff in cooperation with about 3,500 suppliers make sure that an average of 38,500 parcels, 35,000 pallets and 400,000 individual consignments are moved every day. In the year 2001 MGL focused primarily on the implementation of its logistics systems in other European countries. Thus, the basic principles of its procurement logistics system have been practiced in Poland since the beginning of February 2001 and in Austria since early May 2001. Numerous manufacturers have already been integrated into the system. In addition, MGL further expanded the activities in Turkey that were started in the previous year. With a view to generally optimizing the logistics function in the Metro Group, MGL is increasingly employing IT-supported systems, for example in the processing of invoices as well as in handling complaints and insurance claims.

MDL is the specialist for warehousing management in the Metro Group. The introduction of a new warehousing management system initiated in the year 2000 with the objective of further improving the logistics processes was successfully completed in 2001. Progress was also made in the year 2001 in getting more and more suppliers to participate in the electronic data interchange for ordering processes. These and other improvement measures did not only reduce process costs and inventory levels but also helped to secure the high MDL service degree in the long run. On average MDL employed 2,596 staff in the year 2001.

IT services. Metro MGI Informatik GmbH (Metro Group IT, "MGI") constitutes the information technology backbone of the Metro Group that is in charge of all necessary IT services and ensures the smooth running of all business processes from a technical point of view in all countries. Its tasks include the development of IT systems for a diversity of applications, but also the operation of one of Europe's largest group networks linking more than 2,000 stores and 35,000 mail users. In the year 2001 MGI had a total workforce of 750 employees.

One of the major challenges in 2001 was to complete the nation-wide rollout, initiated last year, of a web-based merchandise management system specifically tailored to meet the needs of the Metro Group and incorporating comprehensive and user-friendly merchandise management functionalities at Metro Cash & Carry, Real and Extra. All in all, systems components were installed in 900 stores and at the various divisional headquarters

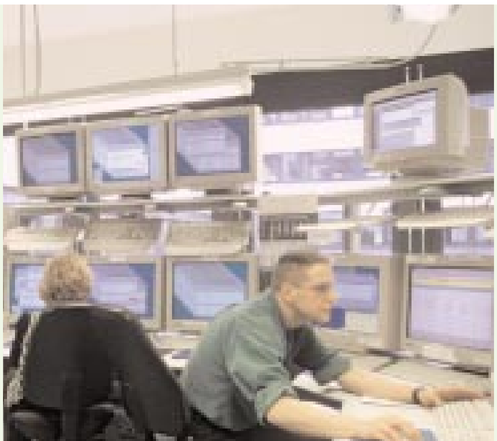
which added up to one of the biggest IT systems launches in the German trading and retailing industry. The system is now at the disposal of some 5,600 users. In the second half of the year 2001 MGI started a number of different projects to optimize work procedures and procurement processes in the sales divisions and to further cut their costs. For example, the rollout of a system was started that will improve the monitoring of investment and maintenance expenses for technical facilities like elevators and escalators. The development of technical solutions for even more efficient invoice checking was also pursued vigorously. Furthermore, MGI made a significant contribution to the successful market entries in the expansion countries Russia and Croatia in 2001 by establishing merchandise management, logistics and administrative systems there for Metro Cash & Carry. It also started technical preparations for the sales divisions' expansion into Vietnam and India.

Advertising. Metro Werbegesellschaft mbH (the German acronym "MWG" standing for "Metro Advertising Company" in German) is in charge of the procurement, implementation and coordination of advertising services in the Metro Group both nationally and internationally. This includes, for example, the pooling of the sales divisions' buying volumes in the advertising field, the production and placement of advertising and consulting services provided to the divisions. MWG also operates a cross-divisional image database and handles the advertising billing on behalf of the sales divisions. As in previous years one of the major tasks of MWG in 2001 was the tapping of new potentials for the procurement of advertising materials and the organization of advertising services to keep pace with the rapidly advancing internationalization of the Metro Group. In doing so MWG ensures all over Europe that sales divisions are efficiently supported in implementing their advertising measures and that the group's high quality standards are maintained. In the year 2001 60 employees worked for MWG.

E-Business. Controlling and pooling all e-business activities in the Metro Group is the mission of Metro Online AG. With 15 employees it supports the sales divisions and the cross-divisional service companies in the strategic planning and efficient implementation of their e-business activities. The primary tasks in this context are the observation of the market and competitive development, the recognition of trends and market opportunities as well as the development of strategies and concrete measures designed to position the companies of the Metro Group successfully in the e-business market. At the moment two issues are predominant in the area of online-based applications: the optimization of business processes in the business-to-business market on the one hand and the increase of efficiency in customer relationship management. For example, the importance of internet portals for intensive customer communication, customer information and customer retention has increased significantly. The employment of innovative and target-group oriented e-business instruments also contributes substantially to the development of the Metro Group sales divisions into highly competitive retail brands.

Environmental management. To lend expression to its responsible use of natural resources the Metro Group practices an efficient waste and recycling management incorporating waste disposal concepts that meet the requirements in all business units. All activities in the area of environmental management and all ecologically relevant services offered by the sales divisions of the Metro Group are organized by Metro Wertstoff Circle Services GmbH ("MWCS"). Together with the service providers entrusted with the practical implementation it has built up a nationwide waste disposal system. In line with the principles of an efficient recycling economy the lion's share of the waste materials is reused. The cleaning of business premises and the maintenance of stringent hygiene standards are also tasks performed by MWCS. The pooling of all these tasks in one company makes it possible to perform these tasks more efficiently and more cost-effectively. Within the framework of in-company process improvements, systems have been made available since 2001 by which waste material flows can be documented and waste audits at specific operating locations performed through a permanent data exchange between MWCS and the sales divisions. This is the basis for the further development of sustainable and cost-effective waste disposal and environmental management concepts. Their importance to the Metro Group is not least demonstrated in the high economic performance of about € 100 million that MWCS produced with the help of its business partners in Germany in the year 2001 alone. For a number of years now the experience gained by MWCS has also been transferred to other European countries and, for example, implemented in Austria, Poland and Hungary. In the year 2001 MWCS also took over the waste management for more than 70 Metro Cash & Carry stores in France. In 2001 MWCS employed 100 staff.

Restaurant and catering. Dinea Gastronomie GmbH is the catering expert in the Metro Group belonging to the leading German limited menu restaurant chains with its 236 restaurants. Its three operating brands "Dinea", "Grillpfanne" and "Axxe" pursue gastronomic concepts appealing to very different target groups from the sophisticated department store customer to the price-conscious visitor of specialty store and shopping centers all the way to the traveling public. With some 3,307 employees the Dinea Group served about 60 million guests in the year 2001. In the course of the continuous optimization of the network of locations three new restaurants were opened and one motorway service station was taken over. At the same time 13 outlets were closed because of unsatisfactory profitability. The expansion of the network of service stations and the continuous modernization of restaurants with the objective of meeting customer demands even more precisely will be the prime mover of continued growth in sales and earnings at Dinea in the year 2002.




METRO
TDK
TDK SYSTEMS
да на каждой дорожке
16
Аудио-видео
Фотоаппараты
Фотоаксессуары
Детская одежда
Текстиль
Текстиль для дома
Подушки
Матрацы

Internationalization – a growth engine of the Group

METRO AG is a trading company with an international focus. At the end of 2001 the company with its six sales divisions was represented in a total of 24 countries. As a result of the consistent expansion of the international business sales outside Germany will grow as a percentage of total sales and are scheduled to rise to more than 50 percent in the medium term. The company will particularly exploit the opportunities in the countries of Eastern Europe and Asia.

Tried and tested methods are used to open up new markets which limit the economic risks normally incurred when entering an unknown market. Metro's wealth of experience gained during recent decades has meant that it has almost always been successful in adapting its distribution concepts to new market conditions and taking appropriate account of the various needs and wants of local customers. This is particularly true of both the Metro Cash & Carry and Media/Saturn divisions. These divisions have placed particular emphasis on their international activities with such great success that a considerable percentage of their sales now comes from outside Germany.

Standardized concepts at home and abroad. In the process of internationalizing its consumer goods trading activities, METRO AG adopts tried and tested, standardized merchandising concepts across the various countries despite the different structural and cultural framework conditions and the often significantly differing customer wants and needs. This can only be achieved by following a single concept, tested in the domestic market in Germany, consisting of standardized elements that are also suitable for expansion activities in international markets. These conditions are met, for example, by the established organization processes applied uniformly at home and abroad along with the consistent identities represented by Metro Cash & Carry, Media/Saturn and Real.

Concepts highly adaptable to the market conditions of the host country. The Metro Group began its expansion into international markets as early as the 1960s with the Cash & Carry wholesale stores that are today the world's leading operators in the self-service wholesale trade sector. Metro Cash & Carry is expanding both in the developed markets of Western Europe with their existing wholesale trade structures and also in the countries of Eastern Europe and Asia that are still developing economically. In some places the Metro stores were the first large-scale trading structures to be established. METRO AG's merchandising concepts are distinguished by a superior ability to adapt to the customer needs and market conditions of the specific country. For example, all those sales divisions operating on an international level adapt their merchandising policy, product presentation and means of attracting customers to the various lifestyle and consumption patterns of the local consumers. Outlet concepts do not generally tend to become diluted when adapted to market conditions but actually maintain their distinctive image worldwide. One of METRO AG's key capabilities is that it achieves both these aspects in

parallel, namely preserving the typical characteristics which make up an outlet concept and integrating them in and adapting them to the relevant market situation.

High worldwide acceptance of METRO AG in industry and society. The sales divisions of METRO AG are not only successful abroad in economic terms. They are also highly regarded by the economies and societies of the relevant countries. This is particularly true of the major Metro stores in Eastern Europe and Asia. Metro stores source up to 90 percent of their product range from local suppliers thereby providing important growth stimuli for the economies in these countries. Furthermore Metro Cash & Carry stores make a significant contribution to developing efficient trading structures leading to a considerable improvement in the supply situation of the relevant region. Using Romania purely as an example in this context, a lively street trade prevailed in the congested urbanized areas here when Metro Cash & Carry opened its first wholesale store in 1996. Some of the staple goods required for day-to-day existence were only available in these street markets and the constant supply of a suitable range of food was not guaranteed. For the first time a continuous supply of an inex-

Market entry – using the example of Metro Cash & Carry in Russia

At the beginning of November 2001 Metro Cash & Carry opened its first two wholesale stores in Russia. The professionally organized, perfectly timed and coordinated procedures adopted made it possible to reduce the time required for the development from the planning stage through to the opening of the first store to as little as one year. The following is a description of how Metro outlet chains open up new markets using Metro Cash & Carry's entry into Russia as an example.

- **by October 2000 – Country scoring.** Each country considered to be an attractive market for Metro Cash & Carry is examined on a continual basis with the aid of a scoring model. Russia is identified as an interesting market.
- **November 2000 – Preliminary investigation.** A preliminary study determines the main aspects of the economic and political framework conditions of the Russian market as well as those relating to commercial law.
- **December 2000 – Feasibility study.** As the results of the preliminary study are positive, a detailed feasibility study is prepared. An experienced management team is established that meets with business people, suppliers and politicians. This process highlights the important operational areas such as purchasing, sales, marketing, law and personnel in more detail.
- **January 2001 – Go-ahead given .** The green light is obtained after the feasibility study: the Executive and Supervisory Boards give the go-ahead to open up the market and provide the funds for the first two stores. Any further expansion in the country will have to finance itself by way of organic growth.
- **January 2001 – Search for locations.** A decision is made regarding two sites and application made for a building permit.
- **February 2001 – Customer marketing.** The customer acquisition process begins.
- **March 2001 – The first cut of the spade.** The first cut of the spade upon receipt of the building permit: construction of the Metro stores commences on both sites. Meetings with the local authorities, neighbors in the immediate surrounding areas and political decision-makers become part of the day-to-day business.
- **April 2001 – Management training.** The future local management of the Moscow stores are prepared for their roles at the Cash & Carry headquarters in Düsseldorf.
- **from May 2001 – Recruitment of personnel.** Metro Cash & Carry is looking for 800 staff for both Moscow outlets. The first job interviews take place.
- **July 2001 – Supplier contracts.** Metro Cash & Carry intensifies negotiations and concludes contracts with local suppliers.
- **September 2001 – Development of merchandise assortment.** Metro Cash & Carry is commencing operations in Russia with a range of 15,000 items per store. The assortments are entered into the computer system.
- **November 2001 – Opening.** Metro Cash & Carry in Russia is supported by Metro Cash & Carry Bulgaria. This start-up assistance is a tried and tested method for supporting the entry into new markets.

pensive, extensive and high quality range of merchandise was made available to local retailers, hotels and restaurants through Metro Cash & Carry which contributed significantly to closing Romania's considerable supply gaps. Small and medium-sized businesses have since been able to plan and implement their product ranges on a more secure basis.

Professional preparation for market entry. A professional approach to the preparation and implementation of market entry ensures the economic success of METRO AG in foreign markets. The first stage of committing to an international project of this kind is to examine all the countries being considered in respect of expanding the outlet network with the aid of a scoring model. If a certain country is considered suitable for market entry, a preliminary examination is carried out. This provides an initial picture of the economic, political, societal and legislative environments, the market potential and the situation regarding competition. A positive preliminary examination is followed by an extensive feasibility study which also involves on-site research. On the basis of this study all the processes involved in such a commitment are explored. A team of specialists analyze all the relevant operational areas such as purchasing, marketing, legal issues and personnel. On the basis of the results of this study, decisions are made on whether market entry will be pursued, on the actual locations of the stores and on the size and type of the stores planned. The actual preparatory work then begins which involves many parallel activities. The management team of the country, namely the team selected to oversee market entry and to manage the company, refine the outlet concept and define the merchandising, pricing and purchasing policies. The team looks for real estate, selects suppliers, concludes contracts with these suppliers and starts to recruit personnel. Each Metro store requires several hundred employees. The customer marketing program is also launched at the same time. However the construction and fitting out work is at the forefront throughout the whole preparatory period up to the opening of the first store. The stores may be set up according to a uniform basic concept in all countries but each individual case involves numerous negotiations with local authorities as the legal requirements to be observed differ markedly from country to country. In general the local headquarters for the outlet chain are also erected on the site of the first store.

Metro particularly in favor of recruiting local management. Another basic pre-requisite for successfully expanding an outlet chain abroad is the recruitment of qualified local personnel. We look for the senior staff required to manage and operate the stores who are then expected to assume the running of the store after a certain period of familiarization. This occasionally proves to be a difficult and lengthy undertaking. As long as no local employees are found, the management in the country responsible for overseeing the entry into the new market and running the business on an interim basis is composed of senior Metro staff who have already gained relevant experience in other countries. However the objective is for managerial posts to be filled by local employees as quickly as possible and to train these employees in intensive Group programs. They have the advantage that they know the exact consumer and purchasing patterns of the local people and are able to adapt the business to the country's environment in an optimum manner. The Metro Group strengthens internal labor markets by employing local staff from sales staff through to management and in some countries it took only a few years for the group to become one of the largest private employers.


IV

Logistics – an important part of the value chain in trading

Every day METRO AG masters the challenge of making on-time deliveries to more than 2,200 stores in 24 countries. For thousands of products it designs and controls the complex transport logistics from the manufacturer to the store, an achievement that is one of the key factors for the overall success of the group.

METRO AG possesses the know-how to identify and organize the most favorable transport route for merchandise in each case. The fact that it pools its logistics competence as a cross-divisional function for all sales divisions in the logistics companies MGL (Metro-Gruppen-Logistik) and MDL (Metro-Distributions-Logistik) enables the group to keep overall logistics costs low. The group-wide pooling of logistics tasks for all sales divisions thus creates cost advantages for each division that the division alone would not be able to achieve with individual logistics concepts. The Metro Group is therefore in a position to offer a broadly based, high quality product assortment in all its outlet chains at favorable prices because high transport costs are systematically avoided.

Trading means more than merely buying and selling goods. An essential part of the value chain in any trading company is an efficient logistics function. The merchandise flows that the Metro Group has to cope with on a daily basis in supplying merchandise to its outlet chains reach immense volumes. Every day the logistics companies of the Metro Group are responsible for the transport of 50,000 pallets. By way of a sophisticated control system for these merchandise flows the costs of transporting goods from the manufacturer to the individual stores of the outlet chains – either directly or through warehouses – can be cut substantially as a result of which it is possible to keep the cost factor of logistics low in the price calculation. In this way, intelligent logistics systems adjusted precisely to the transport task in hand make a significant contribution to substantially increasing the profitability of METRO AG as a whole. This explains why logistics has consistently increased its importance in trading in the last few years especially in view of the fact that product offerings have become more and more comprehensive because of more differentiated customer expectations and the control of the necessary merchandise flows has consequently become more complex. As a matter of course customers today expect the fruit display to feature not only apples from Germany or other European countries but also New Zealand and South African varieties – at attractive prices. He also wants to be able to buy strawberries all year round. As a result the space and time dimensions of logistics systems have grown exponentially.

To make sure that the merchandise is available at precisely the moment when the customer demands it thousands of transport processes have to be coordinated. This is the only way to guarantee that the goods arrive at the ramps of all stores on time. So, transportation is not only about handling vast quantities of merchandise but also and above all about the nature and the quality of the logistics solutions. Sometimes carrying the goods by truck is the most economical solution that makes the most sense, sometimes it may be better to ship smaller individual parcels. As a rule the attempt is made to transport the largest possible quantity of goods to its destination along the quickest and shortest route. Trucks

should, if at all possible, only travel with a full load because poor capacity utilization will automatically cause higher transport costs per item which in turn will eventually be reflected in higher prices or a lower profit. So, from the ordering of the merchandise via its transportation all the way to delivery to the store the entire process must therefore be controlled in such a way that it is cost-effective, makes sense in traffic terms and is environmentally friendly. A number of categories, fresh food first and foremost, additionally place very special demands on the logistics solution for the customer to receive only top quality products. Special logistics solutions have therefore been developed for every sales division in the Metro Group tailored to meet their specific needs.

Coordinating a diversity of processes. The logistics know-how of the Metro Group lies in its ability to define and implement the most suitable logistics processes for each category. The best solution often lies in a combination of different routes and transport modes. As a matter of principle, there are three possibilities of moving merchandise: Either the delivery is made directly from the manufacturer to the store, or the merchandise is first carried to a warehouse and then distributed later to its final destinations, or at the warehouse the merchandise is broken up into final consignments and then carried on to the stores on so-called transshipment platforms. The criteria that a logistics system has to measure up to are speed, cost-effectiveness and professionalism. Thanks to sophisticated logistics systems the sales divisions of the Metro Group are able to make a comprehensive merchandise assortment available to customers without having to maintain large storage capacities in the stores themselves.

Pooling merchandise flows by way of procurement logistics increases transport efficiency. One of the most important logistics principles in the Metro Group that takes a considerable burden off the goods receiving departments of all outlet chains and hence produces substantial cost savings is what we call procurement logistics, i.e. the direct collection of merchandise from the producer. It was launched in the Metro Group in 1995 and was a novelty in German retailing at the time. In previous years normal procedure was for ordered goods to be shipped directly to the stores by the makers or their forwarders. For Metro Cash & Carry this meant, for example, that on average 150 shipments had to be handled at the ramps per day and store with each truck usually dropping only one single pallet.

Today, the Metro Group largely organizes the collection of merchandise from the manufacturer itself via its logistics subsidiary Metro MGL Logistik GmbH (Metro Group Logistics of "MGL" for short). The advantage of this approach is that MGL collects the merchandise for all sales divisions at the same time thus pooling the separate merchandise flows. In addition, the company works with only a few forwarders specialized on different merchandise categories. The goods are taken to a central warehouse or to a transhipment center where they are repackaged for onward transport to the respective stores of the different outlet chains. For Metro Cash & Carry the principle of procurement logistics has so far cut the number of deliveries to the ramps by 50 percent and the delivery quantity could on average be increased from one to 27 pallets per truck.

Efficient warehousing logistics guarantees deliveries that precisely meet the stores' needs. To the extent that it makes functional and economic sense the Metro Group also operates its own warehouses that permanently maintain adequate inventory levels that the stores can draw on if needed. Responsibility for this lies with the logistics company Metro Distributions-Logistik GmbH & Co. KG ("MDL") that operates seven own food warehouses with a total area of 215,338 square meters as well as two nonfood warehouses and distributes goods from these locations to the stores with its own trucks. On average, 400 deliveries are made every day, above all food deliveries to Real and Extra stores. The purpose of the warehouses is to ensure rapid, continuous and cost-effective merchandise supplies to the stores. Procurement logistics, i.e. collecting the goods from the producer and their storage in an MDL warehouse can also be combined.

Direct delivery as a sensible alternative. The conventional process in which the manufacturer also delivers the goods is practiced in the Metro Group whenever the rapid delivery of smaller quantities is the most sensible solution. For example, when surprisingly good summer weather makes for an unexpectedly high demand for barbecue meat the direct and flexible delivery by the manufacturer straight to the stores is the best solution to meet the demand at short notice.

Efficient logistics supported by IT. An important component of the successful logistics systems in the Metro Group is the automation of work processes in the process chain from ordering the goods to their delivery. This is achieved by way of information technology. For example, the stores place and handle orders almost exclusively by EDP. In the process a "mouse click" replaces more time consuming ordering processes by fax or telephone. In addition, the individual orders placed by the stores can be pooled in the data network and then passed on to the manufacturer in concentrated form. The reduced work load of the manufacturer in supplying the goods spells a cost advantage which in turn is reflected in more favorable retail prices. Incoming goods are automatically recorded in the stores after the electronic system has checked the actually delivered quantity against the order quantity. Automation cuts administration costs, increases the speed of the entire logistics chain and reduces the error rate in the delivery process. The major beneficiaries of this are the fresh food operations in the Metro Group.

Special logistics challenges of fresh food. The constant optimization of logistics systems also makes a significant contribution to quality assurance. This is particularly obvious with all products requiring rapid transport, i.e. all fresh food items. The name of the game is to offer the customer fresh merchandise with as long a shelf life as possible. This can only be achieved by having daily deliveries of small quantities that match the expected daily sales volume of the store. Stocking larger quantities and having deliveries at longer intervals must be ruled out here. The logistics challenge in this case is to keep transport costs down and to avoid longer storage times in spite of the daily delivery of smaller quantities. This objective can be achieved by employing transhipment platforms that enable the fast distribution of merchandise. The stores address their order to these platforms which in turn collect them and forward them on to the suppliers in a concentrated form. The merchandise is then delivered to the platforms at short notice, repackaged into consignments for the individual stores as ordered, and immediately transported to the stores. In the morning, before the store opens, the merchandise is placed on the shelves so that customers immediately have access to the fresh produce.

An example of Metro's logistics competence:

Fresh fish – from catch to Cash & Carry

Metro, Europe's largest fish trader, gets its fish straight from fishers, fish farms, fish processors and fish auctions. During the night and in the early morning more than 70 suppliers of fresh fish are busy landing their catch or buying fresh fish on behalf of Metro at the major fish auctions in Europe. Here is an overview of the most important stages that the fish goes through before it goes on display in the Metro Cash & Carry stores:

- The 44 German Metro Cash & Carry stores with own fish department order their fresh fish first thing in the morning. The heads of the fish departments place their orders at the computer screen. They can choose from 150 different types of fish and crustaceans; when distinguished by origin and weight that produces a total of 2,500 different items. By mouse click the orders are sent off to Metro Cash & Carry headquarters.
- At headquarters the orders of the stores are sorted and consolidated and then sent electronically to Metro's fish suppliers.
- The suppliers in twenty countries ranging from Iceland to Thailand dispatch the ordered merchandise by ship, aircraft or truck to the Metro Cash & Carry transhipment platforms. In order to ensure uninterrupted refrigeration at 2 degrees C the temperature in the transportation vehicles is monitored on a continuous basis.
- About 100 tons of fish destined for the Metro Cash & Carry stores arrive at the transhipment platforms in Cuxhaven and at Frankfurt Airport every day. At the platforms only fish with the right entry temperature is accepted. Here, too, special refrigeration systems guarantee consistent cooling. The fish shipments are checked by experienced Metro Group quality inspectors and orders are then picked to go to individual stores.
- The refrigerated trucks with the fish on board leave the platforms reaching the individual stores after six hours at the latest – with the refrigeration chain remaining uninterrupted along the way. When the merchandise is received at the destination employees again check it for quality and temperature. The results are recorded in writing for every shipment.
- In the stores the fish is immediately put on display. Customers of the Metro Cash & Carry stores benefit from the fact that throughout the entire process chain hazards and risks for the fresh merchandise are systematically monitored and eliminated. In this way they can be certain of always buying prime quality fresh fish at Metro Cash & Carry outlets.

A career in trade – designing the future together

At METRO AG the notions of "trade" and "career" are entering into a totally new relationship. As a modern and multi-faceted sector of the economy, trade has a wide range of careers and job profiles to offer. At all levels of the corporation, METRO AG promotes the precisely targeted development of its employees and offers attractive career opportunities both at home and abroad.

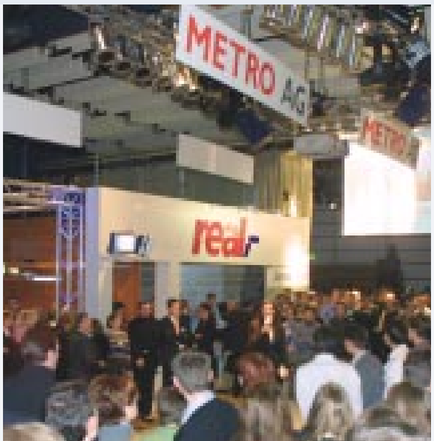
Metro generates a considerable proportion of its sales in foreign markets: more than 44 percent, in fact, and this proportion is continually growing. Every year the group enters the market in one or two new countries, a challenge which it can only meet if it has sufficiently qualified management at all locations. That is why precisely targeted personnel development plays a vital role in Metro's expansion. And, of course, it is equally important for outstanding performance in the domestic market.

Trade is a highly complex economic sector and an attractive employer. Trading needs young, performance-oriented and success-focused trainees. A considerable amount has been done in the last few years to increase the Metro Group's attractiveness to young people as an employer. Currently there are 16 different types of training programs on offer as well as a wide range of fields of professional activity, some with highly specialized job specifications.

Increasing numbers of university graduates are discovering the opportunities that trade has to offer them and are deciding to take a job in this profession. In this sense the Metro Group is a trend-setter: In the last years the number of participants in trainee programs of the Group companies has increased noticeable.

Vocational training and university studies – two routes to a career with Metro. At Metro, university studies are by no means a compulsory requirement for a successful career. "There is a whole host of examples of careers that began with vocational training, not only at METRO AG, but also in the individual outlet chains," stresses Dr. Claudia Schlossberger, Head of group-wide Executive and HR Development. And, to prove it, she says, "Of all our general managers, 60 percent attended university and 40 percent started out as conventional apprentices." On the next two management levels the proportion is even more balanced at 56 to 44 percent.

The personality profile is crucial. When university graduates apply for a job with the Metro Group, the personnel development staff in the individual divisions and in the group particularly like to see qualifications with an emphasis on economics. It is even better if the course of study has featured trade in some major way. Ms. Schlossberger says, "Then we know that that candidate has a genuine propensity for the business." However, there are also excellent career opportunities in the Metro Group for arts and humanities graduates who are attracted to trade. The most important thing is the applicant's personality profile. "We are looking for young people who like to be hands-on and who have good interpersonal skills. Above all, they must never lose sight of needing to put their concepts into practice", explains Ms. Schlossberger. "What use to us is an applicant who is a



potential high-flier but who is theory-bound, gives up in the face of practical situations and doesn't speak the same language as his colleagues?"

Opportunities and challenges. In all METRO AG's six sales divisions within the business units Cash & Carry, Food Retail, Nonfood-Specialty or Department Stores, there are exciting career opportunities for ambitious young talents. Although personnel policy is independently structured in each of the outlet chains, for their managers they are certainly not a one-way street. Changing from Kaufhof to a cross-divisional service company, exchanging the domestic market for a period of time abroad, leaving the outlet chain and joining the management holding company – these are just a few of the many tried and tested examples of the flexibility, the openness and the freedom to swap around within the group.

Of course, flexibility is also something the corporation requires of its employees: Anyone wishing to have a career with Metro has to be mobile. To progress through three or more different posts in the space of a few years is not exceptional. Stays abroad – lasting several years and even in different countries – are nothing rare. Stringent demands on the one hand, plenty of scope for creativity on the other – that is one of Metro's principles in its relationship with its managers.

It is also down to Metro's group-wide HR and executive development efforts that this principle does actually work. By developing standards for selection and promotion processes for the entire management team, it becomes possible for each individual to design his or her career in a purposeful way and to include plenty of variety.

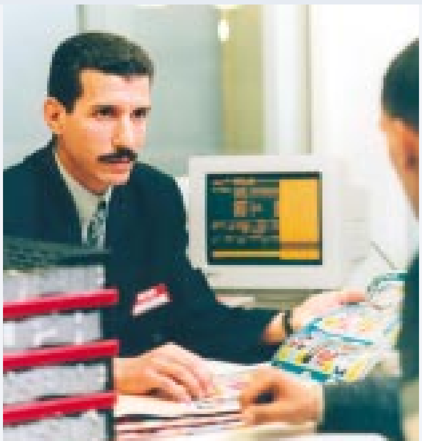
The programs of the Corporate University. Metro develops its junior managers in the group's own Corporate University. In terms of their content, the programs there are tailored to the needs and the strategy of the corporation. "This is by no means purely a matter of course," Claudia Schlossberger explains, "but rather a central quality feature of the service we offer. Besides, we work together with big-name external partners, and the Executive Board also contributes substantially to the design of the seminars – these are quality features that participants benefit from."

The Corporate University offers its international participants four programs. At the top is the "Metro Academy" where, over a period of eight months, between twelve and sixteen potential candidates for management positions in the individual sales divisions follow a development training program. Each participant has a mentor who is a member of the Executive Board.

In what is known as the "Corporate Seminar", colleagues new to second-tier positions in the group learn everything about the many different aspects of the whole corporation – preparing them to be capable of representing the group effectively, both internally and externally. On the timetable are the classic subjects such as business strategy and management tools, but another important topic is mental and physical fitness for the job.

The Metro-Management-Förderkreis ("MMF") is the development program for middle management. Participants in the MMF program are typically mid-20's to early-30's, and there is great emphasis on concrete project work: The concepts worked out jointly here must later prove their worth in practice. The fourth element of the Corporate University is the "Metro Business Program" on which very young entrants acquire detailed knowledge about METRO AG and the basics of global trade.

English is the working language on all the programs – people from 24 different nations are coming together, after all. A store manager from Poland might be in discussion with an executive from China; an operations manager from Portugal might be working on a concept with a personnel director from Great Britain. Claudia Schlossberger says, "Not only do our seminars contribute significantly to conveying the idea of how complex the group is, they also serve to promote the understanding of other cultures." Of one thing she is certain, "The group will grow together through its employees".



Petula Schepers, General Manager Emotions

For me, the retail trade is fascinating – above all, the constant challenge of combining a creative with a commercial approach and then finding optimum solutions. No two days are the same; for us, the word ‘monotony’ just does not exist. I can be very proactive in my job, in purchasing and sales, in display work, in advertising, personnel management and cost management. Anyone who wants to be successful at Metro has to be able to put themselves into the customers’ shoes. You need to be flexible, pragmatic and open-minded – that's when your enthusiasm starts to grow, day after day.”

Petula Schepers is 38. After passing her secondary school finals and training in retail sales at Kaufhof Warenhaus AG in Cologne, she held various senior positions including Department Manager Women's Outer Clothing in Hof and in Kaufhof’s Lower Rhine Group. She went on to be Deputy General Manager at Kaufhof in Berlin and General Manager at Kaufhof Centro Oberhausen. She has been General Manager Emotions since the spring of 2001.

Andreas Oerter, Assistant to the Executive Board of METRO AG in Düsseldorf

“Above all, Metro stands for diversity. This is an international trading group with an incredible variety of opportunities for designing your own professional career. I have benefited both professionally and privately from this approach. During my time abroad, a total of ten years, I got to know the most diverse interfaces within the Metro network. Because of these experiences I have become more open-minded, and my understanding of foreign cultures and of different ways of seeing the world has grown. Besides, I have seen for myself that personal initiative is rewarded at Metro.”

Andreas Oerter is 35. After commercial college he completed his training in retail sales at Kaufhof Warenhaus AG in Mainz. Other posts at Kaufhof included: Department Manager in Berlin and in Chemnitz, both for one year. Mr. Oerter then moved to the Metro cross-divisional service company Gemex and spent ten years abroad as Office Manager Purchasing in Oporto, Thessaloniki and Istanbul. He has been assistant to the Executive Board of METRO AG in Düsseldorf for one year.

Ege Yelmer, Department Manager at Real in Istanbul

“In Turkey shopping is an experience for the whole family. Cash & Carry stores and hypermarkets like Real are really quite unusual here. Metro is doing important pioneering work in this area, and for me that makes Metro extremely attractive as an employer. What I regard as particularly challenging are the opportunities available within the Metro Group for switching around between the different outlet chains and also the targeted increase of responsibility and decision-making authority. My business management studies in Istanbul have been a distinct advantage to me in my professional development so far.”

Ege Yelmer is 34. After business management studies in Istanbul she joined Cash & Carry in 1990 as an assistant, later becoming Purchaser and Central Purchaser. In 1997 she moved to Real in Istanbul where she is Department Manager Food. Since 2001 she has been on the MMF executive development program.

Metro Group Consolidated financial statements 2001

Metro Group
Consolidated income statement for the financial year ended 31 December 2001

€ million	Note no.	2001	2000
Net sales	1	49,522	46,930
Cost of sales		(38,712)	(36,765)
Gross profit on sales		10,810	10,165
Other operating income	2	2,022	1,959
Selling expenses		(10,197)	(9,689)
General administrative expenses		(1,034)	(1,068)
Amortization of goodwill	3	(248)	(248)
Other operating expenses	4	(223)	(94)
Operating result (EBIT)		1,130	1,025
Net investment income	5	(56)	85
Net interest result	6	(398)	(374)
Other financial result	7	(3)	18
Net financial result		(457)	(271)
Earnings before taxes (EBT)		673	754
Income taxes	8	(224)	(331)
Net income		449	423
Minority interests	9	(48)	(64)
Transfers to (-)/from (+) revenue reserves		(67)	(25)
Group net profit		334	334
Earnings per share in €	10	1.23	1.10

Metro Group
Consolidated balance sheet
as per 31 December 2001

Assets

€ million	Note no.	Balance at 31 Dec 2001	Balance at 31 Dec 2000
Fixed assets	15		
Goodwill	16	4,181	4,091
Other intangible assets	17	157	125
Tangible assets	18	6,762	6,393
Financial assets	19	245	308
		11,345	10,917
Current assets			
Inventories	20	5,258	5,257
Trade receivables	21	405	438
Receivables and other assets	22	2,433	3,347
Other receivables and other assets	23	1,694	1,295
		9,790	10,337
Deferred tax assets	24	1,108	1,000
Prepaid expenses & deferred charges	25	77	79
		22,320	22,333

Equity & liabilities

€ million	Note no.	Balance at 31 Dec 2001	Balance at 31 Dec 2000
Equity	26		
Capital stock		835	835
Additional paid-in capital		2,558	2,558
Reserves retained from earnings		443	337
Group net earnings		334	334
Minority interests		72	82
		4,242	4,146
Provisions			
Provisions for pensions and similar commitments	27	961	1,042
Other provisions	28	606	683
		1,567	1,725
Liabilities	29		
Financial debts	30	5,582	5,763
Trade payables	31	8,517	8,176
Other liabilities	32	1,950	1,958
		16,049	15,897
Deferred tax liabilities	24	145	205
Deferred income	33	317	360
		22,320	22,333

Consolidated cash flow statement

€ million	2001	2000
Gross profit (net sales less cash cost of sales)	10,810	10,176
Change in merchandise-related receivables and prepayments received	14	155
Change in inventories	7	(362)
Increase in merchandise-related payables	323	714
Increase in net working capital from goods sold	344	507
Gross cash flow from operating activities	11,154	10,683
Selling expenses (after amortization/depreciation)	(9,308)	(8,904)
Administrative expenses (after amortization/depreciation)	(942)	(994)
Other operating expenses and income, net	1,799	1,839
Adjustments for		
net gains/losses from disposals of fixed assets	(2)	21
decrease in pension and other accruals	(231)	(40)
other items	298	(321)
Taxes paid in fiscal year	(164)	(512)
Cash flow from operating activities	2,604	1,772
M&A transactions	(283)	(140)
Expenditure for tangible assets	(1,277)	(1,330)
Expenditure for other fixed assets	(115)	(339)
Expenditure for other fixed assets	4	(1)
Change in non-interest liabilities from investing activities	36	1,317
Disposals of fixed assets	320	773
Cash flow from investing activities	(1,315)	280
Profit distributed to		
METRO stockholders	(334)	(336)
other stockholders	(32)	(91)
Capital increases	–	235
Change in minority interests in capital and reserves	(27)	70
Raising of financial debts	723	834
Redemption/repayment of financial debts	(1,124)	(1,575)
Interest paid	(683)	(615)
Interest received	165	169
P&L transfers and other financing activities	471	(677)
Cash flow from financing activities	(841)	(1,986)
Total cash flows	448	66
Exchange rate effects on cash and cash equivalents	(18)	(7)
Overall change in cash and cash equivalents	430	59
Cash and cash equivalents at 1 January	1,221	1,162
Cash and cash equivalents at 31 December	1,651	1,221

Statement of changes in equity and of minority interests

€ million	Capital stock	Additional paid-in capital	Reserves retained from earnings	Net earnings	Minority interests	Total
Balance at 1 Jan. 2000	835	2,322	339	336	190	4,022
Transfer from conversion of preferred stock	–	236	–	–	–	236
Net equity over cost of shares acquired	–	–	–	–	(81)	(81)
Net income	–	–	25	334	64	423
Cash dividend	–	–	–	(336)	(91)	(427)
Other	–	–	(27)	–	–	(27)
Balance at 31 Dec 2000	835	2,558	337	334	82	4,146
Effect from the first-time application of IAS 39	–	–	(1)	–	–	(1)
Balance at 1 Jan. 2001, adjusted	835	2,558	336	334	82	4,145
Net equity over cost of shares acquired	–	–	–	–	(27)	(27)
Net income	–	–	–	401	48	449
Cash dividend	–	–	–	(334)	(32)	(366)
Subsequent measurement under IAS 39	–	–	(10)	–	–	(10)
Currency change	–	–	34	0	1	35
Other	–	–	83	(67)	0	16
Balance at 31 Dec 2001	835	2,558	443	334	72	4,242

Notes to the consolidated financial statements

Notes to group accounting principles and methods

Accounting principles

METRO AG's consolidated financial statements were prepared in accordance with the rules of the International Accounting Standards Board (IASB), London, UK, and the interpretations of the Standing Interpretations Committee (SIC).

METRO AG's consolidated financial statements were prepared in accordance with all IAS rules adopted and published by 31 December 2001. In fiscal year 2001, IAS 39 (Financial Instruments: Recognition and Measurement) was applied for the first time. The effects resulting from the first-time application of this standard have been subsumed in the statement of changes in equity. More detailed information on financial instruments is provided under notes 19, 26, 30 and 35.

IAS 40 (Investment Property), operative for the 2001 fiscal year for the first time, is of no relevance to the consolidated financial statements as the Metro Group does not hold any investment property.

The consolidated financial statements are in conformity with the Group Accounting Directive of the European Union (83/349/EEC). For full equivalence to group accounts prepared in accordance with the German Commercial Code ("HGB"), all disclosures and comments extending beyond the scope of the IASB and required under HGB have been duly made.

Since the prerequisites of section 292a HGB have been satisfied, the present IAS-based consolidated financial statements have an exempting effect on the duty to prepare consolidated financial statements in accordance with the German Commercial Code, as results from the assessment based on German Accounting Standard no. 1 (DRS 1) of Deutsches Rechnungslegungs Standards Committee DRSC e.V.

For enhanced perspicuity and transparency, certain income statement and balance sheet items have been subsumed but are shown and detailed separately further down in these Notes. The income statement has been prepared on the basis of the cost-of-sales format.

Unless expressly otherwise stated, all amounts are indicated in million euros (€ million). To this end, all local financial statements were first translated from the respective national currency into DM and consolidated on the basis of DM. The consolidated financial statements were then translated at the official rate of 1.00 € = 1.95583 DM.

Accounting, measurement and consolidation methods deviating from German legislation

The main deviations of the present consolidated financial statements from German legislation relate to the following accounting, measurement and consolidation methods:

- Assets and liabilities from future income tax benefits and burdens have to be recognized according to the balance sheet liability method of IAS 12 (Income Taxes) by applying the tax rates relevant to any future realization of such tax benefits or burdens; this obligation also covers the duty to recognize deferred tax assets arising from the offset of tax loss carryforwards against expected future profits provided the realization of these profits is reasonably certain.

- Leased tangible assets have to be capitalized, and the resulting liabilities recognized, in accordance with IAS 17 (Leases) if the economic ownership of these assets is attributable to Metro Group companies.

- The accruals for pensions and similar commitments are measured according to the projected unit credit method of IAS 19 (Employee Benefits), with due regard to future pay and pension increases.

- In accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), longer-term accruals are recognized at the settlement amount discounted to the balance sheet date.

- In accordance with IAS 38 (Intangible Assets), internally generated intangible assets are capitalized at cost and depreciated over their useful lives on a straight-line basis.

- In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), primary and derivative financial instruments are recognized in the balance sheet as assets and liabilities. Depending on the classification required, some of the financial instruments have to be measured at their fair values – even if these fair values exceed (historical) cost. In addition, IAS 39 provides for special recognition of qualified hedges in the balance sheet; as a result, certain fluctuations in value are recognized in equity with no effect on results.

- In accordance with IAS 22 (Business Combinations), the disclosure of hidden reserves in the framework of initial consolidation is not restricted to the cost of the acquisition. Under IAS 22, any negative goodwill possibly retained in the framework of initial consolidation should be recognized as a deduction from capitalized goodwill. According to IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries), minority interests are presented under liabilities, separately from equity.

Consolidation group

Besides METRO AG, the consolidated financial statements comprise 369 (previous year: 350) German and 226 (previous year: 212) foreign subsidiaries in which METRO AG directly or indirectly holds the majority of voting rights.

16 (previous year: 12) subsidiaries were not included in the consolidation as their impact on the Group's financial position and performance is of minor significance. The combined sales of these companies accounts for less than 1 percent of Group sales.

One foreign associated company is accounted for under the equity method.

The group of consolidated companies changed as follows versus fiscal 2000:

Number at 1 January 2001	563
Changes in fiscal year 2001:	
Companies merged into other consolidated subsidiaries	(18)
Companies divested	(4)
Companies newly formed	60
Companies acquired	8
Other changes	(13)
Number at 31 December 2001	596

The consolidation group mainly changed as the Media/Saturn division formed new companies.
Any material effects from changes in the consolidation group are detailed in the notes to the financial statement items concerned.

The complete statement of group companies and associated companies will be deposited with the commercial register of the local court (Amtsgericht) of Düsseldorf (HRB 39473). Thereof the major companies included in the consolidated financial statements are listed on page 104.

Consolidation principles

The financial statements of German and foreign subsidiaries included in the consolidated accounts are prepared according to uniform accounting methods, as required by IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries).

Consolidated subsidiaries which, unlike METRO AG, do not close their fiscal year at 31 December prepared interim financial statements for consolidation purposes.

In accordance with IAS 22 (Business Combinations), capital consolidation is effected by offsetting the carrying amounts of the investment against the revalued pro rata equity of the subsidiaries as per acquisition date. Any differences remaining after allocation of hidden reserves and encumbrances are capitalized as goodwill and amortized to income on a straight-line basis in accordance with their economic lives. Negative goodwill from initial consolidation is recognized as a deduction from capitalized goodwill and recognized as income on a systematic basis.

Investments accounted for under the equity method are treated in accordance with the principles applying to full consolidation, with any goodwill included in the recognition of the investment and amortization of this goodwill included in the investment result. Investments operating as marketing companies are carried as other assets under current assets and recognized in accordance with IAS 39 (Financial Instruments: Recognition and Measurement), as these companies will be dissolved once the marketing activities will have been completed. Shares in non-consolidated Group companies are also recognized in accordance with IAS 39.

Any amounts written back or written down for shares in consolidated subsidiaries carried in the separate financial statements have been reversed in the consolidated accounts.

Intragroup profits and losses, revenue, expenses and income, as well as receivables and payables or accrued liabilities among consolidated subsidiaries are eliminated. Intragroup profits or losses in fixed assets or inventories from intragroup transfers are also eliminated unless they are of minor significance. The option of third-party debt consolidation is exercised wherever the prerequisites are met. In accordance with IAS 12 (Income Taxes), deferred taxes are recognized for consolidation transactions affecting net income.

Currency translation

In the subsidaries' separate financial statements, foreign currency transactions are translated at the date of the transaction or, when hedged by means of a forward deal, at the hedge rate. Exchange losses incurred up to the balance sheet date on the measurement of receivables and payables are accounted for; gains and losses from exchange rate changes are recognized in income.

The financial statements of foreign subsidiaries are translated into DM according to the functional currency concept of IAS 21 (The Effects of Changes in Foreign Exchange Rates). Since all consolidated companies operate as financially, economically and organizationally independent entities, their respective local currency is the functional (reporting) currency. Assets and liabilities are therefore translated at the mean rate as per the balance sheet date, whereas income statement items are translated at the annual average rate.

Differences from the translation of the financial statements of non-German subsidiaries do not affect income and are shown in a separate line under reserves retained from earnings. Such currency differences are released to income in the year in which such non-German subsidiaries are removed from consolidation.

The financial statements of subsidiaries based in hyperinflationary economies are translated in accordance with IAS 29 (Financial Reporting in Hyperinflationary Economies). This principle affects Group companies based in Turkey and Romania.

Consequently, the expense and income items, including net income or loss for the year, corresponding to the changed general purchasing power are translated at the respective closing rate. The carrying amounts of the non-monetary balance sheet items of these companies were adjusted to the price changes in the fiscal year, prior to translation at the mean rate as per the balance sheet date on the basis of appropriate inflation indices. The purchasing power gains or losses resulting from the indexation are recognized as Other financial income/expenses under Other financial result.

The following exchange rates were applied in the translation of key currencies outside the European Economic and Monetary Union which are of major significance for the Metro Group:

		Average rate €		Closing rate €	
		2001	2000	2001	2000
1	US dollar	1.13214	1.08207	1.13469	1.07469
1	pound sterling	1.62181	1.64046	1.64338	1.60231
100	Polish zloty	27.85812	24.94410	28.60166	25.97538
1,000	Romanian lei	0.03534	0.05021	0.03587	0.04146
100	Swiss francs	67.81939	64.17065	67.43543	65.65126
1	Bulgarian lev	0.51129	0.51129	0.51129	0.51129
100	Chinese yuan (renminbi)	13.67865	13.07248	13.70925	12.98344
100	Danish kroner	13.45375	13.41592	13.44719	13.39926
100	Hong Kong dollar	14.52151	13.88299	14.55795	13.79263
100	Moroccan dirham	9.77441	10.19889	9.77380	10.13121
100	Slovak korunas	2.35292	2.34813	2.33863	2.27583
100	Czech korunas	3.11854	2.80853	3.12872	2.85331
1,000,000	Turkish lira	0.82786	1.74073	0.78579	1.60330
100	Hungarian forint	0.41011	0.38461	0.40786	0.37736
1	Croatian kuna	0.13352	[1]	0.13569	[1]
100	Russian roubles	3.65546	[1]	3.77501	[1]

[1] Due to the first-time inclusion in the consolidated financial statements as per 31 December 2001, no figures are given for 2000.

Notes to the income statement

1. Net sales

Breakdown of net sales:

€ million	2001	2000
Metro Cash & Carry	22,726	21,032
Real	8,375	8,166
Extra	2,980	2,921
Media/Saturn	8,341	7,619
Praktiker	2,543	2,579
Kaufhof [1]	3,971	3,941
Other companies [2]	586	672
	49,522	46,930

[1] Innovation S.A. was included in the consolidation for the first time as per 1 April 2001.

[2] The sales shown under Other companies were mainly generated by the Gemex Group at € 264 million (previous year: € 345 million), the Dinea Group at € 198 million (previous year: € 199 million) and MGE Warenhandelsgesellschaft mbH & Co KG at € 111 million (previous year: € 106 million).

Net sales climbed € 2.6 billion to € 49.5 billion from the 2000 level.

Group companies based outside of Germany generated € 22.0 billion (previous year: € 19.8 billion) of total net sales.

For a breakdown of net sales by divisions and geographical regions, see the segment report.

2. Other operating income

€ million	2001	2000
Rents	428	478
Advertising services	334	335
Services/cost refunds	182	181
Synergies	127	100
Building/construction work	123	99
Release of accruals	99	60
Central A/P clearing for outlet chains	81	86
Commissions	53	37
Foreign exchange gains	31	22
Parking spaces leased out	29	28
Sale & leaseback transactions	27	19
Gains from the disposal of other fixed assets and from write-up	25	9
Damages and indemnities	17	19
Gains from the disposal of real estate	–	56
Other	466	430
	2,022	1,959

The income from the reversal of accruals includes many individual items from numerous companies, mainly providing for payroll, deferred maintenance, guarantee and warranty risks, litigation risks, and invoices not yet received.

3. Amortization of goodwill

€ million	2001	2000
Amortization of goodwill from capital consolidation	233	228
Amortization of goodwill from separate financial statements	15	20
	248	248

Goodwill from the acquisition of consolidated companies is amortized on a straight-line basis over a period of 15 to 25 years, depending on the strategic importance of the acquisition and further factors impacting on the useful life.

Additions made during the fiscal year are amortized on a pro rata temporis basis.
In the year under review, non-scheduled amortization was not incurred (previous year: € 11 million).

4. Other operating expenses

Other operating expenses mainly include expenses for construction contracts of € 111 million, foreign exchange losses from the operative business totalling € 24 million (previous year: € 21 million), losses from disposals of fixed asset items totalling € 21 million (previous year: € 25 million) and common valuation adjustments for asset items totalling € 16 million (previous year: € 7 million). Compared with last year, expenses for construction contracts are carried under other operating expenses so as to ensure equal treatment of expenses and income from construction contracts, shown under Other operating income.

5. Net investment income

Net investment income mainly includes income of AIB GmbH and profits from the divestment of the interlocking investments of Carrefour S.A. and Spar AG in France and Hungary, respectively, totalling € 115.5 million as well as valuation adjustments for investments of the Divaco Group of € 151 million. It also comprises a loss from an associated company of € 5.8 million.

6. Net interest result

The net interest result can be broken down as follows:

€ million	2001	2000
Other interest and similar income	171	195
thereof from nonconsolidated Group companies	[–]	[–]
Interest and similar expenses	(530)	(515)
thereof to nonconsolidated Group companies	[–]	[–]
Interest element of the transfers to provisions for pensions and similar commitments	(39)	(54)
	(398)	(374)

In accordance with IAS 17 (Leases), assets leased under finance leases are recognized as tangible assets. The interest element of the lease payments under finance leases contained in interest and similar expenses totals € 151 million (previous year: € 162 million).

7. Other financial result

€ million	2001	2000
Other financial income	340	366
Other financial expenses	(343)	(348)
	(3)	18

Other financial income and expenses primarily include gains and losses from interest rate hedges, securities and foreign currency transactions aimed at hedging the financing of business operations. Moreover, the indexation of financial statements of foreign subsidiaries based in hyperinflationary economies has given rise to the realization of net purchasing power losses resulting from the change in the purchasing power parities in these countries amounting to € 0.3 million (previous year: total purchasing power gains of € 29 million).

The category “available-for-sale financial assets” does not impact on results.

8. Income taxes

Taxes on income include income taxes paid or due in the individual countries, plus deferred taxes. The German companies of the Metro Group are taxed at an average trade earnings tax of approx. 17 percent of trade earnings, an amount deductible in the determination of corporate income tax. The corporate income tax rate amounts to 25 percent, plus 5.5 percent solidarity surtax thereon.

Deferred taxes are determined on the basis of the respective tax rates expected to apply in the individual countries upon realization. These rates are generally based on the legislation current or enacted at the balance sheet date. In accordance with the German Tax Reduction Act passed in July 2000, deferred taxes in Germany are based on a tax rate of 39.15 percent (previous year: 39.15 percent).

Non-German income tax is calculated on the basis of the respective laws and regulations applying in the individual countries. The income tax rates applied to foreign companies vary from 13.0 percent to 42.3 percent.

€ million	2001	2000
Taxes paid or due	359	303
of which in Germany	[162]	[144]
of which abroad	[197]	[159]
Deferred taxes	(135)	28
	224	331

Taxes paid or due include € 25 million of tax expenses relating to prior periods (previous year: € 15 million).

The current tax expense of € 224 million (previous year: € 331 million) is € 39 million down (previous year: € 36 million up) from the expected income tax expense of € 263 million (previous year: 295 million €) which would result if the German income tax rate were applied to the Group's taxable income for the year (EBT).

Reconciliation of expected to current income tax expense:

€ million	2001	2000
Group EBT	673	754
Expected income tax expense (39.15 percent, previous year: 39.15 percent)	263	295
Change in applicable Group tax rate	–	121
Effects of differing national tax rates	(79)	(54)
Amortization of goodwill from capital consolidation	53	60 [1]
Write-down of consolidated subsidiaries	(69)	(147)
Tax expenses and income relating to prior periods	25	15
Nondeductible business expenses	40	31
Other differences	(9)	10
	224	331

[1] Last year, the recognized tax effect was € 12 million too high

9. Minority interests

Minority interests break down into profit shares of € 74 million (previous year: € 85 million) and loss shares of € 26 million (previous year: € 21 million). They mainly represent P&L shares of minority shareholders in Metro Cash & Carry and Media/Saturn.

10. Earnings per share

Earnings per share are determined by dividing the Group net income after minority interests by a weighted number of shares issued. A diluting effect which might arise from so-called potential shares did not occur, neither in the year under review nor in the previous year.

	2001	2000
Weighted number of no-par value shares issued	326,787,529	326,787,524
Group net income after minority interests (€ million)	401	359
Earnings per share (€)	1.23	1.10

11. Amortization/depreciation/write-down

€ million	2001	2000
Scheduled depreciation of tangible assets and amortization of intangible assets, including goodwill	1,243	1,106
Non-scheduled write-down of tangible and intangible assets	10	39
Write-down of financial assets	2	13
	1,255	1,158

12. Cost of materials

The cost of sales includes the following cost of materials:

€ million	2001	2000
Cost of raw materials, supplies and goods purchased	38,351	36,451
Cost of services purchased	55	124
	38,406	36,575

13. Personnel expenses

Personnel expenses can be broken down as follows:

€ million	2001	2000
Wages and salaries	4,601	4,365
Social security payments, expenses for pensions and related employee benefits	962	916
of which pension expenses	[44]	[36]
	5,563	5,281

Personnel expenses include the expense for hedges totalling € 7.4 million (previous year: € 4.0 million), contracted by METRO AG for the stock option plans (SOP/SAR) launched in 1999 and 2000. A prorated provision amounting to the difference between the strike price (€ 43.72) and the exercise hurdle (€ 56,84) was formed for the options granted in 2001 timewise proportionately with € 1.8 million.

Annual average headcount of the Group:

Headcount	2001	2000
White-collar	172,160	165,732
Blue-collar	58,688	59,483
Apprentices/trainees	9,921	9,136
	240,769	234,351

The above figures include an absolute number of 102,615 part-timers (previous year: 102,333). The proportion of persons employed outside of Germany rose from 36.1 percent in the previous year to 39.8 percent on the basis of full-time equivalents.

14. Other taxes

Other taxes of € 76 million (previous year: € 57 million) are included in the cost of sales and the selling and administrative expenses.

Notes to the balance sheet

15. Fixed assets

€ million	Goodwill	Other intangible assets	Tangible assets	Assets	Total fixed assets
Cost					
Balance at 1 Jan 2001	5,189	318	10,691	347	16,545
Currency adjustment	–	2	96	1	99
Change in consolidation group	–	–	30	(15)	15
Additions	343	88	1,484	18	1,933
Disposals	(9)	(16)	(673)	(77)	(775)
Book transfers	3	4	(4)	–	3
Balance at 31 Dec 2001	5,526	396	11,624	274	17,820
Depreciation/amortization/write-down					
Balance at 1 Jan 2001	1,098	193	4,298	39	5,628
Currency adjustment	–	1	23	–	24
Change in consolidation group	–	1	16	–	17
Additions	248	53	952	2	1,255
Disposals	(4)	(9)	(425)	(11)	(449)
Write-up	–	–	(2)	(1)	(3)
Book transfers	3	–	–	–	3
Balance at 31 Dec 2001	1,345	239	4,862	29	6,475
Book value at 31 Dec 2001	4,181	157	6,762	245	11,345
Book value at 31 Dec 2000	4,091	125	6,393	308	10,917

16. Goodwill

In accordance with IAS 22 (Business Combinations), goodwill from capital consolidation is capitalized and amortized on a straight-line basis over a useful life of 15 to 20 years. Goodwill resulting from the acquisition of Cash&Carry and Swiss service companies is amortized over a period of 25 years. This 25-year range is justified given the success of the concepts, basically unchanged for decades.

The useful life of goodwill is primarily determined in the light of the strategic importance of each acquisition to the Group and its synergy potential. Goodwill values are reviewed at regular intervals and written down at the recoverable amount if any impairment is found.

Of the total goodwill of € 4,181 million (previous year: € 4,091 million) as per 31 Dec 2001, € 4,043 million (previous year: € 3,949 million) relate to differences resulting from capital consolidation, with another € 138 million (previous year: € 142 million) of goodwill taken over from the separate financial statements of subsidiaries.

The additions of goodwill from capital consolidation primarily relate to the acquisition of the remaining 20 percent share in Cash & Carry Hungary (Metro Holding Kereskedelmi Kft. and Metro Kereskedelmi Kft.), the acquisition of the remaining 20 percent share in Cash & Carry France (Metro Holding France S.A.) and the acquisition of the Belgian department store operator Innovation S.A

17. Other intangible assets

Other intangible assets developed as follows in the year under review:

€ million	Concessions, franchises, industrial property and similar rights and assets, as well as licenses thereto	[of which internally generated intangible assets]	Prepayments made	Total
Cost				
Balance at 1 Jan 2001	305	[40]	13	318
Currency adjustment	2	[1]	–	2
Change in consolidation group	–	–	–	–
Additions	83	[33]	5	88
Disposals	(11)	–	(5)	(16)
Book transfers	12	[1]	(8)	4
Balance at 31 Dec 2001	391	[75]	5	396
Depreciation/amortization/write-down				
Balance at 1 Jan 2001	193	[7]	–	193
Currency adjustment	1	–	–	1
Change in consolidation group	1	–	–	1
Additions	53	[11]	–	53
Disposals	(9)	–	–	(9)
Write-up	–	–	–	–
Book transfers	–	–	–	–
Balance at 31 Dec 2001	239	[18]	–	239
Book value at 31 Dec 2001	152	[57]	5	157
Book value at 31 Dec 2000	112	[33]	13	125

Purchased other intangible assets are recognized at cost. Internally generated assets are capitalized at cost if the capitalization criteria of IAS 38 (Intangible Assets) are met. Besides direct costs, the cost also includes indirect costs. Financing costs are not recognized. In analogy to purchased software, capitalized internally generated software is amortized on a straight-line basis over a useful life of 3 to 5 years, with licenses being amortized over the term of the respective agreement.

Intangible assets are written down as per the balance sheet date if the recoverable amount is below amortized cost and written back if and when the reasons for a write-down effected in prior years have ceased to exist. € 6 million (previous year: € 0 million) had been written down in year 2001. As last year, intangible assets are not subject to any material restrictions of title or disposal.

18. Tangible assets

Tangible assets used in operations for a period of more than one year are measured at cost less scheduled depreciation. Besides direct costs, the cost of self-constructed assets covers appropriate portions of allocable overheads. Financing costs are not capitalized as an element of cost.

Investment allowances received and non-earmarked investment grants are offset against the cost of the corresponding asset. Reinstatement obligations arising in connection with leasehold improvements are ratably accounted for over the useful life by means of the creation of accruals, with the capitalized reinstatement cost corresponding to the discounted settlement amount.

If there are any indications of an impairment and if the recoverable amount is below amortized cost, the corresponding tangible assets are written down. They are written back if and when the reasons for the non-scheduled write-down have ceased to exist.

Tangible assets are depreciated solely on a straight-line basis. Throughout the Group, scheduled depreciation is based on the following economic lives:

Buildings	10 to 33 years
Operating/production equipment	2 to 13 years
Machinery	3 to 8 years
Business and office equipment	3 to 13 years
Store improvements	8 years
Vehicles	6 years

Leasehold improvements are depreciated over the lase term, low-value assets are fully written off in the year in which they are purchased.

In accordance with IAS 17 (Leases), economic ownership of an asset is attributable to the lessee if substantially all the risks and rewards incident to ownership of the asset are transferred to the lessee (finance lease).

If economic ownership of an asset is attributable to Metro Group companies, the leased asset is capitalized as per the date of the lease agreement at the lower of the fair value or present value of the lease payments. In analogy to comparable purchased tangible assets, leased assets are depreciated over their useful lives or the lease term, if shorter. The liabilities resulting from the future lease payments are carried as liabilities.

Analysis of tangible assets for the year under review:

€ million	Land and buildings	Plant and machinery	Other plant, business and office equipment	Prepayments made, assets under construction	Total
Cost					
Balance at 1 Jan 2001	6,629	197	3,719	146	10,691
Currency adjustment	67	–	30	(1)	96
Change in consolidation group	15	–	15	–	30
Additions	593	28	597	266	1,484
Disposals	(283)	(9)	(304)	(77)	(673)
Book transfers	171	2	39	(216)	(4)
Balance at 31 Dec 2001	7,192	218	4,096	118	11,624
Depreciation/write-down					
Balance at 1 Jan 2001	1,952	113	2,221	12	4,298
Currency adjustment	7	1	15	–	23
Change in consolidation group	20	–	(4)	–	16
Additions	351	22	579	–	952
Disposals	(153)	(8)	(256)	(8)	(425)
Write-up	(2)	–	–	–	(2)
Book transfers	4	(4)	–	–	–
Balance at 31 Dec 2001	2,179	124	2,555	4	4,862
Book value at 31 Dec 2001	5,013	94	1,541	114	6,762
Book value at 31 Dec 2000	4,677	84	1,498	134	6,393

Fixed asset items which have been made available to the Group in the framework of a finance lease are included in recognized tangible assets at € 1,723 million (previous year: € 1,800 million) and mainly relate to leased buildings.

Finance leases are usually signed for a non-cancellable term of 15 to 25 years. Upon the expiry of the initial non-cancellable term, the agreement regularly provides for an option to renew the lease at least once for another 5-year term.

Apart from finance leases, the Metro Group has signed other leases to be categorized as operating leases in accordance with their economic substance; accordingly, the leased assets are attributable to the respective lessor.

In future periods, obligations under finance and operating leases will fall due as follows:

€ million	less than 1 year	1 to 5 years	more than 5 years
Finance leases			
Future lease payments payable	231	1,063	2,043
Discounts	1,143		
Present value	2,194		
Operating leases			
Future lease payments payable	1,309	4,953	8,618

Future lease payments for subleases under finance leases total € 478 million.
Future lease payments for subleases under operating leases total € 459 million.

In the year under review, the total amount written down amounts to € 4 million (previous year: € 29 million).

In fiscal 2001, tangible assets worth € 9 million are subject to restrictions on disposal in the form of land charges and assignments as security.

Purchasing commitments of € 11 million (previous year: € 44 million) have been incurred for tangible assets.

19. Financial assets

Financial assets are assets held by the company for more than one period for the purpose of capital appreciation, increase in the value of the capital employed or the establishment of business relations.

Depending on the classification of financial assets, these assets are capitalized at amortized cost or fair value. Financial assets designed as hedged items in the framework of a fair value hedge are recognized at their fair value. All categories are recognized on the trade date under the trade date accounting method. Investments are measured at cost for the first recognition period. In subsequent periods, they are recognized at fair value.

Analysis of financial assets for the year under review :

€ million	Companies	Loans	Securities	Assets	Total
Cost					
Balance at 1 Jan 2001	6	172	164	5	347
Currency adjustment	–	–	1	–	1
Change in consolidation	–	(10)	(5)	–	(15)
Additions	1	9	8	–	18
Disposals	(5)	(52)	(19)	(1)	(77)
Book transfers	–	–	–	–	–
Balance at 31 Dec 2001	2	119	149	4	274
Write-down					
Balance at 1 Jan 2001	1	3	35	–	39
Currency adjustment	–	–	–	–	–
Change in consolidation group	–	–	–	–	–
Additions	–	1	1	–	2
Disposals	–	(1)	(10)	–	(11)
Write-up	–	–	(1)	–	(1)
Book transfers	–	–	–	–	–
Balance at 31 Dec 2001	1	3	25	–	29
Carrying amount at 31 Dec 2001	1	116	124	4	245
Carrying amount at 31 Dec 2000	5	169	129	5	308

Loans include a loan to a group company of € 9.5 million.

Shares in group companies, investments and long-term securities are assets to be classified as "available-for-sale financial assets". They are recognized at their fair values if these fair values can be reliably determined; if that is not the case, they are recognized at amortized cost. Loans are classified as "loans originated by the company" and therefore measured at amortized cost.

Fluctuations in the value of "available-for-sale financial assets" are recognized in equity with no effect on results.

20. Inventories

€ million	31 Dec 2001	31 Dec 2000
Food merchandise	1,473	1,399
Nonfood mechandise	3,785	3,857
Finished goods/services, work in progress	–	1
	5,258	5,257

Purchased merchandise is recognized at cost and measured as per the balance sheet date at the lower of cost or net realizable value.

Merchandise is written down on a case-by-case basis if the anticipated net realizable value declines below the carrying amount of the inventories. Such net realizable value corresponds to the anticipated estimated selling price less the estimated costs necessary to make the sale.

When the reasons for a write-down of the merchandise have ceased to exist, the write-down is reversed.

Breakdown of inventories by division:

€ million	31 Dec 2001	31 Dec 2000
Metro Cash & Carry	1,685	1,546
Real	649	662
Extra	239	225
Media/Saturn	1,208	1,277
Praktiker	645	675
Kaufhof	656	663
Other companies	176	209
	5,258	5,257

Inventories in the Metro Cash & Carry division have risen due to the expansion of the division's operations. Inventories in the Media/Saturn division have declined despite the expansion of operations.

21. Trade receivables

Trade receivables are carried at their nominal values. Where their collectability appears doubtful, they are recognized at the lower recoverable amount. Besides the necessary specific bad-debt allowances, a lump-sum bad-debt allowance is carried to account for the general credit risk. As per the balance sheet date, these allowances totalled € 11 million (previous year: € 5 million).

Total trade receivables amounted to € 405 million (previous year: € 438 million), including an amount of € 1 million (previous year: € 1 million) with a remaining term of more than one year.

22. Other receivables and other assets

Other receivables and other assets are recognized at their nominal values. Any risks identified are covered by appropriate valuation allowances.

€ million	31 Dec 2001 Total	31 Dec 2001 Of which with a remaining term of more than 1 year	31 Dec 2000 Total	31 Dec 2000 Of which with a remaining term of more than 1 year
Due from suppliers	867	–	1,015	–
Taxes receivable	708	–	777	1
Other assets	858	223	1,555	290
	2,433	223	3,347	291

The carrying amounts of the monetary assets included in the above items correspond to their market values. This item also includes investments held for sale, measured at amortized cost but discounted to net realizable value in two cases. The decrease in other assets reflects the repayment of short-term loans primarily used to reduce liabilities to banks. As in the previous year, the other receivables and other assets shown under this item are not subject to any significant restrictions on title or disposal.

23. Cash and cash equivalents

Securities are recognized at their market values.

€ million	31 Dec 2001	31 Dec 2000
Cheques and cash on hand	251	329
Bank balances	1,400	892
Short-term securities	43	74
	1,694	1,295

The increase in bank balances results from the restricted availability of such balances due to the specific calendar variation during the last few sales days of the financial year.

24. Deferred taxes

Deferred taxes are determined under IAS 12 (Income Taxes), according to which future tax benefits and burdens are recognized for temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Anticipated tax savings from the use of tax loss carryforwards expected to be recoverable in future periods are capitalized.

Deferred tax assets in respect of deductible temporary differences and tax loss carryforwards exceeding the deferred tax liabilities in respect of taxable temporary differences are only recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utiliized.

While tax loss carryforwards in Germany can be applied for an indefinite period of time, tax loss carryforwards abroad frequently expire under local provisions; in measuring deferred taxes, these limitations have been duly taken into account.

Potential tax savings resulting from temporary differences and unutilized tax losses totalling € 63 million (previous year: € 52 million) were not capitalized.

The deferred taxes recognized in the balance sheet relate to the following items:

	31 Dec 2001		31 Dec 2000	
€ million	Asset	Liability	Asset	Liability
Intangible assets	175	76	297	73
Tangible assets	9	711	9	738
Financial assets	1	39	5	56
Inventories	32	3	32	4
Receivables and other assets	7	22	8	41
Pension accruals	133	–	190	3
Other accruals	58	5	75	5
Liabilities	858	24	848	25
Loss carryforwards	592	–	385	–
Total from separate financial statements	1,865	880	1,849	945
Deferred taxes from consolidation	145	167	(4)	105
Offset	(902)	(902)	(845)	(845)
Consolidated balance sheet	1,108	145	1,000	205

Deferred taxes of € 7 million were credited to equity (previous year: € 12 million).

25. Prepaid expenses & deferred charges

Prepaid expenses mainly include deferred charges.

26. Equity/minority shares

In terms of its amount and composition, i.e. ratio of common to preferred shares, subscribed capital has not changed versus 31 December 2000 and totals € 835,419,052.

On 4 July 2000, the annual general meeting and the special meeting of preferred shareholders of METRO AG resolved, inter alia, that all of the then existing 23,001,346 non-voting preferred shares could be converted at a rate of 1:1 into bearer shares carrying voting rights subject to payment of a conversion premium of € 11.60 each. Under this conversion offer, a total of 20,323,380 preferred shares were converted into common shares, officially quoted as "common stock/challenged". As a consequence, the amount and structure of the subscribed capital are as follows:

Class: no-par bearer shares, Accounting par value: € 2.56		31 Dec 2001	31 Dec 2000
Common stock	shares	324,109,563	324,109,563
	€	828,572,941	828,572,941
Preferred stock	shares	2,677,966	2,677,966
	€	6,846,111	6,846,111
Total capital stock	shares	326,787,529	326,787,529
	€	835,419,052	835,419,052

Contingent capital I and II. On 9 July 1997, a contingent increase in the capital stock by € 51,129,188 was resolved (contingent capital I). This contingent capital increase is connected with the authorization given to the Executive Board to issue bonds with warrants and/or convertible bonds of up to a total of € 1,022,583,762 and to grant the holders option or conversion rights for up to 20 million new common and/or preferred shares in the company by 9 July 2002.

On 9 July 1998, METRO AG's 100 percent subsidiary Metro International Finance B.V., Amsterdam, issued zero bearer bonds with right of conversion into bearer preference stocks in METRO AG totalling € 766,937,822 (1,500,000,000 DM), guaranteed by METRO AG ("convertible DM bond").

Accordingly, every bond creditor is entitled to convert the bonds into non-voting preferred shares in METRO AG during the exercise period from 9 July 1999 to 9 June 2013 (both days included). The bond debtor is entitled to pay a cash amount in lieu of delivering the preferred stocks upon exercise of the conversion right by a bond creditor.

Hitherto, the conversion right was only exercised in 2000, causing a reduction in the contingent capital of € 86,92.

On 6 July 1999, the annual general meeting resolved a contingent increase in the capital stock by up to € 14,316,173 by issuing up to 5,600,000 common shares to be able to serve Metro's stock option plan (contingent capital II).

Due to METRO AG' stock option plan, the contingent capital II is exclusively used to grant subscription rights to members of the Executive Board, members of the Executive and Management Boards of lower-tier Group companies and further managerial or executive functions of METRO AG and its downstream unlisted subsidiaries.

Under METRO AG's stock option plan, stock options were granted on 3 September 1999, 18 August 2000 and 23 July 2001, of which a total of 1,199,725 were effective as per 31 December 2001. Upon satisfaction of the exercise terms and conditions, these stock options may entail the issuance of up to 1,199,725 common shares, corresponding to 0.37 percent of the capital stock.

The exercise terms and conditions stipulated by the Metro's Executive Board for the stock option plan provide in particular that the Company grant the qualifying SOP beneficiaries in lieu of the delivery of new common shares a cash compensation equal to the differential between the strike price and the applicable closing price of Metro shares prior to exercising the option. Whether or not this alternative will be used will be decided by the Company each time the subscription rights from the individual tranches are exercised.

Authorized capital I. On 9 July 1997, the annual general meeting resolved to authorize the Executive Board to increase the capital stock by issuing new common or preferred stocks for up to € 127,822,970 in one or several tranches with the consent of the Supervisory Board by 9 July 2002 (authorized capital I).
In 1998, € 68,047,501 of the authorized capital I was utilized. Since then, the authorized capital I has stood at up to € 59,775,469.

Authorized capital II. The extraordinary general meeting of 11 September 1997 resolved to create authorized capital II. It authorized the Executive Board to increase the Company's capital stock by issuing new common bearer stocks in exchange for non-cash contribution in one or several tranches for a total maximum of € 178,952,158 with the consent of the Supervisory Board by 11 September 2002 (authorized capital II). It also authorized the Executive Board to decide on the exclusion of the shareholders' subscription rights and stipulate all other details of the capital increase with the prior approval of the Supervisory Board.

In 1998, € 134,064,919 of the authorized capital II was utilized. Since then, the authorized capital II has stood at up to € 44,887,239.

Authorized capital III. On 6 July 1999, the annual general meeting authorized the Executive Board to increase the Company's capital stock by issuing new common bearer stocks and/or non-voting preferred stocks in exchange for cash contribution in one or several tranches for a total maximum of € 100,000,000 with the prior approval of the Supervisory Board by 6 July 2004 (authorized capital III), granting existing shareholders a subscription right.

However, the Executive Board has been authorized to exclude the subscription right, with the prior approval of the Supervisory Board, to the extent required to grant the holders of bonds with warrants and convertible bonds issued by METRO AG and its wholly owned direct or indirect subsidiaries a right to purchase the number of new shares they would be entitled to upon exercise of their option/conversion rights and to further exclude the subscription right to compensate for fractions of shares from rounding.

In addition, the Executive Board has been authorized to exclude the shareholders' subscription rights for one or several capital increases within the scope of the authorized capital, with the prior approval of the Supervisory Board, provided that the total par value of such capital increases does not exceed 10 percent of the capital stock registered in the commercial register upon the first-time utilization of authorized capital, and further provided that the issue price of the new shares is not materially below the market price of quoted shares of the same category when the initial offering price of the new issue is finally fixed.

The Executive Board has been further authorized to exclude the common shareholders' right to subscribe to preferred stock and the preferred shareholders' right to subscribe to common stocks, with the prior approval of the Supervisory Board, provided that the ratio of common and preferred stocks issued in the capital increase corresponds to the ratio of such shares in the capital stock at the date at which the capital increase was resolved, and further provided that different issue prices of the new common and preferred stocks are fixed in accordance with the stock price ratio which existed at the date at which the capital increase was resolved.

Authorized capital IV. The annual general meeting of 6 July 1999 further authorized the Executive Board to increase the Company's capital stock by issuing new common bearer stocks in exchange for non-cash contribution in one or several tranches for a total maximum of € 125,000,000 by 6 July 2004 (authorized capital IV) with the prior approval of the Supervisory Board. The Executive Board has been authorized to decide on the exclusion of the subscription right and to determine all further details of the capital increase with the prior approval of the Supervisory Board.

No acquisition of treasury stock. On 20 June 2001 the annual stockholders' meeting authorized the company to acquire treasury stock up to an equivalent of ten percent of the capital stock (cf. Item 8 of the agenda of the ordinary shareholders' meeting of 20 June 2001) on or before 20 December 2002. To date, neither the company nor any company controlled or majority-owned by METRO AG nor any other company controlled or majority-owned by METRO AG acting on behalf of METRO AG have exercised this authorization (cf. § 160 Sect. 1, 2 of the German Stock Corporation Act).

Revenue reserves. In fiscal year 2001 the revenue reserves for the first time contained both effects from the first-time application of IAS 39 (Financial Instruments: Recognition and Measurement) amounting to € -1 million and the valuation results of € -10 million reported in the statement of changes in stockholders' equity under "Valuation contingent upon IAS 39". Of the total € -11.7 million are accounted for by financial derivatives within cash flow hedges and € 1.7 million by assets classified as „available for sale".

Minority interests. Minority interests include the shares of third parties in the equity capital of consolidated subsidiaries. At year-end these amounted to € 72 million (previous year: € 82 million). Significant minority interests are held in Media-Saturn-Holding GmbH.

Status of judicial review proceedings. The share exchange ratios fixed for the 1996 mergers into METRO AG of Asko Deutsche Kaufhaus AG, Deutsche SB-Kauf AG and Kaufhof Holding AG are being reviewed upon application by former stockholders of the three merged companies in judicial review proceedings. The applicants claim that the respective share exchange ratios were understated to their detriment.

In a judgment handed down on 20 November 2001 the Oberlandesgericht (higher regional court) of Düsseldorf dismissed the immediate appeal of the applicants against the decision of the Landgericht (regional court) of Cologne dating from 16 February 2000 holding that the petitions of the former outside Kaufhof stockholders for additional cash compensation were unjustified. This particular judicial review has thus been completed. The other two judicial review proceedings are still pending before the regional courts of Saarbrücken and Frankfurt/Main.

Thus, the first final court judgment has now been handed down confirming that the share exchange ratios laid down in the merger agreements were correct.

Mandatory disclosure pursuant to §§ 21Section 1, 22 and Section 1 Nos. 1 and 2 of the German securities trading act (WpHG). The original stockholders in METRO AG have restructured their joint controlling stake in METRO AG without bringing about any economic changes. METRO AG has been notified accordingly.

As a result, METRO AG is now controlled via Metro Vermögensverwaltung GmbH & Co. KG and/or other companies of the majority shareholders Beisheim, Haniel and Schmidt-Ruthenbeck. By way of a contractual agreement the shareholders have ensured the uniform exercise of their rights from the METRO AG majority shareholding.

27. Accruals for pensions and similar commitments

The valuations include all commitments under company pension plans, pay portions waived in favor of future pension upgrades, early retirement and pre-retirement part time schemes, death benefits, employment anniversary allowances as well as the unsecured tranche of the year 2001 of the stock option program (SOP/SAR).

The valuations are based on each country's legislative, economic and fiscal conditions. Since these commitments exist almost exclusively in the European Economic Area They are assessed on the basis of a long-term capital market rate of 6 percent and a wage and salary trend of 2.5 percent as well as, in the case of company pension plans, a pension increase of 1.5 percent. The employee turnover rate is determined individually for each business unit with due regard to age and length of service. The actuarial assumptions and calculations are based on specific national mortality tables.

The majority of obligations in Germany are benefits granted under the company pension scheme. There are also benefit claims under employer pension commitments and against benevolent funds that must be fund-financed according to IAS 19 (Employee Benefits). Depending on the specific benefit plans the pension benefits are commensurate with income and length of service. In addition, there are length-of-service related pension benefits that are paid on the basis of fixed lump sums. Newly recruited employees have no pension entitlements under the company pension plan.

€ million	2001	2000
Pension accruals (employer's commitments)	572	539
Accruals for under-funding of company benevolent funds	216	372
Subtotal	788	911
Other accruals for pensions and similar commitments	173	131
Total as at 31 December	961	1,042

The decline in accruals for the under-funding of company benevolent funds by € 156 million is essentially due to claims having been made on the funds of such a benevolent plan.

The net present value of projected benefit obligations (PBO) and of plan assets changed as follows in the year under review:

€ million	2001	2000
Net present value PBO		
Balance at 1 January	1,189	1,178
Additions to group of consolidated companies	23	–
Interest expenses	66	65
Length-of-service-related expenses	13	13
Pension payments	(73)	(70)
Actuarial losses/gains	(9)	3
Balance at 31 December	1,209	1,189
Changes in plan assets		
Balance at 1 January	279	293
Actual loss/earnings from plan assets	(55)	11
Pension payments	(41)	(40)
Employer's contributions incl. vesting balances	167	15
Balance at 31 December	350	279
Funding level		
Net present value PBO accrual-financed	596	544
Net present value PBO fund-financed	613	645
Subtotal	1,209	1,189
Market value of plan assets	(350)	(279)
Balance at 31 December	859	910
Not yet recognized actuarial losses/gains	(71)	1
Accruals at 31 December	788	911

The pension expenses of direct and indirect company pension plans consist of length-of-service related expenses included in the cost of sales and distribution as well as the overheads, and the interest expenses that are reported in the financial result. The pension expenses are made up as follows:

€ million	2001	2000
Interest expenses	66	65
Expected earnings from plan assets	(27)	(11)
Interest cost	39	54
Length-of-service related expenses	13	13
	52	67

28. Other accruals

Other accruals are formed if and when de jure or de facto obligations to third parties exist that are based on past business transactions or events, result in an outflow of financial funds and can be reliably determined. They are stated at the anticipated settlement amount with due regard to all identifiable risks attached and are not offset against any claims to recourse. It is assumed that there is the highest possible likelihood of occurrence.

Accrued long-term liabilities such as for deficient rental cover or rebuilding obligations are stated at their settlement amounts discounted to the balance sheet date.

In the year under review the Other Accruals developed as follows:

€ million	Real estate related obligations	Obligations from the trading of merchandise	Restructuring	Tax risks	Other accruals	Total
Balance at 1 January 2001	66	65	70	155	327	683
Currency differences	–	–	–	–	–	–
Additions	40	13	6	58	113	230
Release	(11)	(6)	(28)	(2)	(71)	(118)
Utilization	(20)	(7)	(39)	(33)	(96)	(195)
Change in consolidated group	–	–	34	–	–	34
Interest portion in additions/ Change in interest rate	–	–	–	–	–	–
Book transfers	(5)	(30)	–	5	2	(28)
Balance at 31 Dec 2001	70	35	43	183	275	606
of which due within 1 year	22	35	9	42	147	255

The Other Accruals mainly cover liabilities from litigation costs and risks as well as surety and warranty/guarantee risks.

29. Liabilities

€ million	31 Dec 2001 Total	Remaining term up to 1 yr.	1 to 5 years	over 5 years	31 Dec 2001 Total
Bonds	1,761	–	738	1,023	1,100
Due to banks	885	275	610	–	1,567
Note loans	480	–	276	204	651
Notes payable	265	265	–	–	239
Liabilities from Finance Leasing	2,191	238	594	1,359	2,206
Financial debts	5,582	778	2,218	2,586	5,763
Trade payables	8,517	8,510	7	–	8,176
Tax liabilities	837	837	–	–	707
Prepayments received on orders	21	21	–	–	42
Payroll	640	640	–	–	551
Liabilities from other financial transaction	106	106	–	–	218
Miscellaneous liabilities	346	311	34	1	440
Other liabilities	1,950	1,915	34	1	1,958
	16,049	11,203	2,259	2,587	15,897

30. Financial debts

As a matter of principle all financial debts are stated at their net book value using the redemption yield method. Financial debts designated as the underlying business in fair value hedges are carried as liabilities at their fair value. The fair values indicated for the financial debts have been determined on the basis of the interest rates applicable at the balance sheet date for the remaining maturities and redemption structures.

The bonds with a remaining term of more than 5 years also include the D-Mark convertible bond floated in the year 1998 by Metro International Finance B.V. with a residual maturity until 9 July 2013. According to the prospectus conditions early redemption is permitted after 9 July 2003 at the bond issuer's discretion and at 9 July 2003 and 9 July 2008 at the bond holders' option.

€ million	Maturities	Nominal values 31 Dec 2001	Book values 31 Dec 2001	Market values 31 Dec 2001
Bonds of Metro International B.V.	up to 1 year	–	–	–
	1 to 5 years	–	–	–
	over 5 years	767	793	650
Bonds of Metro Finance B.V.	up to 1 year	–	–	–
	1 to 5 years	739	738	752
	over 5 years	234	230	239

The bond issue of Metro International Finance B.V. was floated under the guarantee of METRO AG.

The proceeds from the issuance of the D-Mark convertible bond were transferred by Metro International Finance B.V. to METRO AG. In accordance with IAS 32 (Financial Instruments: Disclosure and Presentation) the equity and debt components of the D-Mark convertible bond are stated separately. The debt portion is reported at net book value in the "Bonds" line after adding the period's interest portion as of the balance sheet date. Inter-company liabilities do not exist.

31. Trade payables

Trade payables are stated at their net book value which essentially corresponds with their fair market value. As in the year before these liabilities are largely due within one year. Inter-company trade payables do not exist.

32. Other liabilities

The "Other liabilities" are reported at their settlement amounts.

The other liabilities consist of a multitude of items such as payables to non-group stockholders, liabilities under rental contracts and liabilities for the costs of the annual accounts.

The other liabilities as carried in the balance sheet essentially correspond with their fair market value.

Other inter-company liabilities do not exist.

33. Deferred income

The deferred income items essentially include prorated book gains from sale & leaseback transactions released to income over the underlying lease periods. As at 31 December 2001 an amount of € 279 million (previous year: € 307 million) was carried as liabilities. In the year under review € 27 million (previous year: € 19 million) was released to income. In addition, this item includes deferred income from rental and leasing prepayments as well as other deferrals.
Of the total referrals € 45 million (previous year: € 39 million) has a remaining term of less than one year.

Notes to the cash flow statement

In accordance with IAS 7 (Cash Flow Statement) the consolidated statement of cash flows describes how cash levels have changed in the group through cash inflows and outflows in the year under review. This statement breaks down the changes into those from operating, investing and financing activities. Cash and cash equivalents include checks and cash on hand as well as cash in bank accounts.

In the year under review the cash inflow from operating activities of € 2.6 billion (previous year: € 1.8 billion) substantially exceeded the cash outflow from investment and financing activities of together € 2.2 billion (previous year: € 1.7 billion).

The cash inflow from ongoing business activities was increased in the year under review by € 0.8 billion over the previous year. This increase mainly resulted to the tune of € 0.5 billion from an improved gross operating cash flow of € 11.2 billion (previous year: € 10.7 billion). Another positive feature was the lower cash outflow from taxes down by € 0.3 billion in comparison with the previous year.

Investment activities in the year under review account for a cash outflow of € 1.3 billion (previous year: cash inflow of € 0.3 billion). This change over the previous year essentially results from disinvestment activities. After the previous year had been marked by heavy cash inflows (€ 1.2 billion) from the sale of retail real estate the cash outflow in the year under review mainly resulted from investments in tangible fixed assets amounting to € 1.3 billion. The amount of the investments in tangible fixed assets shown as cash outflow differs from the additions reported in the analysis of fixed assets by the non-cash additions under capital leases.

The cash flow from financing activities in the year under review shows a cash outflow totalling € 0.8 billion (previous year: € 2.0 billion). The change in comparison with the previous year was primarily attributable to a further optimization of the financing structures with the other receivables from the otherwise unchanged financing activities having been significantly reduced.

Other notes

34. Segment reporting

Segment reporting was drawn up according to IAS 14 (Segment Reporting). The segmentation is in line with the group's internal control and reporting systems. For segment details please refer to the group management report and the chapter of "Retail Brands".

Primary segment reporting is by divisions. Secondary reporting distinguishes by the regions of Germany, Western Europe without Germany, Eastern Europe and Other Countries.

- External sales represent sales by the divisions to non-group related parties.
- Internal sales represent the inter-divisional transfers.
- EBIT as the segment control parameter equals net income for the period before net financial result, extraordinary items and income tax.
- Segment EBITDA corresponds to EBIT before depreciation of tangible assets, intangible assets and amortization of goodwill.
- The segments' operating assets comprise fixed assets (intangible and tangible assets, shares in associated companies) and the current assets (excluding cash and cash equivalents) Acquired goodwill is assigned to the divisions.
- Segment liabilities cover non-interest liabilities.
- Segment investments refer to intangible assets (including acquired goodwill), tangible assets and financial investments.
- Depreciations relate to segment assets allocated to the individual divisions.
- Transfers between segments are made at arm's length prices.
- The number of employees („FTE" = Full Time Equivalents) was changed from the annual average (four quarterly averages) to the figure applicable on the balance sheet date of 31 December.
- Due to structural changes the distribution of the previous year's figures in the sales divisions (EBIT and EBITDA) was adjusted.

Primary segments (divisions)	Cash & Carry		Food Retail	
€ million	2001	2000	2001	2000
External sales (net)	22,726	21,032	11,355	11,087
Internal sales (net)	174	680	–	11
Sales revenues (net)	22,900	21,712	11,355	11,098
EBITDA [1]	972	873	402	307
EBIT [1]	626	554	103	13
Net financial result	26	50	(85)	(73)
Amortization/depreciation/write-down	347	319	299	294
on goodwill	90	85	96	102
all others	257	234	203	192
Capital expenditure	839	577	314	413
Operating assets	9,056	8,528	4,127	3,964
Non-interest liabilities	4,393	4,267	1,497	1,561
Number of employees on balance sheet date (FTE)	71,551	64,244	49,678	49,806
Selling space (in 1000 m^2)	3,182	2,972	2,883	2,834
Permanent establishments (number)	384	353	777	774

[1] The value of the year 2000 was adjusted for the reallocation of real estate in GB and the Czech Republic from Metro Cash & Carry to Others. The E-Business sales division was reclassified as Others.

Secondary segments (regions)	Germany		Western Europe excluding Germany	
€ million	2001	2000	2001	2000
External sales (net)	27,543	27,141	14,266	13,098
Internal sales (net)	9	4,519	239	347
Sales revenues (net)	27,552	31,660	14,505	13,445
EBITDA	1,409	1,398	728	914
EBIT	623	624	430	657
Net financial result	263	150	157	234
Amortization/depreciation/write-down	788	774	299	257
on goodwill	143	151	79	75
all others	645	623	220	182
Capital expenditure	815	1,115	614	387
Operating assets	10,200	12,588	7,393	6,861
Non-interest liabilities	6,279	6,811	3,589	3,507
Number of employees on balance sheet date (FTE)	113,300	115,246	38,721	34,793
Selling space (in 1000 m^2)	7,112	6,995	2,011	1,814
Permanent establishments (number)	1,734	1,726	326	287

	Nonfood Specialty		Department Stores		Others/ Consolidation		Group	
	2001	2000	2001	2000	2001	2000	2001	2000
	10,884	10,198	3,971	3,941	586	672	49,522	46,930
	–	82	6	79	(180)	(852)	–	–
	10,884	10,280	3,977	4,020	406	(180)	49,522	46,930
	443	427	349	324	217	252	2,383	2,183
	214	237	187	181	–	40	1,130	1,025
	(37)	(14)	(44)	(48)	(317)	(186)	(457)	(271)
	229	190	162	143	218	212	1,255	1,158
	41	43	3	–	18	18	248	248
	188	147	159	143	200	194	1,007	910
	303	367	202	167	275	361	1,933	1,885
	4,158	4,277	1,473	1,370	(425)	646	18,389	18,785
	3,148	3,196	996	1,014	1,183	1,334	11,217	11,372
	39,739	38,144	22,206	22,077	10,075	9,986	193,249	184,257
	2,915	2,751	1,440	1,319	99	101	10,519	9,977
	704	665	148	132	236	245	2,249	2,169

	Eastern Europe		Other countries		Consolidation		Group	
	2001	2000	2001	2000	2001	2000	2001	2000
	6,714	5,827	999	864	–	–	49,522	46,930
	–	13	577	563	(825)	(5,442)	–	–
	6,714	5,840	1,576	1,427	(825)	(5,442)	49,522	46,930
	240	128	2	18	4	(275)	2,383	2,183
	104	16	(21)	3	(6)	(275)	1,130	1,025
	(20)	3	(8)	(5)	(849)	(653)	(457)	(271)
	136	112	22	15	10	–	1,255	1,158
	22	19	–	1	4	2	248	248
	114	93	22	14	6	(2)	1,007	910
	417	333	87	50	–	–	1,933	1,885
	2,542	1,973	480	365	(2,226)	(3,002)	18,389	18,785
	1,273	1,192	235	219	(159)	(357)	11,217	11,372
	34,793	29,566	6,435	4,652	–	–	193,249	184,257
	1,220	1,051	176	117	–	–	10,519	9,977
	169	143	20	13	–	–	2,249	2,169

35. Reporting on financial instruments

Accounting for and reporting on the Metro Group's financial instruments are in conformity with the provisions of IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). The reporting will include financial assets and financial debts duly distinguishing between primary and derivative financial instruments.

Risk management and controlling. The Metro Group practices a central approach in financial risk management (portfolio approach) that serves to identify, measure and control risks.

The risk positions result from the cash inflows and outflows that are planned and booked groupwide and that are controlled in terms of inherent market risks (interest rate, exchange rate and price changes). The objective is to limit the financial risks by using derivative financial instruments. The success of our risk control mechanisms is regularly checked by contrasting them with suitable benchmarks.

Corporate standard policies and guidelines specify the binding objectives, principles, duties and responsibilities within Finance. In particular, financial measures are translated into practice while adhering to the principle of segregating Financial Management and Financial Controlling. Financial Controlling is responsible for measuring any existing market risks.

Financial instruments. A financial instrument is any contract that gives rise to both a monetary asset and a monetary liability or equity instrument. Financial instruments include both primary and derivative financial instruments.

For the valuation of financial instruments the inter-bank terms, if necessary including the credit margins and stock prices applying to the Metro Group, are used. The actual basis of calculation is provided by the bid and offer prices on the balance sheet date. The fair values stated are equivalent to the amounts for which an asset could be exchanged or a liability settled between well-informed and willing parties in an arm's length transaction.

The primary financial instruments are disclosed in the balance sheet. For accounting and valuation details please refer to the notes to the appropriate balance sheet items.
Derivative financial instruments are reported under „Receivables and other assets“ as follows:

All derivative transactions of the Metro Group are reported at fair value. Profits and losses from derivative financial transactions that were designated as qualified hedging transactions within a fair value hedge or for which no qualified hedging context could be constructed in line with IAS 39 so that it was not permitted to use hedge accounting are carried in the income statement and recognized in operating income. Results from derivative financial transactions for which a cash flow hedge was formed whose effectiveness has been proven are carried in equity capital and not recognized in operating income. Any ineffective changes in the results of these financial transactions are reported in the income statement and recognized in the operating income.

On the balance sheet date the following derivative financial instruments were used for risk reduction:

€ million	Nominal volume	Fair value Financial assets	Fair value Financial liabilities
Interest rate transactions			
OTC products:			
Interest rate swaps	1,656	26	37
within fair value hedges	[104]	[2]	[–]
within cash flow hedges	[1,092]	[–]	[37]
Interest rate capping agreements	–	2	2
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[–]	[–]	[–]
	1,656	28	39
Currency transactions			
OTC products:			
Exchange futures	572	5	15
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[39]	[3]	[4]
Interest rate/currency swaps	278	7	17
within fair value hedges	[14]	[4]	[–]
within cash flow hedges	[29]	[3]	[–]
	850	12	32
Total	2,506	40	71

The nominal volume of the exchange futures and the interest rate capping agreements is determined by the net position of amounts bought and sold underlying the individual transactions. The interest swaps and interest/currency swaps are reported in gross figures.

Financial derivatives are used for risk-reducing only. They are used according the specific corporate standard guideline.

Future exchange transactions are primarily conducted by Gemex/Switzerland and Gemex/Hongkong to hedge against currency risks involved in buying and selling merchandise in foreign currencies and are designated as cash flow hedges.

Interest rate risk and currency risks. The interest rate risk is the danger that the Fair Value of an interest-bearing item changes because of fluctuations in the market interest rates.
The currency risk is the potential change of the Euro value of payment streams in foreign currencies.

€ million	Fair Value Maturities up to 1 year	1 to 5 years	over 5 years
Financial instruments:			
Interest rate swaps	–	(16)	5
within fair value hedges	[–]	[2]	[–]
within cash flow hedges	[–]	[(37)]	[–]
Interest rate capping agreements	–	–	–
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[–]	[–]	[–]
Exchange futures	(10)	–	–
within fair value hedges	[–]	[–]	[–]
within cash flow hedges	[(1)]	[–]	[–]
Interest rate/currency swaps	–	(8)	(2)
within fair value hedges	[–]	[–]	[4]
within cash flow hedges	[–]	[3]	[–]
	(10)	(24)	3

Listed below the maturities are the fair values of the financial assets and liabilities falling due during these periods.

The interest rate adjustment dates for variable interest rates are all within one year.

Counterparty risk. The counterparty risk refers to the risk of a business partner failing to perform in whole or in part and/or the risk of his or her credit standing deteriorating to such an extent that the capital and accrued income may be lost in whole or in part. The group's counterparty risk is low since financial transactions are conducted with counterparties of prime standing only. Moreover, a limit system spreads this type of risk.

€ million	Business partner with long term rating Standard & Poor's/Moody's AAA/AAA	AA+ bis AA–/ Aa1 bis Aa3	others
Financial instruments:			
Interest rate swaps	4	14	8
Interest rate capping agreements	–	2	–
Exchange futures	–	4	1
Interest rate/currency swaps	–	3	4
	4	23	13

36. Contingent liabilities

€ million	31 Dec 2001	31 Dec 2000
Suretyships and guaranties	322	228
Guaranty and warranty contracts	1,982	1,343
	2,304	1,571

In fiscal year 2001 METRO AG continued to optimize its financial structures. Other receivables and corresponding financial liabilities were further reduced. In this context the contingent liabilities of the group increased significantly over 31 December 2000 as a result of the provision of guarantees/warranties.

37. Other financial obligations

€ million	31 Dec 2001	31 Dec 2000
Commitments from share tender rights	102	125
Purchasing/sourcing commitments	13	9
Sundry	452	21
	567	155

Other financial obligations primarily include credit commitments for the intermediate financing of real estate rented by group companies.

Regarding the obligations under rental and leasing agreements reference is made to the capital and operating leases specified in Note 18.

38. Euro frontloading

In connection with the introduction of Euro notes and coins an amount of € 321.4 million was made available to the companies of the Metro Group in the period from 1 September through 31 December 2001. This amount was not debited until after 31 December 2001.

39. Related parties

In the years 2001 and 2000 the Metro Group maintained business relations to the following related companies:

	Goods/services provided		Goods/services received	
€ million	2001	2000	2001	2000
Supplies and other services	0.8	0.7	111.8	112.7

As they have discontinued their business operations the related, non-consolidated companies no longer perform any active operating transactions.

The business relations with related companies are based on contractual agreements that provide for prices corresponding to the arm’s length principle.

40. Performance-related compensation for executive staff

In 1999 METRO AG introduced a stock option program as a long-term compensation component. For this purpose a conditional increase of capital stock was decided on 6 July 1999. The group of entitled persons includes the Executive Board and executives of METRO AG as well as the management boards and managers of selected companies in the Metro Group.
All in all three tranches were issued in the years 1999 through 2001 whose distribution is as follows:

	Stock Options (SOP)		Stock Appreciation Rights (SAR)		
	Persons	Units	Persons	Units	Basic Price
1999	133	351,560	285	579,690	€ 54.59
2000	131	427,480	265	704,640	€ 44.14
2001	135	420,685	320	810,150	€ 43.72
		1,199,725		2,094,480	

The exercise rights limited to a duration of one year can first be made use of after a blocking period of three years. The exercise of the rights is contingent upon the condition that after the blocking period the stock price was at least 30 percent above the basic price on the last twenty stock exchange trading days before the exercise.

The first exercise period for the stock option rights begins at the end of the first banking day in Frankfurt after the ordinary annual stockholders' meeting of METRO AG in May 2002.

41. Supervisory Board and Executive Board

The fees of Supervisory Board members amounted to € 1.0 million.
The total emoluments of Executive Board members came to € 7.7 million.

In the course of the fiscal year the members of the Executive Board were granted 95,160 options for the acquisition of Metro stock under the stock option plan. The earliest date for the exercise of the options is the day after the annual stockholder's meeting in the year 2004 on condition that the stock price exceeds the basic price by more than 30 percent.

Former Executive Board members (and their surviving dependants) of METRO AG and the companies merged into METRO AG received € 3.5 million.

Members of the Supervisory Board

Jan von Haeften (Chairman)
Businessman
a) Franz Haniel & Cie. GmbH
(Chairman of the Supervisory Board)

Klaus Bruns (Vice-Chairman)
Chairman of the Group Works Council
of METRO AG
Chairman of the General Works Council
of Kaufhof Warenhaus AG

Peter Brenner
Vice Regional Chairman of the
Ver.di Union District of Lower Saxony/Bremen
a) BauBeCon Holding AG
LBS Norddeutsche Landesbausparkasse
Berlin-Hannover

Volker Claus
as from 1 January 2002
CPA and Tax Consultant
b) Gebr. Schmidt Verwaltungsgesellschaft mbH

Dr. h. c. Hans-Dieter Cleven
Chief Executive of Beisheim Holding GmbH
Vice President of the Board of Directors of
Metro Holding AG
Chief Executive of Metro Vermögensverwaltung
GmbH & Co. KG
Chief Executive of OBV Vermögensverwaltungs
GmbH & Co. KG
a) Debitel AG
Jamba AG (Chairman)
b) Albergo Giardino S.A.
(Vice President Board of Directors) Beisheim
Holding Schweiz AG
(Vice President Board of Directors)
Jetro Holdings Inc. (Member Board of
Directors) until 30 June 2001
Metro Holding AG (Member Board of
Directors) until 30 December 2001
Völkl Sports Holding AG (President Board of
Directors)

Peter Cziglar
Team Head at Real SB-Warenhaus GmbH
a) Real Holding GmbH as from 14 March 2001

Ulrich Dalibor
Chairman of the National Retail Section
of the Ver.di Union
a) Metro Großhandelsgesellschaft mbH

Professor Dr. Dr. h. c. Erich Greipl
Chief Executive Metro Vermögensverwaltung
GmbH & Co. KG
a) Kaufhof Warenhaus AG
Metro Großhandelsgesellschaft mbH
Real Holding GmbH as from 2 February 2001
b) BBE Unternehmensberatung GmbH
(Member Board of Directors)
KGG Kredit Garantie-Gemeinschaft
Handel in Bayern GmbH (Chairman Board
of Directors)

Hanns-Jürgen Hengst
Department Head
Kaufhof Warenhaus AG

Hermann Hesse
Vice-Chairman of the General Works Council
of Kaufhof Warenhaus AG

Cilli Holzer
Commercial Clerk
Kaufhof Warenhaus AG

Dr. Hermann Krämer
Ex-Member of the Management Board
of former Veba AG
a) Babcock Borsig AG until 9 July 2001
Balcke Dürr AG (Chairman) until
28 February 2001
LOGIKA AG (Chairman)
b) Westdeutsche Landesbank Girozentrale
(Member of the Board of Directors)

Dr. Karlheinz Marth
Secretary to the National Executive
of the Ver.di Union
a) Extra Verbrauchermärkte GmbH
Kaufhof Warenhaus AG

Dr.-Ing. E. h. Dipl.-Ing. Bernd Pischetsrieder
Member of the Executive Board
of Volkswagen AG
Chairman of the Executive Board
of Volkswagen AG as from 17 April 2002
Chief Executive of SEAT, S.A. until 6 March 2002
b) Allianz-Gesellschaften (Member of Joint
Advisory Board)
Audi AG (Chairman of the Supervisory Board)
as from 1 January 2002
Dresdner Bank AG Luxembourg S.A.
(Member of Board of Directors)
SEAT, S.A. (Chairman of Consejo de
Administración) as from 7 March 2002
Tetra-Laval Group
(Member of Board of Directors)
Volkswagen de México, S.A. de C.V.
(Member Consejo de Administración)
Volkswagen Comércio e Participaçóes Ltd.
(Mitglied des Conselho Consultivo)
as from 23 March 2001
Volkswagen Coaching GmbH
(Member Supervisory Board)

Hildegard Schäfer
Member of the General Works Council of
Real Holding GmbH

Professor Dr. Helmut Schlesinger
Retired President of Deutsche Bundesbank

Dr. Manfred Schneider
Chairman of the Management Board
of Bayer AG until 26 April 2002
Chairman of the Supervisory Board of Bayer AG
as from 27 April 2002
a) Allianz AG
DaimlerChrysler AG
Linde AG
RWE AG

Hans Peter Schreib
Attourney-at-Law
Member of the Board of Deutsche
Schutzvereinigung für Wertpapierbesitz e.V.
a) Gildemeister AG
K+S AG

Christian Strenger
Member and/or Chairman of several German
and foreign corporate boards
a) BASF Coatings AG
DWS Investment GmbH
Fraport AG as from 1 January 2002
MLP Marschollek, Lautenschläger
und Partner AG as from 28 May 2001
Zürich Investmentgesellschaft mbH
b) The Germany Funds Inc. (Chairman)

Dr. Joachim Theye
until 31 December 2001
Attourney-at-Law
a) Axel Springer Verlag AG
Babcock Borsig AG
Gerling-Konzern Globale
Rückversicherungs-AG
(Deputy Chairman)
Gerling-Konzern Rheinische
Versicherungsgruppe AG
Gerling-Konzern Versicherungs-Beteiligungs-
AG (Chairman)
I-D Media AG
Messe Berlin GmbH (Chairman)
until 29 March 2001
b) Gerling Security Rückversicherungs-
Gesellschaft S.A. (Chairman of the Board
of Directors)

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

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

Committees of the Supervisory Board and their Members

Presidential/Personnel Committee
Jan von Haeften (Chairman)
Klaus Bruns (Vice-Chairman)
Hermann Hesse
Dr. Manfred Schneider

Annual Accounts Committee
Jan von Haeften (Chairman)
Klaus Bruns (Vice- Chairman)
Dr. h.c. Hans-Dieter Cleven
Ulrich Dalibor (as from 15 February 2001)
Professor Dr. Dr. h.c. Erich Greipl
Dr. Karlheinz Marth

Nominations/Mediation Committee under § 27 Section 3 MitbestG (German law on codetermination)
Jan von Haeften (Chairman)
Klaus Bruns (Vice-Chairman)
Dr. h.c. Hans-Dieter Cleven
Hermann Hesse

Members of the Executive Board

Dr. Hans-Joachim Körber (Chairman)
a) Kaufhof Warenhaus AG (Chairman)
Metro Online AG (Chairman)
Real Holding GmbH as from 2 February 2001
(Chairman as from 27 March 2001)
b) Aspiag Italia Srl
Divaco AG & Co. KG
Loyalty Partner GmbH
Skandinaviska Enskilda Banken AB

Dr. A. Stefan Kirsten
a) Metro Online AG
Real Holding GmbH as from 2 February 2001
b) Assevermag AG (President of the Board
of Directors)
Metro Capital B.V.
(Chairman of the Supervisory Board)
Metro Euro Finance B.V.
Metro Finance B.V.
Metro International AG (President
of the Board of Directors)
Metro International Finance B.V.
Metro MPV AG until 1 June 2001
(President of the Board of Directors)

Zygmunt Mierdorf (Director of Industrial
Relations)
a) Extra Verbrauchermärkte GmbH
Praktiker Bau- und Heimwerkermärkte AG
(Chairman)
Real Holding GmbH as from 2 February 2001
b) Asset Immobilienbeteiligungen
GmbH & Co. KG
Josef Wagner GmbH
Metro MPV AG until 1 June 2001
Praktiker Yapi Marketleri A.S.
Tertia Handelsbeteiligungs GmbH (Chairman)

Joachim Suhr
a) Extra Verbrauchermärkte GmbH (Chairman)
Metro Online AG
Real Holding GmbH as from 2 February 2001
b) Gemex Trading AG
(President of the Board of Directors)

Düsseldorf, 27 February 2002

THE EXECUTIVE BOARD

Dr. Körber

Dr. Kirsten Mierdorf Suhr

Summary of major group companies

Name	Registered office	Stake %	LCU	Equity
METRO AG	Düsseldorf		€ 1,000	4,310,956
Cash & Carry				
Metro Cash & Carry GmbH	Düsseldorf	100.00	€ 1,000	2,487,522
Metro Großhandelsgesellschaft mbH	Düsseldorf	100.00	€ 1,000	36,984
Metro Cash & Carry International Holding GmbH	Düsseldorf	100.00	€ 1,000	3,144,576
Hypermarkets				
Real Holding GmbH	Alzey	100.00	€ 1,000	370,527
Convenience stores				
Extra Verbrauchermärkte GmbH	Sarstedt	100.00	€ 1,000	37,293
Consumer electronics centers				
Media-Saturn-Holding GmbH	Ingolstadt	73.18	€ 1,000	278,901
Home improvement centers				
Praktiker Bau- und Heimwerkermärkte AG	Kirkel	99.69	€ 1,000	170,406
Department stores				
Kaufhof Warenhaus AG	Köln	100.00	€ 1,000	168,726
Other companies				
Metro MGE Einkauf GmbH	Düsseldorf	100.00	€ 1,000	1,826
Gemex Trading AG	CH-Baar	100.00	CHF 1,000	14,516
Metro International AG	CH-Baar	99.00	CHF 1,000	338,313
Dinea Gastronomie GmbH	Köln	100.00	€ 1,000	8,238
Metro Distributions-Logistik GmbH & Co, KG	Sarstedt	100.00	€ 1,000	5,153
MRE Metro Real Estate Management GmbH	Saarbrücken	100.00	€ 1,000	11,114
Metro MGI Informatik GmbH	Düsseldorf	100.00	€ 1,000	2,522

Auditor's opinion

We duly audited the consolidated financial statements prepared by METRO AG consisting of the balance sheet, the income statement, the statement of changes in stockholders' equity, the cash flow statement and the notes thereto for the fiscal year from 1 January to 31 December 2001. The preparation and content of the consolidated financial statements are the responsibility of METRO AG's Executive Board. Our task, based on the audit performed by us, is to express an opinion on whether the consolidated financial statements are in conformity with the International Accounting Standards (IAS).

We conducted our audit of the consolidated financial statements in accordance with the German auditing regulations and with due regard to the generally accepted standards on the auditing of financial statements as established by IDW, the institute of auditors and certified public accountants in Germany. These standards require the audit to be planned and performed in such a way that reasonable assurance is obtained on whether the consolidated financial statements are free of any material misstatements. In determining the precise audit procedure knowledge about the business activities and about the economic and legal environment of the group as well as about expected potential misstatements is taken into consideration. The audit also includes an examination, on a sampling basis, of the evidence supporting the amounts quoted and the disclosures made in the consolidated financial statements. Furthermore, it involves assessing the accounting principles used and the major assumptions made by the Executive Board as well as an appreciation of the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonably reliable basis for our opinion.

It is our considered opinion that the consolidated financial statements, in accordance with the IAS, present a true and fair view of the group's assets, financial position as well as earnings and cash flows in the fiscal year under review.

Our audit that also covered the group management report from 1 January to 31 December 2001 as prepared by the Executive Board did not result in any objections.

In our opinion the group management report on the whole provides a suitable understanding of the group's position and adequately outlines the risks of its future development. In addition we confirm that the consolidated financial statements and the group management report for the fiscal year from 1 January to 31 December 2001 satisfy the requirements for exempting the company from preparing consolidated financial statements and a group management report in accordance with German law.

Duisburg, 28 February 2002

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

Dr. H. Herrmann	Dr. M. Fasselt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German CPA)	(German CPA)

Report of the Supervisory Board

METRO AG and the Metro Group look back on a year characterized by a difficult economic situation and an ever tougher competitive environment. Against this backdrop the METRO AG Executive Board concentrated on implementing the business objectives of METRO AG as well as preserving its entrepreneurial freedom of action. During the period under review the Supervisory Board oversaw the work of the Executive Board and supported it with its own advice in due accordance with the duties incumbent upon it under the law and the company's articles of association. In fiscal year 2001 five meetings of the Supervisory Board took place in which oral and written reports of the Executive Board were received and discussed in detail. All those measures requiring Supervisory Board approval as well as the economic situation of the company and its sales divisions were dealt with very thoroughly.

In this context the focus was on the strategic alignment of METRO AG and its sales divisions in Germany and Europe as well as specifically the further expansion into non-European markets. The Supervisory Board was extensively informed by the Executive Board about the risk management of the company as well as its resource allocation. In a constant dialogue between the Chairman of the Supervisory Board and the members of the Executive Board all major business transactions and the development of the key financial indicators were elaborated upon.

The members of the Supervisory Board were kept fully posted by the Executive Board on important business transactions with a special significance for the future development of the company.

The Supervisory Board dealt in great detail with the business development and the economic situation of the company and its divisions as well as their perspectives and measures to strengthen their competitiveness and respective market positions. The Supervisory Board had the Executive Board report on proposed business strategies and fundamental issues of corporate policy, especially on the financial, investment, earnings and personnel plans for the years 2001 and 2002 and the resulting consequences in terms of strategic alignment, further expansion, rationalization and optimization of the corporate structure and work processes.

From its own midst the Supervisory Board elected the presidential/personnel committee, the annual accounts committee and the nominations committee required according to § 27 Section 3 of the German co-determination law. The annual accounts committee met once. The presidential committee met twice. The nominations committee did not have to meet at all.

The consolidated financial statements and management report as well as the METRO AG financial statements and management report were audited by Fasselt und Partner Wirtschaftsprüfungsgesellschaft, Duisburg, and awarded their unqualified auditor's opinion. The annual financial statements of METRO AG and of the Metro Group including the management reports were submitted to the Supervisory Board members two weeks before the annual accounts meeting. The audit reports issued by the auditors were also made available to the members of the Supervisory Board.

The consolidated annual financial statements were drawn up in line with the International Accounting Standards (IAS).

The proposed financial statements were discussed in depth at a joint meeting of the presidential committee and the annual accounts committee as well as at the Supervisory Board's annual accounts meeting in the presence of the auditors. The Supervisory Board concurs with the audit results that do not contain any exceptions. The Supervisory Board examined and approved the annual financial statements submitted by the Executive Board for METRO AG and the Metro Group including the respective management reports. METRO AG's annual accounts are thus adopted. The Supervisory Board also accepts the Executive Board's proposal for the appropriation of net earnings.

Mr. Jan von Haeften was appointed a member of the Supervisory Board by court as per 2 August 2000 for a limited period until 20 June 2001. The METRO AG annual stockholders' meeting on 20 June 2001 elected Mr. von Haeften to the Supervisory Board of the company. The meeting of the Supervisory Board on 20 June 2001 confirmed Mr. von Haeften as Chairman of the Supervisory Board.

Effective 1 January 2001 Mr. Christian Strenger was appointed a member of the Supervisory Board of the company for a limited period until 20 June 2001. The METRO AG annual stockholders' meeting on 20 June 2001 elected Mr. Christian Strenger to the Supervisory Board of the company.

Dr. Joachim Theye relinquished his Supervisory Board mandate with effect from 31 December 2001. In his place Mr. Volker Claus was appointed a member of the Supervisory Board by court.

Dr. Hans-Joachim Körber, previously spokesman of the METRO AG Executive Board, was appointed Chairman of the Executive Board by the Supervisory Board on 20 June 2001.

The tasks within the Executive Board are performed as follows:

Dr. Körber as Chairman of the Executive Board is in charge of Investor Relations, HR Development/Executive Staff, Legal Affairs, Internal Auditing, Corporate Development, Corporate Communications, Trade Associations and Environmental Policy. Dr. Kirsten is responsible for Receivables Management, Finance, Budgeting and Controlling, Accounting, Taxes and Insurance. Mr. Mierdorf is Director of Labor Relations with additional responsibility for E-Business, IT, Real Estate, Logistics as well as HR and Social Affairs. Mr. Suhr heads the departments of Purchasing/Imports, Catering and Advertising.

We personally thanked Dr. Theye for his outstanding services to the company.

The Supervisory Board also thanks the Executive Board, the management teams of the sales divisions and cross-divisional service companies, the members of the works councils as well as all employees of METRO AG and all affiliated companies for their dedication and commitment and their hard and successful work.

Düsseldorf, in March 2002

THE SUPERVISORY BOARD

Jan v. Haeften

Jan von Haeften
Chairman

Financial diary

Business press conference/analysts’ meeting	26 March 2002
Quarterly report Q1 2002	30 April 2002
Annual stockholders’ meeting	23 May 2002
Quarterly report Q2 2002	31 July 2002
Quarterly report Q3 2002	31 October 2002

Addresses of holding companies

METRO AG
Schlüterstraße 41
40235 Düsseldorf

Metro Cash & Carry GmbH
Schlüterstraße 17 – 19
40235 Düsseldorf

Real SB-Warenhaus GmbH
Headquarters:
Reyerhütte 51
41065 Mönchengladbach

Extra Verbrauchermärkte GmbH
Am Teinkamp 7
31157 Sarstedt

Media-Saturn-Holding GmbH
Wankelstraße 5
85046 Ingolstadt

Praktiker Bau- und Heimwerkermärkte AG
Am Tannenwald 2
66569 Kirkel

Kaufhof Warenhaus AG
Leonhard-Tietz-Straße 1
50676 Köln

Metro MGE Einkauf GmbH
Schlüterstraße 3
40235 Düsseldorf

Gemex Trading AG
Neuhofstraße 4
6340 Baar (Schweiz)

Metro MGL Logistik GmbH
Schlüterstraße 3
40235 Düsseldorf

Metro Distributions-Logistik GmbH & Co. KG
Am Teinkamp 7
31157 Sarstedt

Metro MGI Informatik GmbH
Schlüterstraße 21
40235 Düsseldorf

Metro Werbegesellschaft mbH
Schlüterstraße 3
40235 Düsseldorf

Metro Online AG
Schlüterstraße 41
40235 Düsseldorf

Metro Wertstoff Circle Services GmbH
Denkendorfer Straße 11
70771 Leinfelden-Echterdingen

Dinea Gastronomie GmbH
Hansestraße 67 – 71
51149 Köln-Porz

Codes

Metro stock

Reuters codes	
Common stock	MEOG.F
Common stock/challenged	MEOGa.F
Preferred stock	MEOG_p.F
Bloomberg codes	
Common stock	MEO GR
Common stock/challenged	MEO2 GR
Preferred stock	MEO3 GR
ISIN codes	
Common stock	DE 000 725 750 3
Common stock/challenged	DE 000 725 752 9
Preferred stock	DE 000 725 753 7
Stock exchanges	Frankfurt, Düsseldorf, Xetra, Swiss Exchange

Metro convertible bonds

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

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