METRO Group

The Spirit of Commerce

Annual Report **2002**

METRO Group

The Spirit of Commerce

Annual Report **2002** | Consolidated Financial Statements of the METRO Group

From November 2002 the Metro group of companies presents itself throughout the world as the METRO Group. This reflects both the cross-divisional feeling of solidarity within the group that has grown significantly in recent years and commonness of entrepreneurial objectives among the sales divisions and companies belonging to the group. The METRO Group, with its sales divisions and other group companies, forms a highly efficient alliance in the world of international trading and retailing. It stands for high performance, modernity, success orientation and internationality. Its brand message, "METRO Group – The Spirit of Commerce", underlines that the METRO Group asserts its claim to play a significant part in shaping international trade in the future. In addition, it means that the group is expressly declaring its commitment to high innovation as well as demonstrating its future viability.

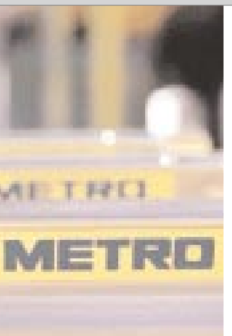
METRO Group

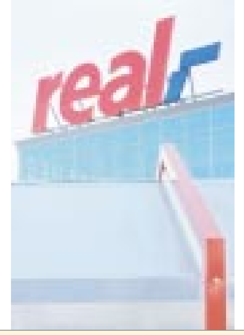
Overview of the group structure

METRO Group

METRO AG

METRO/MAKRO C&C	REAL	EXTRA	MEDIA MARKT/SATURN	PRAKTIKER	GALERIA KAUFHOF






Cross-divisional service companies

The METRO Group operates through 2,310 locations in 26 countries and is one of the most important international trading and retailing companies in the world. At the top of the METRO Group there is METRO AG as a strategic management holding company. Six sales divisions are responsible for the operating business acting independently in the market with their specific merchandizing concepts. Services such as procurement, logistics, IT, advertising and financing are pooled by cross-divisional service companies right across the group.
Since the end of 2002, in order to achieve the highest possible level of transparency in the group's structure, the food retail sales divisions Real and Extra have been managed within the newly-formed holding company Metro Einzelhandel Holding GmbH and the nonfood retail sales divisions Kaufhof and Media Markt/Saturn have been incorporated in the holding company Metro Kaufhaus und Fachmarkt Holding GmbH. Metro Cash & Carry GmbH acts as a holding company for group companies in the wholesale segment. The majority of the cross-divisional service companies are operated under the umbrella of MGS METRO Group Services Holding GmbH (formerly: MDH Metro Dienstleistungs-Holding GmbH).

At a glance
METRO Group in figures

	2002[1] € million	2001[1] € million	2000[1] € million	1999[1] € million	1998[2] € million
Net sales	51,526	49,522	46,930	43,833	46,888
EBITDA	2,416	2,383	2,183	2,038	2,007
EBITA	1,427	1,378	1,273	1,219	1,120
EBIT	1,166	1,130	1,025	1,000	794
Earnings before tax	830	673	754	681	579
Net income	502	449	423	305	376
Group net profit after minority interests	443	401	359	234	293
Capital expenditure[3]	1,683	1,572	1,620	1,446	1,362
Total assets	22,923	22,320	22,333	22,402	18,962
Equity capital[4]	4,141	4,170	4,064	3,832	3,603
Return on equity after taxes	12.1%	10.8%	10.4%	8.0%	10.4%
Per share	€	€	€	€	€
EBITDA	7.39	7.29	6.68	6.24	6.14
EBITA	4.37	4.22	3.90	3.73	3.43
Earnings per share	1.36	1.23	1.10	0.72	–
Cash dividend					
• Common stock	1.020*	1.020	1.020	1.020	1.02
• Preferred stock	1.122*	1.122	1.122	1.122	1.08
Dividend including tax credit[5][6]					
• Common stock	1.020*	1.020	1.020	1.020	1.02
• Preferred stock	1.122*	1.122	1.122	1.122	1.08

* Subject to resolution passed by the annual general meeting.
[1] Annual accounts according to IAS.
[2] Annual account according to HGB (German Commercial Code).
[3] Additions to fixed assets, intangible assets exclude goodwill.
[4] Equity capital after minority interests for the first time. Adjustment to entry in 2001 Annual Report.
[5] For shareholders with unlimited tax liability.
[6] Only tax exempt portions of the distributable equity capital were used for the 2000/1999/1998 dividends.

METRO Group earnings by sales divisions

	2002 € million	2001 € million	Changes € million	%
Metro Cash & Carry	709.1	625.5	83.6	13.4
Real	147.0	117.8	29.2	24.8
Extra	(47.2)	(14.4)	-32.8	-227.8
Media Markt/Saturn	280.2	223.9	56.3	25.1
Praktiker	(41.6)	(9.7)	-31.9	-328.9
Kaufhof	131.4	187.0	-55.6	-29.7
EBIT Metro sales divisions	1,178.9	1,130.1	48.8	4.3
Others	(13.4)	0.1	-13.5	–
EBIT METRO Group	1,165.5	1,130.2	35.3	3.1
Financial result	(335.8)	(456.9)	121.1	26.5
Earnings before tax	829.7	673.3	156.4	23.2
Income taxes	(327.8)	(224.3)	-103.5	-46.1
Group net income	501.9	449.0	52.9	11.8
Earnings per share	€ 1.36	€ 1.23	€ 0.13	10.4%

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Dear Stockholders,

The year 2002 was a difficult fiscal year for German retailing. It was marked by a general buying restraint on a so far unprecedented scale. The launch of the euro which was successful in technical terms did lead our customers to suspect that prices were increased under its guise – a phenomenon described as "perceived inflation". A negative macroeconomic development, the general political uncertainty as well as people's widespread fear for their jobs and their material future created a generally unfavorable consumer climate especially in Germany. The METRO Group was not alone in failing to escape these external influences altogether.

We accepted the changing background conditions for the retail trade as a challenge to become even better. In 2002 the METRO Group and its sales divisions managed to stand their ground very well in the difficult environment. It became obvious in the process that we are going the right way with our strategy of value-oriented growth and the consistently promoted internationalization of our strong merchandizing concepts. It is increasingly paying off that in the last few years we refused to follow the acquisition boom but instead concentrated on the organic growth of the METRO Group. Last year we further strengthened the trust of the capital markets in our company. We drafted our Corporate Governance principles and were one of the very first Dax 30 companies to actually publish them in full. In them we come out fairly and squarely in favor of the principle of transparent corporate management and corporate control. The dialogue on the further development of the Corporate Governance principles is explicitly supported by the METRO Group.

In fiscal year 2002 we were able to increase Group sales by 4 percent. In the course of our successfully continued international expansion the share of foreign markets in total Group sales went up to 46.3 percent. In spite of unforeseen negative influences from the outside we managed to reach our self-imposed target of increasing earnings per share by around 10 percent. The Economic Value Added (EVA), the central control variable in the Group based on the increase of the company value, also showed a positive development throughout the Group. The Group was able for the first time to almost cover its cost of capital. Contributory factors to this were among others tight cost management as well as the responsible employment of the capital entrusted to us by our stockholders.

One of the major pillars of the economic success of the METRO Group is and will remain our international expansion. The METRO Group is therefore consistently expanding its presence in foreign markets where it also sets its investment priorities. It is above all the Metro Cash & Carry and Media Markt/Saturn sales divisions that are vigorously promoted at their internationalization because they generate above-average returns. After opening its first stores in Vietnam and Japan Metro Cash & Carry had operations in a total of 24 countries at the end of 2002. In the year under review the store network was expanded by 53 locations. Media Markt/Saturn expanded its market leadership in Europe by opening 39 new consumer electronics centers and entering the Belgian market.

In a domestic market characterized by declining sales and a substantial surplus capacity of selling space in the retail industry fiscal year 2002 focused on developing an even sharper profile for our sales divisions as unique and unmistakable retail brands. In many areas significant progress was made in this regard. On this basis we managed to meet the challenges of the German market better than many of our competitors. In spite of a weak retail business cycle in the domestic market the business development of the sales divisions in the METRO Group was a positive one overall. They gained additional market share. Above all Real and Media Markt/Saturn, but also Praktiker, were able to escape, in some instances substantially, the negative market trends within their respective industries.

Dr. Hans-Joachim Körber, Chief Executive Officer

The METRO Group made major efforts in 2002 to attract potential junior staff with management qualities to the METRO Group and to prepare them for their responsible tasks in the future. Within the framework of the "Meeting Metro" event the company sought contact to several hundred students for the first time. The objective of this information event geared to the lifestyle and the expectations of young people was to create an interest in retailing in the participants and to present to them the diverse and sophisticated job and career development possibilities offered by the METRO Group at home and abroad. The event met with an exceptionally positive response from the students but also from the media. Gaining qualified staff will continue to be an issue of crucial importance to the METRO Group in the future as well because talented and dedicated management employees are the very prerequisite for the further growth of the company.

Dear Stockholders, in the fiscal year just ended the METRO Group successfully continued along its path of profitable growth further sharpening its profile as one of the most important international trading and retailing companies at the same time. Under conditions that have become more difficult for trading and retailing our fundamental strategic decisions turned out to be correct and point the way into the future and are sure to keep the METRO Group on its successful course in the long term. We will emerge stronger from the current crisis of the German retail trade. It is our aim to increase the share of our foreign businesses in total Group sales to more than 50 percent. Our investment priorities will again be in the international markets in the future. In the year 2003 we will be opening our first outlets in India and Ukraine. In the domestic market we want to further expand our market leadership and gain additional market shares by way of a clear positioning and differentiation from our competitors. In the year 2003 we again plan to achieve an above-average increase of the METRO Group's sales and earnings. In doing so we will lay the foundation for a better stock price development of the Metro stock after a fiscal year 2002 that was equally disappointing for shareholders and the Management Board in this regard.

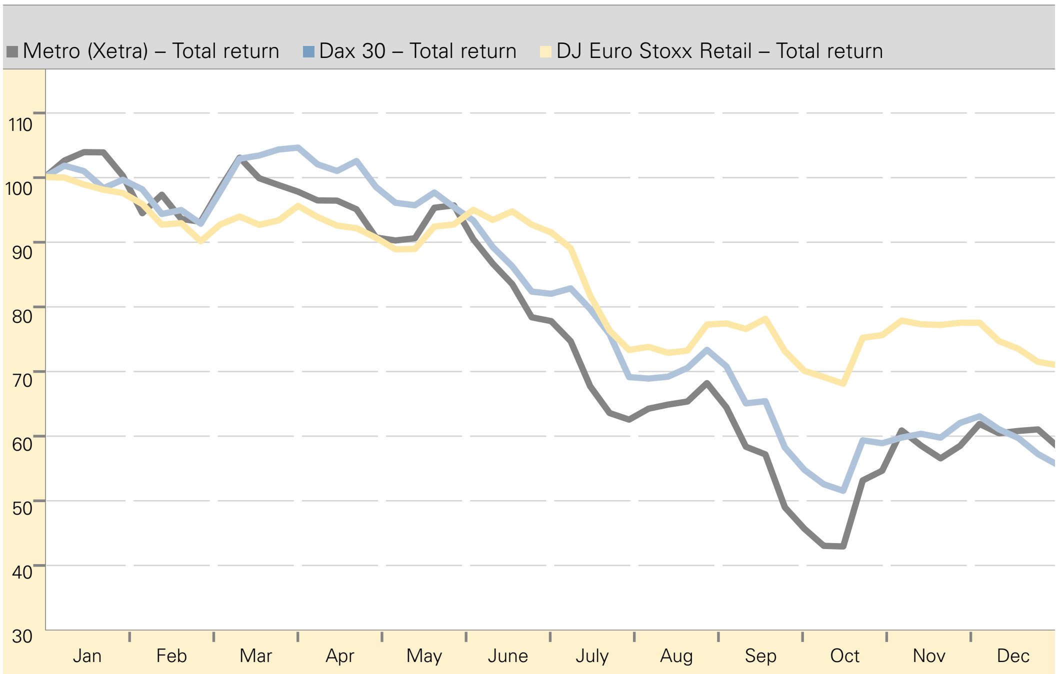
Dear Stockholders, we have set ourselves ambitious targets that we are determined to achieve. We want to further develop your company, the METRO Group, successfully. To this end we need your trust as capital providers. Your constructive support is indispensable in order to keep the METRO Group on its successful course. I am personally convinced that the 235,000 employees of the METRO Group to whom I would like to explicitly offer a note of thanks for their dedication will justify this trust through their performance.

Yours sincerely,

Dr. Hans-Joachim Körber

Metro stock

Performance of the Metro common stock in 2002*

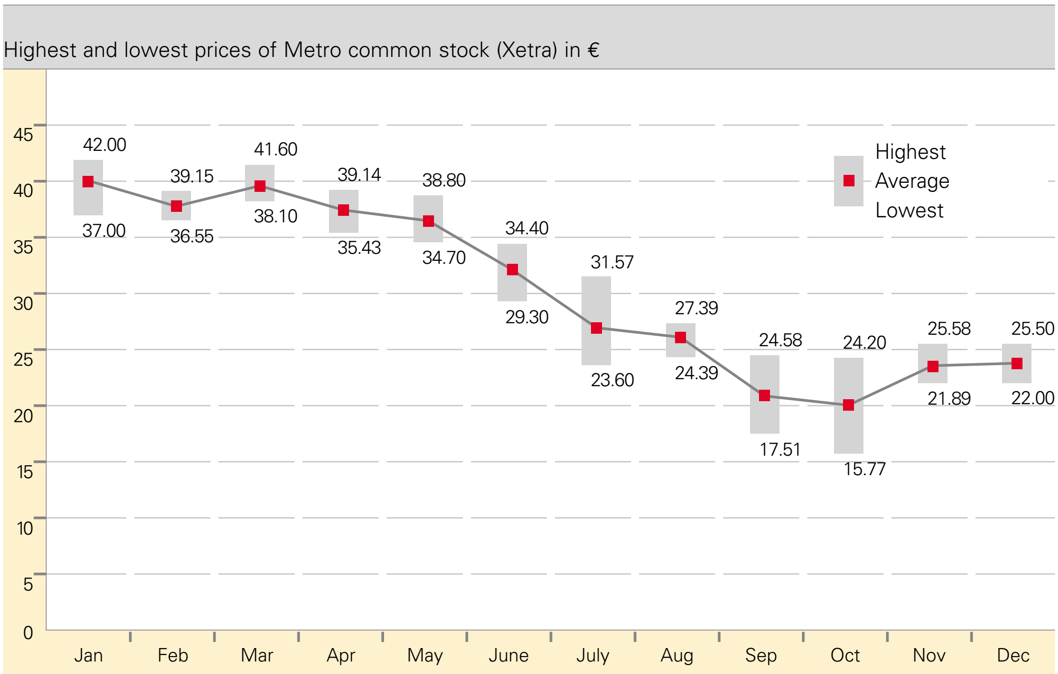


* Metro common stock with dividend reinvestment, Dax 30 and Dow Jones Euro Stoxx Retail Return indexed at 100; source: Datastream.

On the whole 2002 was a disappointing stock market year. The expected recovery on the worldwide stock markets failed to materialize and the downward trend of the years 2000 and 2001 continued. The major reason for this development was the persistent economic weakness in all the important economic regions of the world. The political uncertainty, especially the threat of a war in the Middle East, contributed to a further deterioration of the economic climate. In addition, accounting scandals, primarily in the USA, boosted the substantial loss of investor confidence in stock as a form of investment. Taken together these factors led to a pronounced feeling of general uncertainty among investors and to a high level of volatility of stock prices at the international stock exchanges. The prices of the leading stocks did not only show considerable fluctuations over the year but to some extent even in the course of a single trading day. Towards the middle of the year the stock market weakness was further exacerbated by insurance companies restructuring their portfolios by reducing their equity holdings.

The German stock market index Dax dropped by 44 percent in the year 2002. With a stock price decline of 41 percent, allowing for dividends paid, the Metro stock took a similarly negative development. This development of the German stock markets was above all attributable to the persistently weak growth in Germany. Compared to Europe, economic growth in Germany was below the average again. As the leading trade and retail stock in Germany the Metro stock was also affected by the declining economic expectations and the resulting drag on the consumer climate in the course of the year. In spite of strong growth in the international business the Metro stock was sucked into the general downward trend of the German stock market index. This is clearly reflected in the stock price performance of the year 2002. In the first ten months the stock price developed negatively subject to strong fluctuations reaching an annual low in October. With the publication of the report on the third quarter the METRO Group not only showed a positive development of the international business but also distanced itself clearly from competitors in the German market. The results illustrated the operational strength of the Group leading to a recovery of the stock price and the reduction of its volatility. With an annual closing price of € 22.75 in the Xetra trade and € 23.00 at the Frankfurt stock exchange the Metro stock ended the year on 31 December 2002 at 44 percent respectively at 49 percent above the annual low points in October.

Highest and lowest stock prices in the year 2002



Dividend continuity

For fiscal year 2002 the Management Board will propose to the annual general meeting on 22 May 2003 that a dividend of € 1.02 per common stock and of € 1.122 per preferred stock be approved. With this high dividend distribution which has remained unchanged for the last six years the METRO Group has remained faithful to its strategy of dividend continuity.

Market capitalization

At year-end 2002 the market capitalization of the METRO Group amounted to € 7.51 billion. This places the METRO Group among the biggest German companies. In terms of its trading volume the Metro stock continues to be among the 20 most intensively traded Dax stocks. Taking into consideration the free float ruling introduced by Deutsche Börse AG in May 2002 the weighting of the Metro stock within the Dax has declined slightly. In Germany the Metro stock is registered for official trading at the Frankfurt/Main and Düsseldorf stock exchanges and is included in the Xetra electronic trading system as well as the Eurex option trading system.

Conversion of preferred stock into common stock

The actions for opposition brought by four owners of METRO AG common stock against the resolution passed by the ordinary annual general meeting of METRO AG on 4 July 2000 have not yet been finally settled. After the "Landgericht" (regional court) of Cologne dismissed the actions of oppositions on 7 March 2001 the plaintiffs appealed to the "Oberlandesgericht" (higher regional court) of Cologne. In its judgment handed down on 20 September 2001 the higher regional court of Cologne dismissed the appeal. The judgment has not yet become legally effective. The plaintiffs have appealed to the "Bundesgerichtshof" (Federal Supreme Court). The Federal Supreme Court has not yet taken a decision on whether to allow the appeal.

Metro stock key figures: a five-year overview

Key figures		2002	2001	2000	1999	1998
Annual closing price*						
Common stock	€	23.00	39.50	49.80	53.40	68.00
Common stock/challenged	€	21.52	38.50	47.50	–	–
Preferred stock	€	33.21	44.60	26.00	30.00	41.06
Annual high*						
Common stock	€	42.70	55.25	51.25	77.05	68.00
Common stock/challenged	€	41.50	53.60	50.00	–	–
Preferred stock	€	50.00	44.75	37.00	45.35	41.06
Annual low*						
Common stock	€	15.40	32.20	33.60	47.60	30.49
Common stock/challenged	€	14.50	31.00	43.50	–	–
Preferred stock	€	26.00	26.00	18.76	25.50	23.77
Total outstanding	Shares	326,787,529	326,787,529	326,787,529	326,787,495	326,787,495
Common stock	Shares	303,786,183	303,786,183	303,786,183	303,786,183	303,786,183
Common stock/challenged	Shares	20,323,380	20,323,380	20,323,380	–	–
Preferred stock	Shares	2,677,966	2,677,966	2,677,966	23,001,312	23,001,312
Profit distribution		2002	2001	2000	1999	1998
Per common stock						
Dividend	€	1.02**	1.02	1.02	1.02	1.02
Tax credit [1) 2)]	€	–	–	–	–	–
Total dividend	€	1.02**	1.02	1.02	1.02	1.02
Dividend yield [3)]	%	4.4	2.6	2.0	1.9	1.5
Per preferred stock						
Dividend	€	1.122**	1.122	1.122	1.122	1.08
Tax credit [1) 2)]	€	–	–	–	–	–
Total dividend	€	1.122**	1.122	1.122	1.122	1.08
Dividend yield [3)]	%	3.4	2.5	4.3	3.7	2.6
Key figures per Metro stock		2002	2001	2000	1999	1998
EBITDA [4)]	€	7.39	7.29	6.68	6.24	6.14
EBITA [4)]	€	4.37	4.22	3.90	4.00	3.43
Earnings per share [4)]	€	1.36	1.23	1.10	0.72	0.40
Price/Book value [4)]		1.8	3.1	4.0	4.4	6.0
Market capitalization	€ billion	7.51	12.90	16.16	16.91	21.60

* Stock prices of the Frankfurt Stock Exchange.
** Subject to approval by the AGM.
1) For stockholders with unlimited tax liability.
2) Solely tax exempt portions of the distributable equity capital were used for the 2000/1999/1998 dividends.
3) Based on the annual closing price.
4) Consolidated account 1998 based on HGB, figures therefore not comparable.

Investor Relations

The Investor Relations work of the METRO Group has a long-term focus thus reflecting the Group's strategy geared to long-term value enhancement. Communication with the capital markets is consistently determined by the principles of topicality, continuity, credibility and equal treatment. Within the framework of its targeted communication activities in fiscal year 2002 the METRO Group again regularly presented itself to investors and analysts at all the major financial centers in Europe, the USA and Asia. In addition to the annual analysts' meeting the METRO Group used five conferences for trade and retail companies as a platform to brief more than 1,100 institutional investors on its strategy and expected business development. Over and above this, the METRO Group organized more than 230 additional presentation events, telephone conferences, individual talks as well as visits to locations at home and abroad.

In line with its Corporate Governance Code the METRO Group attaches increased importance in all its Investor Relations activities to observing the Fair Disclosure Principles and informs all market participants openly and simultaneously. In this process the Internet plays an important role as a medium. In 2002 this channel of communication was consistently expanded and optimized. The Investor Relations pages of the Group's Internet site (www.metrogroup.de, www.metro.de) offer not only detailed stock and corporate information and download facilities for all financial reports and presentations but also the possibility of ordering an IR Newsletter informing readers about the latest developments in the Group. In addition, the Analysts' Forum gives an overview of all important figures and recommendations regarding the Metro stock.

Reporting about the METRO Group as well as communication with the capital markets on the strategy of the Group and its past, present and future business performance were further intensified in fiscal year 2002. This sustainable support for investors and analysts alike is appreciated by the capital markets and was also reflected in the "European Equities Investment Survey" conducted by Reuters and Institutional Investor. In this renowned study of the capital market standing of companies the METRO Group came in seventh among a total of 930 European enterprises.

Management report

Macroeconomic environment and development of the retail industry

World economy: little activity amid persistent economic and global political risks

The year 2002 saw no upturn in the world economy. The dynamic upswing forecast by many economic researchers failed to materialize. The surplus capacities created in the major economies in the 1990s have proved to be a particular drain in this difficult economic environment. Throughout the world investors' confidence in the stock markets has been shattered. In addition, the crises in world politics, particularly in the Middle East, have placed both investors and consumers in a state of uncertainty.

In real terms, the world economy reported a growth of around 2.5 percent in 2002 compared to 2 percent the year before. However, once again there were considerable regional variations. The economic recession in Latin America continued while the severe economic crisis in Argentina also restrained the economic development of the other Mercosur states. Similarly only slight stimuli to the world economy came from Japan and Western Europe in 2002 and, in addition, the US economy has still not delivered the dynamic growth that was forecast. On the other hand, the economic region of East Asia (excluding Japan) reported a clear economic upturn, with China, for example, maintaining the high rate of economic growth of the previous years. Russia and the Central European reform countries also performed better than the world economy.

As always, the development of the world economy is influenced significantly by the US economy. The USA has a 20 percent share of total world production and as much as 40 percent of global economic growth. In many ways, the economic situation in the US acts as an indicator for the development of the world economy. The world economy has not benefited from any significant growth effects from the USA in 2002, which has only shown a slight recovery from the economic slump of 2001. Hardly any rise in investment levels occurred although US consumer spending supported domestic demand and additional stimuli came from the state in the form of fiscal policy measures. Above all it was the surplus capacities, particularly in the IT sector, that held back the rise in investment. Macroeconomic production increased only cautiously by around 2.5 percent in real terms. Many companies recorded falling profits leading to a drop in share prices across the board which was additionally exacerbated by the inaccurate financial statements submitted by some companies.

The Japanese economy, the world's second largest, was marked by stagnation and deflation. In spite of rising demand for Japanese products – especially from the neighboring East Asian countries – which led to a growth in exports, domestic demand remained so weak that in 2002 the country's gross domestic product in real terms again only barely exceeded the previous year's level. The high level of national debt and the large budget deficit of around 7 percent of GDP allowed the government no room for further economic measures. The expansionary monetary policy measures also had hardly any effect on domestic demand in the face of falling consumer prices.

In 2002, the emerging countries of East Asia, that is, East Asia excluding Japan and China, recovered quickly from the previous year's economic slump. At around 4 percent in real terms, the gross domestic product of this region experienced explicitly stronger growth than that of the world economy. The People's Republic of China, whose economy has been showing quick and continuous growth for many years, again achieved a growth of almost 8 percent in real terms.

Economic activity in the euro zone weakened further compared to 2001. Stronger growth was restricted by falling levels of investment, an extremely small increase in private consumer spending and the hesitant relaxation of monetary policy. The only contribution to growth came from a pickup in exports. This state of affairs meant that the twelve countries of the European Currency Union only achieved a 1 percent rise in macroeconomic production with the economies of Ireland, Greece and Spain showing above-average growth.

Germany, with a slight increase in real GDP of 0.2 percent, experienced the weakest growth in the European Union. This poor economic development slowed the rate of growth in the European Union as a whole. Investment in Germany fell in 2002 by around 6.7 percent in real terms on top of a 5.3 percent drop the year before. Spending on private consumption declined by 0.6 percent in real terms. Public spending rose by 1.5 percent in real terms leading to a budget deficit of 3.6 percent of gross domestic product in the face of a sharp drop in tax revenues. This also meant that the deficit criterion of the Euro Stability Pact was not met. The unemployment rate in terms of the entire civilian working population rose from 9.4 percent to 9.8 percent. The slight economic growth, the ongoing discussions on tax increases and other levies and the depressed state of the labor market had such a negative impact on the consumer climate that 2002 was one of the worst years on record in the German retail industry's post-war history.

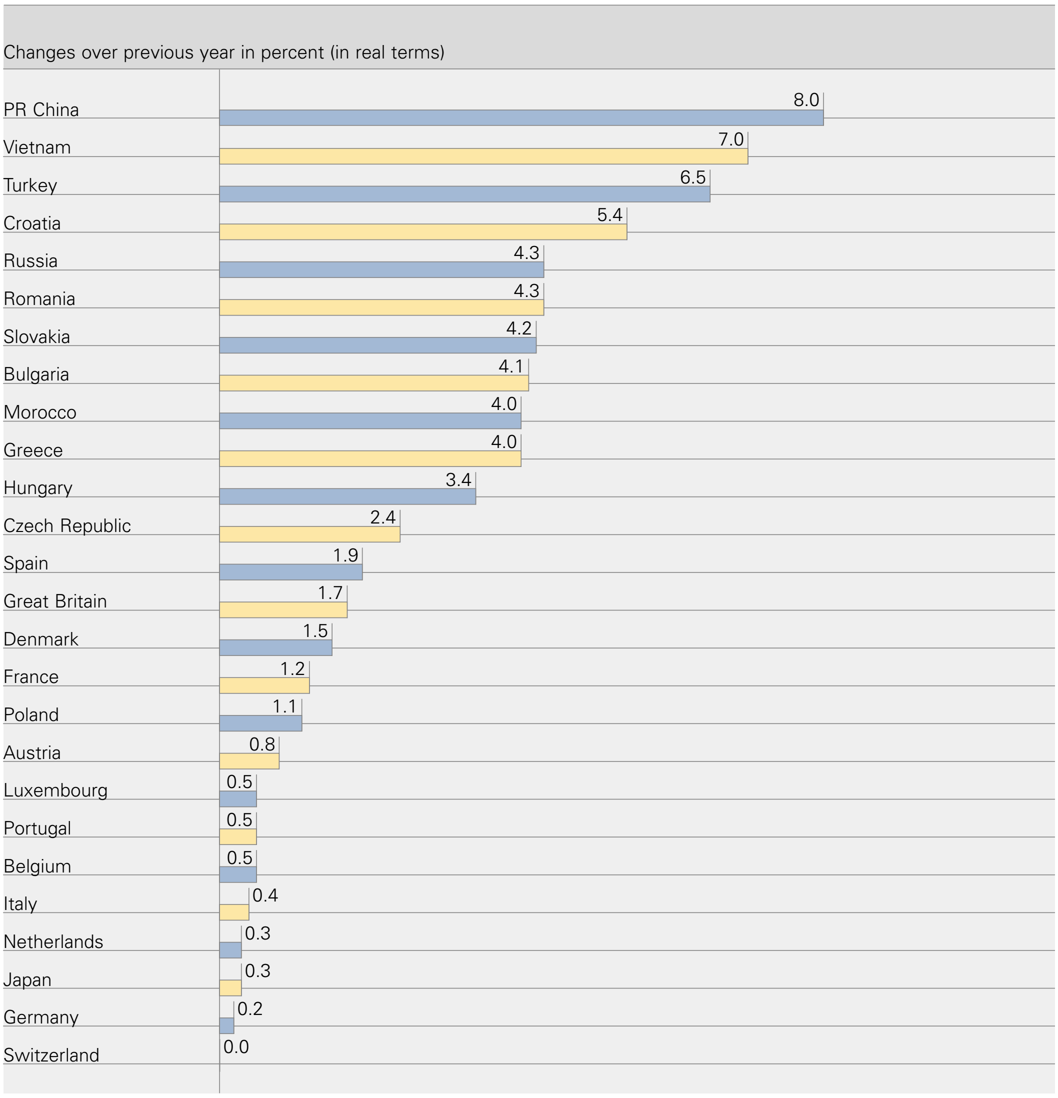
Business activity of retail industry in Germany

The retail trade turnover, including sales from motor vehicles and gas stations, fell in nominal terms by 0.1 percent to € 507 billion. In real terms this equals a drop of 0.8 percent.

Turnover from retailing proper (excluding motor vehicle, fuel, gasoline, lubricant and pharmacy sales) dropped by as much as 1.5 percent in nominal terms to € 375 billion, a fall in real terms of 2.1 percent. The pressure caused by the increasing selling space continued unabated and restrained spending on the part of consumers led to greater price competition. The discussions on the alleged price rises following the introduction of the euro at the beginning of the year also had a negative impact on business development in general. In addition, consumer confidence fell in light of increase in taxation and other fiscal charges following the parliamentary elections.

2002 was also a difficult year for the German wholesale sector. The wholesale trade in consumer durables and consumables stagnated (-0.5 percent in nominal terms and +0.4 percent in real terms). Development in wholesaling including the food, beverage and tobacco segments was similarly poor (constant in nominal terms and -0.3 percent in real terms).

Development of gross domestic product in the METRO Group countries in 2002

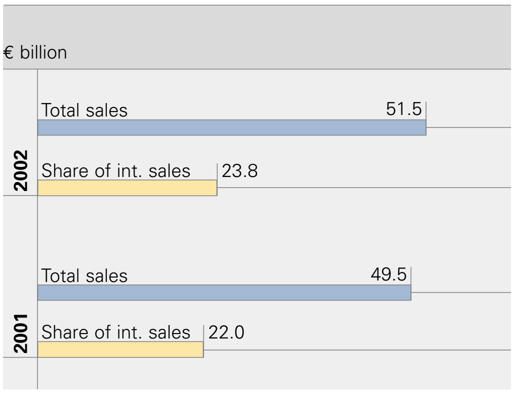


Sources: FERI, IMF.

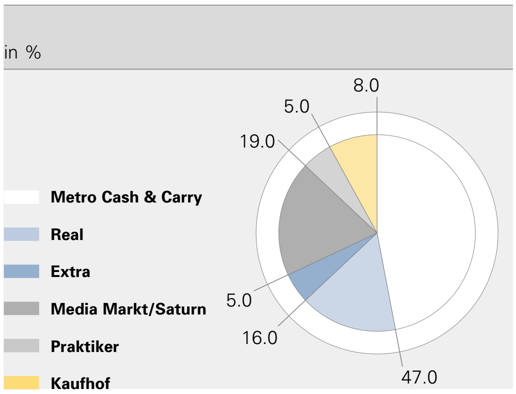
Group sales

In fiscal year 2002 the METRO Group increased its sales by 4.0 percent from € 49.5 billion to € 51.5 billion with sales in the sales divisions growing by 4.4 percent to € 51.1 billion. The Group's growth was considerably affected by exchange rate fluctuations. Adjusted for these effects, the sales divisions increased their sales by 5.0 percent with the increase at Group level coming in at 4.7 percent. This development reflects the operating efficiency of the METRO Group in an industry environment primarily characterized by declining sales. The Group's sales growth was considerably higher than that of its major competitors.
The proportion of international business to the Group's total sales increased from € 22.0 billion to € 23.8 billion, rising to 46.3 percent compared to 44.4 percent in the previous year. The company's consistent internationalization process meant that it was less dependent on the difficult situation in the German domestic market. At the same time the METRO Group was also able to share in the dynamic development of the emerging markets in Eastern Europe and Asia.

Volume of Group sales



Contribution of sales divisions to Group sales in 2002



Metro Cash & Carry

Metro Cash & Carry showed a very positive performance in 2002 due to the success of its continued internationalization process and the further expansion of its outlet network at home and abroad. Despite negative exchange rate effects in Turkey and Romania, total sales in 2002 rose by 5.5 percent from € 22.7 billion to € 24.0 billion. Adjusted for these exchange rate effects sales of the cash & carry outlets grew by 6.4 percent and on a like-for-like basis increased by 0.6 percent. In Germany sales went up by 1.7 percent from € 5.4 billion to € 5.5 billion. The increased share in sales of inexpensive, high-yield private labels such as "Aro" and "Metro Quality" had an impact on the development of sales.
Metro Cash & Carry's proportion of international business to total sales increased to 77.0 percent and was thus 0.9 percentage points higher than in the previous year.
Metro Cash & Carry added 53 stores to its location network thereby further expanding its position as world market leader in the self-service wholesale sector. At the end of 2002 the sales division was operating in 24 countries with a total of 437 stores. In Germany the sales division strengthened its outlet chain mainly by acquiring 25 small selling-space Spar self-service wholesale stores effective May 1, 2002.
As in previous years, Asia and Europe remained the primary focus of the sales divisions´ international expansion. Metro Cash & Carry significantly increased its market presence in Asia. The sales division created the basis for further growth in the region with its entry into the Vietnamese market at the end of March 2002 and its Japanese market entry in December 2002. In Western Europe a total of nine Eco stores, one Classic store and one Junior store were opened in the fiscal year just ended. Metro Cash & Carry expanded by opening 12 Junior stores in Eastern Europe, four of which were in Romania.
Thereby, the total selling space of all Metro and Makro Cash & Carry stores increased to 3.4 million square meters in 2002 compared to 3.2 million square meters in the previous year.

Real

The Real hypermarket stores experienced a slight decline in business development in 2002; however, the sales division managed to hold its ground better than its competitors in a difficult environment. Real's sales were influenced by significant exchange rate effects in Poland and Turkey and fell by 2.1 percent from € 8.4 billion to € 8.2 billion. On a like-for-like basis this corresponds to a 2.5 percent decline in sales.

In Germany, where Real generates around 90 percent of its total sales, annual sales came in at € 7.4 billion, just below (1.2 percent) the level of the previous year. The marked growth in high revenue private labels in the food area had a significant impact on the sales development of the division. On a like-for-like basis the drop in sales amounted to 1.4 percent. The further optimization of the merchandizing concept meant that the Real hypermarket stores were able to outperform the weak development in the German food retailing industry and gain further market share. The refurbishment and modernization of stores along with the consistent development of the shop-in-shop concepts had a positive impact on business development, particularly in the nonfood area. New shop-in-shops established throughout Germany included 25 shops of the fashion brand "U.S. Polo Association", 21 book shops of the "B.O.B. Best of Books" company, a further 51 in-store bakeries, 31 "Beauty & More" drugstore and toiletry departments and 11 "Baby, Kids & Co." departments. As in the previous year the Payback customer loyalty program in which customers participate as members of the "real,- club" provided a particular stimulus to sales. More than half of the Real hypermarket stores' total sales, i.e. 57 percent, came from Payback customers. In the previous year the Payback share in total sales amounted to 51 percent. On average, Payback customers spend around 55 percent more per shopping expedition than customers who do not participate in the program.

The sales division managed to consolidate its strong market position in Poland although sales in the Real hypermarkets did not reach the level of the previous year due to a significant upward revaluation of the euro against the zloty. Exchange rate effects in Turkey also had a considerably negative impact on the sales development.

In 2002 the chain of hypermarket stores was expanded by opening one new store in Cuxhaven (Northern Germany). At year-end 2002 Real had a total of 278 hypermarkets, 247 in Germany and 31 abroad.

Extra

The Extra convenience stores achieved sales of around € 2.8 billion in 2002. In comparison with the previous year's figure of € 3.0 billion this thereby constitutes a decrease of 4.9 percent or 6.7 percent on a like-for-like basis. The causes of this development were the difficult industry conditions, increased competition and surplus capacities in the German retailing sector.

As a response to the general declining trend in small-scale food retailing in Germany, the sales division consistently continued to optimize its outlet network and modernize its stores during the year under review. A further 15 stores were converted to the innovative Extra marketing concept so that at the end of the year under review a total of 283 Extra stores were working on this basis. Sales in these stores developed much better than those in the stores that have not yet been converted. The number of in-store bakeries was also increased by 26 to a total of 161.

As part of the consistent optimization of the outlet network, 18 Extra locations were closed or transferred to franchise operation. Nine new stores were opened. At year-end the Extra convenience store outlet chain comprised 491 locations throughout Germany. The total selling space fell from 867,000 square meters to 863,000 square meters.

Media Markt/Saturn

In fiscal year 2002, the consumer electronics centers of the Media Markt/Saturn sales division continued to expand their leading position and increase sales significantly despite the general decline in the industry as a whole. Total sales in the Media-Saturn group rose by 14.9 percent from € 8.3 billion to € 9.6 billion, equating to a 3.4 percent sales growth on a like-for-like basis. In Germany the Media Markt/Saturn sales division achieved a 9.6 percent increase in sales to € 6.1 billion. This is equivalent to an increase in like-for-like sales of 1.8 percent. The market share of Media Markt/Saturn in Germany increased.

Contrary to the general market trend, the division's consumer electronics stores in European countries other than Germany also increased their sales significantly, by 25.3 percent from € 2.8 billion to € 3.5 billion. On a like-for-like basis, this corresponds to a rise of 6.5 percent. The proportion of the division's international business to total sales rose to 36.8 percent compared to 33.8 percent the previous year.

Media Markt/Saturn continued the consistent expansion of its outlet chain in 2002 with stores being opened at 39 new locations. As a result, the total selling space increased from 976,000 to 1,129,000 square meters in the year under review. In Germany 17 new stores were added to the outlet chain, namely eight stores of the retail brand Media Markt and nine Saturn stores. Ten outlets of the "Licht" sales unit were also incorporated in Media Markt stores in Germany.

Media Markt/Saturn pursued its ongoing expansion into other European countries, opening up 22 new locations. Abroad, the following new stores were opened: one Saturn store in Austria, one Media Markt in Switzerland, four Media Markt stores in Spain, two Saturn stores in France, one Media Markt in Hungary, seven Media Markt stores and one Saturn store in Italy, three Media Markt stores in the Netherlands and one Media Markt in Poland. Also, in December 2002 the first Media Markt was set up in Antwerp as part of the entry into the Belgian market. This means that the sales division now operates in ten European countries. At the end of 2002, the outlet chain of Media-Saturn group included 386 stores, 249 in Germany and 137 abroad.

Praktiker

In 2002 the Praktiker sales division improved its market position despite a declining trend in the market, generating sales of € 2.6 billion. This is equal to a growth of 1.6 percent compared to the previous year, or 0.9 percent on a like-for-like basis.

The further optimization of the outlet chain meant that sales in Germany dropped by 2.7 percent from € 2.1 billion to € 2.0 billion. On a like-for-like basis, sales almost reached the level of the previous year.

Abroad, the Praktiker home improvement centers experienced dynamic business development. The proportion of international sales in 2002 rose by 19.7 percent from € 483 million to € 578 million or 9.4 percent on a like-for-like basis. The sales growth of the sales division was particularly high in Greece and Hungary. The proportion of international to total sales rose from 19.0 percent to 22.4 percent in 2002.

In the process of further improving its location portfolio Praktiker reduced the number of stores in Germany from 297 to 294 during 2002. One store in Austria was closed. In Hungary and Turkey Praktiker opened two new stores. The sales division completed its entry into the Romanian market by opening the first German home improvement center in Bucharest. This meant that the number of locations abroad rose from 50 to 52. At the end of fiscal year 2002 Praktiker´s outlet chain included a total of 346 locations.

Kaufhof

The Kaufhof department stores managed to achieve a better performance than their competitors generating total sales of € 3.9 billion in fiscal year 2002, which is only slightly ,i.e. 1.8 percent, below the level of the previous year. Like-for-like sales fell by 4.5 percent. Those department stores already converted to the Galeria concept, comprising more than 80 percent of the total selling space of the sales division, again reported a significantly improved sales development in comparison with the other stores. In the year under review, two more stores were converted to the Galeria concept in Germany and work began on the conversion of the first Inno department stores in Belgium.

The consistent expansion of the Payback customer loyalty program also had a beneficial impact on Kaufhof's sales development. One proof of customers' positive response to the Kaufhof Galeria card

was the fact that the proportion of sales generated by Payback customers rose from 21.7 percent in 2001 to 33.1 percent in 2002.
The Belgian Inno department stores, which have been consolidated since April 2001, again recorded growing sales in fiscal year 2002 contributing € 242 million to the sales divisions' total sales.
The sales divisions´ location network increased to a total of 150 department stores in 2002 with the opening of one new Galeria Kaufhof store in Berlin and a new Sportarena store in Osnabrück.

Development of Group sales and divisional sales (net)

	2002 € million	2001 € million	Changes over prior year € million	%
Metro Cash & Carry	23,972	22,726	1,246	5.5
Real	8,198	8,375	-177	-2.1
Extra	2,835	2,980	-145	-4.9
Media Markt/Saturn	9,583	8,341	1,242	14.9
Praktiker	2,584	2,543	41	1.6
Kaufhof	3,900	3,971	-71	-1.8
Metro sales divisions	51,072	48,936	2,136	4.4
Other companies	454	586	-132	-22.5
METRO Group	51,526	49,522	2,004	4.0
of which abroad	23,835	21,979	1,856	8.4

Portfolio of locations in Germany and abroad

Number of stores per country

Country	Metro Cash & Carry		Real		Extra		Media Markt/ Saturn		Praktiker		Kaufhof		METRO Group[1]	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
Germany	109	83	247	246	491	500	249	242	294	297	135	133	1,744	1,734
Belgium	6	6					1	0			15	15	22	21
Bulgaria	7	6											7	6
PR China	16	15											16	15
Denmark	4	4											4	4
France	78	75					16	14					94	89
Greece	6	6							7	7			13	13
Great Britain	29	28											29	28
Italy	39	35					42	34					81	69
Japan	1	0											1	0
Croatia	2	1											2	1
Luxembourg									3	3			3	3
Morocco	5	5											5	5
Netherlands	15	14					9	6					24	20
Austria	11	11					21	20	5	6			40	40
Poland	20	19	25	25			16	15	16	16			77	75
Portugal	9	9											9	9
Romania	15	11							1	0			16	11
Russia	3	2											3	2
Switzerland							12	11					12	11
Slovakia	4	4											4	4
Spain	25	23					13	9					38	32
Czech Republic	10	9											10	9
Turkey	9	7	6	6					7	6			22	19
Hungary	12	11					7	6	13	12			32	29
Vietnam	2	0											2	0
Abroad	328	301	31	31	0	0	137	115	52	50	15	15	566	515
Total	437	384	278	277	491	500	386	357	346	347	150	148	2,310	2,249

[1] including 222 (previous year: 236) Dinea restaurants, thereof 219 (previous year: 233) in Germany and 3 (previous year: 3) in Austria.

Capital expenditure

In fiscal year 2002 the total capital expenditure of the METRO Group amounted to € 1.8 billion, of which € 269 million account for finance leases. 49 percent of the investment volume was ploughed into the Group's continued international expansion of the high-return and high-earning sales divisions Metro Cash & Carry and Media Markt/Saturn accounting for the major share.

The capital expenditure volume of Metro Cash & Carry totaled € 750 million in 2002. This was € 89 million less than in the previous year but account must be taken of the considerable investments made in 2001 for the acquisition of shares held by other partners in France and Hungary.

In the year under review, Metro Cash & Carry focused its investment activity, among other things, on the Asian region and the expansion of its Eastern European outlet chain. In Western Europe Metro Cash & Carry primarily concentrated its investments on setting up new stores in the Eco format and modernizing and converting existing stores to the "Store of the Future" concept in Germany. 19 of the 30 stores in total that were converted to "Stores of the Future" during 2002 are located in Western Europe with seven in France, five in Great Britain and three in Germany.

The Real sales division made investments totaling € 159 million in fiscal year 2002 compared to € 248 million in fiscal year 2001. The emphasis of this investment activity was in Germany which accounted for € 140 million. This was used to modernize additional stores and optimize the location network.

In the fiscal year just ended, the Extra convenience stores spent a total of € 42 million on investments compared to € 66 million in the preceding year. The focus here was on the conversion of 15 stores to the Extra merchandizing concept and the opening of nine new stores.

Capital expenditure in the Media-Saturn group amounted to € 350 million in 2002 and was thus € 86 million higher than the previous year's figure of € 264 million. This amount also includes, among other things, the acquisition costs for the purchase of shares of other partners. Investments were made both at home and abroad, focusing particularly on further expanding the outlet networks, creating additional selling space and modernizing stores. For example, 15 stores in Germany and 13 abroad were adapted in accordance with increased customer expectations in respect of store layout and the presentation of merchandize.

The investment volume of the Praktiker sales division amounted to € 37 million in fiscal year 2002, 5.1 percent below the previous year's level. Above all, the optimization of the merchandizing concept accounted for most of the expenditure in Germany with the emphasis on measures to highlight the assortment and price competency in the Praktiker home improvement centers. Abroad the sales division concentrated on the expansion of its international outlet network, with further store openings in Hungary and Turkey, and also the entry into the Romanian market.

Investments made by the Kaufhof department stores amounted to € 120 million in fiscal year 2002. Capital expenditure therefore did not reach the € 202 million spent in 2001 which included the acquisition of the Belgian Inno department stores.

The investment focus in Germany was on the conversion of more stores to the Galeria concept. The establishment of a new department store in Berlin and a Sportarena store in Osnabrück accounted for another part of the investment volume. In addition, investments were also made to further optimize business processes. In Belgium Kaufhof concentrated on converting the Inno stores in Mechelen, Namur and Liège to the Galeria concept along with various modernization measures.

Consolidated cash flow statement [1)]

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

€ million	2002	2001
Cash flow from operating activities	2,606	2,604
Cash flow from investment activities	(1,616)	(1,315)
Cash flow from financial activities	(1,343)	(841)
Total cash flows	(353)	448
Exchange rate effects on cash & cash equivalents	(6)	(18)
Overall change in cash & cash equivalents	(359)	430
Cash & cash equivalents at January 1	1,651	1,221
Cash & cash equivalents at December 31	1,292	1,651

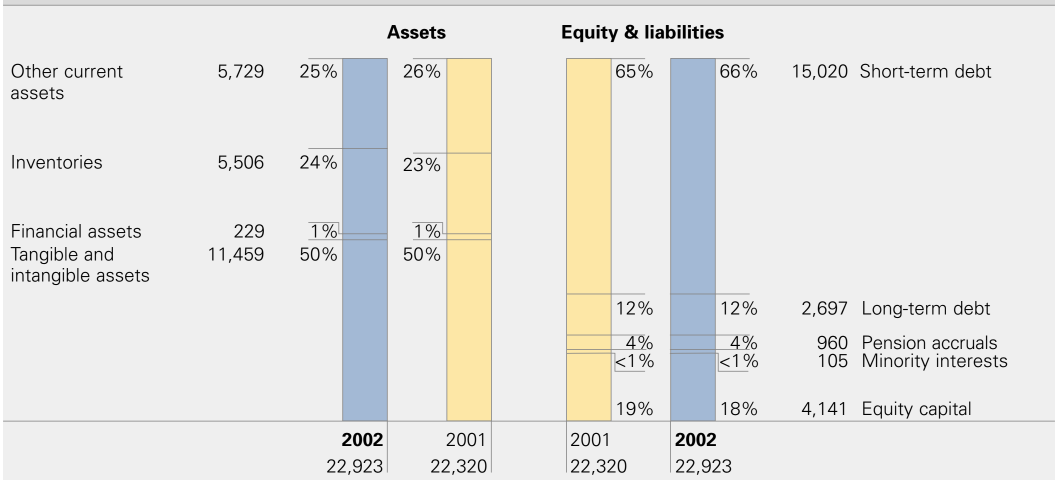
[1)] Abridged version: For full statement see consolidated financial statements.

Asset and capital structure

The METRO Group's 2002 balance sheet shows an equity capital of € 4,141 million. 35.4 percent of fixed assets are therefore covered by equity. Total assets of € 22,923 million bring the equity ratio to 18.1 percent. Net financial accounting indebtedness amounts to € 1,935 million, or 8.4 percent of the balance sheet total, after netting interest-bearing assets and liabilities.

Balance sheet structure of METRO Group

€ million



EBIT/EBITDA

In the period under review the METRO Group generated earnings (EBIT) of € 1,165.5 million. This corresponds to an increase of 3.1 percent over the previous year's result of € 1,130.2 million. The Group's EBITDA improved by 1.4 percent from € 2,382.6 million to € 2,416.0 million. This development in the METRO Group's results shows that it has managed to set itself apart from the generally negative industry trend to a considerable degree.

Development of the sales divisions' EBIT and the EBIT of the METRO Group

	2002 € million	2001 € million	Change € million	Change %
Metro Cash & Carry	709.1	625.5	83.6	13.4
Real	147.0	117.8	29.2	24.8
Extra	(47.2)	(14.4)	-32.8	-227.8
Media Markt/Saturn	280.2	223.9	56.3	25.1
Praktiker	(41.6)	(9.7)	-31.9	-328.9
Kaufhof	131.4	187.0	-55.6	-29.7
EBIT Metro sales divisions	1,178.9	1,130.1	48.8	4.3
Others	(13.4)	0.1	-13.5	–
EBIT METRO Group	1,165.5	1,130.2	35.3	3.1
Net financial result	(335.8)	(456.9)	121.1	26.5
Earnings before tax (EBT)	829.7	673.3	156.4	23.2
Income taxes	(327.8)	(224.3)	-103.5	-46.1
Consolidated net income	501.9	449.0	52.9	11.8
Earnings per share	1.36 €	1.23 €	0.13 €	10.4%

Earnings development of the sales divisions

In spite of start-up losses caused by expansion measures, the Metro Cash & Carry sales division increased its EBIT in 2002 by 13.4 percent from € 625.5 million to € 709.1 million. This improvement in EBIT is primarily attributable to the continuous optimization of the business processes and the cost structures.

The Real hypermarkets saw a marked improvement in their results for the third year in a row with EBIT rising by € 29.2 million from € 117.8 million to € 147.0 million. This is equivalent to an increase of 24.8 percent. Increased operating margins and lower selling expenses were the main contributors to this positive earnings development.

At the end of fiscal year 2002 the Extra convenience stores recorded an EBIT of € -47.2 million after € -14.4 million the previous year. This development is, above all, a result of a marked drop in sales and the continuation of investment activities to convert further Extra stores to the forward-looking Extra marketing concept.

In the year under review the consumer electronics centers of the Media Markt/Saturn sales division achieved a significantly improved EBIT of € 280.2 million equating to an increase of € 56.3 million or 25.1 percent. This improved result bears out the extraordinary earnings power of Media Markt/Saturn. This was achieved in the face of declining sales in the industry as a whole, extensive start-up losses throughout the ongoing consistent international expansion process and higher marketing expenditure.

At the end of fiscal year 2002, the EBIT of the Praktiker home improvement centers amounted to € -41.6 million after € -9.7 million in the previous year. This was primarily caused by targeted measures used by the sales division to highlight its merchandizing and price competency and to increase its market share. An increase in EBIT was recorded in Greece, Hungary, Poland and Luxembourg.

Kaufhof Warenhaus AG generated an EBIT of € 131.4 million in 2002 which constituted a drop of

€ 55.6 million compared to 2001. This earnings development reflects the general restrained spending on the part of consumers in 2002 and the associated decline in sales experienced by the Kaufhof department stores. Sales losses were only partly offset by the reduction of business costs during the process implemented to achieve an even more efficient organization of work processes.

Financial result

The investment income for fiscal year 2002 amounts to € 38 million. At the end of 2002 METRO AG and the financial investors holding shares in Divaco Beteiligungs AG & Co. KG (Divaco) decided to restructure Divaco and to realign it with a new and transparent structure. The operational retail businesses Adler Modemärkte (fashion), Reno-Schuhmärkte (footware), the interests in the Vobis and Maxdata computer activities as well as the prefab housing business were transferred to a new divestment company operating under the name "Divaco-neu". Sundry activities including some real estate and a large number of ongoing leases will be divested in the short term.
In this context a Divaco claim against Asset Immobilienbeteiligungen GmbH & Co. KG (AIB) resulting from a retail real estate transfer to AIB effected in 1999 amounting to € 120 million had to be taken into consideration. This has now been settled by METRO AG in the present financial statements. An additional € 60 million were made available to Divaco to cover restructuring expenses and the costs of winding up sundry activities.
On the other hand the investment income was influenced by the up-valuation of AIB amounting to € 150 million. This rather conservative valorization became necessary according to IAS 39 in the sense of a "Fair Value Measurement" after sales negotiations had been discontinued in the fall of 2002.

Group net profit and earnings per share

At € 501.9 million the consolidated net income for the year 2002 is 11.8 percent higher than that of the previous year. After deducting minority interests the Group net profit allocable to METRO AG stockholders amounted to € 443.4 million, up 10.4 percent on the previous year.
The METRO Group generated earnings per share of € 1.36 in the fiscal year 2002. This key indicator calculated on the basis of IAS 33 (Earnings per Share) shows an increase of 10.4 percent over the previous year's figure of € 1.23 computed on the same basis.
A dilution effect that might result from so-called potential shares (stock options) did not exist either in the year under review or in the previous year.
In fiscal year 2002 the calculation was based on a weighted number of 326,787,529 shares. The Group net profit of € 443.4 million due to the stockholders was distributed among that number of shares.

				Changes	
		2002	2001	absolute	%
Consolidated net income	€ million	502	449	53	11.8
Minority interests	€ million	(59)	(48)	-11	22.9
Group net profit after minority interests	€ million	443	401	42	10.4
Weighted number of shares issued	shares	326,787,529	326,787,529	–	–
Earnings per share	€	1.36	1.23	0.13	10.4

Balance sheet profit of METRO AG and dividend proposal

In the year under review METRO AG received income from shareholdings of € 1,248 million from its subsidiaries compared to € 1,154 million in the previous year. After write-downs on financial assets (€ 79 million) and inclusion of other income, expenditure and taxes, the company shows an annual net income/balance sheet profit of € 342 million compared to € 334 million in the year 2001.
The Supervisory Board and Management Board of METRO AG will propose to the annual general meeting that the reported balance sheet profit of € 342 million be used to pay a dividend in the amount of € 334 million and that the remaining € 8 million be carried forward. This will result in a dividend distribution of

€ 1.020 per common stock and of
€ 1.122 per preferred stock.

EVA – Instrument of corporate management

Value-oriented corporate management consistently continued

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

EVA as the central benchmark to measure value growth

A positive EVA is achieved when NOPAT exceeds the capital cost required for the financing of the capital employed.
NOPAT is defined as the net operating profit before financing cost but after deduction of income tax. To determine the cost of capital the working capital is multiplied by the capital cost rate (WACC = "Weighted Average Cost of Capital") which in turn is the weighted mean value of the cost of equity capital and borrowed capital. The capital employed is 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:

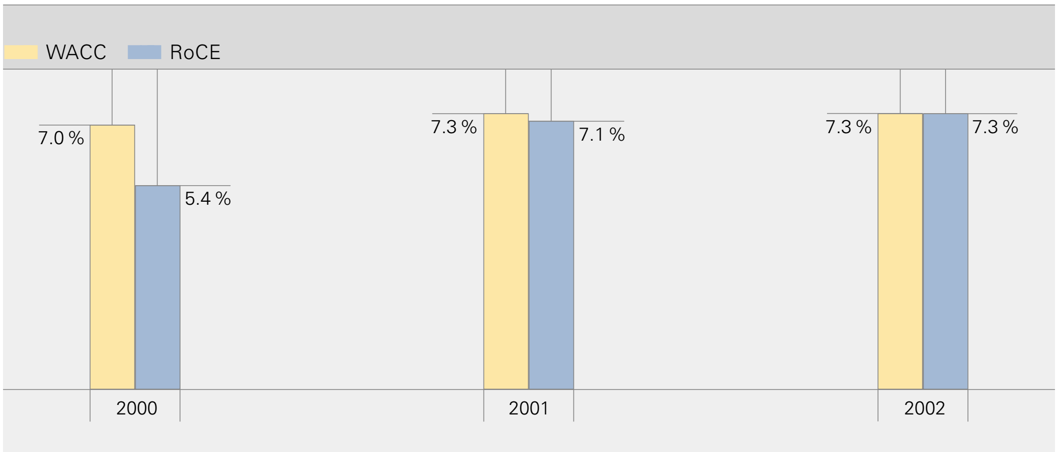
EVA = NOPAT minus capital cost
or
EVA = NOPAT minus (capital employed multiplied by weighted average cost of capital rate)

EVA is calculated by deducting the cost of capital from the NOPAT of the Group and of the sales divisions. The crucial value for the assessment of the 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 where the highest value enhancement can be expected. In this sense, EVA performs a resource allocation function. Accordingly, the development of EVA also constitutes the major element in the variable compensation system of the METRO Group executives. All the way from the Management Board of METRO AG to the store managers of the sales divisions the major portion of their variable income is linked to the delta EVA of their respective business units.

EVA and delta EVA within the METRO Group

In the year 2002 the METRO Group consistently continued its corporate strategy geared to achieving profitable growth. After RoCE (Return on Capital Employed) had been increased by 170 base points from 5.4 percent to 7.1 percent in the year 2001 it further improved to 7.3 percent in 2002. Thus, the Group further increased EVA and almost covered its cost of capital for the first time.

Development of the weighted average cost of capital (WACC) and the return on capital employed (RoCE)



Due to the increase of the operating results of the sales divisions the NOPAT* of the METRO Group went up by € 63.6 million to € 1,472.1 million. The capital employed of the METRO Group rose by € 360.2 million to € 20,297.3 million. As a result of the further optimization of the business processes it was again possible in 2002 to achieve a below-average increase of capital employed in comparison with the growth in sales revenues. With the WACC remaining unchanged at 7.3 percent the cost of capital increased by € 26.2 million rising to € 1,481.6 million.
This means that in the year 2002 the METRO Group further increased both the profitability of its sales and the efficiency of the capital employed. The return on sales as a function of the NOPAT grew from 2.84 percent to 2.86 percent while the capital turnover improved from 2.48 to 2.54.

€ million	2002				2001	
	NOPAT*	Capital employed	Cost of capital	EVA	EVA	delta EVA
Metro Cash & Carry	693.9	5,014.2	366.0	327.9	262.1	65.8
Real	294.0	4,897.2	357.5	(63.5)	(88.7)	25.2
Extra	18.0	1,487.4	108.6	(90.6)	(76.3)	(14.3)
Media Markt/Saturn	243.9	1,282.1	93.6	150.3	129.8	20.5
Praktiker	67.5	2,589.4	189.0	(121.5)	(82.5)	(39.0)
Kaufhof	112.5	2,202.0	160.7	(48.2)	(14.1)	(34.1)
Metro sales divisions	1,429.8	17,472.3	1,275.4	154.4	130.3	24.1
Other companies/ consolidation	42.3	2,825.0	206.2	(163.9)	(177.2)	13.3
METRO Group	1,472.1	20,297.3	1,481.6	(9.5)	(46.9)	37.4

* Net operating profit after tax

The positive development of EVA in the METRO Group shows that the value-oriented corporate management is proving successful. Creating value has become a matter of course as a common target for all employees of the METRO Group.

Risk report

Risk management is the target-oriented protection of existing and future success potentials and it forms an integral part of the METRO Group's value-oriented corporate governance. Risk management in the METRO Group is based on a systematic process of risk identification, assessment and control that is applied throughout the whole Group. By controlling risks in this way, the Group's assets, its financial position and earnings situation are secured and Group management is able to recognize unfavorable developments early, i.e. before any damage is done. As a result, corrective action can be taken promptly where necessary.

Efficient organization of risk management: The Management Board of METRO AG has set up a central risk management function whereby risk management officers keep the Management Board informed at all times of the main developments in risk management as they occur. The risk management officer is responsible for compiling a risk report, based on an annual Group-wide risk audit, containing all the main elements of potential risk in the METRO Group.
One of the main responsibilities of the METRO Group's Central Risk Management unit is to ensure a Group-wide exchange of information related to risk issues and to further develop risk management activities in all the sales divisions and Group units. This involves coordinating the Group-wide recording and systematic evaluation of all major risks in accordance with uniform standards. The results are summarized by the risk management officer in a risk portfolio which is used to assess the complete risk situation for the METRO Group as a whole.

EVA as a benchmark: In the METRO Group the acceptance of risks is guided by the principle of sustainable 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 utilized especially for investment decisions. Entrepreneurial risks are accepted in those cases where the risks are manageable and where the opportunities involved promise a reasonable increase in value.

Principles of risk management policy: Risks incurred in conjunction with the core processes of wholesale and retail trading are borne by the METRO Group itself. Core processes in this context are the development and implementation of the relevant business models, the procurement of merchandize and services, decisions on location, the securing of liquidity and 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 trading and retailing 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 handled. 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, analysis and control: 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 several sets of rules, for example in the articles of association and by-laws of the Group companies and in internal Group guidelines. The METRO AG Risk Management Manual contains information on the function of the risk management system, offers a comprehensive overview of possible risk areas and assigns 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. To achieve this, the so-called "net principle" is applied; it describes the residual risk that exists after all possible risk reduction measures have been implemented.

Central role of Group reporting in internal risk communication: The Group reporting system is the main vehicle 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 specific indicators. If and when certain threshold values are exceeded the risk reporting system will alert the management in charge to the developments in question. Risks occurring suddenly are communicated to the specified decision-making bodies by an express communication system set up especially for this purpose.

Consistent risk monitoring: Monitoring the implementation and the effectiveness of risk management measures is part of the responsibility 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. A self-audit checklist helps the operating companies to ensure that their risk management systems are complete and up-to-date.
All the centralized and decentralized risk management measures are checked for feasibility, topicality, completeness, reliability and effectiveness by the Group audit department of METRO AG which reports directly to the Chief Executive Officer. In addition, audits are performed at Group company level by the appropriate internal audit departments. In accordance with the provisions of KonTraG (Law on Control and Transparency in the Corporate World) our risk management system is assessed by external auditors on a periodic basis and the Management and Supervisory Boards are informed of the findings of this assessment.

The risk audit (internal and external risks) has identified the following major risks:

Business risks: Fierce competition in the international wholesale and retail businesses and the rivalry between different merchandizing concepts, product offerings and service qualities are characteristic features of trading. Risks are also inherent in the typical dependence of the trade on consumers' readiness to spend money. Admittedly, the increasing internationalization of the METRO Group business reduces its dependence on the economic and legal framework in Germany, yet at the same time the Group has to face additional economic, legal and political risks in other countries, not least the emerging markets. 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. An example of a risk emanating from the legal environment is the current implementation of the new packaging regulation in Germany involving a mandatory deposit on disposable packaging ("Einwegpfand").
Changes in consumer behavior require the constant adjustment of merchandizing 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 such as time series analyses (e.g. the observation of products in the market over a certain period of time) or trend extrapolations (market development forecasts) based on sales figures available internally or on the results of market research. Consistent benchmarking against competitors provides ideas for the qualitative improvement of merchandizing concepts. First of all, the practicability and acceptance of concepts are verified in test markets and the concepts are subsequently rolled out nationally with the help of a clearly structured project organization. Continuous capital expenditure ensures that the sales divisions always have a competitive portfolio of store locations.
Since the bricks-and-mortar trade is characterized by a high merchandize turnover and a large diversity of products, organizational, IT and logistics risks are involved. The international focus of the METRO Group that calls for merchandize assortments to be adapted to national and local habits even increases these risks. Problems in the value chain, in the supply of goods, for example, can lead to the risk of business interruption. Risks of this kind are counteracted by way of internal backup systems, the parallel use of several service providers and 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 and retailing company, the METRO Group depends on third-party providers for its supply of goods and services. Careful monitoring of market conditions, a broad base of suppliers along with 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 aimed at ensuring 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 recruit and retain these employees in the Group in an environment of intense competition. In the expansion-oriented countries in particular there is a considerable need for qualified staff. This requires appropriate efforts in the area of in-house 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 competency.
Personnel management along with training and HR development measures ensure 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 pay components related to business performance on at least three management levels. Direct participation in corporate success (EVA) boosts staff identification with the METRO Group and sharpens their awareness for opportunities and risks in all entrepreneurial decisions.

Financial risks: Financial management at METRO AG controls the METRO Group's financial risks. Specifically, these are
- the interest rate risk,
- the currency risk and
- the creditworthiness risk.

The organization of the financial management of METRO AG is aware of the requirements in these matters and applies the "Minimum Requirements for the Conduct of Trade Transactions" (MaH in German) generally used only by banks. This means that the financial management division within METRO AG is in complete compliance with the requirements of the law on control and transparency in the corporate world (KonTraG). The management of interest rate and currency risks is governed by treasury guidelines which lay down the general principles of risk containment.

Interest rate risk: Interest rate risks are caused by market-induced fluctuations of interest rates. They affect both the level of interest payments within the METRO Group and the value of financial instruments.

Currency risk: Merchandize is generally purchased locally in the individual countries and paid for in the local currency. Sales are also implemented primarily in the local currency. The currency risk element involved in this merchandize cycle is therefore very low. However, the METRO Group does face risks from changes in exchange rates when it buys merchandize internationally and when it incurs costs in currencies other than the local currency or those which are linked to the development of another currency.

Creditworthiness risk: Creditworthiness risks may arise when business partners fail to perform, for example, due to insolvency or in cases involving deposits or derivative financial instruments.
The METRO Group only concludes financial transactions with business partners with an impeccable credit standing. Within the creditworthiness management function, minimum credit standing requirements and individual commitment limits are set for all partners of the METRO Group. The METRO Group has only a very limited exposure to credit risks.

Summary of the risk situation in the METRO Group

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 no such risks are currently discernible for the future.

Financial management

The financial management of METRO AG is responsible for controlling the METRO Group’s financial management activities. The central organization of the financial management within the METRO Group guarantees a uniform image of the Group in the financial markets, optimum utilization of synergy effects from the pooling of the Group companies’ financing volumes and a risk management system that takes all these factors into account.

Group financing: By centralizing the financial management function, METRO AG has committed itself to ensure that sufficient and cost-effective coverage for the financial requirements of the companies within the METRO Group for operating activities or investments is available at all times by means of Group financing. The information required for this is provided by a regularly updated rolling Group budget prepared by all the companies involved.
Funding requirements are covered by money market and capital market instruments (including commercial papers and bonds offered within continuous issue programs), as well as bilateral and syndicated bank loans. The METRO Group has access to an adequate liquidity reserve at all times so the Group will not have its financial flexibility impaired even in the event of unexpected occurrences with negative financial consequences.
The financial management of METRO AG is also responsible for arranging and providing loans as well as for offering financial assistance to Group companies in the form of guarantees and letters of comfort.

Communication with the financial markets and ratings: Open communication with the relevant market players and rating agencies is crucial to the successful utilization of the capital market. Ratings, for example, communicate the credit standing of the METRO Group to potential investors. Currently, the METRO Group is rated as follows by the two rating agencies:

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

The METRO Group views the downgrading of its long-term rating by Standard & Poor’s in December 2002 more as a negative assessment of the trading environment in Germany and of a high risk sensibility in the financial markets. This was also reaffirmed by Moody’s assessment in January 2003 which confirmed the long-term rating of the METRO Group as Baa1, albeit with a negative outlook.

Interest rate and currency risk management: The aim of the METRO Group’s interest rate and currency risk management function is not to take advantage of current or anticipated market situations in order to optimize results. On the contrary, the METRO Group has laid down its risk containment policy in its treasury guidelines: Every hedging transaction must be concluded in accordance with predefined limits and may on no account lead to an increase in risk exposure.
Only marketable derivative financial instruments may be used for hedging transactions, those which may be accurately represented and evaluated in the treasury systems both for financial and accounting purposes. These instruments are as a rule reported in the balance sheet together with the underlying business transactions (“hedge accounting”).

Cash pooling and intra-group clearing: Intra-group cash pooling reduces the level of borrowed capital and optimizes the METRO Group’s investments on the money and capital markets which has a positive impact on the net interest result. Cash pooling allows the surplus liquidity of individual Group companies to be used to fund other Group companies internally.
Offsetting trade payables and receivables between the Group companies via internal accounts lessens the number of bank transactions which in turn considerably reduces banking charges.

Supporting the Group companies: METRO AG draws on all the financial know-how pooled in its financial management to advise the Group companies in financial matters and provide support. This support ranges from supplying ideas in principle for financing investment projects to supporting the finance representatives of the individual companies in meetings with local banks and financial service providers. This ensures that the financial resources of the METRO Group are employed in an optimum manner both in Germany and abroad; it also means that all the Group companies are able to share in the strength and good credit standing of the METRO Group when it comes to negotiating their financing terms.

Corporate governance

In this section the Management Board and the Supervisory Board report jointly on Corporate Governance as practiced by METRO AG and the METRO Group. The Corporate Governance Code of METRO AG was published in June 2002 and has since been available on the Internet. It demonstrates that METRO AG committed itself at a very early stage towards meeting especially the demands and expectations of the international capital markets as well as their ideas of good corporate governance. This has further improved the high standard of business practices both at METRO AG and within the METRO Group. The principles contained in the code are intended to promote and increase confidence in METRO AG as an excellent partner on the capital, employment, sales and procurement markets, both at the national and international levels. In addition to the statutory basic requirements of corporate governance, the Corporate Governance Code of METRO AG also includes the voluntary recommendations of the "German Corporate Governance Code" of 26 February 2002.
On 19 December 2002, both the Management Board and the Supervisory Board of METRO AG made the first declaration of compliance with the recommendations of the government commission on the "German Corporate Governance Code". This declaration was made available to the shareholders on the Internet home page of the company from 19 December 2002 forward and reads as follows: "METRO AG is in compliance with the recommendations of the government commission on the German Corporate Governance Code."
METRO AG has incorporated more extensive conditions into its Corporate Governance Code in order to document how it aims to manage and control the company in a responsible manner for the purpose of improving corporate value. The Corporate Governance Code of METRO AG includes a description of the objectives and structure of METRO AG and the METRO Group along with explanations of the basic shareholder rights and shareholder relations, the responsibilities and duties of the Management Board and the Supervisory Board and the requirements with regard to transparency and accounting.

The Corporate Governance Code of METRO AG is implemented, among other ways, by the following measures:

- The Management and Supervisory Boards must discuss compliance with the recommendations of good conduct at least once a year. With the agreement of the Chairman of the Supervisory Board, the Management Board has appointed the Head of the Audit Department to the position of Corporate Governance Officer to monitor compliance with the principles.
- The individual obligations of the members of the METRO AG corporate bodies are laid down in both the rules of procedure of the Management and Supervisory Boards and in the contracts of the Management Board members, particularly in respect of conflicts of interest and obligations relating to information, disclosure and publishing. Common values and rules of good conduct are thereby firmly established.
- Ownership of shares, including stock options and derivatives, by individual Management and Supervisory Board members shall be declared if such direct or indirect ownership exceeds one percent of the shares issued by the company. Should the total share ownership of all the Management and Supervisory Board members exceed the above values, all ownership details shall be disclosed separately for the Management and the Supervisory Boards.
- For the handling and preparation of complex Supervisory Board issues within committees, the Supervisory Board has formed, along with the legally prescribed Mediation Committee, the Supervisory Board's Presidential Committee, the Personnel and Nominating Committee and the Annual Accounts and Audit Committee.

- By meeting the defined information and disclosure obligations more transparency will be created. Thus, the composition of the remuneration of Management and Supervisory Board members shall therefore be disclosed and the stock options granted to the Management Board members in the period under review shall be published individually.
- Prior to submitting the proposal for the appointment of an auditor, the Supervisory Board shall obtain the proposed auditor's declaration of impartiality. The auditor's responsibilities shall be extended to include information obligations relating to the findings and occurrences arising during the performance of the audit.
- The by-laws of the Group companies have been amended in order that the METRO AG Corporate Governance Code may be applied throughout the Group.

The Management and Supervisory Boards are of the opinion that the reporting and information obligations of the METRO AG Corporate Governance Code have been satisfied and have been published either on the Internet or in the annual report. The Supervisory and Management Board have concluded unanimously that the Corporate Governance Code of METRO AG is being lived in the METRO Group and that there are no deviations from the Corporate Governance Code of METRO AG to report.

The METRO AG Supervisory and Management Boards view Corporate Governance as a continuous process. The Corporate Governance Code of METRO AG shall be reviewed regularly on the basis of new experiences, statutory requirements and the development of national and international standards and, if applicable, amended accordingly. In this context, all recognized principles and recommendations, which have an effect on the business activities of METRO AG or on corporate management and the control thereof, shall be integrated.

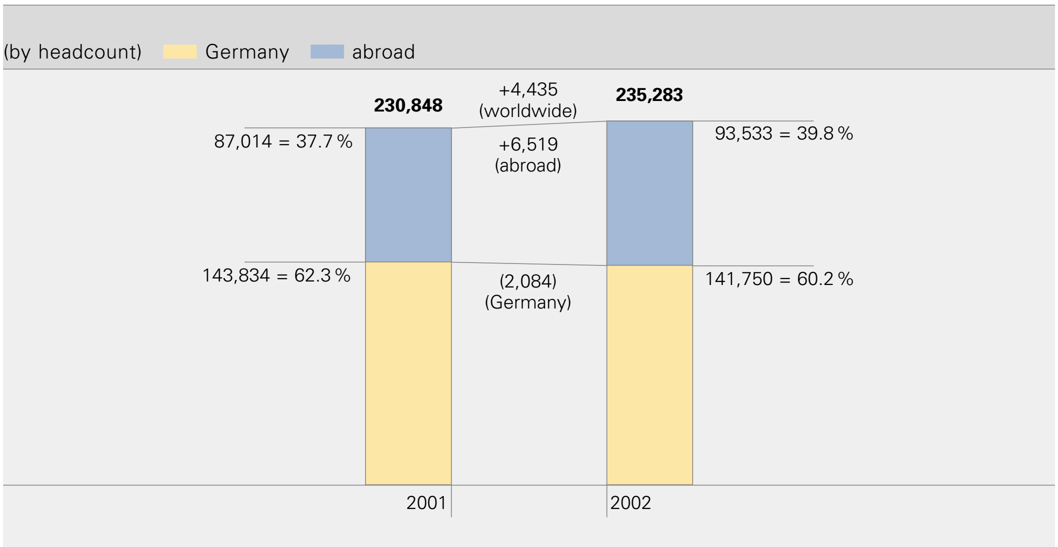
Employees

Personnel structure

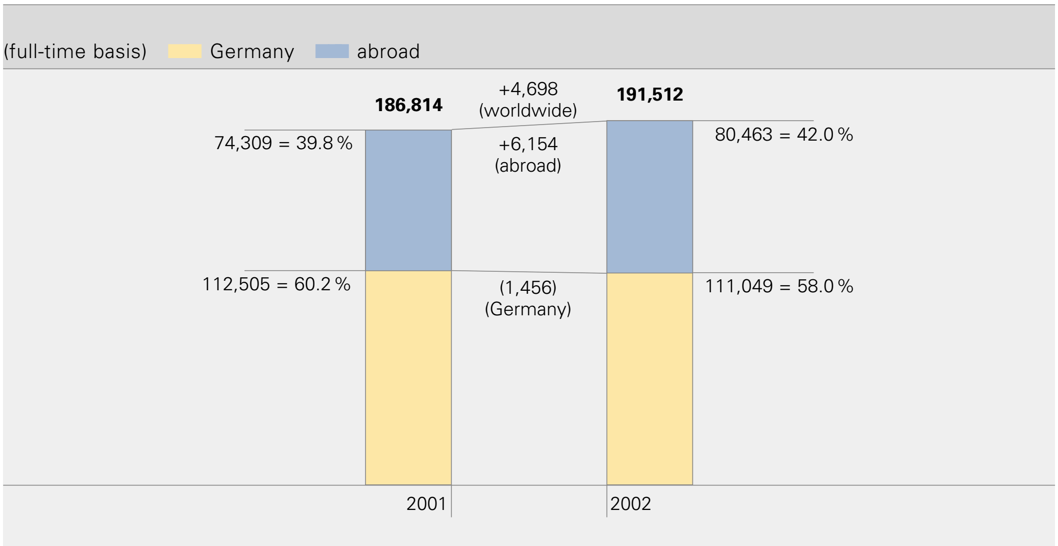
New jobs created at METRO Group

The growth of the METRO Group in the past year has led to a rise in the number of employees in the Group. In the year 2002, the METRO Group employed an average of 235,283 staff (excluding trainees). Translated into full-time equivalents the Group's workforce increased by 2.5 percent from 186,814 to 191,512 employees. Taking domestic headcount adjustments into consideration, the METRO Group created a total of 4,698 new full-time jobs demonstrating that the METRO Group is a major employer, both in Germany and abroad.

METRO Group: Number of employees in 2002 compared to the previous year



METRO Group: Number of employees in 2002 compared to the previous year



In 2002, the proportion of part-time employees in the Group remained at 45.0 percent, the same level as the previous year. Average length of service went up to 8.6 years compared to 8.2 years in 2001 which reflects the high level of identification that staff have with the corporate objectives of the METRO Group. In addition it clearly demonstrates the attractiveness of the METRO Group as an employer and shows that employees are satisfied with the opportunities offered for advancing their careers within the Group.
The average age of our employees rose slightly to 37.9 years in 2002 compared to 37.6 years the year before.

International expansion leads to a marked increase in staff numbers abroad.

The consistent internationalization of the METRO Group in the course of fiscal year 2002 meant that the number of METRO Group employees working abroad, converted to full-time equivalents, increased by 6,154 – a rise of almost 8.3 percent. Of the total workforce, the proportion of staff working abroad increased from 39.8 percent in 2001 to 42.0 percent in 2002. On average, there were 80,463 full-time employees working at the METRO Group's international locations during the year, 45.0 percent of which were based in the Group's Eastern European locations. In the fiscal year just ended, the dynamic expansion of the sales network in the Eastern European markets led to a particularly high increase in the number of employees in these countries. In Romania staff numbers increased by 1,086 over the previous year, in Russia the increase was 871 and in Hungary the number of employees rose by 654.
In the fiscal year just ended 91.8 percent of staff members working abroad were employed in the European region. Of this percentage, 37,716 employees are located in Western Europe and 36,177 work in Eastern Europe where a 12.2 percent rise in employee numbers can be ascertained. In the regions of Asia and North Africa the headcount also increased, in this case by 10.2 percent to 6,570 employees.
For the year 2002 the average number of employees in Germany amounted to 111,049 down from 112,505 in 2001. An increase in employees in the Metro Cash & Carry and Media Markt/Saturn sales divisions was offset by a slight reduction in the other divisions.

METRO Group employees by region

(full-time basis)
in %

Non-uniform development of staff levels in the sales divisions

In line with the high growth rate of Metro Cash & Carry, this division contributed significantly to the increase in the number of employees in Germany and abroad with staff numbers rising by 7.5 percent to a total of 72,010 full-time employees. In Germany, the number of staff employed in the self-service wholesale stores rose to 15,573, an increase of 3.8 percent compared to 2001. Translated to full-time equivalents, 4,469 new jobs were created abroad increasing the total number of employees working abroad to 56,437, an 8.6 percent rise over last year. The Metro Cash & Carry division holds the highest percentage of employees within the Group with 37.6 percent of the METRO Group's total workforce.
The Real hypermarket stores experienced a slight reduction in the number of employees in 2002 from 35,352 to 34,526, a drop of 2.3 percent. This was attributed to the ongoing optimization of their merchandizing concept.

Distribution of employees by country and sales division in 2002 (full-time basis)*

	Metro Cash & Carry	Real	Extra	Media Markt/ Saturn	Praktiker	Kaufhof	Other companies	METRO Group
Germany	15,573	27,607	13,311	15,275	10,496	19,912	8,875	111,049
Poland	4,948	5,828		1,516	1,263		285	13,840
France	7,196			1,180			11	8,387
Italy	3,945			2,529			42	6,516
Hungary	3,240			646	1,119			5,005
PR China	4,375						512	4,887
Great Britain	4,206							4,206
Belgium	2,710			35		1,358		4,103
Romania	3,839				35			3,874
Netherlands	3,089			748			4	3,841
Austria	1,893			1,535	211		33	3,673
Spain	2,278			1,101				3,379
Czech Republic	3,363							3,363
Turkey	1,494	1,091			547		187	3,319
Greece	1,081				996		8	2,085
Portugal	1,857							1,857
Bulgaria	1,717							1,717
Russia	1,310							1,310
Slovakia	1,174							1,174
Switzerland				833			178	1,011
Morocco	921							921
Vietnam	610							610
Denmark	547							547
Croatia	466							466
Luxembourg					195			195
Japan	86							86
India	61							61
Ukraine	24							24
Singapore	6							6
Total	72,010	34,526	13,311	25,398	14,861	21,270	10,136	191,512

* including rounding-up differences

The Extra convenience stores reduced their headcount by 2.2 percent from 13,617 to 13,311 due to the continued optimization of the outlet chain and the closing of smaller stores.
At Media Markt and Saturn, the dynamic domestic and international expansion during 2002 led to a further increase in employee numbers. In Germany the number of staff in the consumer electronics centers rose by 3.6 percent to 15,275. The international locations saw a 20.7 percent increase to 10,123 employees.
Praktiker's focus on its European expansion led to an increase in employee numbers abroad and it only reported a slight decline in headcount at home. Overall the Praktiker home improvement and DIY centers in Germany and abroad employed an average of 14,861 staff throughout the year, down 5.2 percent from the previous year.
In 2002, the Kaufhof department stores increased headcount abroad by 9.5 percent to 1,358. The total number of Kaufhof staff remained just below the level of the previous year, at 21,270 full-time equivalents.

Number of METRO Group employees by division

(full-time basis)
in %

Attractive vocational training places for young people at the METRO Group

As the largest trading company in Germany, the METRO Group has assumed responsibility in the area of vocational training while at the same time helping to secure the future viability of the company. Every year the Group's sales divisions offer several thousands of young people practical training geared toward qualifications. In the past fiscal year 2,847 trainees started work in the Metro world of trade bringing the total of trainees employed by the METRO Group to 8,469 in Germany.

"mymetro" employee portal improves knowledge management within the Group

The "mymetro" employee portal was developed in 2002. This is a comprehensive technical working platform that combines and links information, programs and electronic work processes. Previously this role had been fulfilled by the METRO AG Intranet and the Intranet platforms of the specific sales divisions. The new system will enable all employees to adapt their work interfaces on their PCs to meet their individual needs and access required information more quickly at their workstations. With "mymetro", a system has been created that makes day-to-day work easier and increases employee efficiency. The first version of the portal was available in the METRO Group headquarters at the end of the year. The phased introduction of the system began in early 2003.

Collective bargaining policy

Sustainable results after difficult collective bargaining negotiations

The 2002 collective bargaining round was a considerable challenge for the retail, wholesale and foreign trade segments. Initially, the demands formulated by the newly-formed service employees' union Verdi conflicted with the extremely difficult situation both in the German retail industry and Germany's economic development in general. After acrimonious negotiations a wage increase of 3.1 percent was finally agreed upon. The date on which these new wages came into force was delayed and this, combined with lump-sum payments particularly in the retail segment, helped employers to keep these extra costs at a more manageable level. Once again the close cooperation between the two trading sectors and the employers' organizations in which METRO Group executives played a major role proved to be very successful in this round of collective bargaining negotiations.

Innovative collective bargaining policy

As a collective bargaining policy that achieves a fair balance between the interests of employers and employees is an important prerequisite for sustainable and profitable growth within the Group, the METRO Group intends to break new ground in the sphere of collective bargaining policy in the future together with other major trading companies and the Verdi union. The METRO Group has therefore become involved in the "Federation for Innovative Bargaining Policy" (German acronym FIT) which aims to make effective contributions to the fundamental renewal of existing collective wage agreements. In conjunction with the Verdi union, innovative approaches to collective bargaining policy will be formulated, away from the customary collective wage discussions but with the involvement of the Trade Association of German Retailers (HDE) and the Federal Retailers' Association (BAG). This should result in the development of solution mechanisms that are in touch with the times, take account of the changes in economic conditions, avoid conflict and promote understanding.

Once the new concepts have proved themselves in a test phase they should then be integrated into the collective wage agreements via the existing associations. The aim is to develop collective wage agreements such that the advantages created for employees and employers are evenly balanced. This should form the basis for a new standard of quality within a responsible social partnership.

Adjustment to the rules governing the company pension scheme

Since 1997 the METRO Group has been helping its staff to set up voluntary pension schemes as part of the "Metro-Zukunfts-Paket" (Metro Future Package). The METRO AG Management Board in conjunction with the Group works council had already adapted this program to the new statutory and collective bargaining requirements back in 2001. In 2002, the adjustment of the structure of the METRO Group's company pension scheme proved to be the main focus of the cooperation between the company's management and the Group works council. Since last year, employees in Germany have had the opportunity to boost their retirement benefits by converting part of their emoluments into voluntary pension contributions that receive preferential tax and social security treatment. The METRO Group in Germany is participating in this and has made contributions along with additional grant payments that are higher than the collectively agreed level in the sector. The METRO Group is therefore fulfilling its role as a socially responsible company while at the same time strengthening employee retention within the Group. This concept has also attracted attention outside the METRO Group.

Long-term working time accounts create a high level of flexibility when planning working hours

The current laws governing the so-called part-time early retirement schemes will expire in 2008. From that point forward, long-term time accounts for working hours, in which employees can accumulate their time credits, will become an attractive means of retiring from working life early in a state of financial security or of compensating for pension reductions in the event of early retirement. Therefore, anticipating the expiry of these regulations and a corresponding adjustment of the collective bargaining agreements in the industry, a long-term account model is being developed within the METRO Group. Pilot projects have already been launched outside the sphere of collective bargaining agreements. It will not only be the employees that benefit from the proposed flexible working hours, but the company will also reap the rewards as the process of planning long-term personnel placement to meet its precise needs will become considerably easier.

Social partnership

Group works council

The Group works council has held regular working meetings to discuss the issues under its area of responsibility, namely the in-company job market, vocational training and the policy regarding the severely handicapped. Special emphasis was placed on the development of the Group's company pension scheme. The model, developed jointly by Group management and the Group works council, has been implemented by all the sales divisions and has also attracted interest outside the METRO Group.

Initiative for the employment of severely handicapped trainees

One particular focus of the policy regarding severely handicapped people was the initiative for the employment of severely handicapped trainees. This was set up and managed by the joint coordination group. A handbook and an advice hotline have been made available to local management responsible for recruiting and training young people. Both tools are easy to use and should help to overcome the obstacles to the specific recruitment of young handicapped people. This initiative was supported by the labor office of North-Rhine Westphalia (Landesarbeitsamt NRW) and the German Social Federation VdK (Sozialverband VdK Deutschland e.V.). The proportion of severely handicapped trainees throughout the Group increased slightly across all sales divisions.

Outlook

The primary strategic focus of the METRO Group's personnel activities will be to coordinate and harmonize personnel concepts across all the countries in which we operate and consistently work on developing our personnel reporting. We also intend to increase our placement of severely handicapped trainees and undertake an analysis of the effects of demographic developments.

Personnel development

Effective selection and development of future managers and employees will safeguard the future of the company

The target-oriented and systematic development of our personnel is of fundamental importance for the long-term economic success of the METRO Group. The future of the company depends entirely on our success in filling our management positions with performance-oriented and qualified young executives, both now and in the future. Accordingly the METRO Group has a strong interest in locating talent within the company at an early stage and, by employing them in a planned series of different positions, in guiding them continuously towards responsible management positions. Wherever possible, the METRO Group will continue to recruit young managers from its own ranks as this has proved successful in the past. Prospective managers are selected and prepared with the aid of a Group-wide personnel development concept called Metro Management Planning (MMP). This lays down the uniform requirements, particularly the essential core competencies, and the assessment criteria by which junior executives are selected and advanced throughout the entire Group. The METRO Group, under the umbrella of the Corporate University, also offers a range of individual seminar programs to prepare the prospective managers for their management tasks.

In addition, the METRO Group is the first trading company to provide to its potential junior executives, and also its other employees, with their own Internet-based retail management simulation game, Metro Business Simulation (MBS). Players take on the role of sales division executives and have the task of advancing the company while taking account of the interests of the Group as a whole.

All employees, not just junior executive staff, have access to the regular intra-group training sessions on subjects specifically related to trading and retailing. In 2002 the Group started a training drive in the Metro training-center in Düsseldorf where around 20,000 employees took part in the 1,600 continuing education courses held during the period under review.

Enhancing the METRO Group's profile as an attractive employer

In order to recruit talented young people to work in the METRO Group and present itself as an interesting employer, the Group staged two "Meeting Metro" events in 2002 which attracted a great deal of attention. "Meeting Metro" is aimed primarily at students of business studies, economics and business information systems. In an unorthodox setting, participants were introduced to the different kinds of jobs and career prospects available within a leading international trading company. They also made good use of the opportunity to discuss their specific career possibilities with Metro employees. A job exchange on the Internet also provides details of the current vacancies for both junior staff and management.

In the year under review, the METRO Group strengthened the already close cooperation between schools and the sales outlets with "Übergangsmanagement Schule & Wirtschaft – Berufsorientierung Handel", a project offering transition management for students progressing from schools into business, with the main focus on trading and retailing. The aim of this initiative is to provide primarily to teachers and career advisors, as change agents, practical information about the main kinds of work available in the retail and wholesale trade and the varied career opportunities for job-seekers.

Environmental protection

The METRO Group does not view economy and ecology as conflicting areas and the Group's strategy therefore focuses on harmonizing economic and environmental interests. This was borne out by the fact that we were again able to generate greater savings and earnings potential in the past year while at the same time showing even more consideration for environmental issues. One example of this is the further improvement of our logistics systems which has reduced the number of merchandize movements and therefore the costs associated with these. At the same time the vehicle-induced carbon-monoxide emissions could be lowered, also helping to ease the burden on the environment. Reusable packaging was employed much more in 2002 and the recycling quotas for disposable packaging were increased. In conjunction with other companies, the Group also supported the development of new types of packaging. This joint initiative aims to consistently improve the process chain in the trading sector from both an environmental and economic perspective.
The METRO Group's readiness to assume responsibility for the environment is also reflected in the fact that the company has decided to join the "emission55" initiative. More than 150 companies have come together in this program which is committed to the implementation of the Kyoto Protocol as soon as possible and the reduction of greenhouse gases as stipulated therein.
The METRO Group applies uniform standards in respect of environmental protection. The MFS METRO Group Facility Services GmbH cross-divisional service company (formerly: Metro Wertstoff Circle Services GmbH – MWCS) is responsible for organizing and performing all the environmental services for the sales divisions. Combining this range of services under the umbrella of one company reduces costs and increases the efficiency of the METRO Group's environmental management activities. (More information on MFS and its range of services is contained in the section "Cross-divisional service companies of the METRO Group").

The METRO Group published a sustainability report for the first time in 2002 with the title "Sustainability in Trading". This report documents the progress made by the Group, from a sustainability perspective, in the areas of business, the environment, human resources and social commitment. The next report will be published in 2004. By consistently basing its decision-making process on the principle of economic sustainability, the METRO Group is able to act in a forward-looking manner, identify and gear itself towards future developments at an early stage and take advantage of new opportunities arising in the market.

Social commitment

As one of the leading international trading companies, the METRO Group is aware that it has a special duty towards social responsibility. This has found expression in the Group's extensive commitment in respect of the economy, society, culture, education and sports.

Intensive dialogue with representatives from politics, the economy and society

The METRO Group is active in the development of economic policy and legal frameworks for the trade sector at both the national and international level. The company therefore maintains an intensive dialogue with institutions and representatives of various Groups in the fields of politics, the economy and society. METRO Group managers are active members of many key economic and trade associations within Germany, Europe and also at the global level. In this process the Group is able to contribute its trading expertise and experience and, along with other Groups committed to economic and social issues, help to develop innovative solutions for the challenges facing the trade sector at this time. The METRO Group also formulates its own specific company or industry-related interests to put to the responsible decision-makers.

Promotion of education and international understanding

The continued success of the METRO Group's business operations on both the national and international stage is entirely dependent on its success in attracting qualified and committed young people to work for the Group, now and in the future. The company has therefore been staging various individual initiatives and events throughout the whole Group, aimed specifically at schoolchildren and students, to advise them about the diverse job and career opportunities that exist within an international trading company and to arouse their interest in the retail and wholesale trade. This enables the METRO Group to gain access to potential future employees and performance-oriented executive staff.

A good example of this is the joint German/Polish project "Metro Edukacja" in which the METRO Group promotes the specialist training of young people in the field of trading activities. "Metro Edukacja" is a collaboration between Polish commercial colleges and the training center for the retail industry in Saxony-Anhalt (Bildungszentrum des Einzelhandels – BZE). The partners developed a curriculum aimed at advancing the specialist knowledge of trading activities within the Polish commercial colleges in conjunction with practical training offered by the Metro Cash & Carry, Real and Praktiker sales divisions. In the year under review a total of some 400 Polish students took part in the project. The great success of "Metro Edukacja" and the positive response it generated have raised the already high profile of the METRO Group in the Polish market.

In North-Rhine Westphalia the METRO Group continued to participate in the learning partnerships of the "Unternehmen & Schule" Institute (Company and School Institute) which aim to further improve the links between schools and business enterprises in a systematic and sustainable manner. The objective is to give young people a practical understanding of economic interdependencies and of the significance of trading in economic life. To this end the METRO Group worked with nine schools in North-Rhine Westphalia during 2002.

Social commitment at the local level

The METRO Group supports various social projects in the direct vicinity of its cash & carry, convenience, specialist and department stores, one of which is the "Trainee Social Commitment" project. Each year the Group supports a good cause and around 25 particularly able trainees from the six Metro sales divisions volunteer to work for this charitable cause for two days. In this way, the young people involved not only gain specialist knowledge during their training but also improve their social skills and team spirit.

The METRO Group's participation in the "Die Tafel" initiative (a hunger-relief organization in Germany) is another example of the Goup's social commitment on a local level. 500 Metro Cash & Carry stores, Real hypermarkets and Extra convenience stores throughout Germany have been providing free food products for this project since the year 2000. "Die Tafel" distributes goods to those in need in their local areas.

Sponsorships for many cultural and sporting events

The METRO Group also assumes social responsibility by sponsoring cultural and sporting projects. At its headquarters in Düsseldorf, for example, the Group has entered into a long-term partnership with the "Museum Kunst Palast" whose 2002 exhibition "Altäre – Kunst zum Niederknien" ("Altars, art that makes you kneel") only became possible with the financial support of the company. In 2002, the METRO Group also concluded a sponsorship agreement with the ice hockey team of Düsseldorf, the North-Rhine Westphalian capital, and the team has been sporting the name "DEG METRO STARS" since last spring. Also in 2002, the Real sales division in Berlin was the main sponsor of the Berlin marathon for the third time.

Important post-year-end developments

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

Outlook

In 2003 the METRO Group will continue to pursue its path of profitability-oriented growth and international expansion. The successful merchandizing concepts will be further improved and adapted to the prevailing market conditions. The successful corporate strategy and the strong position of the METRO Group in the foreign markets and in Germany provide the company with the ideal prerequisites to make sure that the METRO Group will again perform better than comparable competitors in 2003.

The METRO Group's business success in recent years has been based on its consistent process of international expansion. The company will keep up this successful strategy of organic growth and, in the process, will particularly drive forward the internationalization of the high-sales, high-profitability sales divisions Metro Cash & Carry and Media Markt/Saturn. The METRO Group will further expand its existing outlet chain and open up new markets, especially in Eastern Europe and Asia. Entry into the Indian and Ukrainian markets is planned for 2003. After this, the METRO Group will have operations in 28 countries.

Promoting the image of the sales divisions as distinctive retail brands will remain a priority within the METRO Group during the current fiscal year. To this end, the company's business policy will focus even more on the needs and wishes of the customers. The divisions will also more rigorously highlight their price and assortment competency. In addition, the company will exploit more vigorously than before the economically exciting opportunities of customer retention offered by attractive customer loyalty programs. Over and above this, the business processes in the entire METRO Group will continue to be consistently optimized so as to increase the competitive edge through cost leadership.

In 2003 the Group will strive to achieve profitable growth, a further improvement in earnings per share and an increase in Economic Value Added. Capital expenditure of around € 2 billion is earmarked for this. Concentration of the international expansion activities on the largely self-financing sales divisions Metro Cash & Carry and Media Markt/Saturn will also further improve the ratios that are relevant for the ratings.

Metro Cash & Carry : With its comprehensive merchandize offering under one roof and its favorable wholesale prices the market leader in the self-service wholesale trade is the ideal partner for commercial customers – worldwide. The successful international expansion of this sales division is based on a standardized merchandizing concept that is adapted to specific market conditions.


METRO
METRO
BÜROBEDARF

Metro Cash & Carry

METRO CASH & CARRY IS CONTINUING TO RELY ON INTERNATIONALIZATION AND IS ENHANCING ITS MARKET LEADERSHIP IN THE SELF-SERVICE WHOLESALE TRADE. A MATURE, EFFICIENT AND INTERNATIONALLY REPEATABLE CONCEPT ENSURES SUCCESS IN OPENING UP NEW MARKETS. IT OFFERS COMMERCIAL CUSTOMERS A HIGH LEVEL OF ASSORTMENT COMPETENCY BOTH IN THE FOOD AND NONFOOD SECTORS AS WELL AS AN ATTRACTIVE PRICE-PERFORMANCE RATIO. THE OBJECTIVE IS CONTINUED ORGANIC GROWTH AND AN INCREASE IN EARNINGS POWER.

In the year 2002 Metro Cash & Carry generated total sales of € 24.0 billion and with a share in total Group sales of 46.5 percent was once again the biggest selling sales division within the METRO Group. The fact that 77.0 percent of its sales were generated outside Germany underlines its international orientation. At the end of the fiscal year under review Metro Cash & Carry was represented in 24 countries with a total of 437 wholesale stores operating under the Metro and Makro brand names. In the period under review the number of employees went up from 66,966 to 72,010 staff members worldwide (full-time equivalents on an annual average).

Metro Cash & Carry – the ideal partner for commercial customers

The Metro Cash & Carry merchandizing concept fits the specific needs of commercial customers and large-scale users. The motto is: "From professionals for professionals". The target groups appealed to are especially hotels, restaurants and kiosks as well as food retailing and increasingly the service industry. At Metro Cash & Carry these customers find an exceptionally wide range of products under one roof. Depending on the store format it will consist of up to 17,000 food items and 30,000 items in the nonfood sector. The assortment includes almost the entire product range of leading national and international brand manufacturers. Private labels like "Aro", "Metro Quality", "Watson", "Fleurelle" and "Steinbach" round off the attractive assortment. Worldwide recognition has above all been gained by the competency of the Metro and Makro wholesale stores in the area of fresh produce. Efficient logistics systems and the watertight quality assurance system operated by the METRO Group create and permanently guarantee a high level of quality and freshness. The professional quality assurance system of the Group was extended to all international Metro locations in 2002. It guarantees all Metro Cash & Carry customers worldwide that the stringent Metro quality standards are adhered to.

In addition to great assortment diversity and consistently high product quality the Metro Cash & Carry stores offer favorable wholesale prices and a high level of supply security. The permanent availability of large quantities of merchandize, the large number of package sizes, the good accessibility of the stores and the extended opening times all increase the attractiveness of Metro Cash & Carry for commercial customers.

Successful international expansion continues

Metro Cash & Carry is the most internationally oriented sales division within the METRO Group and develops one or two new foreign markets every year. In doing so it concentrates primarily on the emerging markets in Asia and Europe. In the fiscal year just ended Metro Cash & Carry opened its first wholesale stores in Japan and in Vietnam. While entering new markets the sales division also extended its outlet chain in those countries in which it is already represented. In the year under review the number of wholesale stores increased by a total of 53. As a result the total number of locations increased to 437.

The success of the internationalization strategy consistently pursued by Metro Cash & Carry is attributable to a large extent to the continuous development of the merchandizing concept that has given the company in case of entering new markets a considerable competitive advantage. It can be implemented identically in all foreign

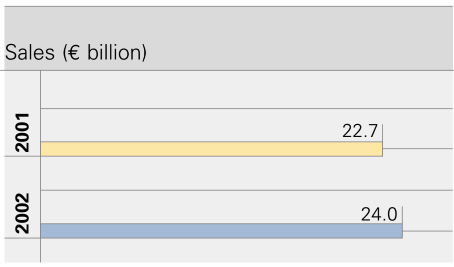
Company

Metro Cash & Carry	
Sales	€ 24.0 billion
EBIT	€ 709.1 million
Number of locations	437 in 24 countries
Total selling space	3.4 million square meters
Headcount (annual average of full-time equivalents)	72,010

markets. At the same time, however, this concept also provides sufficient leeway for specific national market conditions to be taken into consideration. Thus it is possible to meet customers´ nationally varying wishes and demands in an optimum way, for example in terms of the composition of the assortment. The high level of acceptance that the sales division encounters in the foreign markets is, of course, also due to the fact that as a rule between 80 and 90 percent of the merchandize is sourced from local suppliers and producers and that almost exclusively local people are employed in the stores, including management staff.

In order to be able to profitably tap foreign markets with a smaller potential the transnational organizational structure introduced in 2001 was further developed in the year 2002. This provides for countries with a smaller market potential to operate without their own national headquarters.

Sales development



Instead, these tasks are performed by the Metro Cash & Carry management of a neighboring country. This procedure makes it possible to keep business expenses in these countries at a low level.
Yet, Metro Cash & Carry does not only pursue its own international expansion but also supports other sales divisions in the METRO Group when they move into new markets. In this process Metro Cash & Carry performs the function of the "first mover". This means, Metro Cash & Carry gathers experience in a foreign country and creates a platform that will facilitate the introduction of other merchandizing concepts.

Further development of the merchandizing concept to boost earnings power

Metro Cash & Carry further optimized its successful merchandizing concept in 2002 with the objective of continuing its approach to profitable growth. This also included the continuous improvement of the work processes as well as the modernization of the wholesale store premises.
30 stores were converted in line with the "Store of the Future" concept launched about three years ago. The objective is to make sure that from the point of view of the professional customers the store design and merchandize presentation are even more efficient so as to speed up the buying process.
Closely linked to the desired further increase of the profitability of the merchandizing concept is the worldwide standardization of business processes initiated in 2002. With specific reference to profitability and efficiency the organizational processes were further developed and further improved especially in the areas of IT and logistics. In addition, the foundations were laid for a uniform IT network across national borders that will be completed in several stages over the next few years. After comprehensive organizational and cost analyses the basis was also created in 2002 for a worldwide standardization of operational workflows and the appropriate processes. In this context the focus was mainly on close cooperation with the other sales divisions and with the cross-divisional service companies of the METRO Group. Rapid worldwide data exchange and uniform processes will generate major cost cutting potentials.

Optimum store formats for higher market penetration

The continuous opening up of new market and customer potentials reflects the efficiency of Metro Cash & Carry. With its three store formats, the Classic, Junior and Eco stores, the sales division is capable of ideally adjusting to different market conditions prevailing at individual locations. In this context the specific needs of the customers on the spot are the vital criteria to determine the choice of store format and consequently the store size and diversity of merchandize offered.
The largest product diversity is offered by the Classic stores. In selling spaces of between 10,000 and 16,000 square meters they provide the customer with a comprehensive assortment of both food and nonfood items. In Germany stores of this format were operated almost exclusively until 1999.
In contrast, Metro Cash & Carry is mainly represented with Junior and Eco store formats in Southern Europe. The merchandize range of Eco stores is primarily limited to food items with special emphasis on the fresh produce assortment. Their selling space ranges from 2,500 to 4,000 square meters. In the Eastern European region and in countries whose economies are only just developing, but since 2001 increasingly also in individual regions in Germany, Metro Cash & Carry has decided to establish stores in the Junior format after extensive market analyses. On an average selling space of between 7,000 and 9,000 square meters these stores offer customers a rich selection of food products supplemented by a comprehensive assortment of nonfood products.
In Germany Metro Cash & Carry is striving for national presence in the small selling space cash & carry business in the medium term with its total of 54 Schaper outlets. In terms of selling space they range from 2,300 to 6,700 square meters concentrating on customers in the hotel, restaurant and catering business. 25 of these markets were integrated into the outlet chain after they had been taken over from Spar Handels-AG in the year 2002.

Outlook

Internationalization will remain the growth engine for the Metro Cash & Carry sales division in 2003. Further expan-

sion of the foreign business and the high performance potential of the sales division enable the company to increase profitability even at times of tougher competition and under difficult macroeconomic background conditions in the home market.

For 2003 Metro Cash & Carry will again emphasize international expansion in Europe and in Asia. In the summer of 2003 the first Metro Cash & Carry store will be opened in Ukraine. For the second half of 2003 market entry in India is planned. After that the sales division will be represented in a total of 26 countries. At the same time additional Cash & Carry stores are to be opened in countries where Metro Cash & Carry is already represented and existing stores modernized and refurbished in 2003.

Increasingly, Metro Cash & Carry will also use synergies and cost cutting potentials in the next fiscal year that can be attained as a result of intensive cross-border cooperation within the sales division.

Real : Every day about one million people shop at Real. What they appreciate is the diversity of brands and private labels of products that fill everyday needs. With its innovative merchandizing concept Real shows the top position among the German hypermarkets.


beauty & more
real

Real

THE BRAND NAME REAL STANDS FOR 278 HYPERMARKET STORES WITH A TOTAL SALES VOLUME OF € 8.2 BILLION IN THE FISCAL YEAR JUST ENDED AND A CUSTOMER TRAFFIC OF UP TO ONE MILLION PEOPLE PER DAY IN GERMANY ALONE. THE SALES DIVISION SUCCEEDED IN AGAIN INCREASING ITS MARKET LEADERSHIP IN GERMANY AGAINST THE GENERAL MARKET TREND. THE FOUNDATIONS OF THIS SUCCESS ARE AN EFFICIENT MERCHANDIZING CONCEPT, AN ATTRACTIVE ASSORTMENT WITH THE EMPHASIS ON FRESH PRODUCE AND A PERMANENTLY HIGH QUALITY STANDARD OF THE MERCHANDIZE AT FAVORABLE PRICES. IN ADDITION, ADVERTISING CAMPAIGNS WITH AN INNOVATIVE, TARGET GROUP ORIENTED APPEAL TO CUSTOMERS CONTRIBUTED TO THE IMPROVEMENT OF THE COMPETITIVE POSITION. IN TURKEY AND POLAND THE SALES DIVISION AGAIN DEFENDED ITS SPECIAL MARKET POSITION IN THE YEAR UNDER REVIEW.

The Real outlet chain in Germany consists of 247 stores with selling space ranging from 5,000 to 8,000 square meters on average and an assortment of up to 70,000 items. Well-known brands and strong private labels guarantee a high quality product offering. This applies equally to the food and nonfood sections with food accounting for 76 percent of total sales and forming the focus of the merchandize offering. Within the food sector it is above all Real's competency in the area of fresh produce that impresses consumers. The product offering of fresh fish, meat, fruit, vegetable, bakery and dairy products in terms of quality and quantity does not leave any customer wishes unfulfilled.
In Poland and in Turkey where the sales division operates 25 and 6 hypermarket stores respectively Real is one of the market leaders. The sales division was able to maintain its competitive position in these countries even though the macroeconomic problems in Turkey did not fail to have an impact on Real.

Customer-oriented optimization of merchandizing concept strengthens market position

In the year 2002 Real focused in its business policy on the continuous, customer-oriented optimization of its merchandizing concept. Among other things the successful shop-in-shop concepts in the nonfood section were further developed with the aim of tapping new customer potentials. Thus, the "Best of Books" shops, for example, offer a comprehensive assortment of books in 48 stores. After the conclusion of an agreement of cooperation with the U.S. Polo Association 25 new shops were created under this brand label in 2002 carrying a sophisticated sports wear collection designed to attract sports and leisure-oriented customers. The department "Baby, Kids & Co." almost completely covers the needs of children up to six both in the food and in the nonfood sections.
All in all, the shop-in-shop concepts made a major contribution in the year under review to Real developing substantially better than the market in general in the nonfood business, also in terms of earnings.
In the food section Real was able in 2002 to tap new consumer groups and achieve the long-term retention of existing customers through high-impact marketing measures. By launching attractive discount campaigns limited in time Real managed to increase customer traffic in its hypermarkets against the general market trend and to stimulate consumers to make additional purchases.

Payback as a central instrument of customer retention

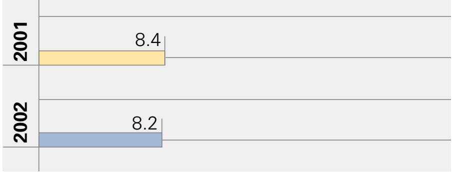
At times of increasingly tough competition in the hypermarket business customer retention is of supreme importance. The Real sales division therefore joined Payback with Real Customer Club at a very early point in time; with 22 million members Payback is the market leader among customer retention programs in Germany. In 2002 customer interest in the Real Payback Card once again increased substantially. The share of Payback customers in total sales amounted to 57 percent in the year under review. The business potential of the customer retention program is illustrated by the fact that the retail tickets of Payback participants were on average 55 percent higher than those of other customers.

Company

Real	
Sales	€ 8.2 billion
EBIT	€ 147.0 million
Number of locations	278 in 3 countries
Total selling space	2.0 million square meters
Headcount (annual average of full-time equivalents)	34,526

Sales development

Sales (€ billion)



In the future, Real will make even more intensive use of the diverse opportunities of precisely targeted marketing measures involving individualized customer appeal that are made possible by the Payback system. New sales impulses are expected to emanate from the issuing of loyalty coupons that will be sent by post to clearly defined target groups at regular intervals. The holders of the coupons are offered discounts on specific items or the entire merchandize offering of a certain section of the assortment or alternatively free product samples. This promotes continuous customer contact and creates customer confidence as a basis for a closer bond between the customer and the sales division. Market research studies have shown that benefits and discounts tailored to specific customer groups attract more attention and are perceived by the customer as more attractive than standardized discounts granted in an undifferentiated way. The lump-sum discount so far granted to Payback card holders will therefore be simultaneously reduced to one Payback point for two euro worth of sales.

Process optimization increases sustainable earnings development

The "Kompass" program introduced in the year 2001 produced increases in efficiency which in turn led to improved earnings in the fiscal year just ended by further optimizing business processes. "Kompass" strengthens the personal responsibility of employees, provides additional motivation and stimulates personal initiative. The improvements in work processes are not dictated by Real's corporate center, but analyses of weaknesses take place directly in every hypermarket store where more efficient alternatives are developed right there and then. On the basis of a few transparent benchmark data the employees are able to constantly monitor the success of their self-initiated measures themselves. The basis of "Kompass" is the so-called Balanced Scorecard, a system for the measurement of organizational and administrative success.
In 2002 the employees who welcomed "Kompass" enthusiastically set important impulses for the improvement of business processes. For example, checkout handling could be improved and the picking of merchandize in the central food warehouses was optimized.

Profit sharing for staff as an instrument to increase earnings and strengthen employee retention

In the fiscal year under review a general works council agreement was concluded with the objective of henceforth giving every Real employee a share in the economic success of the sales division. This provides a stimulus for every employee to dedicate himself to the improvement of the sales division's earnings power at his place of work. At the same time an even higher level of employee retention is achieved in this way.
The amount of profit sharing is calculated annually on the basis of the Economic Value Added (EVA), a process that makes it possible to identify the added value generated by the sales division or even the individual hypermarket store. The share in the added value creation due to every employee can be as high as € 100 a year and is invested for the benefit of the employee in an external pension fund within the framework of the company pension scheme.

Outlook

In the year 2003 the focus will be on further optimization of the merchandizing concept aimed at a sustainable increase in the profitability of the Real hypermarket stores. In addition, Real will increasingly use its growth opportunities abroad in the years ahead. That the merchandizing concept of the Real hypermarket stores is capable of being employed internationally is borne out for instance by the strong market position of the sales division in Poland. For the end of 2003 Real is planning market entry in Russia. In the capital Moscow a first Real hypermarket store will be opened using the already existing infrastructure of Metro Cash & Carry. The market entry in Russia is an exceptionally important milestone on the way to an even stronger international orientation of the sales division.

Extra : The outlet chain of convenience stores stands for fresh produce competency and a comprehensive merchandize assortment at attractive prices. With a customer-oriented marketing concept this likeable round-the-corner type of convenience stores manages to profile itself in German retailing.


EXIT

Extra

THE EXTRA SALES DIVISION MANAGED TO MAINTAIN ITS MARKET POSITION IN A HIGHLY COMPETITIVE ENVIRONMENT IN THE FISCAL YEAR JUST ENDED. IT DISTINGUISHED ITSELF AS A CHAIN OF MODERN CONVENIENCE STORES WITH AN INNOVATIVE MARKETING CONCEPT. ITS WORK PRIORITIES IN THE YEAR 2002 INCLUDED THE CONTINUOUS OPTIMIZATION OF ITS OUTLET CHAIN. THE GENERALLY PRONOUNCED BUYING RESTRAINT ON THE PART OF CONSUMERS AND THE DIFFICULT OVERALL SITUATION OF THE ECONOMY IN GERMANY POSED MAJOR CHALLENGES TO THE ENTIRE RETAIL INDUSTRY INCLUDING EXTRA.

Extra operates a dense national outlet chain of almost 500 convenience stores within easy reach of customers with an average selling space of some 1,750 square meters. The company employs more than 13,000 staff. This makes Extra one of the leading convenience store operators in Germany. With their sophisticated merchandize offering Extra stores appeal specifically to the quality-conscious customer.

Extra offers high quality and customer orientation

The emphasis of the assortment is on food which accounts for 90 percent of total sales. At Extra customers can choose between the product ranges of leading branded goods manufacturers and Extra's own "Tip" range of private labels. One of the core competencies of this sales division is the area of fresh produce. Extra stores offer a comprehensive range of meat, sausage, fruit, vegetables and dairy products as well as bakery products fresh from the oven. In addition to this high level of product diversity Extra customers can also look forward to friendly expert advice and a pleasant shopping atmosphere. The newly fitted and the modernized stores are characterized by bright selling premises, a customer-friendly store guidance system, a clear-cut merchandize presentation, a reasoned arrangement of merchandize categories, wide aisles and generously designed check-out areas.

With this comprehensive service offering and especially the individualized customer care based on the Extra marketing concept launched in 1999 the Extra stores sharpened their profile as neighborhood convenience stores that deliberately distinguishes themselves from competitors.

Implementation of the new merchandizing concept as a priority task

In the year 2002 the continued implementation of the Extra marketing concept and the improvement of the profitability of the stores were very much the priority tasks of the business policy of this sales division.

By the end of the year under review 283 out of the total of almost 500 convenience stores had been converted to the new marketing concept. Nine stores were newly opened. The streamlining of the portfolio of locations was continued. A total of 18 stores with a selling space of less than 1,500 square meters were transferred to franchisees or closed completely because of lack of profitability.

Another priority issue was the improvement of business processes at Extra by way of automation. The increased use of the Data Warehouse, for example, has made it possible since 2002 to optimize the merchandize assortment and simplify order processes. In addition, a permanent availability of the assortment of 98 percent has been achieved. Inventories could be cut by 20 percent as a result of which the need for storage space has declined appropriately.

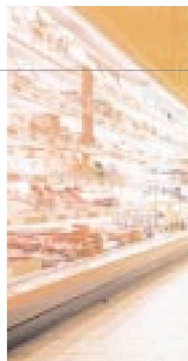
In the course of the further development and continuous improvement of the merchandizing concept the "Fresh & Easy" concept was introduced in four convenience stores in the context of a pilot project in the year under review. This concept is based on suggestions received from customers and employees. The stores converted in line with the "Fresh & Easy" concept differ significantly from convenience stores of the conventional style turning shopping into a true experience for customers. According to this concept certain fresh produce departments like fruit and vegetable, meat and barbecue stations, bakeries etc. pre-

Company

Extra	
Sales	€ 2.8 billion
EBIT	€ -47.2 million
Number of locations	491
Total selling space	863,000 square meters
Headcount (annual average of full-time equivalents)	13,311

Sales development

Sales (€ billion)



sent their merchandize like in a market square using their own market stalls that are integrated into the stores concerned. A special lighting technology and color schemes help create a genuine market square type shopping atmosphere.

Professional staff training and employee profit sharing promote change

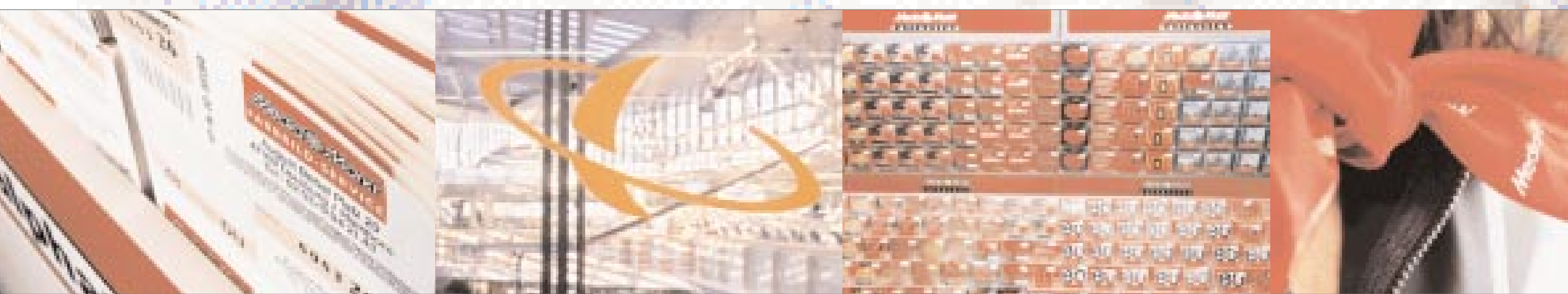
Friendliness, fast service and qualified, competent advice – these are the distinctive and distinguishing features that are designed to make Extra unique in the minds of the customers. In order to enable staff to meet this tough requirements profile they were intensively trained in the year 2002. The declared objective of this is to further improve the service strength and specialist competency of the employees.

So as to achieve the highest possible level of motivation of all staff all salaries contain a variable portion calculated on the basis of the Economic Value Added (EVA). Depending on the performance of the sales division or the individual stores employees will receive a bonus payment or vouchers for merchandize. This measure has contributed to employees increasing their entrepreneurial thinking and strengthening their identification with the company's objectives.

Outlook

In the year 2003 Extra will convert another 16 stores to the Extra marketing concept. By the end of the year it is therefore expected that 308 stores with an average selling space of 1,750 square meters will be operated according to the new merchandizing concept. The sales division has set itself the objectives of continuing the modernization of the portfolio of locations, taking innovative measures to tap new groups of customers and increasing its market share.

Media Markt/Saturn : High-quality brand products at permanently low prices and a comprehensive assortment in all segments of modern electronics retailing form the basis of the success of Media Markt and Saturn. With innovative merchandizing concepts as well as rapidness and flexibility in fulfilling customer expectations the two brands occupy the top slot in their industry Europe-wide.



Media Markt/Saturn

WITH THEIR HIGHLY COMPETITIVE MERCHANDIZING CONCEPTS, THEIR ATTRACTIVE ASSORTMENTS, FAVORABLE PRICES AND DECENTRALIZED ORGANIZATION STRUCTURES MEDIA MARKT AND SATURN FURTHER EXPANDED THEIR POSITION OF MARKET LEADERSHIP AS OPERATORS OF CONSUMER ELECTRONICS CENTERS IN THE YEAR 2002.

Against the generally declining industry trend Media Markt and Saturn, managed as independent brands under the common umbrella of the Media-Saturn-Holding, consistently continued their dynamic growth in 2002. As distinctive retail brands they were able to further enhance their outstanding market position among the European consumer electronics centers. The success of both brands is based on their respective merchandizing concepts whose cornerstones are an exceptionally broad and consistently updated assortment of brand products and a permanently attractive price-performance ratio. With their focus on different segments Media Markt and Saturn cover all areas of the modern electronics market: from computers and telecommunications systems, consumer electronics, photography and digital technology all the way to audio media and household appliances. Qualified advice by expert staff in the stores as well as numerous other services such as for example the delivery, assembly and installation of large appliances, round off the range of products and services offered.

In the year 2002 Media Markt/Saturn again remained the European Number One in the market of consumer electronics centers. With an outlet chain of 168 stores Media Markt operates the densest distribution network of all specialist store operators in Germany. The hallmark of the 81 Saturn stores is the huge CD offering with an average of 60,000 titles instantly available or even 300,000 CDs in the Cologne flagship store. In Hamburg Saturn operates the world's largest consumer electronics center in a selling space of 16,000 square meters. Innovative sales concepts like the Saturn Innovation Fair increase the brand presence in the minds of the customers.

Crucial factors for the profitable growth of Media Markt and Saturn are their flexibility and speed in meeting customer expectations. The basis for this is the very special organizational structure of the sales division. In every store the general manager is also a shareholder and therefore responsible for the assortment, sales and profits. This entrepreneurial principle gives the general managers the necessary leeway to make decisions close to the customer and to adjust the stores to specific local customer needs and market conditions. This makes it possible to react quickly to price and assortment trends in the competitive environment. In this way, for example, the decline in the demand for computer hardware was compensated for by quickly adjusting the range of goods and increasing sales in other merchandize categories.

Expansion continued at home and abroad

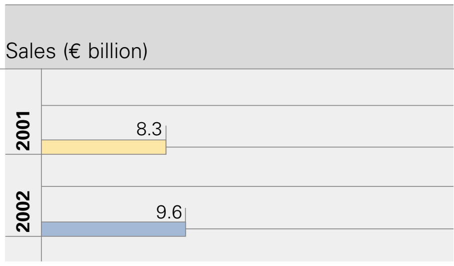
In the past fiscal year Media Markt and Saturn single-mindedly continued to pursue their strategy of organic growth. This growth is part and parcel of the corporate philosophy and pursues the objective of further expanding the successful market leadership in Europe. With this objective in mind the two companies together increased their joint outlet chain to 386 consumer electronics centers in the year under review. The newly opened specialty stores numbered 17 in Germany and 22 in other European countries. After the opening of its first consumer electronics center in the Belgian city of Antwerp the Media-Saturn group was represented in a total of ten countries by the end of the year 2002. In many of these countries the sales division became the market leader in only a few years because of its high speed of expansion.

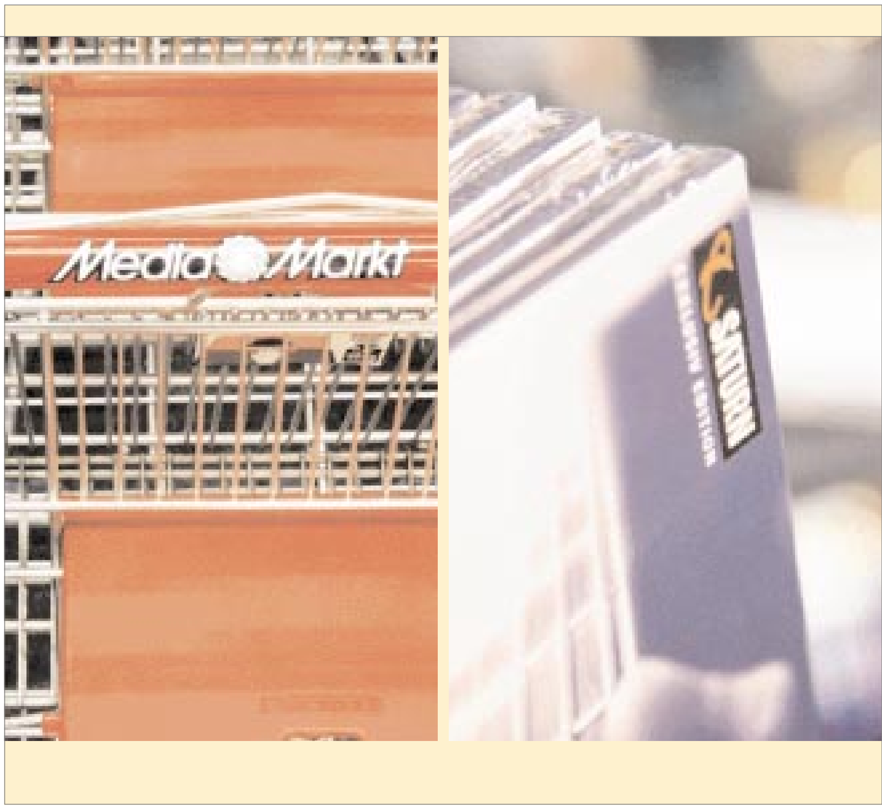
In parallel to the vigorous expansion of the outlet chain in other European countries Media Markt and Saturn systematically optimized their existing locations. In the fiscal year just ended a total of 28 stores were modernized.

Company

Media Markt/Saturn	
Sales	€ 9.6 billion
EBIT	€ 280.2 million
Number of locations	386 in 10 countries
Total selling space	1.1 million square meters
Headcount (annual average of full-time equivalents)	25,398

Sales development





Consistent profiling of the brands as the engine of business development

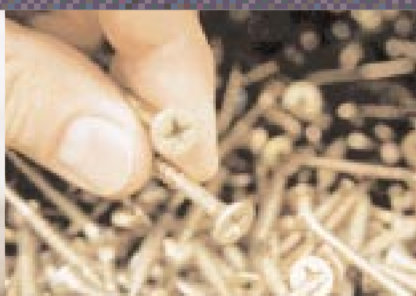
Remarkable advertising campaigns have consistently increased the awareness levels of Media Markt and Saturn in the last few years and significantly supported their profiling as strong retail brands. This marketing strategy was continued in 2002 with inventive and distinctive advertising concepts. They made a contribution to further increasing the awareness levels of the brands. Surveys prove that some 98 percent of the German population know at least one of the two brands by now.

The diverse advertising activities were supplemented by modern design, user friendly Internet activities on the part of Media Markt and Saturn. The websites were constantly updated and adjusted to changing customer wishes thus making a positive contribution to establishing the brand image even more firmly in the consumers' minds. Thus, the homepage of Media Markt was expanded into a diverting information and communication platform which, beyond pure product information, will also provide generally understandable information on complex subjects like digital technology. More than 130 million hits on the Internet pages of Media Markt and Saturn in the year 2002 illustrate the great interest of the consumers in this modern technical form of information and communication which, incidentally, goes very well with the tender offered by the sales division.

Outlook

Media Markt and Saturn have set themselves the target of even further expanding their market leadership in the European market in the year 2003. In this context the sales division will continue to rely on its ability to offer high-quality brand products to their customers at favorable prices and to respond to new trends in the fast-moving electronics business by rapidly updating their product offerings. The recognized price leadership of Media Markt and Saturn constitutes a considerable competitive advantage that offers excellent opportunities to continue to gain market shares. At the same time both brands will consistently continue to pursue their strategy of organic growth in the year 2003. In the coming fiscal year it is planned to establish new consumer electronics centers at different locations in Germany and abroad. In parallel to expanding the sales network a larger number of existing stores will be modernized and adjusted to meet current customer demands. The planned further optimization of process flows and organizational structures with a view to increasing earnings will continue to be an important task also in the year 2003.

Praktiker : No matter whether for professionals or for hobby do-it-yourselfers – the full-range provider of home improvement and DIY products has a broad product range as its distinguishing feature. With its particular strength in consulting and customer service Praktiker successfully stands its ground in the competition.


Praktiker

Praktiker

THE PRAKTIKER HOME IMPROVEMENT AND DIY CENTERS ENDED THE FISCAL YEAR 2002 ON A STEADY NOTE. IN A DIFFICULT MACROECONOMIC ENVIRONMENT AND IN SPITE OF A CLEAR DECLINE IN DEMAND IN THE DOMESTIC MARKET GERMANY'S THIRD LARGEST PROVIDER OF HOME IMPROVEMENT AND DIY PRODUCTS SUCCEEDED IN DEFENDING ITS MARKET SHARE. THIS WAS ACHIEVED BY CONSISTENTLY CONTINUING THE REPOSITIONING PROGRAM, OPTIMIZING THE ASSORTMENT, CONTINUING TO IMPROVE THE SERVICE OFFERING AND ENGAGING IN MARKETING ACTIVITIES THAT WERE WELL RECEIVED BY CUSTOMERS. INTERNATIONALIZATION OF THE SALES DIVISION WAS VIGOROUSLY ENFORCED.

With sales of some € 2.6 billion in the year 2002 and a dense outlet chain Praktiker holds third place in the German home improvement industry. In Europe the sales division asserts number four. Praktiker home improvement and DIY centers offer the customer a comprehensive assortment of merchandize in the areas of building, workshop, refurbishment and gardening that appeals equally to the experienced crafts professional and the hobby do-it-yourselfer. It includes products from well-known brand manufacturers as well as private labels that are all characterized by high quality and a favorable price-performance ratio. In addition to this diverse product assortment Praktiker convinces its customers with individual expert advice and a customer-friendly range of services. In addition, Praktiker offers at its homepage www.praktiker.de comprehensive information and concrete support for the planning of DIY projects. With this profile the Praktiker home improvement centers managed to strengthen their position as an efficient provider in the German and European markets in 2002 and to regain market share in the process. Contributions to this were made by the comprehensive repositioning measures of the last few years designed to highlight assortment competency even more, as well as the continuous optimization of the merchandizing concept.

Praktiker satisfies its customers with further improvements of the merchandize offering and a high level of price competency

In March 2002 the sales division launched a comprehensive price-cutting campaign accompanied by high-impact advertising measures. It was initiated with the objective of achieving an increasing level of long-term customer retention through attractive pricing and at the same time attaining price leadership in large segments of the assortment in the home improvement and DIY industry. To this end Praktiker permanently reduced the prices of about 3,000 items by an average of 10 percent in the course of the year under review. The focus was on merchandize for which there is a particularly lively demand and that constituts a representative cross-section of the entire assortment.

These marketing measures considerably contributed to the fact that in the year under review customer traffic at Praktiker increased to 71 million customer contacts.

In addition, Praktiker increased the attractiveness of its product range in 2002 by introducing the "budget" private label as a new line of tools and related products. These are about 250 separate items that come with a 10-year warranty. The high level of customer acceptance gained by this line extension made a significant contribution to the positive sales development of the sales division.

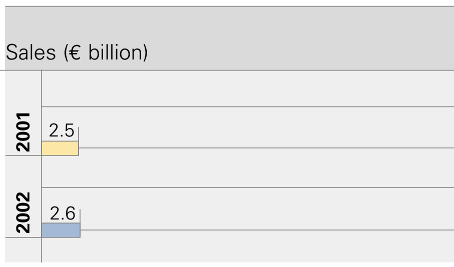
Praktiker offers key accounts special buying advantages

The launch of the Key Account Card in the year 2002 was specifically directed at craftsmen. It is designed to achieve long-term customer retention of people who professionally work in the crafts. Within the framework of this project which is being continuously developed every Praktiker store has the possibility to grant a special customer card to selected key accounts. These will then qualify for a discount depending on the volume of their purchases. For a purchasing volume from € 1,500 within 12 months a dis-

Company

Praktiker	
Sales	€ 2.6 billion
EBIT	€ -41.6 million
Number of locations	346 in 8 countries
Total selling space	2.0 million square meters
Headcount (annual average of full-time equivalents)	14,861

Sales development



count of three percent will be granted. From € 2,500 the discount will be five percent and from € 7,500 it will be as much as ten percent. The discount will be granted retroactively in the form of a merchandize voucher. The target group that the Key Account Card appeals to is particularly interesting to the sales division since intensive customer care in this case is likely to produce positive impulses for Praktiker's sales and earnings development. So far some 40,000 key account customers have already benefited from the discounts that come with the Key Account Card.

Vigorous international expansion

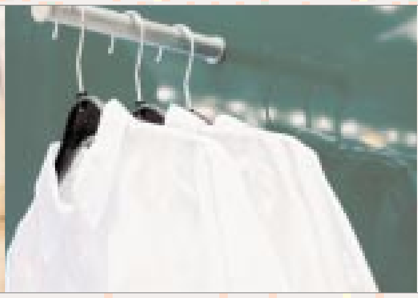
Since the industry situation in Germany only offers limited growth potential because of its long years of stagnation and decline Praktiker is using the opportunities in foreign markets consistently promoting its international expansion. In doing so the company concentrates on the strongly growing countries in Eastern Europe where a leading market position can be reached in the short to medium term. At the end of September 2002 Praktiker opened its first home improvement center in Romania. This makes Praktiker the first German operator of home improvement centers to open a specialist store for the complete range of home improvement and DIY products in the most populous country in the Balkans. The first store in the capital Bucharest is to be followed by seven more stores in different cities around the country. In Hungary Praktiker further strengthened its leading market position in 2002. In the capital Budapest a fourth store was newly opened. This vigorous internationalization has had positive repercussions on the sales division's sales and earnings. Particularly in Hungary, Greece and Poland Praktiker was able to increase sales significantly. In Greece, average monthly sales per store are almost four times higher than in comparable outlets in Germany. The business in Turkey was under the influence of the difficult macroeconomic situation. There, Praktiker continued its strategy of target-oriented expansion in 2002 by opening a new home improvement center at Konya bringing the total number to seven locations. In Greece and Luxembourg the company strengthened its market position optimizing its outlet chains at the same time.

In the course of 2002 the foreign share in the company's total sales went up to 22 percent. The target for the next years is to exceed the 30 percent mark. At the same time the number of home improvement centers outside Germany is to be increased to 70.

Outlook

In fiscal year 2003 Praktiker will consistently continue to pursue its objective of gaining additional market share with its coordinated pricing and marketing strategy. With a view to further increasing sales and earnings the sales division will also continue to strengthen its profile as an efficient retail brand in the home improvement and DIY market. Because of the positive experience gained with the Key Account Card this attractive target group will be further developed. In order to tap market potentials outside Germany even further Praktiker will also systematically continue its successful European expansion.

Kaufhof : The department stores converted to the future-oriented Galeria concept offer high-quality products by national and international brand manufacturers. The special product presentation in merchandize worlds and brand shops turns shopping at Galeria Kaufhof into a unique experience for the whole family.



emotions

Kaufhof

INNOVATIVE STRENGTH, CONSISTENT CUSTOMER FOCUS AND CONCENTRATION ON THE TRIED AND TESTED GALERIA CONCEPT – THAT IS THE CORPORATE STRATEGY WITH WHICH KAUFHOF WARENHAUS AG DEFENDED ITS UPMARKET POSITION IN THE MARKET AND ITS RECOGNIZED CONCEPT AND SYSTEMS LEADERSHIP IN THE FISCAL YEAR JUST ENDED. ON THIS BASIS IT WAS POSSIBLE TO GENERATE SATISFACTORY BUSINESS RESULTS IN 2002 IN SPITE OF A DISTINCT BUYING RESTRAINT ON THE PART OF CONSUMERS.

In 2002 Kaufhof Warenhaus AG further sharpened its profile as a unique retail brand. The innovative Galeria concept was further developed and optimized. Last year the company converted or newly established another three stores in line with this trendsetting concept. New standards in the department store business were set by the opening of a new outlet in the German capital. The first Galeria Kaufhof store in the Western part of Berlin was established in the Gropius Arcades on a total area of 11,000 square meters. The project underlines the claim of Kaufhof Warenhaus AG to maintain systems leadership in the future. Including the new store in Berlin the sales division was operating a total of 81 stores representing more than 80 percent of the total selling space along the lines of the Galeria concept at the end of the 2002 fiscal year. The superiority of the concept is reflected, among other things, in the business results of the converted stores. As a general rule they reported a better annual performance than the stores not yet converted. They accounted for 85 percent of the total sales of Kaufhof Warenhaus AG in 2002.

"Galeria Kaufhof – Ich freu´ mich drauf!"

Galeria Kaufhof has established itself as a successful brand in the minds of customers using the motto "Galeria Kaufhof – Ich freu´ mich drauf! (I can´t wait!)". The Galeria concept stands for proven assortment competency, for innovative and appealing forms of merchandize presentation as well as for skilful customer care and a comprehensive service offering. The rich selection of high-quality merchandize including numerous products of nationally and internationally renowned branded goods manufacturers appeals quite specifically to the sophisticated, brand-conscious consumer. Brand shops integrated into the generously dimensioned selling spaces round off the diversity of merchandize with their attractive product offerings. The bright, clearly structured premises with their imaginative displays convey a customer-friendly shopping atmosphere. The level of the merchandize presentation meets the highest demands. The branded goods manufacturers fully appreciate this. Evidence of this is the successful acquisition of additional specialist brand manufacturers for cooperation with Kaufhof in 2002.

The consistent use of modern market research and controlling tools enables the sales division to continuously optimize the Galeria concept. Thus, changing customer needs, new customer expectations and changes in consumer behavior can be identified at an early point in time. The insights gained in this way form the basis for the continuous adjustment of the merchandizing concept to new customer wishes.

"Galeria.tv" – a new way of appealing to the customer

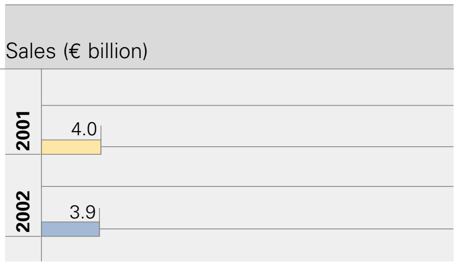
As Europe's first retail company Kaufhof Warenhaus AG has been presenting its own magazine on free-to-air TV since September 2002. The programme is called "Galeria.tv – New Ideas for Your Life" and is broadcast every Sunday by the private tv.nrw station reaching some six million households in North Rhine Westphalia. Galeria.tv presents new products, reports about promotions and services in the Kaufhof stores and allows a glimpse behind the scenes of a modern department store. By way of a telephone hotline or reply postcards viewers can directly ask questions about the broadcast or about Galeria Kaufhof.

The new television show is part of Kaufhof's multi-channel strategy whose objective it is to reach customers individually through a diversity of forms and media of communication and to tap new groups of consumers in this

Company

Kaufhof	
Sales	€ 3.9 billion
EBIT	€ 131.4 million
Number of locations	150 in 2 countries
Total selling space	1.5 million square meters
Headcount (annual average of full-time equivalents)	21,270

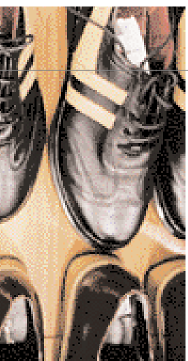
Sales development



way. In the same context www.galeria-kaufhof.de has been developed into an Internet platform for online shopping and multimedia information and consultation terminals in the Galeria Kaufhof stores have been installed. These terminals offer customers entertainment, information and customer-oriented services supplementing personal customer care. As a result of the combination of text, images, sound, interactivity and fragrance customers can experience the Galeria Kaufhof merchandize worlds with all their senses. Another service that is offered: At the terminals customers can check their Payback points and have them directly converted into merchandize vouchers.

Payback – an efficient tool for customer retention

The expansion of the successful Payback program from a bonus system to a comprehensive, integrated customer retention scheme was emphatically promoted in the year 2002. In addition to interesting discounts and attractive bonus premiums customer receive continuously up-to-date information on rewarding sales promotions, innovative products and trends in the different merchandize worlds, for example by way of e-mail within the framework of direct marketing campaigns. The outstanding success of the Payback system is illustrated by the fact that by the end of 2002 some 4.5 million customers already were holders of the Kaufhof Galeria Card first introduced in the year 2000.



Efficient Consumer Response (ECR) as a basis for sustainable success in the market place

"Customer focus" is Kaufhof's key to the further expansion of the company's market position. This is what the selection, quality and pricing of the merchandize offering as well as the comprehensive customer care and service efforts are determined by. In order to take customer expectations into account in the best possible way Kaufhof, like other sales divisions of the METRO Group, relies on Efficient Consumer Response (ECR) as the planning and control tool. The system provides for an "efficient reaction to consumer wishes". ECR is a holistic process in which retailers, manufacturers and business partners work closely together and are able, through a continuous exchange of information, to build up long-term differentiation potentials vis-à-vis competitors. The close cooperation makes it possible to optimize the workflow along the entire value chain which in turn saves time and costs and leads to an improvement of the merchandize offering. In the year 2002 Kaufhof further strengthened this cooperation with its suppliers. It was extended to some 400 manufacturers accounting for a sales share of 25 percent. As a result Kaufhof was able to substantially reduce inventories in its stores and increase merchandize availability at the same time.

Sportarena and Emotions continued to grow

The Sportarena and Emotions merchandizing formats that are part of Kaufhof Warenhaus AG appeal to clearly defined target groups with their product offering and their unique brand of merchandize presentation.
Thus, the 16 Sportarena stores with their high quality and attractively priced assortments are designed to specifically tap the sports and leisure-oriented customer groups. In the Sportarena stores customers will find not only a sophisticated product offering in the areas of fitness and wellness but also qualified advice, comprehensive service offerings and an exciting shopping atmosphere. In the fiscal year just ended the focus was on the further development of the Sportarena merchandizing concept. The success of these efforts is reflected in the results of a customer survey. 80 percent of the respondents considered Sportarena stores to be an ideal specialty shop with a high level of assortment competency for both sports and leisure. With this profile and with the ability to respond quickly and flexibly to the rapidly changing trends and customer demands in the sports and leisure fields the Sportarena concept asserts itself successfully in an increasingly fierce competitive environment. In addition, Sportarena benefits from its access to all the systems and service facilities of the Kaufhof department stores. The merchandizing concept is to be expanded by opening additional stores in the future. In this context preference will be given to high traffic inner city locations.
The Emotions merchandizing concept concentrates its product offering on modern, lifestyle-oriented women. The sophisticated assortment includes linen, lingerie, sports and leisure wear, fragrances and accessories. Many brand manufacturers are represented in the Emotions stores with their products. The ambiance of the shops matches the exalted quality of the assortment. It radiates an atmosphere of well-being, relaxation and comfort in a modern design. In addition, Emotions offers its female customers comprehensive body care and beauty programs ranging from hair styling via massages all the way to individual color and style advice. To this end the Day Spa facility has been created that Emotions offers customers as a "Beauty Farm for One Day". In order to meet the differentiated wishes of the target group appealed to by Emotions even better than before the product range was enlarged in the field of women´s outer garments in the year 2002. The "Classic Women" product line is specifically geared to meet the demands of successful women with a high standard of living.

Integration of Inno successfully completed

By taking over 15 inner city department stores of the Belgian Innovation S.A. (Inno) in the year 2001 Kaufhof Warenhaus AG took the first step towards expansion into neighboring European countries. Very much at the focus of business activities in the fiscal year just ended was the conversion of the first three Inno stores to the Galeria concept that has already been launched successfully in Germany. In addition, the merchandize management and logis-

tics systems of Kaufhof Warenhaus AG were implemented at Inno after adjustment to international trading requirements. As a result, the foundations have now been laid for an efficient merchandize management and logistics control of the stores concerned.
The share of the Inno department stores in total Kaufhof sales amounted to 6.2 percent in the year under review.

Outlook
In the year 2003 Kaufhof Warenhaus AG will continue to rely on the Galeria concept as the engine for profitable growth. In the current fiscal year additional department stores in Germany and Belgium will be converted to this successful concept. The positioning of Galeria Kaufhof as a retail brand will be further enhanced as a result of these measures. The strengthening of the brand gives rise to the expectation that both sales and earnings will increase. The primary factors in this regard will remain the clear customer focus and the precise target group appeal by way of the assortment, the merchandize presentation and the communication activities.

Cross-divisional service companies of the METRO Group

THE CENTRAL PERFORMANCE OF SERVICES FOR THE SALES DIVISIONS OF THE METRO GROUP BY CROSS-DIVISIONAL SERVICE COMPANIES ONCE AGAIN IMPROVED THE EFFICIENCY OF BUSINESS PROCESSES IN THE GROUP IN 2002. THESE COMPANIES THEREFORE MAKE A MAJOR CONTRIBUTION TO THE PROFITABLE GROWTH OF THE COMPANY.

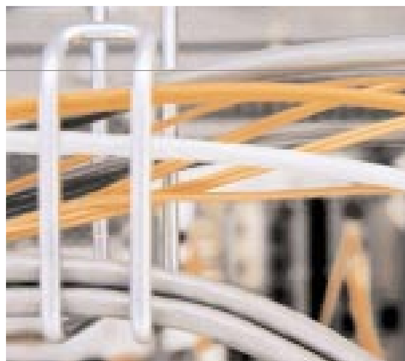
The METRO Group's cross-divisional service companies assume service tasks for the sales divisions such as purchasing, logistics, IT, advertising as well as waste disposal and environmental management. Pooling these services in cross-divisional companies makes it possible to use synergies and make the processes involved even more cost-effective. In this way they make an important contribution to generating cross-divisional cost cutting potentials and, as a result, further boosting the Group's earnings power.

Purchasing. MGB METRO Group Buying GmbH, previously operating under the name Metro MGE Einkauf GmbH (Metro-Gruppen-Einkauf), centrally pools all merchandize procurement activities for the entire METRO Group. In a constant dialogue with the sales divisions and observing the latter's strategic marketing concepts it is responsible for the procurement of all food and non-food merchandize. In the fiscal year just ended MGB including its subsidiaries in Poland, Russia and Turkey handled a total procurement volume of € 42 billion. MGB achieved significant improvements in the efficiency of procurement by increasingly using the Internet platform GlobalNetXchange (GNX) that the METRO Group had joined in the year 2000 together with other retail companies. MGB intensified this form of procurement which had only become possible through technical progress and was able, in the year under review, to attain substantial price advantages in 617 online auctions with a total purchasing volume of more than € 500 million. But this cross-divisional service company was also successful beyond online auctions. Within the framework of the procurement negotiations with its suppliers at home and abroad it ensured adherence to the stringent Metro quality standards at favorable prices. The profound market know-how of its total of 925 employees and the large volume of the orders involved were of great advantage in the negotiations. Both the sales divisions and the Group as a whole reaped a considerable benefit.

In parallel to the growing internationalization of the sales divisions MGB has also expanded its activities abroad. Thus, in the course of the Metro Cash & Carry expansion into Russia it founded a subsidiary in Moscow last year that will tap strategic purchasing advantages for the Group in Eastern Europe. In addition, last year MGB extended the stringent Metro quality assurance system for which it is responsible to all countries in which the Group has operations. This means that at all locations the same quality standards apply to the cooperation with suppliers and identical criteria are followed in the quality control of private labels.

Gemex Trading AG with its ten subsidiaries in Europe and the Far East organizes and controls worldwide imports for the METRO Group's sales divisions as well as for third-party customers with a total of 641 employees. One of its core competencies is above all the tapping of new supply sources in Eastern Europe, Russia and South East Asia. In the fiscal year just ended the procurement volume reached a total of € 1.0 billion.

In the course of 2003 the METRO Group will adjust the organizational structure of Group-wide procurement to the changing conditions of the European region. As a result of the European markets growing together inner European purchasing will no longer be treated as imports but as domestic trade. This means that MGB METRO Group Buying GmbH will coordinate all procurement activities for the Group inside and outside Europe as of 2004 including imports from Asia and from other non-EU countries. In the course of these organizational changes Gemex Trading AG will lose its independence and will be integrated into MGB METRO Group Buying GmbH.



Logistics. Central responsibility for the smooth transportation and distribution of up to 1.2 million packaging units daily to the 2,310 stores of the METRO Group in 26 countries lies with MGL METRO Group Logistics GmbH and MDL METRO Group Distribution Logistics GmbH & Co. KG previously operating under the names Metro MGL Logistik GmbH (Metro-Gruppen-Logistik) and Metro Distributions-Logistik GmbH & Co. KG.

With a total of 83 employees in Germany, Poland, Austria and Turkey MGL organizes all the merchandize transportation activities of the METRO Group. In fiscal year 2002 MGL handled a transport volume of ten million packages, eleven million pallets and 22 million hanging garments. This required the coordination of 4,000 suppliers and nine large central warehouses.One of the strategic pillars of its innovative logistics concept for which MGL was awarded the German Logistics Prize 2002 by the "Bundesvereinigung Logistik e.V." (Federal Association of the Logistics Industry) is the direct collection of merchandize from the manufacturer's premises. MGL controls the complex logistics chain from the manufacturer to the store. It cooperates with a few carefully selected logistics service providers who each have a national coverage network and trans-shipment centers in Germany. This means they do not need any warehousing facilities of their own. As a result of the pooling of these logistics services the sales divisions reap substantial service and cost advantages as the number of deliveries to the ramps and the warehousing costs can be reduced significantly.

MDL is a specialized warehousing and distribution company of the METRO Group with a total of 2,803 employees. It operates seven central warehouses for food, another two central warehouses for nonfood items as well as four so-called fresh produce platforms that it took over from Metro Cash & Carry in the course of the year under review. In addition, the company is not only responsible for the procurement of the goods but also for checking of quantities, qualities and prices as well as for the picking of orders. In the year 2002 MDL consistently developed its range of services. For example, it added the area-wide supply of fresh produce and frozen food items to all Real and Extra stores to its existing nonfood transportation services. The external companies who provided these services before have been replaced.

The further intensification of electronic data interchange (EDI) with suppliers has reduced process costs and made it possible to cut inventory levels. More than 70 percent of all orders are placed electronically by now.

IT. MGI METRO Group Information Technology GmbH (previously: Metro MGI Informatik GmbH - Metro-Gruppen-Informatik) is the central IT service provider operating the information technology "nervous system" of the METRO Group. The 761 MGI experts look after the central servers of the Group and develop special software programs and databases for the Buying, Sales, Logistics, Controlling and Human Resources functions of the sales divisions and the cross-divisional service companies. The administration of the Group-wide IT network with more than 40,000 e-mail accounts is also part of the MGI brief.

In the year 2002 the company implemented a number of projects that created the technical basis on which the numerous business processes could be accelerated and harmonized. For example, the web-based merchandize management system installed in the year 2000 was further optimized: Automatic scheduling systems simplify the processes and lead to major cost savings. The introduction of a new catalogue system that obtains its item master files from international databases efficiently supports the international procurement function of the Group. In this context the METRO Group plays a pioneering role in the cooperative optimization strategies between trade and industry under the general heading of Efficient Consumer Response. For this work it was awarded the highly regarded "Goldener Zuckerhut" ("Golden Sugar Loaf") prize by the German trade magazine "Lebensmittel Zeitung" in the year 2002. Further simplifications as well as better cost management were achieved through the introduction of standard software for the Group-wide management of repair and maintenance processes. The "mymetro" portal also permits more efficient workflows. In the future it will be the technical working platform for all employees of the METRO Group. Under a uniform user interface information will be linked and applications will be made available that facilitate and accelerate the employees' day-to-day work. The starter version launched at corporate headquarters in the fall of 2002 will be rolled out to other parts of the Group step by step and supplemented by adding more functionalities.

Advertising. On behalf of the METRO Group's sales divisions MGA METRO Group Advertising GmbH (previously: Metro Werbegesellschaft mbH) looks after the procurement, implementation and coordination of advertising services in Germany and the European continent. 65 employees worked for MGA in the year 2002, five of them in Poland. The objectives of MGA are to pool purchasing volumes, to harmonize and to simplify business processes as far as possible – for example the management of a Group-wide picture database or the provision of billing systems – and, as a result, reduce costs and, in the final analysis, achieve competitive advantages for the sales divisions. In view of the increasing internationalization of the sales divisions a consequential step taken by MGA was to also further expand its service business abroad. This puts the cross-divisional service company into an even better position to provide services to the sales divisions all over Europe.

In Poland the business operations of MWG Metro Reklama Polska Spólka z o.o. were transferred effective 1 February 2002 to a special type of corporation which belongs to the METRO Group. The task of this company is above all the strategic buying of services in the production and media field as well as administrative and planning tasks. The Polish subsidiary has shown a positive business development.
In anticipation of the Metro Cash & Carry market entry in Ukraine planned for 2003 MGA will now also extend its business activities to this country.
In addition, MGA joined the e-commerce platform GlobalNetXchange (GNX) with the aim of further improving the efficiency of buying advertising materials and advertising services in 2002 and thus actually managed to secure more favorable prices. These cost advantages were passed on to the sales divisions.
Even in the year 2003 MGA will continue to strengthen its position in the field of buying services and further optimize national and international business processes in the area of advertising. For example, the degree of utilization of the picture database is to be increased by guaranteeing the media-independent archiving of images.

Environment. The METRO Group quite explicitly comes out in favor of the protection of the environment and the responsible treatment of our limited natural resources. At its own initiative it has therefore established an efficient recycling management that responds to the individual requirements of the sales divisions and is guided by the principles of a sustainable recycling economy. The environmentally relevant services of the Group are organized by the 103 employees of MFS METRO Group Facility Services GmbH (previously: Metro Wertstoff Circle Services GmbH - MWCS) which, in the year 2002, reached a volume of services rendered of € 110 million. The efficiency of the company increased even further as a result of the fact that since 2001 it has been possible via electronic data interchange with the sales divisions to document waste flows and to draw up waste audits. On the basis of these figures it has been possible to further optimize MFS's waste disposal and environmental management concepts.

In addition to its comprehensive and competent service offering in the field of waste disposal this cross-divisional service company offers sales divisions a broad spectrum of services like for example cleaning of premises, measures to secure hygiene, disposal of residues from fat precipitators, pest control, etc. The pooling of these services in one company has not only increased the professionalism with which the work is performed. The actual advantage lies in the resulting harmonization and optimization of the work processes involved as a result of which major cost savings could be realized in the Group in 2002.
In the year 2002 MFS did not only pursue a continuous improvement of its business processes but its business policy also focused on a further Europeanization of its environmental and waste management activities. The growing together of the European single market and the increasing internationalization of the sales divisions lend particular weight to this topic at MFS. In Austria, Poland, Hungary and – since 2001 – also in France the company has been working together with selected service providers supporting them with its very specific know-how. This cooperation was further intensified in 2002. As a result it became possible for the first time to tap cross-border synergies in the marketing of waste paper and to generate appropriate cost advantages in the process in the fiscal year under review.

Restaurant and Catering. Dinea Gastronomie GmbH has established itself in the top group of German restaurant chains with its 222 restaurants. The company operates three different types of outlets: "Dinea", "Grillpfanne" and "Axxe". Dinea focuses on the sophisticated department store customer who will enjoy a "gastronomic shopping experience". The Grillpfanne restaurants, on the other hand, are directed at the price-conscious visitor of specialty stores or shopping centers. Axxe has specialized in the operation of highway service areas. This brand offers the traveler a comprehensive services around the clock.
In the year 2002 the Dinea group served a total of some 60 million guests who were looked after by 3,215 employees.
In the course of a consistently earnings-oriented optimization of the portfolio of locations the company reduced the number of its restaurants by 14 in the year 2002. As a result of this measure as well as the difficult macroeconomic situation in Germany Dinea group sales declined slightly.
For 2003 the company plans an expansion of the chain of service areas and the continuous modernization of the restaurants. All in all, the company will continue next year to optimize its service offering to meet customer wishes even more. This is the key to further sales and earnings growth.

Quality assurance as a success factor in food retailing

THE PERMANENT IMPROVEMENT OF QUALITY STANDARDS IN THE MERCHANDIZE OFFERED AS WELL AS THE SAFETY OF FOOD ARE AMONG THE CORE CONCERNS OF THE METRO GROUP. AS ONE OF THE WORLD LEADERS IN TRADING AND RETAILING THE METRO GROUP ACCEPTS ITS HUGE RESPONSIBILITY FOR THE HEALTH OF CONSUMERS. WITH WHAT HAS BEEN ACHIEVED SO FAR THE METRO GROUP IS AMONG THE TREND SETTERS NATIONALLY AND INTERNATIONALLY. THIS IN ITSELF IS INCENTIVE ENOUGH TO GET EVEN BETTER.

Quality controls of private label products and fresh produce in the METRO Group

Thanks to a continuous process of optimization the METRO Group has outstandingly efficient quality assurance systems today. This applies particularly to the food sector. A dense network of supplier audits conducted in line with the stringent requirements of the "International Food Standards", comprehensive product inspections, intensive control procedures in our own warehouses, platforms and stores are all part and parcel of this sophisticated system. In addition, the METRO Group participates in the drafting of new, future-oriented quality standards at the national and international levels. Through this diversity of activities both inside and outside the company the METRO Group makes a significant contribution to the continuous improvement of food safety helping to reduce the risk of faulty or even hazardous food items getting into circulation.

High level of responsibility

Through the diverse activities for quality assurance and the high level of involvement in the development of up-to-the-minute national and international quality standards the METRO Group contributes significantly to the optimization of food safety not only in its own companies.

At present the METRO Group employs more than 60 food chemists and technologists, veterinary experts and nutritional scientists in 26 countries to be at the service of food safety. Their control activities extend to the entire assortment of food items with their work focusing particularly on the testing of private label products and fresh produce as well as the hygiene inspections in the Group´s companies. The control activities are conducted in line with the relevant quality assurance manuals in which concrete instructions have been laid down on the implementation of the quality standards that apply within the METRO Group. Internal controls are supported by additionally commissioned external institutes.

High demands on suppliers

Food suppliers who want to become producers of private label products for the METRO Group have to undergo a stringent test procedure and meet high demands before they can enter into business cooperation. Within the testing procedure they have to provide evidence that they can consistently meet the high quality demands of the METRO Group. Not every producer and supplier desiring a business partnership with the METRO Group manages to clear these steep hurdles. The METRO Group expects all its contract partners to be able to eliminate safety risks during the production process according to the state-of-the-art rules of science and technology and to adjust their quality management systems accordingly. To this end the production processes as well as the quality assurance systems of each and every food

manufacturer are painstakingly analyzed and evaluated in so-called audits before cooperation is initiated. If a supplier meets this tough requirements profile after such an intensive scrutiny he can be accepted into the ranks of suppliers of the METRO Group. However, even during the entire period of cooperation he will have to accept regular spot checks. In such cases neutral institutes working on behalf of the METRO Group and in line with generally accepted rules as well as instructions received from Metro Quality Assurance will analyze the ingredients and the general safety of the food items delivered at regular intervals.

Consistent quality control

The METRO Group relies on long-term partnership with its food suppliers. Before the beginning of any such cooperation potential producers and suppliers must, however, provide evidence that they are capable of consistently meeting the METRO Groups high quality demands. Those who have the necessary qualifications will be included in the group of Metro suppliers. Neutral institutes conduct regular spot checks on behalf of the METRO Group based on the Metro standards as well as general requirements.

Food transportation – a challenge of a special kind

A major partial aspect of quality assurance in food retailing is the transportation of products requiring refrigeration. It is not enough to place high safety demands on the production process and the testing procedures used in its wake. Equally high demands must be and are being placed by the METRO Group on product safety during transportation. Accordingly, only trucks with the most advanced refrigeration technology are used for the transportation of our fresh produce. The latest measuring equipment continuously records the temperature in the loading bay of the refrigeration or deep freeze vehicle during the trip. The temperature readings are transmitted by satellite to a central computer. As a result, it is possible to react instantly to temperature fluctuations. If the screens of the central unit show a temperature increase in the loading bay of a vehicle, for example, this vehicle is immediately di-rected to the nearest refrigerated warehouse even before the quality or the safety of the products carried can deteriorate in any way.

Intensive product checks before sale to the consumer

In the stores, fresh produce platforms and central food warehouses Metro's own quality assurance efforts come full circle.

Before food is cleared for sale to customers the merchandize is again subjected to a product check. On the fresh produce platforms, in the central food warehouses and in the stores the Quality Control Officers of the METRO Group check the deliveries according to so-called sensory criteria, i.e. whether any deficiencies can be discerned by visual or gustatory inspection. This includes, for example, the appearance of the products, their body (or consistency) and their taste. In addition, external, independent inspectors regularly take product samples on behalf of the METRO Group. In Germany the METRO Group cooperates with a total of ten of the most important quality control institutes. Their task is to analyze the samples taken on behalf of Metro Quality Assurance with reference to their composition, i.e. their ingredients as well as any undesirable and possibly hazardous substances. In this way it can be determined, for example, whether a farmer adhered to all pertinent rules and regulations in growing his fruit or whether – in violation of agreed quality standards and/or the relevant legal requirements – he used inadmissible types or quantities of plant protection agents.

Only if and when these controls have been completed satisfactorily will the merchandize reach the shelves of the stores.

Interview with Hans-Jürgen Matern, Head of Quality Assurance

Question: How important is reaction management in the METRO Group's quality assurance system?
Matern: Our quality management system is based on the proactive defense against hazards. Our entire quality concept seeks to prevent problems from occurring in the first place. In the exceptional case of this not being achieved the name of the game is to discover the root causes as early as possible and to isolate defective merchandize. Still – there is no such thing as one hundred percent safety. This is why we operate highly efficient assurance systems. Group-wide they put us into a position to be able to react immediately if and when anything goes wrong in any of the establishments belonging to the METRO Group. This means in concrete terms: Even if there is only the suspicion that defective food is in circulation it will be taken off the shelves as promptly as possible – the action taken will be on target, rapid and if necessary global.

Question: How is this done?
Matern: Quality assurance immediately starts investigating the case and instantly triggers a recall campaign of the suspicious product if such action seems to be called for on the basis of the results of the investigation. This works as follows: All affected stores are informed by the Quality Assurance Department by e-mail or fax which item is the problem, who the manufacturer is and which production batch the merchandize belongs to. In addition, the stores are called upon to take the items off the shelf straight away, to mark them appropriately and to hold them in the warehouse ready to be picked up.

Question: So, the consumer does not learn about such incidents at all?
Matern: It goes without saying that consumers are informed in every case if there is the danger that product defects may lead to health hazards. How this is done in specific situations is decided on the merits of each case and in close cooperation with the food safety authorities in the community or city in which the defective merchandize was discovered.

Question: And how long does it take to remove the merchandize from the shelves?
Matern: Our recall reaches the stores within the shortest possible period of time. The Metro Reaction Management System guarantees that there is always somebody on call who can initiate the necessary measures – even during the night or over the weekend.

The cold storage rooms and the refrigerated shelves in the stores of the METRO Group, just as the transport vehicles used, are equipped with the most advanced technology. The stationary refrigeration facilities are connected to automatic measuring units that continuously monitor the temperature, record it and transmit it to a central unit that can make corrections if this should be necessary in individual cases. With this system of the round-the-clock refrigeration control of food items and fresh produce during transport and storage the METRO Group has set new standards in Europe for consumer protection and the guaranty of a consistently high level of quality.

Hygiene control as an indispensable part of quality assurance

In addition to product quality control the control of hygiene in the outlets, warehouses and restaurants constitutes another important area of Metro Quality Assurance. The binding internal hygiene measures applicable to all employees of the Group are separately listed in a quality manual. It contains among other things specific instructions on the cleaning of work places and working tools, on waste disposal and on personal hygiene. Another subject dealt with in detail in the manual is the quality-conscious way of handling merchandize. Thus, employees in the stores are, for example, held to check the products in their area of responsibility according to certain predefined criteria (e.g. best-before date, damaged packages, etc.) in order to guarantee the high quality level of the METRO Group in the long term.

Regular reports have to be drawn up on the actual performance of the hygiene measures contained in the manual. It is up to the employees in charge to log the measures performed adding the date, the time of day and their signature. The documentation created in this way is checked for agreement with the requirements of the manual by external inspectors on behalf of Metro Quality Assurance up to four times a year. The results of these inspections are summarized in a final audit report and serve the company as a basis on which to introduce organizational changes that may turn out to be necessary.

The METRO Group guarantees high quality standards throughout the Group

A future-oriented step for the benefit of international consumer protection and quality assurance was taken by the METRO Group when in the year 2001 it initiated the Group-wide networking of quality assurance activities. In all the 26 countries in whose markets the METRO Group has operations special departments were formed at the national headquarters whose sole task was the consistent implementation of the high Metro quality standards. These departments in turn are linked with each other via a central Internet database into which all the results of quality controls throughout the Group are continuously fed. Thus, for example, the information about the successful audit of a Portuguese fish supplier in his home country by the local Metro Quality Assurance people is available throughout the entire METRO Group. The audit result can be accessed by the quality managers in all other countries and is valid in the entire Group. Multiple audits of the same supplier are avoided in this way. By the same token, deficiencies that are found to exist with a supplier or a product reach all the outlets of the METRO Group via the Internet within a very short period of time so that Group-wide the

Cross-divisional quality criteria

In the METRO Group quality assurance is practiced according to uniform, firmly laid down criteria. These guidelines are the binding basis for the consistent internal quality controls within the Group. They provide information on product-related quality requirements and give staff concrete instructions on how to check adherence to these standards – and that in all the 26 countries in which the METRO Group is represented.



necessary corrective action can be taken at short notice. Due to the international networking of quality assurance activities effected in the year 2001 the METRO Group is now in a position to determine adherence to its strict supplier and product demands already in the country of origin and to guarantee consistent quality standards across borders as a result. Consumer protection has thus taken on a new, international dimension within the METRO Group. In addition, the METRO Group has generated considerable synergy effects and value creation potentials in the course of this international cooperation.

METRO Group makes a major contribution to harmonizing quality standards

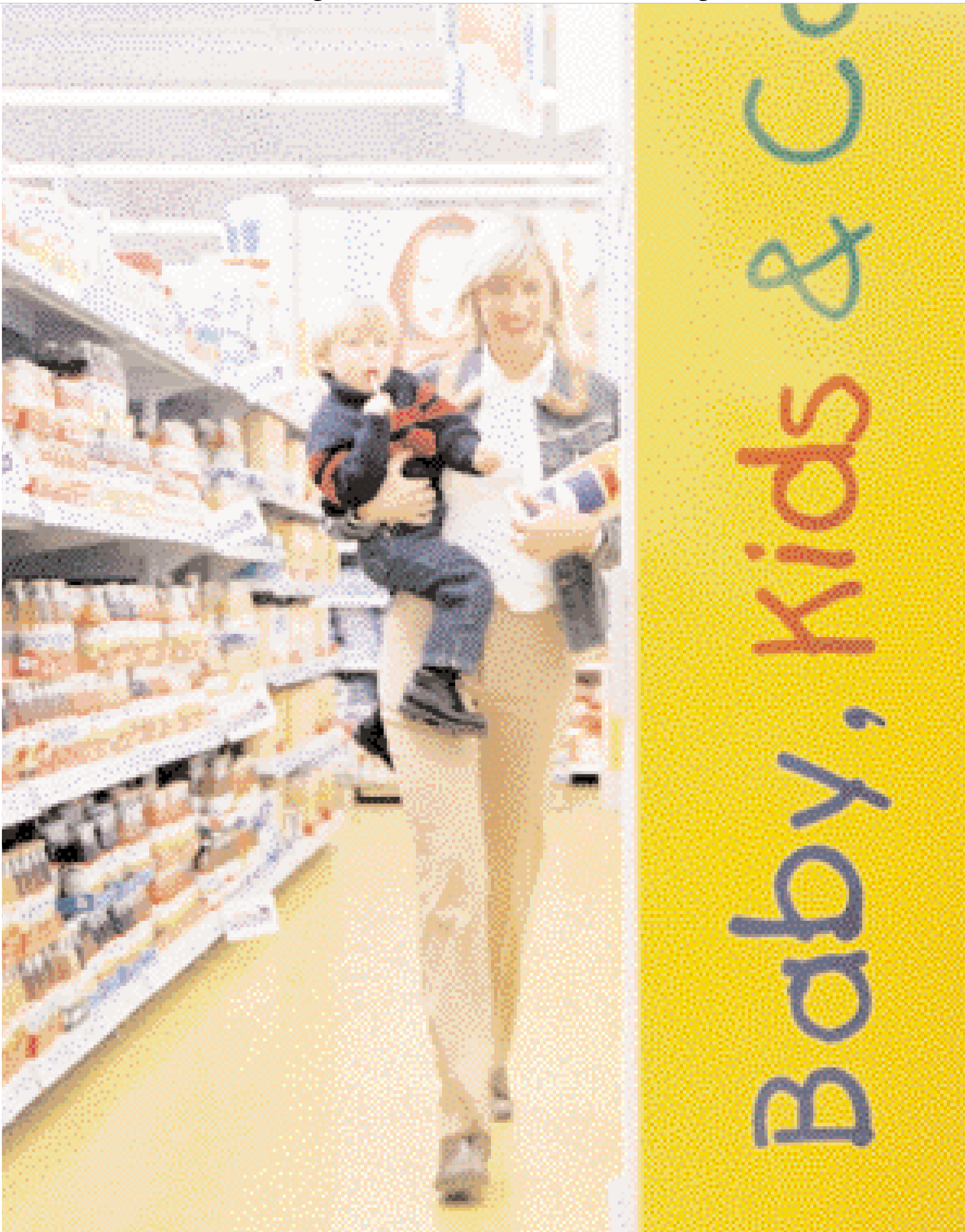
An important facet of the METRO Group's philosophy as an internationally aligned trading and retailing company is the acceptance of responsibility for the consumer beyond national borders. It is against this background that the company's far-reaching involvement in a variety of quality initiatives at the national and international levels must be seen. The METRO Group is actively engaged in pushing ahead the improvement of quality standards in food retailing as well as their international recognition injecting its long years of international experience into the process. Thus, in cooperation with other German retailers it developed the International Food Standard (IFS) for the auditing of suppliers. It is based on the so-called HACCP rules (Hazard Analysis Critical Control Point), a generally recognized process in the food industry by which weaknesses in the manufacturing process can be pinpointed and eliminated by suitable measures.

Since the beginning of 2003 the French retail companies have been using the IFS standard, too. Retailers in Great Britain have also indicated that they will recognize the IFS and perform audits on its basis. In addition, the Global Food Safety Initiative in which international companies of food retailing cooperate has accepted the International Food Standard as a worldwide audit standard as well. This constitutes a breakthrough on the way towards the international standardization of the quality assurance of food items at a high level.

International quality standards

With significant involvement of the METRO Group the German retail companies developed the International Food Standard (IFS). For the first time it formulates criteria for the auditing of private label manufacturers. In contrast to the British auditing standard BRC (British Retail Council) the IFS yields particularly differentiated findings on the actually practiced quality assurance system in place at suppliers' and producers' operations.

Category management – consistent value enhancement through the effective management of merchandize categories



THE BASIC OBJECTIVE OF THE METRO GROUP'S CORPORATE STRATEGY IS TO POSITION THE SALES DIVISIONS AS UNIQUE AND UNMISTAKABLE BRANDS BOTH NATIONALLY AND INTERNATIONALLY. AN IMPORTANT CONTRIBUTION ALONG THE WAY TO REACHING THIS GOAL IS MADE BY CATEGORY MANAGEMENT. ON THE BASIS OF A SPECIFICALLY CUSTOMER-ORIENTED ASSORTMENT POLICY IT HELPS TO INCREASE SALES AND EARNINGS, SECURES THE COMPETITIVE EDGE THAT SALES DIVISIONS HAVE IN THE MARKETS AND, IN ADDITION, STRENGTHENS LONG-TERM CUSTOMER RETENTION.

The METRO Group already recognized at an early point in time the sales and earnings potential that could be tapped on the basis of consistent category management. Since then the Group has vigorously promoted this strategy within the Real, Extra and Metro Cash & Carry sales divisions. As a result, the METRO Group is now part of a small circle of international trading and retailing companies that operate well-functioning category management systems.
Category management is a corporate strategy unit that forms the interface between the buying and the sales functions. While buying is concerned with the most favorable purchase price and sales is focused on selling the goods category management systems concentrate on the clearly defined target groups of the individual sales divisions with their demands and expectations. The target groups' wishes and needs primarily determine the composition of the overall merchandize offering as well as the scope of the assortment and its presentation in the outlets of the METRO Group. Customer orientation is therefore the name of the game in category management. Satisfying the needs of precisely defined target customers will increase the attractiveness of an outlet for the target groups, consequently increase both sales and earnings and, in addition, retain customers for the brand.

Identification and definition of main target groups as a fundamental prerequisite for category management

Category management is based on the insight that it is impossible for a retail company to satisfy with equal accuracy the sometimes strongly diverging needs and individual demands of all 33 million households in Germany with one and the same product assortment. Its positioning as a brand can therefore only be attained successfully by focusing on certain main target groups and tailoring its product offerings to the needs of these groups.
When building up a category management system the first step therefore is to identify the main target groups for each sales division. This is done on the basis of a comprehensive data acquisition and evaluation. The data volumes held by the Gesellschaft für Konsumgüterforschung (GfK = association for consumer goods research) are used for the identification of the main customer groups as much as the comprehensive data in the company's own Data Warehouse that portrays the position reached in the market place with the help of the retail panel data recorded by the A.C. Nielsen company. In addition, there is an extensive exchange of data with cooperating manufacturers taking place supplemented by specific customer sur-

Data Warehouse

In the Data Warehouse of the METRO Group different data bases are combined with one another. They contain all the relevant data on the business development of the sales divisions and the cross-divisional service companies of the Group. The Data Warehouse supplies these data in an evaluated, concentrated and structured format. It thus offers an up-to-the-minute picture of the situation of the company facilitating strategic and operational management decisions.

veys. In this way we cannot only identify the main target groups of every sales division but the data also provides us with concrete information on the profile of the customer groups that the various sales divisions concentrate on – their lifestyles, their needs and expectations, their purchasing patterns as well as their purchasing power.
In the course of the data acquisition and evaluation process the main customers of the Real sales division were, for example, identified as "families with between one and three children and a good income". The Extra sales division, on the other hand, has as its main focus the primary target groups of "one to two person households of older people" as well as "large families with four and more persons".

Customer expectations as the basis on which to determine the composition and presentation of the merchandize assortment

The identification of the main customer groups for each sales division is followed by the definition of the merchandize offering to be carried by individual stores.
In this context a distinction is made between different merchandize categories, i.e. destination categories, preferred and convenience categories as well as seasonal categories.
Destination categories include those items that are specifically tailored to the needs of the sales division's main target groups. As a rule they account for about 10 percent of the total range of goods of a store. In the case of the Real sales division, for example, that appeals to large families with several children as its main target group a comprehensive assortment for kids up to the age of six is offered under the category description "Baby, Kids & Co." that includes everything from baby food, diapers, hair and skin care items all the way to baby clothing.
The destination categories are rounded off by the convenience categories whose share in the total assortment may be up to 30 percent. Convenience categories serve to complete the merchandize offering in such a way that customers can shop for their daily needs in one and the same store (the concept of "One-Stop-Shopping"). In a store primarily focused on selling food the convenience categories include, for example, potted plants as well as consumer goods for the kitchen and the car.
The catalogue of preferred categories includes consumer goods and commodities of everyday use that are carried irrespective of target groups. In a food store these are typically bread, butter, sugar, spices, alcoholic beverages, etc. The share of preferred categories in the total merchandize volume of a store is in the order of magnitude of about 50 percent. Seasonal categories are additionally included in the offering for limited periods of time depending on the time of year.
For each sales division specialist category managers centrally determine the percentage shares with which the four merchandize categories are to be represented in the stores belonging to the sales divisions in close cooperation with the purchasing and sales experts. This decision is made on the basis of the accumulated and evaluated data on customer demands and is primarily influenced by the sales forecast. The same applies to the determination of the depth of the assortment, i.e. the definition of the scope of the product range within each merchandize category.

Close cooperation with partners

In the planning, control and implementation of category management the METRO Group cooperates closely with competent partners in industry. The project partner for "Baby, Kids & Co.", for example, is Procter & Gamble, the market leader in the field of diapers and feminine hygiene. The concept is being implemented nationally in 26 Real stores.

However, the category manager not only centrally controls the relative share of the merchandize categories in the overall offering of the stores and the depth of the assortment. In cooperation with the sales divisions he also determines the form of presentation of the destination categories as well as the concrete positioning of the categories within the outlets.
In contrast to the conventional arrangement and distribution of the merchandize within a store category management provides for all merchandize belonging to the destination categories and having some logical connection with them to be placed in one prominent spot in the store rather than to be distributed among different shelf locations. This eliminates the necessity for the customer to make trips to different departments. While in the past it was normal for dog food, dog toys and baskets for our four-legged friends to be scattered over three departments these thematically linked items are now offered at one and the same place in the store in the context of category management.

Target verification of categories and fine-tuning as necessary elements of category management

An indispensable part of category management is central category controlling whose task it is to continuously monitor category sales in the different sales divisions and to perform ongoing target/actual comparisons. If sales lag behind expectations additional fine-tuning becomes necessary. After an analysis of the underlying causes strategic alternatives are considered as to how sales can be increased and sales targets reached. In the process it is primarily the marketing mix of the assortment, the advertising, the pricing and the placement of the merchandize that will be scrutinized.
What is also needed is permanent monitoring of the changing consumer demands in the main target groups with appropriate consequences for the composition of the destination categories. This illustrates that category management must be interpreted as a continuous and dynamic process.

A complex process in eight steps

Category management in the METRO Group is a complex process that is consistently focused on the needs of the major customer target groups of each sales division. The decisions concerning the individual merchandize categories are taken jointly by the managers of the Category Management Team, the Purchasing and the Sales Departments. The following gives an overview of the most important steps in the category management process.

1. Definition of categories **2.** Classification of categories (destination, preferred, convenience, seasonal)	Strategic orientation of the categories
3. Evaluation of categories (e.g. analysis of market share) **4.** Setting category targets (e.g. increase market share)	Analysis of actual situation and definition of targets
5. Determination of strategy of implementation in categories **6.** Planning of measures	Planning of measures to reach targets
7. Implementation **8.** Monitoring results	In-store implementation of plans and evaluation

Consolidated financial statements 2002

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Consolidated income statement for the financial year ended 31 December 2002

€ million	Note no.	2002	2001
Net sales	1	51,526	49,522
Cost of sales		(40,126)	(38,712)
Gross profit on sales		11,400	10,810
Other operating income	2	1,532	2,022
Selling expenses		(10,377)	(10,197)
General administrative expenses		(1,013)	(1,034)
Other operating expenses	3	(115)	(223)
Earnings before interest, taxes and amortization (EBITA)		1,427	1,378
Amortization of goodwill	4	(261)	(248)
Earnings before interest and taxes (EBIT)		1,166	1,130
Net investment income	5	38	(56)
Net interest result	6	(378)	(398)
Other financial result	7	4	(3)
Net financial result		(336)	(457)
Earnings before taxes (EBT)		830	673
Income taxes	8	(328)	(224)
Net income		502	449
Minorities	9	(59)	(48)
Group net profit		443	401
Earnings per share in €	10	1.36	1.23

The reconciliation from net income to profit available for distribution was not effected any longer. Last year's presentation in the consolidated income statement, balance sheet and statement of changes in equity has been adjusted accordingly. This has led to a reclassification within the equity positions as at 31 December 2001 of € 67 million.

Consolidated balance sheet as per 31 December 2002

Assets

€ million	Note no.	Balance at 31 Dec 2002	Balance at 31 Dec 2001
Fixed assets	15		
Goodwill	16	4,070	4,181
Other intangible assets	17	188	157
Tangible assets	18	7,201	6,762
Financial assets	19	229	245
		11,688	11,345
Current assets			
Inventories	20	5,506	5,258
Trade receivables	21	369	405
Receivables and other assets	22	2,857	2,433
Cash and cash equivalents	23	1,323	1,694
		10,055	9,790
Deferred tax assets	24	1,084	1,108
Prepaid expenses & deferred charges	25	96	77
		22,923	22,320

Liabilities

€ million	Note no.	Balance at 31 Dec 2002	Balance at 31 Dec 2001
Equity	26		
Capital stock		835	835
Additional paid-in capital		2,558	2,558
Reserves retained from earnings		305	376
Group net profit		443	401
		4,141	4,170
Minorities	27	105	72
Provisions			
Provisions for pensions and similar commitments	28	960	961
Other provisions	29	725	606
		1,685	1,567
Liabilities	30		
Financial debts	31	5,587	5,582
Trade payables	32	9,119	8,517
Other liabilities	33	1,965	1,950
		16,671	16,049
Deferred tax liabilities	24	196	145
Deferred income	34	125	317
		22,923	22,320

Consolidated cash flow statement

€ million	2002	2001
EBIT	1,166	1,130
Depreciation and amortization on fixed assets (excl. financial assets)	1,250	1,253
Change in provisions for pensions and similar commitments	56	(231)
Net gains/losses from disposals of fixed assets	(10)	(2)
Change in net working capital [1]	357	311
Income taxes paid	(392)	(164)
Other [1]	179	307
Cash flow from operating activities	2,606	2,604
M&A transactions	(92)	(283)
Expenditure for tangible assets (excl. finance leases)	(1,308)	(1,277)
Other expenditure	(390)	(115)
Change in non-interest liabilities from investing activities	46	4
Disposal of shareholdings	–	36
Disposals of fixed assets	128	320
Cash flow from investing activities	(1,616)	(1,315)
Profit distributed to		
METRO AG stockholders	(334)	(334)
other stockholders	(25)	(32)
Change in minority interests	(3)	(27)
Raising of financial debts	513	723
Redemption/repayment of financial debts	(777)	(1,124)
Interest paid [2]	(528)	(576)
Interest received	172	165
P&L transfers and other financing activities [2]	(361)	364
Cash flow from financing activities	(1,343)	(841)
Total cash flows	(353)	448
Exchange rate effects on cash and cash equivalents	(6)	(18)
Overall change in cash and cash equivalents	(359)	430
Cash and cash equivalents at 1 January	1,651	1,221
Cash and cash equivalents at 31 December	1,292	1,651

[1] Trade receivables were reclassified from Change in net operating capital to Other.
[2] Last year's liabilities for other financial transactions were reclassified from Interest paid to P&L transfers and other financing activities.

Statement of changes in equity

€ million	Capital stock	Additional paid-in capital	Reserves retained from	Net earnings	Total
1 Jan 2001	835	2,558	312	358	4,063
Group net profit	–	–	–	401	401
Cash dividend	–	–	–	(334)	(334)
Subsequent measurement under IAS 39	–	–	(10)	–	(10)
Currency translation effects	–	–	34	–	34
Other	–	–	40	(24)	16
31 Dec 2001	835	2,558	376	401	4,170
Group net profit	–	–	–	443	443
Cash dividend	–	–	–	(334)	(334)
Subsequent measurement under IAS 39	–	–	(39)	–	(39)
Currency translation effects	–	–	(99)	–	(99)
Other	–	–	67	(67)	–
31 Dec 2002	835	2,558	305	443	4,141

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 comply with all provisions of the International Financial Reporting Standards (IFRS) adopted and published as of 31 December 2002.

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.

As the prerequisites of section 292 a HGB have been satisfied, the present consolidated financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), have an exempting effect on the duty to prepare consolidated financial statements in accordance with the German Commercial Code. This assessment is based on German Accounting Standard no. 1 (DRS 1) of the Deutsche 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 consolidated income statement has been prepared on the basis of the cost-of-sales format.

Unless expressly stated otherwise, all amounts are indicated in million euros (€ million).

The consolidated financial statements are based on the historical cost principle and were prepared in accordance with the consolidation, accounting and measurement methods outlined below.

Consolidated group and associated companies

Besides METRO AG, the consolidated financial statements comprise 388 (previous year: 369) German and 235 (previous year: 226) foreign subsidiaries in which METRO AG directly or indirectly holds the majority of voting rights.

14 (previous year: 16) 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 account for less than 1% of Group sales.

The group of consolidated companies changed as follows versus fiscal 2001:

Number at 1 January 2002	596
Changes in fiscal year 2002:	
Companies merged into other consolidated subsidiaries	(8)
Companies divested	(3)
Companies newly formed	48
Companies acquired	1
Changes in consolidation group	1
Other changes	(11)
Number at 31 December 2002	624

The consolidation group mainly changed because the Media Markt/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.
Two associated companies are valued at equity. Loyalty Partner GmbH, Munich, was added to the group of companies valued at equity and included in the consolidated financial statements as per September 2002 for the first time.

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 revaluated 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 useful 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. Any deviating accounting methods used in the financial statements underlying equity valuation are retained as long as they do not substantially contradict the METRO Group's uniform accounting methods. 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 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.
Intra-group profits and losses, revenue, expenses and income, as well as receivables and payables or accrued liabilities among consolidated subsidiaries were eliminated. Intra-group profits or losses in fixed assets or inventories from intra-group transfers were 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 subsidiaries' separate financial statements, foreign currency transactions are translated at the date of the transaction. 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 euros 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 Romania and Turkey.
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 applicable 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 Monetary Union which are of major significance for the METRO Group:

		Average rate €		Closing rate €	
		2002	2001	2002	2001
1	US dollar	1.05807	1.13214	0.95356	1.13469
1	pound sterling	1.59061	1.62181	1.53728	1.64338
100	Polnish zloty	25.93058	27.85812	24.87438	28.60166
1,000	Romanian lei	0.03199	0.03534	0.02864	0.03587
100	Swiss francs	68.15567	67.81939	68.85156	67.43543
1	Bulgarian lev	0.51129	0.51129	0.51129	0.51129
100	Chinese yuan (renminbi)	12.78341	13.67865	11.51644	13.70925
100	Danish kroner	13.45809	13.45375	13.46112	13.44719
100	Hongkong dollar	13.56064	14.52151	12.23406	14.55795
100	Moroccan dirham	9.61941	9.77441	9.39536	9.77380
100	Slovak korunas	2.34198	2.35292	2.40900	2.33863
100	Czech korunas	3.24607	3.11854	3.16686	3.12872
1,000,000	Turkish lira	0.69478	0.82786	0.57219	0.78579
100	Hungarian forint	0.41157	0.41011	0.42321	0.40786
1	Croatian kuna	0.13501	0.13352	0.13419	0.13569
100	Russian roubles	3.36826	3.65546	3.00554	3.77501
100	Indian rupees	2.17867	2.36634	1.98692	2.35217
100	Japanese yen	0.84721	0.91971	0.80392	0.86708
10,000	Vietnamese dong	0.69387	0.75483	0.62049	0.75294
100	Ukrainian hryvnja	0.19876	[1]	0.18074	[1]
1	Singapore dollar	0.59129	0.62298	0.54699	0.61244

[1] Due to the first-time inclusion in the consolidated financial statements as per 31 December 2002, no figures are given for 2001.

Accounting methods

Recognition of income and expenses

As a matter of principle, **net sales** and **other operating income** are reported upon rendering of the service or delivery of the goods or merchandize and hence upon transfer of the risk to the customer. **Operating expenses** are recognized as expenses when the claim to payment is met or effective the date of cause. As a matter of principle, **dividends** are recognized when the legal claim to payment arises. **Interest** is recognized as income or expenses on a provision basis.
In order to improve the presentation of the performance, expenses and income are reported on a net basis to the extent stipulated or permitted by IFRS.

Intangible assets

In accordance with IAS 22 (Business Combinations), **goodwill** from capital consolidation is capitalized and amortized on a straight-line basis over a period of 15 to 25 years. Goodwill resulting from the acquisition of companies in the cash & carry segment or Swiss service companies is amortized over a period of 25 years. The success of existing concepts which have basically been retained unchanged for decades justify the useful life of 25 years. The useful life of goodwill is determined in particular as a function of the strategic importance of the respective acquisition for the Group and the possibility of generating synergies. The valuation of goodwill is regularly reviewed. If there are any indications of an impairment, the goodwill is written down correspondingly to its recoverable amount.

Purchased other intangible assets are recognized at cost. **Internally generated intangible assets** are capitalized at cost if the capitalization criteria of IAS 38 (Intangible Assets) are met. The cost comprises all expenditure directly attributed or indirectly allocated to the manufacturing process. Finance charges and expenditure on research are not capitalized. Capitalized internally generated software is amortized on a straight-line basis over a period of 3 to 5 years, with licenses being amortized over the term of the respective agreement.
Non-scheduled amortization of the above-mentioned intangible assets is effected if the recoverable amount is below the amortized cost. The assets are written back if and when the reasons for non-scheduled amortization implemented in previous years have ceased to exist.

Tangible assets

Tangible assets used in operations for a period of more than one year are measured at cost less scheduled depreciation. The cost of self-constructed assets includes both direct costs and appropriate portions of allocable overheads. Financing costs are not capitalized as a cost element. **Investment allowances** received and non-earmarked investment grants are offset against the cost of the corresponding asset. **Reinstatement obligations** arising in conjunction with leasehold improvements are ratably accounted for over the useful life by means of the creation of provisions, with the capitalized reinstatement cost corresponding to the discounted settlement amount.

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

Buildings	10 to 33 years
Operating 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 lease 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 a **leased 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 is allocable to METRO Group companies, the leased asset is capitalized at fair value or at the lower present value of the lease payments when the lease is concluded. 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.

If there are any indications about an impairment and if the recoverable amount is below amortized cost, they are written back if and when the reasons for non-scheduled depreciation have ceased to exist.

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.

Financial assets that do not represent **associated** companies under IAS 28 (Accounting for Investments in Associates) are recognized in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Depending on the classification required under IAS 39, financial assets are capitalized either at (amortized) cost or fair value and recognized on the trade date.

Shares in Group companies, investments and **long-term securities** are assets to be classified as “available-for-sale financial assets”. They are measured at cost for the first recognition period. If the fair values of these financial assets can be reliably determined in subsequent periods, they are recognized at their fair values; if there are no active markets and if their fair values cannot be determined without undue effort, they are recognized at amortized cost. **Loans** are classified as “loans originated by the company” and therefore measured at amortized cost. Financial assets designed as hedged items in the framework of a fair value hedge are recognized at their fair value.

Fluctuations in the value of “available-for-sale financial assets” are recognized in equity with no effect on income, possibly taking account of deferred taxes. The amounts recognized with no effect on income are not transferred to net income for the respective period until they are disposed of or a sustained impairment of the assets has occurred.

If there are any indications of an impairment the assets are written down to their lower recoverable amounts.

Inventories

Merchandize recognized as **inventories** is recognized at cost. As a matter of principle, the cost is determined by means of the weighted average cost formula. Merchandize is measured as per the balance sheet date at the lower of cost or net realizable value.
Merchandize 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 merchandize have ceased to exist, the write-down is reversed.

Trade receivables

In accordance with IAS 39, **trade receivables** are classified as "loans and receivables originated by the company" and recognized at cost. Where their recoverability 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.
Other receivables and other assets classified as "loans and receivables originated by the company" under IAS 39 are measured at amortized cost.
Other assets include investments and derivative financial assets to be classified as "held for trading" in accordance with IAS 39. They are measured at cost for the first recognition period. Where the fair values of these financial instruments can be reliably determined, such fair values are carried. Where no active markets exist and the fair values cannot be determined without undue effort, the assets are carried at amortized cost.
All other receivables and assets are recognized at cost.
If there are any indications of an impairment the assets are written down to the lower recoverable amount.

Cash and cash equivalents

Securities reported under **cash and cash equivalents** are classified as "held for trading" in accordance with IAS 39 and are recognized at their fair values.

Deferred taxes

Deferred taxes are determined in accordance with 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 carry-forwards expected to be recoverable in future periods are capitalized.
Deferred tax assets in respect of deductible temporary differences and tax loss carry-forwards 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 utilized.
While tax loss carry-forwards in Germany can be applied for an indefinite period of time, tax loss carry-forwards abroad frequently expire under local provisions; in measuring deferred taxes, these limitations have been duly taken into account.

Prepaid expenses & deferred income

These mainly include transitory deferrals.

Provisions

The actuarial measurement of provisions for pensions for company pension plans is effected in accordance with the Projected Unit Credit Method stipulated by IAS 19 (Employee Benefits). This method takes account of pensions and pension entitlements known at the balance sheet date as well as of future pay and pension increases. Any differences arising at year-end (so-called actuarial gains or losses) between pension commitments determined in this way and the actual projected unit credit value are only recognized if they fall outside of a corridor of 10 percent of the commitment volume. In that case, they are spread over the average residual service life of the employees with pension entitlements as of the subsequent year and recognized as income or expenses. The interest element of the transfer to the provision contained in the expenditure for pensions is shown as interest paid under the financial result. **Other provisions for pensions and similar commitments** are formed on the basis of actuarial valuations under IAS 19.

Other provisions are formed if and when de jure or de facto obligations to third parties 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. The settlement amount with the highest possible likelihood of occurrence is used. Accrued long-term liabilities such as for deficient rental cover or restitution obligations are carried at their settlement amounts discounted to the balance sheet date.

Liabilities

As a matter of principle, all **financial debts** are recognized at amortized cost using the effective interest method in accordance with IAS 39. Financial debts designated as the hedged item in a fair value hedge 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.

In accordance with IAS 32 (Financial Instruments: Disclosure and Presentation), the equity and debt components of compound financial instruments (such as e.g. the D-Mark convertible bond) are stated separately: the bond is recognized at the value that would have been generated by the issuance of a similar debt instrument without an equity component on the basis of the then prevailing market rates. Accordingly, the amount carried under equity – taking account of deferred taxes – equals the fair value of the conversion or option right at the original issuance date. In subsequent periods, the debt component is carried in the "Bonds" line at amortized cost after adding the interest portion of the period as of the balance sheet date. The (unchanged) equity component is retained in the capital reserve.

Financial debts from finance leases are carried as liabilities at the present value of future lease payments.

Trade payables are recognized at amortized cost.

Other liabilities are carried at their settlement amounts unless they represent derivative financial assets, recognized at their fair values under IAS 39.

Contingent liabilities

Contingent liabilities are possible or present obligations arising from past events for which, however, an outflow of resources is not considered probable. According to IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), such liabilities should not be recognized in the balance sheet but disclosed in the notes.

Accounting for derivatives/hedge accounting

Derivative financial assets are exclusively used to reduce risks. Use of such derivatives was confined to the framework fixed in the corresponding Group guideline.

In accordance with IAS 39, all derivative financial assets are recognized at their fair values and shown under "Other receivables and other assets" or "Other liabilities".

Derivative financial assets are measured on the basis of inter-bank terms and conditions, including the credit margin or stock exchange price applicable to the METRO Group, if necessary; the bid price and offer price at the balance sheet date are applied. Where no stock exchange prices are used, the fair value is determined by means of recognized accounting models. The recognized fair values equal the amounts for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Gains and losses from derivative financial assets designated as qualified hedges in the framework of a fair value hedge or for which a qualified hedge relationship could not be established in accordance with the provisions of IAS 39 and which, accordingly, did not qualify for **hedge accounting**, are carried in the income statement with an effect on income. Results from derivative financial assets for which a cash flow hedge has been formed and whose effectiveness has been established are carried in equity with no effect on income. Any potential changes in results due to the ineffectiveness of these financial transactions are recognized in the income statement with an effect on income.

Accounting for stock option plans

As a matter of principle, the stock option plans (SOP) and stock appreciation rights (SAR) granted in the framework of the **stock-oriented compensation scheme** are hedged by means of hedges. The cost of the hedges is ratably spread over the term of the SOP/SAR and recognized as personnel expenses. If the conclusion of a hedge does not coincide with the granting of the SOP/SAR, a prorated provision amounting to the difference between the strike price and the exercise hurdle is formed.

Use of assumptions and estimates

The preparation of the consolidated financial statements was based on a number of assumptions and estimates which had an effect on the value and presentation of the reported assets, liabilities, income and expenses as well as contingent liabilities. These assumptions and estimates mainly related to the fixing of uniform useful lives, the measurement of provisions and feasibility of future tax savings. Actual values may deviate from the assumptions and estimates made in individual cases. Changes are accounted for with an effect on income by the time new information is available.

Notes to the consolidated income statement

1. Net sales

Breakdown of net sales:

€ million	2002	2001
Metro Cash & Carry	23,972	22,726
Real	8,198	8,375
Extra	2,835	2,980
Media Markt/Saturn	9,583	8,341
Praktiker	2,584	2,543
Kaufhof	3,900	3,971
Other companies [1]	454	586
	51,526	49,522

[1] The sales shown under Other companies were mainly generated by the Gemex Group at € 184 million (previous year: € 264 million), the Dinea Group at € 183 million (previous year: € 198 million) and MGE Warenhandelsgesellschaft mbH & Co. KG at € 78 million (previous year: € 111 million).

Group companies based outside of Germany generated € 23.8 billion (previous year: € 22.0 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	2002	2001
Rents	397	457
Advertising services	288	334
Services/cost refunds	183	182
Central A/P clearing for sales divisions	80	81
Commissions	49	53
Release of accruals	48	99
Building/construction work	38	123
Gains from the disposal of other fixed assets and from write-up	34	25
Damages and indemnities	33	17
Sale & leaseback transactions	18	27
Other	364	624
	1,532	2,022

The decline in other operating income of € 490 million mainly results from a decrease in building/construction work (€ -85 million), rents after inclusion of income from parking spaces leased out (€ -60 million), a reduction in the release of provisions (€ -51 million) and income from advertising services (€ -46 million). Foreign exchange gains and losses are recognized in Other financial result. Last year's foreign exchange gains (€ 31 million) were included in Other.
Logistics fees and similar income reported under synergies (€ 127 million) last year are included in the cost of sales this year. Last year's amount was therefore reclassified to Other income.

3. Other operating expenses

Other operating expenses mainly include expenses for construction contracts of € 35 million (previous year: € 111 million), losses from disposals of fixed asset items totaling € 24 million (previous year: € 21 million) and common valuation adjustments for asset items totaling € 11 million (previous year: € 16 million).

While expenses for construction contracts are carried under Other operating expenses, income from construction contracts is shown under Other operating income.

Foreign exchange losses reported under Other operating expenses last year were reclassified to Financial result this year.

4. Amortization of goodwill

€ million	2002	2001
Amortization of goodwill from capital consolidation	248	233
Amortization of goodwill from separate financial statements	13	15
	261	248

Just as last year, non-scheduled amortization was not incurred in the year under review.

5. Net investment income

Net investment income rose by € 94 million over the last year. While income from AIB, the real-estate investment, increased (€ 92 million), the main expenses included valuation adjustments for loans receivable from Primus-Online Handel und Dienstleistung GmbH (€ 37 million); shares in this company were divested in fiscal year 2002. Moreover, claims that had arisen to Divaco from the transfer of retail real estate to Asset Immobilienbeteiligung GmbH & Co. KG in 1999 totaling € 120 million were settled and an additional amount totaling € 60 million was made available to the company for its restructuring and the disposal of sundry activities. Positive contributions to net investment income were generated by the income from the fair value measurement of the shareholding in AIB (€ 150 million). This measurement at fair value, compulsory under IFRS, was possible as external measurement indicators were available for the first time due to concrete sales negotiations.

Net investment income also includes scheduled amortization of goodwill on associated companies acquired in the framework of equity valuation totaling approx. € 1 million .

As in the year before, net investment income was not affected by any “available-for-sale” financial assets in accordance with IAS 39.

6. Net interest result

The net interest result can be broken down as follows:

€ million	2002	2001
Other interest and similar income	122	171
thereof from non-consolidated Group companies	[–]	[–]
Interest and similar expenses	(454)	(530)
thereof to non-consolidated Group companies	[–]	[–]
Interest element of the transfers to provisions for pensions and similar commitments	(46)	(39)
	(378)	(398)

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 € 149 million (previous year: € 151 million).

7. Other financial result

€ million	2002	2001
Other financial income	358	340
Other financial expenses	(354)	(343)
	4	(3)

Other financial income and expenses partly result from the measurement of derivative financial assets. Moreover, the indexation of financial statements of foreign subsidiaries based in hyperinflationary economies has given rise to the realization of net purchasing power gains resulting from the change in the purchasing power parities in these countries (including foreign exchange gains and losses from hyperinflation) amounting to € 0.3 million (previous year: total purchasing power losses of € 0.3 million). Other financial result also included foreign exchange gains of € 45 million and foreign exchange losses of € 51 million shown under Other operating income or Other operating expenses, respectively, last year.
As in the year before, Other financial result was not affected by any "available-for-sale" financial assets in accordance with IAS 39.

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. 17.35 percent of trade earnings, an amount deductible in the determination of corporate income tax. The corporate income tax rate amounts to 25.00 percent, plus 5.50 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 Flood Victims Solidarity Act passed in September 2002, an increased corporate income tax rate of 26.50 percent temporarily applies to German companies for the 2003 assessment period. As a consequence, the aggregate tax rate (including trade tax) for 2003 stands at 40.46 percent. For German companies, therefore, deferred tax claims from loss carry-forwards which will probably be released in 2003 are measured at the aggregate tax rate of 40.46 percent applicable for 2003. This results in deferred tax income of € 8 million, recognized in

2002. As of the 2004 assessment period, the applicable corporate income tax rate will drop to 25.00 percent again so that deferred taxes that will probably be released in 2004 or thereafter will be measured at an aggregate tax rate of 39.15 percent, as in previous years.
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 13.00 percent to 42.30 percent.

€ million	2002	2001
Taxes paid or due	321	359
thereof in Germany	[96]	[162]
thereof abroad	[225]	[197]
Deferred taxes	7	(135)
	328	224

Taxes paid or due include € 6 million of tax expenses relating to prior periods (previous year: € 25 million).
The current tax expense of € 328 million (previous year: € 224 million) is € 3 million up (previous year: € 39 million down) on the expected income tax expense of € 325 million (previous year: € 263 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	2002	2001
Group EBT	830	673
Expected income tax expense (39.15 percent, previous year: 39.15 percent)	325	263
Effects of differing national tax rates	(115)	(79)
Amortization of goodwill from capital consolidation	48	53
Write-down of non-consolidated subsidiaries	94	–
Write-down of consolidated subsidiaries	(73)	(69)
Tax expenses and income relating to prior periods	6	25
Nondeductible business expenses	60	40
Other differences	(17)	(9)
	328	224

9. Minorities

Minorities break down into profit shares of € 79 million (previous year: € 74 million) and loss shares of € 20 million (previous year: € 26 million). They mainly represent P&L shares of minority shareholders in Metro Cash & Carry and Media Markt/Saturn.

10. Earnings per share

Earnings per share are determined by dividing the Group net income after minority interests by the 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.

	2002	2001
Weighted number of no-par value shares issued	326,787,529	326,787,529
Group net income after minority interests (€ million)	443	401
Earnings per share (€)	1.36	1.23

11. Amortization/depreciation/write-down

€ million	2002	2001
Scheduled depreciation of tangible assets and amortization of intangible assets, including goodwill	1,250	1,243
Non-scheduled write-down of tangible and intangible assets	–	10
Write-down of financial assets	1	2
	1,251	1,255

12. Cost of materials

The cost of sales includes the following cost of materials:

€ million	2002	2001
Cost of raw materials, supplies and goods purchased	39,873	38,351
Cost of services purchased	50	55
	39,923	38,406

13. Personnel expenses

Personnel expenses can be broken down as follows:

€ million	2002	2001
Wages and salaries	4,735	4,601
Social security payments, expenses for pensions and related employee benefits	980	962
thereof pension expenses	[32]	[44]
	5,715	5,563

Personnel expenses include the expense for hedges totaling € 9.3 million (previous year: € 7.4 million), contracted by METRO AG for the stock option plans (SOP/SAR) launched in the period 1999 to 2002.

Annual average headcount of the Group:

Headcount	2002	2001
White collar	188,610	172,160
Blue collar	46,673	58,688
Apprentices/trainees	9,881	9,921
	245,164	240,769

The above figures include an absolute number of 105,853 part-timers (previous year: 102,615). The proportion of persons employed outside of Germany rose from 39.8 percent in the previous year to 42.0 percent on the basis of full-time equivalents.

14. Other taxes

Other taxes of € 71 million (previous year: € 76 million) are included in the cost of sales and the selling and administrative expenses.

Notes to the consolidated balance sheet

15. Fixed assets

€ million	Goodwill	Other intangible assets	Tangible assets	Financial assets	Total fixed assets
Cost					
Balance at 1 Jan 2002	5,526	396	11,624	274	17,820
Currency adjustment	–	(2)	(165)	(3)	(170)
Change in consolidation group	1	–	2	–	3
Additions	153	96	1,577	10	1,836
Disposals	(6)	(36)	(447)	(19)	(508)
Book transfers	–	(5)	6	–	1
Balance at 31 Dec 2002	5,674	449	12,597	262	18,982
Depreciation/amortization/ write-down					
Balance at 1 Jan 2002	1,345	239	4,862	29	6,475
Currency adjustment	–	(1)	(47)	–	(48)
Change in consolidation group	–	–	2	5	7
Additions, scheduled	261	53	936	1	1,251
Additions, non-scheduled	–	–	–	–	–
Disposals	(2)	(30)	(357)	–	(389)
Write-up	–	–	(1)	(2)	(3)
Book transfers	–	–	1	–	1
Balance at 31 Dec 2002	1,604	261	5,396	33	7,294
Book value at 31 Dec 2002	4,070	188	7,201	229	11,688
Book value at 31 Dec 2001	4,181	157	6,762	245	11,345

16. Goodwill

Of the total goodwill of € 4,070 million (previous year: € 4,181 million) as per 31 Dec 2002, € 3,924 million (previous year: € 4,043 million) relate to differences resulting from capital consolidation, with another € 146 million (previous year: € 138 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 additional shares in Media-Saturn-Holding GmbH, Ingolstadt.

The additions of goodwill taken over from separate financial statements result from the takeover of Spar outlets by Metro Cash & Carry.

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	[thereof internally generated intangible assets]	Prepayments made	Total
Cost				
Balance at 1 Jan 2002	391	[75]	5	396
Currency adjustment	(2)	–	–	(2)
Change in consolidation group	–	–	–	–
Additions	94	[45]	2	96
Disposals	(35)	[(1)]	(1)	(36)
Book transfers	(1)	[(5)]	(4)	(5)
Balance in consolidation group	447	[114]	2	449
Depreciation/amortization/write-down				
Balance at 1 Jan 2002	239	[18]	–	239
Currency adjustment	(1)	–	–	(1)
Change in consolidation group	–	–	–	–
Additions, scheduled	53	[16]	–	53
Additions, non-scheduled	–	–	–	–
Disposals	(30)	–	–	(30)
Book transfers	–	–	–	–
Balance at 31 Dec 2002	261	[34]	–	261
Book value at 31 Dec 2002	186	[80]	2	188
Book value at 31 Dec 2001	152	[57]	5	157

In the year under review, no write-downs were made (previous year: € 6 million).
As last year, intangible assets are not subject to any material restrictions of title or disposal.

18. Tangible assets

Tangible assets developed as follows in 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 2002	7,192	218	4,096	118	11,624
Currency adjustment	(98)	(6)	(59)	(2)	(165)
Change in consolidation group	2	–	–	–	2
Additions	681	–	552	344	1,577
Disposals	(95)	–	(321)	(31)	(447)
Book transfers	188	(205)	271	(248)	6
Balance at 31 Dec 2002	7,870	7	4,539	181	12,597
Depreciation/write-down					
Balance at 1 Jan 2002	2,179	124	2,555	4	4,862
Currency adjustment	(13)	(3)	(31)	–	(47)
Change in consolidation group	2	–	(1)	1	2
Additions, scheduled	375	–	561	–	936
Additions, non-scheduled	–	–	–	–	–
Disposals	(65)	–	(292)	–	(357)
Write-up	(1)	–	–	–	(1)
Book transfers	(13)	(116)	130	–	1
Balance at 31 Dec 2002	2,464	5	2,922	5	5,396
Book value at 31 Dec 2002	5,406	2	1,617	176	7,201
Book value at 31 Dec 2001	5,013	94	1,541	114	6,762

Additions of tangible assets primarily resulted from the opening of new Metro Cash & Carry, Media Markt/Saturn and Real outlets.

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 € 1,862 million (previous year: € 1,723 million) and mainly relate to leased buildings.

Finance leases are usually signed for a non-cancelable term of 15 to 25 years. Upon the expiry of the initial non-cancelable term, the agreement regularly provides for an option to renew the lease at least once for another 5-year term. The leases are based on interest rates varying from 4.2 percent to 15.4 percent, depending on the respective market and date of conclusion of the agreement.

Apart from finance leases, the METRO Group has signed other leases to be classified as operating leases in accordance with their economic substance.

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 (nominal)	313	1,028	2,164
Discounts	101	369	706
Present value	212	659	1,458
Operating leases			
Future lease payments payable (nominal)	1,358	4,996	8,442

Nominal future lease payments for subleases under finance leases total € 477 million.
Nominal future lease payments for subleases under operating leases total € 1,314 million.
In the year under review, no write-downs were made (previous year: € 4 million).
In fiscal year 2001, tangible assets worth € 5 million (previous year: € 9 million) are subject to restrictions on disposal in the form of land charges and assignments as security.
Purchasing commitments of € 17 million (previous year: € 11 million) have been incurred for tangible assets.

19. Financial assets

Financial assets changed as follows in the year under review:

€ million	Shares in Group companies	Loans	Investments	Long-term securities	Total
Cost					
Balance at 1 Jan 2002	2	119	149	4	274
Currency adjustment	–	–	(3)	–	(3)
Change in consolidation group	–	–	–	–	–
Additions	–	7	2	1	10
Disposals	–	(6)	(13)	–	(19)
Book transfers	–	–	–	–	–
Balance at 31 Dec 2002	2	120	135	5	262
Write-down					
Balance at 1 Jan 2002	1	3	25	–	29
Currency adjustment	–	–	–	–	–
Change in consolidation group	–	–	5*	–	5
Additions, scheduled	–	–	1	–	1
Additions, non-scheduled	–	–	–	–	–
Disposals	–	–	–	–	–
Write-up	–	(1)	(1)	–	(2)
Book transfers	–	–	–	–	–
Balance at 31 Dec 2002	1	2	30	–	33
Book value at 31 Dec 2002	**1**	**118**	**105**	**5**	**229**
Book value at 31 Dec 2001	1	116	124	4	245

* Including amortization of goodwill totaling € 5.1 million recognized in reserves retained from earnings with no effect on income from the retroactive treatment of the first-time equity valuation of Loyalty Partner GmbH.

Loyalty Partner GmbH was shown under Investments last year and has now been included in consolidated financial statements for the first time under the equity valuation method, following the acquisition of additional shares in September 2002. The first-time equity valuation was effected in accordance with the relevant IFRS provisions for the successive acquisition of shares (retroactive treatment). The cumulative cost of the acquisition of the shares totaled € 15.3 million. In the framework of retroactive treatment, a total of € -5.1 million were recognized in reserves retained from earnings with no effect on income. The prorated amortization of goodwill recognized in investment income with an effect on income totaled € 0.8 million in 2002. The current valuation of Loyalty Partner GmbH therefore totals € 9.4 million and is shown under investments.

The disposals of investments primarily relate to the shareholding in Chinadema B.V./ Netherlands at € 4.3 million (Metro Cash & Carry) and the change in the recognition of Tiscali Business GmbH at € 7.7 million (Media Markt/Saturn), reclassified to current assets.

20. Inventories

€ million	31 Dec 2002	31 Dec 2001
Food merchandize	1,499	1,473
Nonfood merchandize	4,007	3,785
	5,506	5,258

Breakdown of inventories by sales division:

€ million	31 Dec 2002	31 Dec 2001
Metro Cash & Carry	1,744	1,685
Real	635	649
Extra	228	239
Media Markt/Saturn	1,431	1,208
Praktiker	620	645
Kaufhof	664	656
Other companies	184	176
	5,506	5,258

The rise in inventories in the Metro Cash & Carry division was mainly due to the expansion of the division's operations.
In the division Media Markt/Saturn inventories rose due to their operations, expansion as well as the stocking for an advertising campaign started in January 2003.

21. Trade receivables

As per balance sheet date, total bad debt allowances stood at € 8 million (previous year: € 11 million). Total trade receivables amounted to € 369 million (previous year: € 405 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

€ million	31 Dec 2002 Total	31 Dec 2002 thereof with a remaining term of more than 1 year	31 Dec 2001 Total	31 Dec 2001 thereof with a remaining term of more than 1 year
Due from suppliers	1,020	–	867	–
Taxes receivable	587	–	708	–
Other assets	1,250	83	858	223
	2,857	83	2,433	223

The carrying amounts of the monetary assets included in the above items correspond to their market values.
The increase in Other assets mainly results from the acquisition of property management companies available for sale and the fair value measurement of Asset Immobilienbeteiligungen GmbH & Co. KG (AIB).
In 2002, the sale of AIB was negotiated with investor groups. On this basis, AIB had to be measured at its fair value under IAS 39; the value of the AIB shareholding was therefore reported at its fair value as per balance sheet date in accordance with the provisions of IAS 39. The related tax implications were taken into account; cf. note no. 34.
As last year, other receivables and other assets shown under this item are not subject to any material restrictions on title or disposal.

23. Cash and cash equivalents

€ million	31 Dec 2002	31 Dec 2001
Cheques and cash on hand	109	251
Bank balances	1,183	1,400
Short-term securities	31	43
	1,323	1,694

Cash and cash equivalents were reduced as scheduled for the redemption of financial liabilities.

24. Deferred taxes

Potential tax savings resulting from temporary differences and unutilized tax losses totaling € 117 million (previous year: € 63 million) were not capitalized. The non-capitalization of deferred taxes mainly relates to loss carry-forwards abroad which will probably not be realizable and which can only be applied within certain limits. The increase is due to a significantly more restrictive approach in the recognition and measurement of loss carry-forwards abroad in comparison with the previous year.

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

€ million	31 Dec 2002 Asset	31 Dec 2002 Liability	31 Dec 2001 Asset	31 Dec 2001 Liability
Intangible assets	119	79	175	76
Tangible assets	18	766	9	711
Financial assets	2	1	1	39
Inventories	37	4	32	3
Receivables and other assets	34	43	7	22
Pension provisions	134	1	133	–
Other provisions	68	4	58	5
Tax liabilities	918	40	858	24
Loss carry-forwards	725	–	592	–
Total from separate financial statements	2,055	938	1,865	880
Deferred taxes from consolidation	(69)	160	145	167
Offset	(902)	(902)	(902)	(902)
Consolidated balance sheet	1,084	196	1,108	145

Deferred taxes of € 4 million (previous year: € 7 million) were credited to equity.

25. Prepaid expenses & deferred charges

Prepaid expenses and deferred charges comprise rent, lease and interest prepayments and other prepayments. Of the total prepaid expenses & deferred charges, € 44 million have a remaining term of up to one year.

26. Equity

In terms of its amount and composition, i.e. the ratio of common to preferred shares, subscribed capital has not changed versus 31 December 2001 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 :

No-par bearer shares, Accounting par value: € 2.56		31 Dec 2002	31 Dec 2001
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 Management 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 totaling € 766,937,822 (DM 1,500,000,000), 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's stock option plan, the contingent capital II is exclusively used to grant subscription rights to members of the Management Board, members of the Management Boards of lower-tier Group companies and other managers or executives 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, 23 July 2001 and 19 July 2002, of which a total of 1,760,068 were effective as per 31 December 2002. Upon satisfaction of the exercise terms and conditions, these stock options may entail the issuance of up to 1,760,068 common shares, corresponding to 0.54 percent of the capital stock . Cf. note no. 42 for further details on the stock option plan.

Authorized capital I

On 23 May 2002, the annual general meeting resolved to authorize the Management Board to increase the capital stock by issuing new common stocks in exchange for cash contributions in one or several tranches for a total maximum of € 40,000,000 with the consent of the Supervisory Board by 23 May 2007 (authorized capital I).

Existing shareholders have to be granted a subscription right. However, the Management 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 the 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 any fractions of shares from rounding.

The Management Board has been further authorized to exclude the shareholders' 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.

Authorized capital II
On 23 May 2002 the annual general meeting resolved to authorize the Management Board to increase the Company's capital stock by issuing new common bearer stocks in exchange for non-cash contributions in one or several tranches for a total maximum of € 60,000,000 by 23 May 2007 with the prior approval of the Supervisory Board (authorized capital II). The Management Board also has been authorized to decide on the exclusion of the shareholders' subscription rights and to determine all further details of the capital increase with the prior approval of the Supervisory Board.

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

However, the Management 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 any fractions of shares from rounding.

In addition, the Management Board has been authorized to exclude the shareholders' subscription right 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 Management 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 the 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 Management Board to increase the company's capital stock by issuing new common bearer stocks in exchange for non-cash contributions in one or several tranches for a total maximum of € 125,000,000 by 6 July 2004 (authorized capital IV). The Management 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 stocks
On 23 May 2002 the annual general meeting authorized the company to acquire treasury stock up to an equivalent of ten percent of the capital stock by 23 November 2003 (cf. item 7 of the agenda of the ordinary annual general meeting of 23 May 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 has exercised this authorization (cf. section 160 sub-section 1 no. 2 of the German Stock Corporation Act).

Reserves retained from earnings

€ million	31 Dec 2002	31 Dec 2001
Legal reserve	23	23
Reserve required by company by-laws	28	25
Reserve for measurement under IAS 39 (incl. deferred taxes)	(8)	31
Reserve for currency translation	(33)	66
Other reserves retained from earnings	295	231
	305	376

Reserves retained from earnings include the effects from measurement with no effect on income in accordance with IAS 39 plus deferred taxes thereon. In the year under review, a total of € -39 million (previous year: € -10 million) were reported under equity with no effect on income, including an amount of € -36 million (previous year: € -12 million) accounted for by financial derivatives within cash flow hedges and € -3 million (previous year: € 2 million) by assets classified as “available for sale”. As last year, results were not affected by assets classified as “available for sale”.
Equity was € 99 million down (previous year: € 34 million up) from currency translation differences. The losses are primarily attributable to Poland, UK, Romania, Russia, Turkey and China.
In the wake of the retroactive treatment of the first-time equity valuation of Loyalty Partner GmbH, a total of € -5 million were recognized under Other reserves retained from earnings with no effect on income.

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 dated 16 February 2000 holding that the petitions of the former outside Kaufhof stockholders for additional cash compensation were unjustified. The Kaufhof judicial review proceedings have thus been completed. Thus, the first final court judgment has been handed down confirming that the share exchange ratios laid down in the merger agreements were correct.
The other two judicial review proceedings are still pending before the regional courts of Saarbrücken and Frankfurt/Main.

Mandatory disclosures pursuant to sections 21 sub-section 1, 22 sub-section 1 nos. 1 and 2 of the German Securities Trading Act (WpHG)

METRO AG is 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. For further details on the disclosures effected in 2002, see the notes to the individual financial statement of METRO AG.

Dividend distribution proposal

In accordance with section 58 sub-section 2 of the German Stock Corporation Act, dividend distribution by METRO AG is based on METRO AG's net profit for the year reported in the annual financial statements prepared under German commercial law. Under the commercial-law financial statements of METRO AG, the company's net profit available for distribution totals € 342 million. The Management and Supervisory Boards of METRO AG propose to the annual general meeting to pay a dividend of € 1.020 per common share and € 1.122 per preferred share, i.e. a total of € 334 million, and to carry the remaining amount of € 8 million forward on new account.

27. Minorities

Minority interests include the shares of third parties in the equity capital of consolidated subsidiaries. At year-end these amounted to € 105 million (previous year: € 72 million). Significant minority interests are held in Media-Saturn-Holding GmbH.

28. Provisions for pensions and similar commitments

€ million	2002	2001
Pension provisions (employer's commitments)	577	572
Provisions for under-funding of company benevolent funds	188	216
Sub-total of provisions for company pension plans	765	788
Other provisions for pensions and similar commitments	195	173
Total as at 31 December	960	961

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 which are wholly or partly 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.
The above commitments are measured on the basis of actuarial valuations based on each country's legislative, economic and fiscal conditions. The commitments which exist almost exclusively in the European Economic Area are assessed on the basis of an assumed rate of interest of 5.75 percent (previous year: 6.00 percent), an average wage and salary trend of 2.80 percent (previous year: 2.50 percent) and an average pension increase of 1.20 percent (previous year: 1.50 percent). The employee turnover rate is determined individually for each business and with due regard to age and length of service. The actuarial assumptions and calculations are based on specific national mortality tables.

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

€ million	2002	2001
Net present value (PBO)		
Balance at 1 January	1,209	1,189
Addition to group of consolidated companies	–	23
Interest expenses	65	66
Service cost	15	13
Past service cost	15	–
Pension payments	(86)	(73)
Actuarial gains (-)/losses (+)	17	(9)
Balance at 31 December	1,235	1,209
Changes in plan assets		
Balance at 1 January	350	279
Expected return on plan assets	19	27
Pension payments	(53)	(41)
Employer's contributions incl. vesting balances	54	167
Actuarial gains (+)/losses (-)	(54)	(82)
Balance at 31 December	316	350
Funding level		
Net present value PBO, provision-financed	608	596
Net present value PBO, partly or wholly fund-financed	627	613
Sub-total	1,235	1,209
Market value of plan assets	(316)	(350)
Balance at 31 December	919	859
Not yet recognized actuarial gains (+)/losses (-)	(140)	(71)
Past service cost	(14)	–
Provisions at 31 December	765	788

The pension expenses of direct and indirect company pension plans consist of the service cost included in the cost of sales and selling expenses as well as the general administrative costs, and the interest expenses that are reported in the financial result. The pension expenses can be broken down as follows:

€ million	2002	2001
Interest expense on net present value PBO	65	66
Expected return on plan assets	(19)	(27)
Effective interest cost	46	39
Service cost	15	13
Past service cost	1	–
Recognized actuarial gains (-)/losses (+)	2	–
	64	52

Other provisions for pensions and similar commitments mainly comprise commitments from early retirement and pre-retirement part-time schemes, severance payments, death benefits and employment anniversary allowances. The commitments are measured on the basis of actuarial valuations. As a matter of principle, the measurement parameters used are identical with those used in the company pension plan (see above).

29. Other provisions

In the year under review, the other provisions developed as follows:

€ million	Real estate related obligations	Obligations from the trading of merchandize	Restructuring	Tax risks	Other provisions	Total
Balance at 1 January 2002	70	35	43	183	275	606
Currency differences	–	–	–	–	(1)	(1)
Addition	32	15	18	26	212	303
Release	(10)	(8)	(1)	(5)	(37)	(61)
Utilization	(12)	(7)	(10)	(15)	(72)	(116)
Change in consolidated group	–	–	–	–	–	–
Interest portion in addition/ change in interest rate	1	–	–	–	–	1
Book transfers	–	1	(1)	(5)	(2)	(7)
Balance at 31 December 2002	81	36	49	184	375	725
Thereof due within one year	26	36	22	31	263	378

The restructuring provisions include a total of € 27 million (previous year: € 34 million) related to prior-year business combinations under IAS 22. They mainly relate to the acquisition of Innovation S.A./Belgium, effected in 2001. This year’s additions result from the restructuring of the Swiss purchasing companies.

Other provisions mainly cover liabilities from surety and warranty/guarantee risks (€ 71 million), payback point encashment by customers (€ 60 million) and litigation costs and risks (€ 35 million).

30. Liabilities

€ million	31 Dec 2002 Total	Remaining term up to 1 year	1 to 5 years	over 5 years	31 Dec 2001 Total
Bonds	1,812	48	895	869	1,761
Due to banks	797	252	277	268	885
Note loans	393	63	228	102	480
Notes payable	256	256	–	–	265
Liabilities from finance leases	2,329	212	659	1,458	2,191
Financial debts	5,587	831	2,059	2,697	5,582
Trade payables	9,119	9,114	5	–	8,517
Tax liabilities	648	648	–	–	837
Prepayments received on orders	26	26	–	–	21
Payroll	649	649	–	–	640
Liabilities from other financial transactions	116	116	–	–	106
Miscellaneous liabilities	526	476	50	–	346
Other liabilities	1,965	1,915	50	–	1,950
	16,671	11,860	2,114	2,697	16,049

31. Financial debts

The debt issuance program launched in 2000 with a nominal volume of € 3 billion is available for **long-term funding**. In the framework of this program, bonds with maturities of up to 30 years can be issued under German or English law in any currency. No bonds were issued in 2002.

Bonds also include the debt portion of the DM 1.5 billion convertible bond floated in 1998 with a maturity of 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.

The following table lists the maturities of the bonds issued. The book values and fair values indicated include the interest accrued with a remaining term of less than one year.

Funding	Currency	Total amount issued in millions of	Remaining term	Nominal values 31 Dec 2002 € million	Book values 31 Dec 2002 € million	Fair values 31 Dec 2002 € million
Debt Issuance Program	EUR	–	up to 1 year	–	26	26
		885	1 to 5 years	885	895	930
		–	over 5 years	–	–	–
	CAD	36	up to 1 year	22	22	22
		–	1 to 5 years	–	–	–
		–	over 5 years	–	–	–
	JPY	–	up to 1 year	–	0	0
		–	1 to 5 years	–	–	–
		5,000	over 5 years	40	42	42
	CZK	–	up to 1 year	–	0	0
		–	1 to 5 years	–	–	–
		13	over 5 years	0	0	1
Convertible bond	EUR	–	up to 1 year	–	–	–
		–	1 to 5 years	–	–	–
		767	over 5 years	767	827	747

The following table lists the rate-fixing structure of the bonds issued:

Funding	Interest terms	Currency	Fixed-interest period	Weighted interest rate of original bond principal	Total amount issued in millions of currency units
Debt Issuance Program	Fixed-interest bonds	EUR	up to 1 year	–	–
			1 to 5 years	5.47	823
			over 5 years	–	–
		JPY	up to 1 year	–	–
			1 to 5 years	–	–
			over 5 years	1.32	5,000
		CZK	up to 1 year	–	–
			1 to 5 years	–	–
			over 5 years	10.50	13
	Floating-rate bonds	EUR	up to 1 year	–	–
			1 to 5 years	3.47	62
			over 5 years	–	–
		CAD	up to 1 year	6.50	36
			1 to 5 years	–	–
			over 5 years	–	–
Convertible bond	Fixed-interest bonds	EUR	up to 1 year	–	–
			1 to 5 years	–	–
			over 5 years	3.00	767

In addition, bank credits, note loans and finance leases are used for long-term financing purposes. See note no. 18 for further details on liabilities from finance leases .

For its **short- and medium term financing**, the METRO Group uses regular issuance programs customary in capital markets such as the utilizable volume of up to € 3 billion. In 2002, average utilization of the program totaled € 965 million (previous year: € 808 million). As last year, short-term funding in the framework of the Euro Commercial Paper Program was reduced as scheduled.

Moreover, syndicated and bilateral bank facilities were available, totaling € 4.3 billion (previous year: € 4.4 billion), including an amou<nt of € 1.1 billion with a remaining term of up to one year (previous year: € 1.2 billion). Of this amount, € 406 million (previous year: € 366 million) were utilized.

In addition, bills of exchange are used for short-term financing purposes.

As in the year before, there is no collateral for the financial debts of the METRO Group and the financial debts to Group companies.

Accordingly, the METRO Group always has a sufficient liquidity reserve available so that even in the case of unexpected events with negative accounting effects the Group's ability to act is not impaired.

32. Trade payables

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

33. Other liabilities

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.

Other liabilities as carried in the balance sheet essentially correspond to their fair market value.

Other inter-company liabilities do not exist.

34. Deferred income

Deferred income essentially includes prorated book gains from sale & leaseback transactions in accordance with IAS 17, released to income over the underlying lease periods. In the year under review, an extra € 162 million was released to income besides the € 18 million (previous year: € 27 million) that was released to income as scheduled. The extra amount was generated in the framework of the fair value measurement of AIB. The amount released was recognized in net investment income and in taxes on income. Moreover, this item includes deferred income from rental and leasing prepayments as well as other deferrals.

Of the total deferrals, € 21 million (previous year: € 23 million) have a remaining term of less than one year.

Other notes

35. Notes to the consolidated 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.

The consolidated cash flow statement breaks down the changes in the cash levels into those from operating, investing and financing activities. Cash and cash equivalents include checks and cash on hand as well as bank balances.

In the year under review, the cash inflow from operating activities did not change on the previous year and totaled € 2.6 billion. While the cash inflow rose by € 0.3 billion from changes in provisions for pensions and similar commitments, the cash outflow also rose by € 0.2 billion, mostly from tax payments. Net operating assets slightly improved on the previous year .

Investing activities in the year under review account for a cash outflow of € 1.6 billion (previous year: € 1.3 billion). The total cash outflow from investing activities stood at € 1.7 billion, € 0.1 billion up on last year's corresponding cash outflow. Cash outflows from company acquisitions mainly result from the acquisition of minority shares. Besides expansion-related investing activities, an additional cash outflow was generated from the further expansion of the administrative site. The amount of the investments in tangible fixed assets shown as cash outflow differs from the addition reported in the analysis of fixed assets by the non-cash additions under capital leases. In the year under review, the cash inflow from investments total € 0.1 billion (previous year: € 0.3 billion).

In the year under review, the cash flow from financing activities shows a cash outflow totaling € 1.3 billion (previous year: € 0.8 billion). The change in comparison with the previous year was primarily attributable to Other financing activities. Following the previous year which was characterized by a cash inflow of € 0.4 billion from an optimization of the financing structures, the year under review saw a cash outflow of € 0.4 billion which, for the most part, primarily resulted from short-term financial receivables of € 0.3 billion.

36. 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 "Retail brands".

Primary segment reporting is by divisions. Secondary reporting distinguishes by the regions of Germany, Western Europe excluding 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 EBITA corresponds to EBIT before amortization of goodwill.
- 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 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.
- Depreciation relates to segment assets allocated to the individual divisions.
- Transfers between segments are made at arm's length prices.

Primary segments (divisions)

€ million	2002	Cash & Carry 2001	2002	Food retail 2001
External sales (net)	23,972	22,726	11,033	11,355
Internal sales (net)	170	174	–	–
Sales revenues (net)	24,142	22,900	11,033	11,355
EBITDA	1,078	972	383	402
EBITA	805	716	194	199
EBIT	709	626	100	103
Net financial result	(11)	26	(67)	(85)
Amortization/depreciation/write-down	369	347	283	299
on goodwill	96	90	94	96
all others	273	257	189	203
Capital expenditure	750	839	201	314
Operating assets	9,953	9,056	3,731	4,127
Non-interest liabilities	4,773	4,393	1,524	1,497
Number of employees on balance sheet date (FTE)	75,087	71,551	47,870	49,678
Selling space (in 1,000 m²)	3,423	3,182	2,882	2,883
Permanent establishment (number)	437	384	769	777

Secondary segments (regions)

€ million	2002	Germany 2001	2002	Western Europe excluding Germany 2001
External sales (net)	27,691	27,543	15,308	14,266
Internal sales (net)	13	9	220	239
Sales revenues (net)	27,704	27,552	15,528	14,505
EBITDA	1,285	1,409	842	728
EBITA	673	766	620	509
EBIT	525	623	535	430
Net financial result	432	263	142	157
Amortization/depreciation/write-down	762	788	306	299
on goodwill	148	143	85	79
all others	614	645	221	220
Capital expenditure	934	815	517	614
Operating assets	11,057	10,200	7,367	7,393
Non-interest liabilities	6,587	6,279	3,953	3,589
Number of employees on balance sheet date (FTE)	111,637	113,300	40,260	38,721
Selling space (in 1,000 m²)	7,295	7,112	2,102	2,011
Permanent establishment (number)	1,744	1,734	356	326

Nonfood speciality 2002	Nonfood speciality 2001	Department stores 2002	Department stores 2001	Other/ consolidation 2002	Other/ consolidation 2001	METRO Group 2002	METRO Group 2001
12,167	10,884	3,900	3,971	454	586	51,526	49,522
1	–	4	6	(175)	(180)	–	–
12,168	10,884	3,904	3,977	279	406	51,526	49,522
470	443	292	349	193	217	2,416	2,383
285	255	139	190	4	18	1,427	1,378
239	214	131	187	(13)	–	1,166	1,130
(19)	(37)	(40)	(44)	(199)	(317)	(336)	(457)
231	229	161	162	207	218	1,251	1,255
46	41	8	3	17	18	261	248
185	188	153	159	190	200	990	1,007
387	303	120	202	378	275	1,836	1,933
4,636	4,158	1,403	1,473	(515)	(425)	19,208	18,389
3,571	3,148	987	996	1,089	1,183	11,944	11,217
41,707	39,739	21,365	22,206	10,433	10,075	196,462	193,249
3,083	2,915	1,456	1,440	95	99	10,939	10,519
732	704	150	148	222	236	2,310	2,249

Eastern Europe 2002	Eastern Europe 2001	Other countries 2002	Other countries 2001	Consolidation 2002	Consolidation 2001	METRO Group 2002	METRO Group 2001
7,524	6,714	1,003	999	–	–	51,526	49,522
–	–	538	577	(771)	(825)	–	–
7,524	6,714	1,541	1,576	(771)	(825)	51,526	49,522
340	240	(15)	2	(36)	4	2,416	2,383
215	126	(39)	(21)	(42)	(2)	1,427	1,378
191	104	(40)	(21)	(45)	(6)	1,166	1,130
(16)	(20)	(10)	(8)	(884)	(849)	(336)	(457)
150	136	25	22	8	10	1,251	1,255
24	22	1	–	3	4	261	248
126	114	24	22	5	6	990	1,007
272	417	113	87	–	–	1,836	1,933
2,827	2,542	510	480	(2,553)	(2,226)	19,208	18,389
1,408	1,273	228	235	(232)	(159)	11,944	11,217
37,543	34,793	7,022	6,435	–	–	196,462	193,249
1,339	1,220	203	176	–	–	10,939	10,519
186	169	24	20	–	–	2,310	2,249

37. Management of interest rate risks and currency risks

Interest rate risks are caused by potential changes in the fair value of a financial instrument due to fluctuations of the market interest rates and impact the amount of interest payments within the METRO Group. The tools employed to limit these interest rate risks are interest rate swaps, interest rate hedging contracts and interest rate capping agreements.
Currency risk exposure is created for the METRO Group in the international buying of merchandize and on the basis of costs that are incurred in a currency other than the relevant local currency or are tied to the development of another currency. In this case exchange rate futures as well as interest rate and currency swaps are used to limit the currency risks.

On the balance sheet date the following derivative financial instruments were in place for risk containment:

€ million	Nominal volume	31 Dec 2002 Fair Value Financial assets	31 Dec 2002 Fair Value Financial liabilities	Nominal volume	31 Dec 2001 Fair Value Financial assets	31 Dec 2001 Fair Value Financial liabilities
Interest rate transactions						
Interest rate hedging contracts	150	–	0	–	–	–
within Fair Value Hedges	[–]	[–]	[–]	[–]	[–]	[–]
within Cash Flow Hedges	[–]	[–]	[–]	[–]	[–]	[–]
Interest rate swaps	1,602	39	67	1,656	26	37
within Fair Value Hedges	[371]	[30]	[–]	[104]	[2]	[–]
within Cash Flow Hedges	[1,100]	[0]	[67]	[1,092]	[–]	[37]
Interest rate capping agreements	–	1	1	–	2	2
within Fair Value Hedges	[–]	[–]	[–]	[–]	[–]	[–]
within Cash Flow Hedges	[–]	[–]	[–]	[–]	[–]	[–]
	1,752	40	68	1,656	28	39
Currency transactions						
Exchange rate futures	667	4	22	572	5	15
within Fair Value Hedges	[–]	[–]	[–]	[–]	[–]	[–]
within Cash Flow Hedges	[313]	[1]	[21]	[39]	[3]	[4]
Interest rate/currency swaps	252	5	24	278	7	17
within Fair Value Hedges	[90]	[0]	[7]	[14]	[4]	[–]
within Cash Flow Hedges	[44]	[1]	[0]	[29]	[3]	[–]
	919	9	46	850	12	32
Total	2,671	49	114	2,506	40	71

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

The derivative financial instruments have the following maturities:

€ million	Fair value Maturities up to 1 year	1 to 5 years	over 5 years
Interest rate transactions			
Interest rate hedging contracts	0	–	–
within Fair Value Hedges	[–]	[–]	[–]
within Cash Flow Hedges	[–]	[–]	[–]
Interest rate swaps	0	(28)	–
within Fair Value Hedges	[–]	[30]	[–]
within Cash Flow Hedges	[–]	[(67)]	[–]
Interest rate capping agreements	0	0	–
within Fair Value Hedges	[–]	[–]	[–]
within Cash Flow Hedges	[–]	[–]	[–]
Currency transactions			
Exchange rate futures	(18)	–	–
within Fair Value Hedges	[–]	[–]	[–]
within Cash Flow Hedges	[(20)]	[–]	[–]
Interest rate/currency swaps	(11)	(1)	(7)
within Fair Value Hedges	[–]	[–]	[(7)]
within Cash Flow Hedges	[1]	[–]	[–]
Total	(29)	(29)	(7)

Listed below the maturities are the fair values of the financial assets and liabilities that fall due during these periods.
The interest rate adjustment dates for variable interest rates are all below one year.

38. Contingent liabilities and other contingencies

€ million	31 Dec 2002	31 Dec 2001
Suretyships and guarantees	195	322
Guaranty and warranty contracts	1,572	1,982
	1,767	2,304

In the 2002 fiscal year the METRO Group further optimized its financial structures. In the course of this optimization the Group's contingent liabilities were significantly reduced in comparison with 31 December 2001.

39. Other financial obligations

€ million	31 Dec 2002	31 Dec 2001
Commitments from share tender rights	291	102
Purchasing/sourcing commitments	149	13
Others	386	452
	826	567

The increase in commitments from share tender rights results from option agreements regarding the acquisition of holdings in three Metro Cash & Carry companies.
The increase in purchasing/sourcing commitments amounting to about € 100 million is due to the demolition and reconstruction of several buildings at the Düsseldorf location (project "Stadtkante Düsseldorf").

40. Events after the balance sheet date

Until 27 February 2003 (the date when the financial statements were cleared for publication) no further significant events occurred.

41. Related parties

In the years 2002 and 2001 the METRO Group maintained the following business relations to related companies:

€ million	Goods/services provided 2002	Goods/services provided 2001	Goods/services received 2002	Goods/services received 2001
Supplies and other services	1.4	0.8	112.1	111.8

In the year under review the METRO Group acquired from related companies previously rented real estate property especially for one Metro Cash & Carry store as well as a number of office buildings at a total of € 68.3 million. The purchase prices are in line with the cash values of the rental payments. The companies of the METRO Group will in the future no longer have to make any rental payments for these real estate properties.
In exercising certain share tender rights the shares of the Metro Cash & Carry companies Mülheim, Essen and Berolina were acquired effective 1 January 2003. As far as the disposal of the shares in Primus-Online Handel und Dienstleistung GmbH is concerned reference is made to the comments under no. 5.
Business relations with related companies are based on contractual agreements that provide for prices corresponding to the arm's length principle.
The METRO Group does not maintain business relations to any related persons.

42. Stock-based compensation for executive staff

In 1999 METRO AG introduced a program for stock-based compensations. The entitled persons include the members of the Management Board and other top executives of METRO AG as well as the management boards and executives of selected companies from the Group.

The executives of METRO AG and of the cross-divisional service companies receive options from the Stock Option Program (SOP). The executives from the sales divisions receive so-called Stock Appreciation Rights (SAR) which, when exercised, will trigger a cash payment.

Participation in the program gives participants the right to acquire METRO AG common stock at a predefined basic price over a previously determined period of time. The exercise terms and conditions stipulated by the Metro Management 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. In respect of the first tranche in 1999, the Company resolved to grant a cash compensation equal to the differential between the strike price and the applicable closing price of Metro shares prior to exercising the option.

The movements of the stock options and stock appreciation rights held in the Group over the fiscal year are as follows:

	SOP Units	SAR Units
Outstanding on 1 Jan 2002	1,199,725	2,094,480
Issued	645,408	1,328,245
Exercised	–	–
Expired	85,065	460,900
Outstanding on 31 Dec 2002	1,760,068	2,961,825

The exercise rights limited to a period of one year can be invoked after a blocking period of three years. Exercising the rights is dependent upon the condition that after the end of the blocking period the stock price of METRO AG was at least 30 percent above the basic price (exercise hurdle rate) for twenty consecutive stock exchange trading days before the exercise.

The first exercise period for the rights of the 1999 tranche began at the end of the first banking day in Frankfurt/Main after the ordinary Annual General Meeting (AGM) of METRO AG in May 2002.

The conditions of the tranches issued so far can be gathered from the following table:

				SOP		SAR	
Tranche	Expiry dates	Basic price	Hurdle rate	31 Dec 2002 Number outstanding	31 Dec 2001 Number outstanding	31 Dec 2002 Number outstanding	31 Dec 2001 Number outstanding
1999	8 days after AGM 2003	€ 54.59	over € 70.97	316,360	351,560	431,030	579,690
2000	8 days after AGM 2004	€ 44.14	over € 57.38	403,125	427,480	585,630	704,640
2001	8 days after AGM 2005	€ 43.72	over € 56.84	403,185	420,685	696,675	810,150
2002	8 days after AGM 2006	€ 28.73	over € 37.35	637,398	–	1,248,490	–
				1,760,068	1,199,725	2,961,825	2,094,480

43. Supervisory Board and Management Board

The total compensation paid to members of the Supervisory Board amounted to € 1.0 million. In addition to a refund of their cash outlays the Supervisory Board members received a fixed and a dividend-based performance-related compensation. Above and beyond this no further compensation or benefits were granted to the members of the Supervisory Board by any other companies in the METRO Group.

The total emoluments of the Management Board members in fiscal year 2002 amounted to € 7.9 million. Of this amount € 4.0 million was the fixed portion and € 3.9 million was the variable, performance-related portion of the compensation package. The main factor in determining the performance-related compensation is the Economic Value Added (EVA).

In the year 2002 the following stock options were granted and issued to the members of the Management Board: Dr. Hans Joachim Körber 41,500 stock options, Dr. A. Stefan Kirsten 34,350 stock options, Zygmunt Mierdorf 34,350 stock options, Joachim Suhr 34,350 stock options, Thomas Unger 14,313 stock options. The pro-rated time value of the stock options granted in 2002 and the previous years amounted to around € 1.3 million. Whether this value will ever be disbursed to the Members of the Management Board depends on the conditions for the exercise of the stock options will be met after the expiry of the exercise periods, especially in the event of the exercise hurdle rate being exceeded.

Former Management Board members of METRO AG and of the companies merged into METRO AG and their surviving dependants received € 6.5 million; for this group of persons there exist pension provisions of € 42.2 million at METRO AG.

For the composition of the Supervisory Board and the Management Board please refer to no. 48. Corporate Boards of METRO AG and their mandates.

44. Stocks owned by Management Board and Supervisory Board members

The purchase and sale of stocks in the corporation and its Group companies, of stock options as well as other derivatives by Supervisory Board and Management Board members is transmitted by the latter to the company immediately on completion. The company publishes these notifications on the METRO Group homepage. From there they can be downloaded at any time.

As at 31 December 2002 stocks including stock options and other derivatives owned either directly or indirectly by individual Supervisory Board and Management Board members did not exceed one percent of the total number of shares issued by the company. Total stock ownership by all Management Board and Supervisory Board members was also below one percent on the balance sheet date.

Separate notes and disclosures according to Section 292 a HGB

45. 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 carry-forwards against expected future profits provided the realization of these profits is reasonably certain.
- Leased tangible assets have to be capitalized in accordance with IAS 17 (Leases) and the resulting liabilities recognized to the extent that the IFRS criteria on the economic ownership of the assets deviating from HGB require this.
- Provisions for pensions and similar commitments are measured according to the projected unit credit method of IAS 19 (Employee Benefits) taking future pay and pension increases duly into account.
- Longer-term provisions are recognized at the settlement amount discounted to the balance sheet date in line with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).
- Internally generated intangible assets are, according to the provisions of IAS 38 (Intangible Assets) capitalized at cost and depreciated over their useful lives on a straight-line basis.
- Primary and derivative financial instruments are recognized in the balance sheet as assets and liabilities pursuant to the provisions of IAS 39 (Financial Instruments: Recognition and Measurement). Depending on the classification required some of the financial instruments have to be measured at their fair values – even though these may exceed their (historical) cost of acquisition. In addition, IAS 39 provides for special recognition of qualified hedges in the balance sheet with the consequence, in some case, that fluctuations in value are recognized in equity with no effect on the result.
- The disclosure of hidden reserves in the context of initial consolidation is, according to IAS 22 (Business Combinations), not restricted to the cost of acquisition of the interest. Under IAS 22 any negative goodwill possibly retained within the framework of initial consolidation must be recognized as a deduction from the capitalized goodwill. According to IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries) interests of other shareholders (minorities) are reported on the liabilities side in a separate item outside of equity capital.

46. Declaration of compliance with the German Corporate Governance Code

On 19 December 2002 METRO AG issued a declaration of compliance and published it on its home page on the Internet (www.metrogroup.de). On 20 December 2002 Praktiker AG also issued a declaration on the Corporate Governance Code and made it available to its shareholders.

47. Election to be exempt from Sections 264 Para. 3 and 264 b HGB respectively

The following domestic subsidiaries in the legal form of incorporation of stock corporations and partnerships respectively having fulfilled the exemption requirements according to Section 264 Para. 3 and Section 264 b HGB have elected to be exempt from disclosing their annual financial statements.

A LA CARTE Warenvertriebsgesellschaft mbH	Düsseldorf
Allkauf SB-Warenhaus GmbH & Co. KG	Mönchengladbach
Axxe Reisegastronomie GmbH	Cologne
C + C Schaper GmbH	Hanover
Deutsche Gesellschaft für Anlageverwaltung mbH (DEGAV)	Düsseldorf
Dinea Gastronomie GmbH	Cologne
EFGEE GmbH	Cologne
Emotions GmbH	Cologne
Gemini Medienvertriebsgesellschaft mbH	Cologne
GPM Consulting GmbH & Co. KG	Düsseldorf
GPM Consulting Verwaltungs-GmbH	Düsseldorf
Kaufhaus Kerber GmbH & Co. KG	Fulda
Kaufhof Warenhaus AG	Cologne
Kaufhof Warenhaus am Hauptbahnhof Berlin GmbH	Berlin
Kaufhof Warenhaus Rostock GmbH	Rostock
KIM GmbH	Cologne
Lust for Life GmbH	Cologne
MGA METRO Group Advertising GmbH	Düsseldorf
MCC Eastern Europe GmbH	Düsseldorf
MGC METRO Group Clearing GmbH	Düsseldorf
Meister feines Fleisch – feine Wurst GmbH & Co. KG	Gaufelden-Nebringen
MES Metro Event Service GmbH	Saarbrücken
Metro Asia Holding GmbH	Düsseldorf
Metro Cash & Carry International Holding GmbH	Düsseldorf
Metro Cash & Carry GmbH	Düsseldorf
Metro Einzelhandel Holding GmbH	Düsseldorf
Metro Großhandelsgesellschaft mbH	Düsseldorf
METRO Group Insurance GmbH	Düsseldorf
MRE METRO Group Real Estate Management GmbH	Saarbrücken

Metro Handels GmbH	Saarbrücken
Metro Hellas Holding GmbH	Düsseldorf
Metro International GmbH	Düsseldorf
Metro Kaufhaus und Fachmarkt Holding GmbH	Düsseldorf
Metro Leasing GmbH	Saarbrücken
Metro Luxemburg Holding GmbH	Düsseldorf
MDL METRO Group Distribution Logistics GmbH & Co. KG	Sarstedt
Metro Online GmbH	Düsseldorf
Metro Project Services GmbH	Düsseldorf
Metro Reiseservice GmbH	Düsseldorf
Metro SB-Großmärkte GmbH & Co. KG Esslingen	Esslingen
Metro SB-Großmärkte GmbH & Co. KG Großen-Linden	Großen-Linden
MFM METRO Group Facility Management GmbH	Düsseldorf
MFS METRO Group Facility Services GmbH	Leinfelden-Echterdingen
MGB METRO Group Buying GmbH	Düsseldorf
MGE Warenhandels GmbH & Co. KG	Düsseldorf
MGL METRO Group Logistics GmbH	Düsseldorf
MGP METRO Group Account Processing GmbH	Kehl-Sundheim
MGS METRO Group Services Holding GmbH	Düsseldorf
Michel Farah GmbH	Cologne
Multi-Center Warenvertriebs GmbH & Co. KG	Böblingen
Real Holding GmbH	Alzey
Real Multi-Markt Warenvertriebs-GmbH & Co. KG	Alzey
Real SB-Warenhaus GmbH	Alzey
SIG Import GmbH & Co. KG	Düsseldorf
Sportarena GmbH	Cologne
Varena – Lagerhaus GmbH	Unna
WestBTL Handel-Beteiligungs GmbH	Düsseldorf

48. Corporate boards of METRO AG and their mandates

Members of the Supervisory Board

Jan von Haeften (Chairman)
Businessman
a) Franz Haniel & Cie. GmbH
(Chairman)

Klaus Bruns (Vice Chairman)
Chairman of the Group Works Council
of METRO AG
Chairman of the General Works Council
of Kaufhof Warenhaus AG
a) Tourismus & Marketing Oberhausen GmbH
as of 8 July 2002

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

Volker Claus
CPA and Tax Consultant
b) Gebr. Schmidt Verwaltungsgesellschaft mbH

Dr. h.c. Hans-Dieter Cleven
CEO of Beisheim Holding GmbH
Vice-President of the Board of Directors
of Metro Holding AG
CEO of Metro Vermögensverwaltung GmbH & Co. KG
CEO of OBV Vermögensverwaltungs GmbH & Co. KG
a) Debitel AG until 30 September 2002
Jamba AG (Chairman)
b) Albergo Giardino S.A.
(Vice President Board of Directors)
Beisheim Holding Schweiz AG
(Vice President Board of Directors)
Völkl Sports Holding AG
(President Board of Directors)

Peter Cziglar
Team Head at Real SB-Warenhaus GmbH
Currently released for duties as member of the Central Works Council at Real SB-Warenhaus GmbH
a) Real Holding GmbH

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

Professor Dr. Dr. h.c. Erich Greipl
CEO of Metro Vermögensverwaltung
GmbH & Co. KG
a) Kaufhof Warenhaus AG
Metro Großhandelsgesellschaft mbH
Real Holding GmbH
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,
Kaufhof Warenhaus AG

Cilli Holzer
Commercial Clerk
Kaufhof Warenhaus AG

Werner Klockhaus
from 1 July 2002
Vice Chairman of the Group Works Council
of METRO AG
Vice Chairman of the General Works Council,
Real SB-Warenhaus GmbH

Dr. Hermann Krämer
Ex-Member of the Management Board of the
former Veba AG
a) LOGIKA AG (Chairman)
b) Westdeutsche Landesbank Girozentrale
(Member of the Board of Directors)

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

Dr.-Ing. e.h. Dipl.-Ing. Bernd Pischetsrieder
Member of the Management Board of Volkswagen AG
CEO of Volkswagen AG from 17 April 2002
CEO of SEAT S.A. until 6 March 2002
a) Audi AG (Chairman of the Supervisory Board)
Dresdener Bank AG
from 29 November 2002
Münchener Rückversicherungs-Gesellschaft
from 18 June 2002
b) Dresdner Bank Luxembourg S.A.
(Member Board of Directors)
until 29 November 2002
Scania AB (Chairman Board of Directors)
from 7 May 2002
SEAT S.A. (Presidente Consejo de Administración) from 7 March 2002
Tetra-Laval Group
(Member Board of Directors)

Hildegard Schäfer
until 30 June 2002
Member of the General Works Council
Real Holding GmbH

Professor Dr. Helmut Schlesinger
until 23 May 2002
Retired President of Deutsche Bundesbank

Dr. jur. Hans-Jürgen Schinzler
from 23 May 2002
CEO of Münchener Rückversicherungs-Gesellschaft
a) Allianz Lebensversicherungs-AG
(Vice Chairman) until 11 December 2002
Dresdner Bank AG
until 28 November 2002
ERGO Versicherungsgruppe AG
(Chairman)
MAN Aktiengesellschaft (Vice Chairman)
b) Aventis S.A.
Dresdner Kleinwort Wasserstein
North America Inc., New York
until 9 July 2002

Dr. Manfred Schneider
Chairman of the Supervisory Board of Bayer AG
from 26 April 2002
CEO of Bayer AG
until 26 April 2002
a) Allianz AG
Bayer AG (Chairman)
DaimlerChrysler AG
Linde AG
RWE AG
TUI AG

Hans Peter Schreib
Attorney 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 management and supervisory boards
a) BASF Coatings AG
DWS Investment GmbH
Fraport AG
MLP Marschollek, Lautenschläger und Partner AG until 5 April 2002
Zürich Investmentgesellschaft mbH
until 7 October 2002
b) The Germany Funds Inc., New York
(Chairman)
Incepta plc., London

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

Committees of the Supervisory Board and their members

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

Personnel and Nominations Committee
Jan von Haeften (Chairman)
Klaus Bruns (Vice Chairman)
Hermann Hesse
Dr. Manfred Schneider

Accounting and Audit Committee
Jan von Haeften (Chairman)
Klaus Bruns (Vice Chairman)
Dr. h.c. Hans-Dieter Cleven
Ulrich Dalibor
Professor Dr. Dr. h.c. Erich Greipl
Dr. Karlheinz Marth

Mediation Committee pursuant to Section 27 Para. 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 Management Board

Dr. Hans-Joachim Körber (CEO)
a) Kaufhof Warenhaus AG (Chairman)
Real Holding GmbH (Chairman)
b) Divaco AG & Co. KG
Loyalty Partner GmbH
Skandinaviska Enskilda Banken AB

Stefan Feuerstein
from 1 January 2003
a) Extra Verbrauchermärkte GmbH
from 1 January 2003
Real Holding GmbH from 1 January 2003
b) Gemex Trading AG (President Board of
Directors) from 1 January 2003

Dr. A. Stefan Kirsten
until 31 July 2002
a) Real Holding GmbH until 31 August 2002
b) Assevermag AG (President Board of
Directors) until 31 July 2002
Metro Capital B.V. (Chairman Supervisory
Board) until 31 July 2002
Metro Euro Finance B.V. until 31 July 2002
Metro Finance B.V. until 31 July 2002
Metro International AG (President Board of
Directors) until 31 July 2002
Metro International Finance B.V.
until 31 July 2002

Zygmunt Mierdorf
Director of Industrial Relations
a) Extra Verbrauchermärkte GmbH
Praktiker Bau- und Heimwerkermärkte AG
(Chairman)
Real Holding GmbH
b) Asset Immobilienbeteiligungen
GmbH & Co. KG
Wagner International AG
Praktiker Yapi Marketleri A.S.
until 20 December 2002
Tertia Handelsbeteiligungs GmbH (Chairman)

Joachim Suhr
until 31 December 2002
a) Extra Verbrauchermärkte GmbH (Chairman)
until 31 December 2002
Real Holding GmbH until 31 December 2002
DEG Eishockey GmbH from 8 April 2002
(Chairman)
b) Gemex Trading AG
(President Board of Directors)
until 31 December 2002

Thomas Unger
from 1 August 2002
a) Real Holding GmbH from 1 September 2002
b) Assevermag AG (President Board of
Directors) from 6 September 2002
Metro Capital B.V. from 28 August 2002
Metro Euro Finance B.V. from 26 August
2002
Metro Finance B.V. from 26 August 2002
Metro International AG (President Board of
Directors) from 23 September 2002
Metro International Service AG (President
Board of Directors) from 6 September 2002
Metro International Finance B.V.
from 26 August 2002

Düsseldorf, 27 February 2003

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein Mierdorf Unger

Overview of major Group companies

Name	Head office	Stake %	LCU	Equity
METRO AG	Düsseldorf		€ 1,000	4,319,231
Metro Kaufhaus und Fachmarkt Holding GmbH	Düsseldorf	100.00	€ 1,000	615,419
Metro Einzelhandel Holding GmbH	Düsseldorf	100.00	€ 1,000	2,058,066
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	44,969
Consumer electronics centers				
Media-Saturn-Holding GmbH	Ingolstadt	75.40	€ 1,000	213,667
Home improvement centers				
Praktiker Bau- und Heimwerkermärkte AG	Kirkel	100.00	€ 1,000	139,940
Department stores				
Kaufhof Warenhaus AG	Köln	100.00	€ 1,000	168,726
Other companies				
MGB METRO Group Buying GmbH	Düsseldorf	100.00	€ 1,000	1,826
Gemex Trading AG	CH-Baar	100.00	CHF 1,000	5,134
Metro International AG	CH-Baar	99.00	CHF 1,000	447,709
Dinea Gastronomie GmbH	Köln	100.00	€ 1,000	8,238
MDL METRO Group Distribution Logistics GmbH & Co. KG	Sarstedt	100.00	€ 1,000	5,153
MRE METRO Group Real Estate Management GmbH	Saarbrücken	100.00	€ 1,000	11,114
MGI METRO Group Information Technology GmbH	Düsseldorf	100.00	€ 1,000	84,322

Auditor's opinion

We duly audited the consolidated financial statements prepared by METRO AG consisting of the consolidated balance sheet, the consolidated income statement, the statement of changes in stockholders' equity, the consolidated cash flow statement and the notes thereto for the fiscal year from 1 January to 31 December 2002. The preparation and content of the consolidated financial statements are the responsibility of METRO AG's Management 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 Financial Reporting Standards (IFRS).

We conducted our audit of the consolidated financial statements in accordance with the German audit regulations and with due regard to the generally accepted standards on the auditing of financial statements as established by the IDW, the institute of auditors and certified public accountants in Germany, as well as with additional regard to the International Standards on Auditing (ISA). These standards require the audit to be planned and executed 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 the expectation of potential misstatements is taken into consideration. The audit also includes an examination, on a sampling basis, of the evidence supporting the amounts reported and the disclosures made in the consolidated financial statements. Furthermore, it involves the assessment of the accounting principles used and the major assumptions made by the Management 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 IFRS, 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 which also covered the group management report from 1 January to 31 December 2002 as prepared by the Management 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 2002 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 2003

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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

Report of the Supervisory Board

METRO AG looks back on a successful fiscal year. Thanks to the consistent implementation of the **strategy of value-oriented growth** by the sales divisions and the other companies in the METRO Group, especially in the international markets, and thanks to the continuous optimization of its merchandizing concepts the METRO Group was again able in fiscal 2002 to maintain its strong market position as one of the major international trade and retail groups as well as to gain market shares against the general trend and to expand its position of market leadership in Germany. The focus was very much on the strategic alignment of METRO AG and its sales divisions in Germany and Europe as well as on further expansion in non-European markets.

The Supervisory Board was extensively informed by the Management Board about the **risk management** of the company as well as about its resource allocation and was regularly updated in detail in the Supervisory Board meetings about any important business transactions that were of particular importance to the future development of the company. In a constant dialogue between the Chairman of the Supervisory Board and the members of the Management Board all major business transactions and the development of the key financial indicators were thoroughly elaborated upon.

The Supervisory Board regularly requested and received from the Management Board information on the proposed **business strategies** and the fundamental questions of **corporate policy**, especially on financial, capital expenditure, profit and personnel planning for the years 2002 and 2003 and the resulting consequences in terms of the strategic orientation, the further expansion, the rationalization and optimization of corporate structures and work processes.

In fiscal year 2002 five **meetings of the Supervisory Board** took place in which oral and written reports of the Management Board were received and discussed in detail. All those measures requiring Supervisory Board approval as well as the economic situation of the company including that of the sales divisions were dealt with very thoroughly. From its own ranks the Supervisory Board formed the presidential committee, the personnel and nominations committee, the accounting committee and the mediation committee required according to Section 27 Para. 3 MitbestG (German law on codetermination). The accounting and audit committee met twice in the year under review. The presidential committee met four times, two meetings of which were joint meetings with the accounting and audit committee. There was no need for the mediation committee to meet at all.

The **consolidated financial statements** and the **group management report** as well as the METRO AG financial statements and management report were audited by Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, and were awarded their unqualified auditor's opinion. The annual financial statements of METRO AG and 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 financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS).

The proposed financial statements were discussed in depth at a joint meeting of the presidential committee and the accounting and audit committee as well as at the Supervisory Board's annual accounts meeting held in the presence of the auditors. The Supervisory Board concurs with the **audit result** which does not contain any exceptions. The Supervisory Board examined and approved the annual financial statements submitted by the Management Board for the METRO Group as well as for METRO AG including the relevant management reports, METRO AG's annual financial statements are thus adopted. The Supervisory Board also accepts the Management Board's proposal for the appropriation of net earnings.

Pursuant to Section 312 AktG (German Stock Corporation Act) the Management Board of METRO AG drew up a **report on the relationships of the company to associated companies** for fiscal year 2002 and submitted this to the Supervisory Board at the annual accounts meeting. The auditors also audited this particular report, provided a written report on their audit and gave the following auditor's opinion:

"After our due audit and assessment we confirm that

1. the factual information in the report is correct,
2. in the legal transactions listed in the report the performance of the company was not inappropriately high."

In view of the final result of the audit the Supervisory Board raised no objections to the Management Board's declaration pursuant to Section 312 AktG and to the auditor's opinion.

Appointments and Departures
Effective 1 January 2002 Mr. Volker Claus was appointed a member of the Supervisory Board of METRO AG by the courts. The annual general meeting of METRO AG elected Mr. Volker Claus to the Supervisory Board of the company on 23 May 2002.
Professor Dr. Helmut Schlesinger resigned from his post on the Supervisory Board of METRO AG effective as of the end of the METRO AG annual general meeting on 23 May 2002.
The annual general meeting on 23 May 2002 elected Dr. Hans-Jürgen Schinzler to the Supervisory Board of the company.
Mrs. Hildegard Schäfer relinquished her Supervisory Board mandate effective 30 June 2002. Her place on the Supervisory Board of METRO AG was taken by Mr. Werner Klockhaus effective 1 July 2002.
On the Management Board the following changes have occurred: Dr. A. Stefan Kirsten left the Management Board of METRO AG at his own request effective 31 July 2002. Mr. Thomas Unger was appointed a member of the Management Board of the company with effect from 1 August 2002.
Mr. Joachim Suhr relinquished his office as a member of the Management Board of METRO AG effective 31 December 2002. Mr. Stefan Feuerstein was appointed a member of the Management Board of METRO AG effective 1 January 2003.
The Supervisory Board personally thanked Mrs. Schäfer and Professor Dr. Schlesinger as well as Dr. Kirsten and Mr. Suhr for their achievements on behalf of the company.
The Supervisory Board also thanks the Management Board, the management teams of the sales divisions and cross-divisional service companies, the works councils and the employees of METRO AG as well as all affiliated companies for their dedication and commitment and for their successful work.

Düsseldorf, in March 2003

THE SUPERVISORY BOARD

Jan von Haeften
Chairman

Financial schedule

Business press conference/analysts' meeting	25 March 2003
Quarterly report Q1 2003	30 April 2003
Annual general meeting	22 May 2003
Quarterly report Q2 2003	31 July 2003
Quarterly report Q3 2003	31 October 2003

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Real SB-Warenhaus GmbH
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41065 Mönchengladbach
Tel.: +49 (21 61) 4 03-0
www.real.de

Extra Verbrauchermärkte GmbH
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Media-Saturn-Holding GmbH
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www.saturn.de

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www.praktiker.de

Kaufhof Warenhaus AG
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www.galeria-kaufhof.de

MGB METRO Group Buying GmbH
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MGL METRO Group Logistics GmbH
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MDL METRO Group Distribution Logistics
GmbH & Co. KG
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MGI METRO Group Information
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MGA METRO Group Advertising GmbH
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40235 Düsseldorf
Tel.: +49 (2 11) 9 69-0

MFS METRO Group Facility Services GmbH
Denkendorfer Strasse 11
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Dinea Gastronomie GmbH
Hansestrasse 67-71
51149 Köln
Tel.: +49 (22 03) 3 09-0
www.dinea.de

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
Codes numbers	
Common stock	725 750
Common stock/challenged	725 752
Preferred stock	725 753
Stock markets	Frankfurt, Düsseldorf, Xetra

Metro convertible bond

Reuters code	DE248 600=F
Bloomberg code	ID248600
Code number	248 600
Stock exchange	Frankfurt

An overview of important terms used in the Annual Report 2002

Category Management

On the basis of a specifically customer-oriented assortment policy, Category Management contributes to increasing sales and earnings, securing a competitive edge for the sales divisions in the markets, and, in addition, strengthens long-term customer retention. In the METRO Group Category Management is a corporate strategy unit placed between Purchasing and Sales.

Customer Relationship Management (CRM)

CRM is the collective term for all marketing measures that create and strengthen customer loyalty. CRM is an important component of a successful and long-term business activity in trading and retailing. Of great significance in this context are customer retention programs like the Payback system that the Metro sales divisions Real and Kaufhof are participating in with great success.

Data Warehouse

This is an IT-based information tool which serves to gain a general overview of the condition of a company at any time. The Data Warehouse links different relevant databases within the company making possible a comprehensive analysis by way of rapid access to bundled and structured information. These data make it easier for management to make strategic decisions. The METRO Group's Data Warehouse combines the important data of the different sales divisions and cross-divisional service companies. Its employment has produced considerable efficiency improvements in a number of different work processes within the Group.

Efficient Consumer Response (ECR)

Efficient Consumer Response (ECR) describes the holistic view of the entire supply chain. ECR focuses on the best possible adjustment of trading and retailing to the needs and expectations of customers. Consumer needs must be met in the most efficient way possible. This can only be done if business processes are viewed and optimized along the entire value chain, from the supplier via the manufacturer all the way to the trader or retailer and eventually to the customer.

Food, Nonfood

In the METRO Group the following categories are considered part of our food assortment: fresh produce (including fruit, vegetables, fresh meat and fish, dairy produce), non-perishable foodstuffs (including sausages and other meat products, canned food, delicatessen, staples such as noodles and sauces), frozen food products, beverages of all kinds (including alcoholic beverages), cigarettes, food supplements (like vitamin products), pet food, detergents and household cleaners. All other merchandize is classified "Nonfood".

Fresh Produce Competency

This is the quality hallmark of the Metro sales divisions in the food area. Fresh produce competency describes the ability to offer customers food items of the highest level of quality and freshness on a continuous basis. The very foundation and guarantee of the METRO Group's fresh produce competency is a sophisticated logistics system. A major component of this freshness concept is the maintenance of the unbroken cooling chain, i.e. the consistent and controlled refrigeration of fresh produce from the manufacturer to the store.

Concept Optimization

Concept optimization is a permanent task. Under the guideline terms of "Customer Focus" and "Earnings Increase" the objective, among others, is to continuously increase the efficiency of business processes, improve and modernize the outlet chains, convert stores to innovative marketing concepts and intensify customer retention measures. Activities aimed at addressing customers directly are also part of this approach. In the METRO Group concept optimization is an important pillar of our corporate strategy geared to achieve profitable growth.

Logistics
This is the management of merchandize flows. Logistics is a major part of the value chain in a trading and retailing company. It is possible to reduce transportation and warehousing costs by means of a carefully planned control of the merchandize flows. The METRO Group has concentrated its logistics competency as a cross-divisional service function in its logistics companies MGL METRO Group Logistics and MDL METRO Group Distribution Logistics for the entire Group.

Meeting Metro
The METRO Group organizes this information event to establish contact to potential junior management staff. Target groups are primarily students and graduates from higher education establishments in the fields of business studies or IT. As a recruiting event that is unique in the trade and retail sector Meeting Metro provides information on the diversity of the industry and on the career opportunities in an internationally oriented company like the METRO Group by way of target group oriented media such as films and show elements as well as personal talks with Metro staff. The information platform www.meeting-metro.de on the Internet is used to appeal to potential participants.

Payback
With more than 22 million members in Germany this is the market leader in customer retention programs. Participating customers receive a club card. For every purchase for which they present their card they will be credited with a certain number of bonus points. In addition, Payback customers benefit from special discount promotions and target group specific product offers. The Payback program provides the opportunity for target group oriented marketing and individual customer appeal. As a result of the sales divisions Real and Galeria Kaufhof participating successfully in the Payback program the METRO Group has assumed a pioneering role that has attracted a great deal of attention in the entire trade and retail sector.

Profitable Growth
The METRO Group's corporate strategy is geared towards the sustainable growth of the value of the company. Growth is profitable if and when the profitability of the sales divisions increases in line with sales. The METRO Group achieves profitable growth by establishing sustainable market penetration with its sales divisions in the national and international markets.

Process Optimization
This term describes the sustainable and profitable improvement of the efficiency of business processes.

Quality Assurance
The constant improvement of quality standards of the merchandize offered and the safety of food products enjoy a high priority at the METRO Group. The Group therefore has a particularly efficient quality assurance system. Organizational and technical measures make sure that products and services meet clearly defined quality requirements throughout the Group. Quality assurance covers, among other things, food items and the raw materials used for their production, manufacturers and suppliers, the adequate transportation of merchandize as well as the hygiene provisions at the establishments of the METRO Group.

Cross-Divisional Service Companies
In addition to the sales divisions responsible for the operational business there are also companies in the METRO Group that assume tasks like buying, logistics, IT, advertising, financing or waste and environmental management for the sales divisions and for the entire Group. They act as interfaces at which group-wide services are bundled as a result of which synergies can be used and costs reduced.

Retail Brands

These are unique corporate brands in retailing. The clear-cut brand profile makes for the essential difference today between successful and less successful trading companies. This is why for the METRO Group the development of its merchandizing formats into Retail Brands constitutes an important objective ("Retail Branding"). The status as a Retail Brand is achieved by a sales division if it meets all fundamental customer expectations during shopping ("Quality Execution"), if it positions itself vis-à-vis competitors unmistakably through a special and efficient service and value strategy ("Retail Excellence") and if it finally communicates its identity as a brand in a very targeted manner.

Sales Divisions

In the METRO Group the six sales divisions Metro Cash & Carry, Real, Extra, Media Markt/Saturn, Praktiker and Kaufhof are responsible for the operational business. They operate independently in the markets with their own specific merchandizing concepts covering the wholesale trade, different food and consumer goods retailing formats as well as specialist outlets in the high-growth areas of consumer electronics and home improvement centers. Together the sales divisions of the METRO Group offer both private and commercial customers the full range of conceivable shopping occasions of standardized products.

Merchandizing Concept

This term describes the marketing concept of a trade or retail company. In all its sales divisions the METRO Group uses unique and distinctive merchandizing concepts whose efficiency is consistently increased by permanent concept optimization.

Value-Oriented Corporate Management

The management focus on increasing corporate value is a major principle in the METRO Group and its sales divisions. It is reflected in things like the total focus on profitability targets and the Economic Value Added (EVA).

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