METRO Group

The Spirit of Commerce

ANNUAL REPORT 2003

Annual financial statements of METRO AG

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Management report

Annual financial statements

At 31 December 2003, the annual financial statements of METRO AG, the holding company of METRO Group, show a balance sheet total of € 11.7 billion compared to € 10.2 billion in the previous year.
Financial assets and receivables from group companies constitute the major items on the assets side.
Financial assets augmented mainly as a result of capital increases at MGS METRO Group Services Holding GmbH, MGB METRO Group Buying GmbH and Metro Cash & Carry International GmbH. Moreover, Asset Immobilienbeteiligungen GmbH & Co. KG was transferred from current assets to financial assets.
The change in receivables and sundry assets reflects the increase in receivables from group companies due to the granting of short-term loans to the AIB group.
The equity & liabilities side is marked by the change in liabilities which include the issue of new bonds under the existing debt issuance programme.
The income statement is characterized by a decrease in income from investments, lower personnel expenses and the reduction of operating expenses. On balance, the change in income from investments contrasts with a reduction of other operating expenses by € 201.187 million, essentially due to the decrease in the purchase price of Extra Verbrauchermärkte GmbH included in the previous year. On 30 December 2003, METRO AG signed a contract on the sale of its shares in the Divaco companies Divacom Beteiligungs GmbH and Divafon Beteiligungsgesellschaft mbH. This divestment took place in the form of a management buyout at a sales price of € 1.00 each, with effect from 31 December 2003. The expenditure incurred in this context was included in the fiscal year under review.
Personnel expenses were positively influenced especially by a value reinstatement of the assets of a benevolent fund.
METRO AG's net income amounted to € 436.986 million at year end.
After allocation of € 100.000 million to other sundry reserves, the balance sheet profit of METRO AG amounts to € 345.261 million.
The equity ratio dropped from 42.2 percent to 37.9 percent. The net debt rose by € 107.888 million to € 375.737 million.

Profit appropriation

The Supervisory Board and the Management Board of METRO AG will propose to the annual general meeting on 4 June 2004 that the reported balance sheet profit of € 345.261 million be used to pay dividends in the amount of € 333.596 million and that the balance of € 11.665 million be carried forward to new account.
The balance sheet profit of € 345.261 million includes profit carried forward from the previous year of € 8.275 million.

	Number of shares	Cash dividend in €
Distribution of a dividend of € 1.020 per share of common stock	324,109,563	330,591,754
Distribution of a dividend of € 1.122 per share of preferred stock	2,677,966	3,004,678
	326,787,529	333,596,432

In accordance with the company's articles of association, holders of preferred stock are entitled to receive an extra dividend payment of 10 percent if the common stock dividend equals or exceeds € 1.02.

Divisional sales and earnings development

METRO AG is the management holding company of the METRO Group.
In fiscal 2003, the METRO Group boosted sales by 4.0 percent, from € 51.5 billion to € 53.6 billion. The sales divisions of METRO Group achieved an increase in sales by 4.3 percent, to € 53.3 billion. The growth of the group was strongly influenced by exchange rate effects. Net of those effects, the sales divisions increased sales by 6.0 percent and the group by 5.7 percent. So, in 2003 the METRO Group again attested to its operating performance capacity and was able to demonstrate a distinctly better sales development than its relevant competitors.
The proportion of international business in the group's total sales climbed from € 23.8 billion to € 25.3 billion, which is 47.2 percent compared to 46.3 percent a year earlier. This increase was attained despite a marked upward revaluation of the euro.
The individual sales divisions whose financial statements were prepared in accordance with the IFRS rules had the following share in the total sales development:

DEVELOPMENT OF GROUP SALES AND SALES OF THE SALES DIVISIONS (NET)

	2003 € million	2002 € million	Changes over previous year € million	%
Metro Cash & Carry	25,093	23,972	1,121	4.7
Real	8,205	8,198	7	0.1
Extra	2,773	2,835	-62	-2.2
Media Markt and Saturn	10,563	9,583	980	10.2
Praktiker	2,811	2,584	227	8.8
Kaufhof	3,819	3,900	-81	-2.1
Metro sales divisions	53,264	51,072	2,192	4.3
Other companies	331	454	-123	-27.1
METRO Group	53,595	51,526	2,069	4.0
of which international	25,295	23,835	1,460	6.1

Development of EBIT at METRO Group and the sales divisions

In the period under review, METRO Group generated earnings before interest and taxes (EBIT) of € 1,318.1 million. This corresponds to a 13.1 percent increase compared to the prior-year result of € 1,165.5 million. The group's EBITDA were improved by 8.2 percent, from € 2,416.0 million to € 2,614.6 million. Against the backdrop of the continued difficult situation of the industry, METRO Group once again distinctly outperformed its relevant competitors with this increase in earnings.

	2003 € million	2002 € million	Changes € million	%
Metro Cash & Carry	799.6	709.1	90.5	12.8
Real	160.5	147.0	13.5	9.2
Extra	(75.7)	(47.2)	-28.5	-60.4
Media Markt and Saturn	345.2	280.2	65.0	23.2
Praktiker	(13.8)	(41.6)	27.8	66.8
Kaufhof	94.1	131.4	-37.3	-28.4
EBIT Metro sales divisions	1,309.9	1,178.9	131.0	11.1
Other	8.2	(13.4)	21.6	161.2
EBIT METRO Group	1,318.1	1,165.5	152.6	13.1
Financial result	(500.6)	(335.8)	-164.8	-49.1
Earnings before taxes	817.5	829.7	-12.2	-1.5
Income taxes	(246.1)	(327.8)	81.7	24.9
Consolidated net income	571.4	501.9	69.5	13.8
Earnings per share	€ 1.52	€ 1.36	€ 0.16	12.0

Earnings development of the sales divisions

Despite starting losses of € 709.1 million inherent in its expansion strategy, the Metro Cash & Carry sales division boosted EBIT in 2003 by 12.8 percent to € 799.6 million. This increase again testifies to the high earnings potential of the wholesale stores and it reflects the gratifying development of the operating business, especially in Western and Eastern Europe. It was not only achieved by pushing sales but also by continuously optimizing business processes and cost structures.

The Real hypermarkets succeeded in distinctly further improving their results for the fourth year in succession. EBIT rose by € 13.5 million from € 147.0 million to € 160.5 million. This corresponds to a growth by 9.2 percent. The positive earnings trend mainly results from better trade margins. In Poland, the sales division attained a further improvement in EBIT thanks to continued optimization of cost management.

In 2003, the Extra supermarkets posted EBIT of € -75.7 million after € -47.2 million a year earlier. This trend is principally attributable to thorough restructuring measures initiated in the year under review, geared to optimizing the location portfolio and the organization, among other objectives.

In the fiscal year under review, the consumer electronics centers of the brands Media Markt and Saturn again attested to their extraordinary earnings strength. The sales division boosted EBIT by € 65.0 million to € 345.2 million in spite of the challenging market environment, its persistently high rate of expansion in Germany and abroad as well as high expenses for marketing and advertising. This corresponds to an increase by 23.2 percent compared to 2002.

The Praktiker home improvement and DIY centers achieved an improvement in EBIT by € 27.8 million in 2003, namely from € -41.6 million in 2002 to € -13.8 million. This positive trend results from a marked boost in sales principally attributable to marketing measures of the sales division in the year of its anniversary which highlighted the price competence of Praktiker and met with great attention. Moreover, it reflects the success of the consistently continued repositioning of the company in Germany in the year under review. Praktiker also registered a positive EBIT trend abroad, chiefly in Eastern Europe.

In 2003, the Kaufhof department stores achieved € 94.1 million earnings before taxes. This result is lower by € 37.3 million than in the previous year. This situation is mainly due to the decline in sales as a consequence of the persistently difficult general macroeconomic climate, the general atmosphere of uncertainty and the heightened price sensitivity of consumers in Germany. These factors triggered fierce price competition which had a negative impact on the result of the department stores. By contrast, success in the further increase in efficiency of the business processes along with targeted initiatives designed to reduce the operating costs exerted a positive influence.

Risk report

Risk management is the targeted protection of existent and future success potentials. For the METRO Group, risk management represents an integral part of its value-driven corporate governance. The METRO Group's risk management is based on a systematic process of risk identification, assessment and control embracing the whole group. By controlled dealing with risks, the assets, financial position and earnings situation of the group are secured and group management is enabled to recognize adverse trends early on, which means before a loss occurs. 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 to ensure that the Management Board is continuously and promptly kept informed of important developments in risk management by a risk management officer. Based on an annual group-wide risk audit, the risk management officer writes a risk report which comprises all essential aspects of potential risks at the METRO Group. An essential function of central risk management of the METRO Group is to safeguard the group-wide exchange of information on risk-relevant issues and to develop risk management functions in all sales divisions and group units. This involves coordinating the group-wide recording and systematic assessment of all essential risks in accordance with uniform standards. The risk management officer compiles the results in a risk portfolio from which the total risk exposure of the METRO Group is determined.

EVA as a benchmark

In deciding whether to accept certain risks, the METRO Group is guided by the principle of sustain-able increase in the company value. The crucial benchmark for corporate success is the principle of Economic Value Added (EVA) that is anchored in the entire group and is an important criterion for capital expenditure decisions in particular. Entrepreneurial risks are only taken if the concomitant risks are manageable and where the opportunities involved promise reasonable value added.

Principles of risk policy

Risks incurred in conjunction with the core processes of wholesale and retail trading are borne by 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 outlet locations, the securing of liquidity and HR development relating to specialists and managers. Risks deriving from support processes like IT, for example, are systematically reduced within the group by concentrating on the group's own IT service company MGI, or, to the extent that this is reasonable, they are transferred to third parties. Risks emanating from activities which are neither core nor support processes are not accepted by the group as a matter of principle.

Decentralized responsibilities

As a trading and retailing group, METRO Group is divided into a management holding company with independent operating sales divisions and cross-divisional service companies that support the operating processes. The management principle of decentralization inherent in this structure is also reflected in the way in which risks are dealt with. They are analyzed, evaluated and controlled efficiently at the source where they occur. Risk management responsibility is vested in the individual business units.

Clear allocation of responsibilities for risk identification, analysis and assessment

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 has been laid down in several sets of rules, for example in the articles of association and bylaws of the group companies and in internal group procedures. The risk management manual of METRO AG provides information on how the risk management system works, it offers a comprehensive overview of potential risk areas and assigns the responsibility for their monitoring and handling. In order to forestall the existence of unidentified business risks, the identification of risks is controlled bottom-up across all management levels group-wide. Business risks are assessed with respect to their scope and effect for a planning horizon of three years under the early warning system. In doing so, the net principle is applied which describes the so-called residual risk that remains after implementation of planned risk containment actions.

Central role of group reporting in internal risk communications

Group reporting is the essential vehicle for internal communication of opportunities and risks. Annual risk audits, financial statements and monthly projections as well as regular contacts between the operating units and their controlling companies ensure continuous and timely exchange of information. The ongoing monitoring of risk areas is achieved with the help of specific indicators. As soon as certain threshold values are exceeded, risk reporting will alert the respective management of relevant trends. Suddenly emerging material risks are communicated immediately to the responsible decision-making bodies by means of an emergency notification system specifically installed for such situations.

Consistent risk monitoring

It is the duty of every manager to see to the implementation and effectiveness of risk management. Above and beyond this, risk management officers are in place to safeguard the operability of the risk management system as a whole. Based on a self-audit checklist, the business units are in a position to continuously update and complete their risk management system. METRO AG's group audit department checks the central and decentralized risk management for functionality, topicality, completeness, reliability and effectiveness. Group audit reports to the Chief Executive Officer in direct line. In addition, audits are performed at group company level by the responsible internal audit departments. In compliance with the provisions of KonTraG (Law on Control and Transparency in the Corporate World), external accounts auditors submit the risk management system to periodic assessment. The Management Board and the Supervisory Board are informed about the result of this assessment.

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

Business risks. The industry is characterized by keen competition in wholesaling and retailing as well as by competing merchandizing concepts, service offers and service qualities. Risks are also inherent in the typical dependence of the retailing industry on the readiness of consumers to spend money. Although increasing internationalization of the METRO Group's business reduces its dependence on the cyclical and legal overall conditions prevailing in Germany, the group is at the same time confronted with additional economic, legal and political risks in other countries, not least the emerging markets. Such risks are identified, for example, by means of comprehensive feasibility studies involving a detailed analysis of the local business environment and opportunities, and can thus be constrained by taking the necessary action. Examples of material risks of a legal nature are the implementation of the current packaging directive prescribing mandatory deposits for disposable containers, the EU directive on electrical/electronic equipment waste management and the EU chemicals management directive.

Changed consumer behavior calls for the continuous adjustment of merchandizing concepts. METRO Group is supporting this process by regularly evaluating internal information and selected external sources in order to recognize any changes in the consumers' demands and behavior early on. Internal group market research uses customary quantitative methods such as time series analyses (e.g. observation of products on the market over a certain period of time) or trend extrapolations (market trend forecasts) based on analyses of internal sales figures of the group or market research results. Consistent benchmarking with competitors provides an idea input for the qualitative improvement of merchandizing concepts. The practicability and acceptance of concepts are first verified in test markets and then promptly implemented area-wide by means of a lean project organization. Continuous fund allocation allows the sales divisions to keep their location portfolio competitive.

Since the bricks-and-mortar trade features great diversity of articles and a high merchandize turnover rate, this implies organizational, IT and logistic risks. The international focus of METRO Group which calls for the adjustment of merchandize assortments to national and local habits even heightens these risks. Any unbalances in the value chain, such as in connection with the supply of goods, involve the risk of business interruption. Risks of this kind are countered by internal group backup systems, the parallel commissioning of several service providers and specific contingency plans. In the same way, operational risks are curbed by an efficient split of work and mutual monitoring.

Supplier risks. METRO Group as a trading and retailing company depends on external providers for its supply of goods and services. Careful monitoring of the market conditions, a broad base of suppliers along with the company's own controls and purchasing policy help constrain the imponderables inherent in the acquisition of goods and services. An example of such actions is the Food Safety Initiative which ensures a high food safety standard on all production, processing and distribution levels.

Personnel risks. For implementing its strategic goals, METRO Group depends on highly qualified experts and executives. It is an ongoing challenge to recruit and retain such valuable human resources for the group in the face of intense competition. In expanding markets in particular there is much demand for qualified personnel and this calls for appropriate schemes for inhouse staff qualification. The further education and staff training activities promoted on all levels of the group are designed to safeguard the personnel's indispensable professional competence.
HR management along with training and staff development schemes help employees on all hierarchical levels of the company to develop the requisite entrepreneurial skills. This is enhanced by the incorporation of variable pay components linked with business performance on at least three management levels. The direct participation on the corporate success (EVA) increases the employees' identification with METRO Group and enhances their awareness of opportunities and risks in all entrepreneurial decisions.

Contingencies and liabilities are described in the Notes, captions 14 and 15.

Financial risks. Financial risks, i.e. interest risk, currency risk and creditworthiness risk, are described in the next chapter, entitled "Financial management".

Summary of the risk situation at METRO AG and the METRO Group

All in all, the assessment of the current risk situation has shown that there are no risks for the company as a going concern and that presently no risks are recognizable which could endanger its existence in future.

Financial management

The financial division of METRO AG is responsible for controlling the METRO Group's financial management activities. The central organization of financial management guarantees a uniform corporate identity of the METRO Group in the financial markets along with the optimum utilization of synergies derived from pooling the group companies' financial volumes and a risk management system that takes all these factors into account.

Organization

The organization of METRO AG's financial division follows the concept of the "Minimum Requirements for the Conduct of Trade Transactions" (MaH) typically applied by banks. In compliance with those requirements, group-internal treasury procedures define the goals, principles, responsibilities and competencies for the financial division of METRO AG whose observation is mandatory. Special account is taken of the tenet of a functional division between financial management and financial controlling. Thus, METRO AG's financial division abides by the requirements of the Law on Control and Transparency in the Corporate World (KonTraG) in every respect.

Communications with the financial markets and rating

Candid communication with the market players and rating agencies is a crucial success factor for tapping the capital market in order to meet the group's financial requirements. The purpose of rating, for example, is to communicate the METRO Group's credit standing 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)

Group financing

By centralizing the financial management function, METRO AG has taken the responsibility for ensuring within the scope of group financing that the financial requirements of the METRO Group companies in connection with their operating and investment activities are fully met at all times in a cost-effective manner. The necessary information is provided by a rolling financial

budget for the group covering all relevant companies which is updated quarterly and subjected to a monthly variance analysis. This financial budget with a planning horizon of 12 months is complemented by short-term, weekly rolling 14-day liquidity planning.
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. METRO Group has access to an appropriate liquidity reserve at all times so the group will not have its financial flexibility impaired even in case of the occurrence of unexpected situations which might have a negative financial impact.
The financial division of METRO AG is also responsible for arranging and providing loans and for offering financial assistance to group companies in the form of guarantees and letters of comfort.

Cash pooling and intra-group clearing

Intra-group cash pooling reduces the level of borrowed capital and optimizes METRO Group's investments on the money and capital markets which has a positive effect 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 division to advise the group companies in all relevant financial matters and provide support. This ranges from suggesting concepts for financing capital expenditure projects through to supporting the responsible financial officers of the individual group companies in their negotiations with local banks and financial service providers. This ensures, on the one hand, that the financial resources of METRO Group are optimally employed in Germany and abroad and, on the other, that all group companies benefit from the strength and credit standing of the METRO Group in negotiating their financing terms.

Financial risks

METRO AG's financial division controls the financial risks of METRO Group. These include, in particular:

- interest risk,
- currency risk and
- creditworthiness risk.

Interest Risk. Interest risks are prompted by market-induced fluctuations of interest rates. Hence, on the one hand, they influence the level of interest payable within METRO Group. On the other, they affect the value of financial instruments.

Currency Risk. Merchandize for the individual countries is mainly purchased locally and in the respective domestic currency. Sales are also paid almost exclusively in the respective local currency. The currency risk share in this merchandize cycle is therefore extremely low. However, the international acquisition of merchandize is susceptible to currency risks. Such risks may also occur as a result of contractual agreements based on currencies other than the respective local currency or coupled to the quotation of a third currency.

Interest and currency risks are substantially reduced and constrained by the principles laid down in METRO Group's internal treasury procedures. These include for example a regulation that is applicable throughout the group according to which every hedging operation must comply with previously defined limits and may by no means lead to an increase in risk exposure. Proceeding in this way, METRO Group deliberately takes into the bargain that opportunities to take advantage of current or anticipated interest and exchange rate trends for result optimization are strictly curbed.
Moreover, only marketable derivative financial instruments shall be used for hedging whose correct actuarial and accounting mapping and valuation in the treasury systems is safeguarded. As a rule, these instruments are shown in the balance sheet together with their underlying transactions (hedge accounting).

Creditworthiness risk. Creditworthiness risks may arise in connection with money deposits and with derivative financial instruments, for example as a result of insolvency of business partners.
Within the scope of credit standing management, all business partners of METRO Group must comply with certain minimum requirements of creditworthiness, and, additionally individual maximum exposure limits have been defined. The basis of credit standing management is a system of limits laid down in the treasury procedures mainly dependent on the rating attributed by international rating agencies and internal credit assessments. To every partner an individual limit is allocated whose compliance is constantly monitored by the treasury systems.

Treasury committee. A treasury committee meeting held regularly, of which the CFO of METRO AG is a member, is also responsible for monitoring all relevant financial risks in consideration of current market trends and the efficiency of the financial risk strategies derived.

Important post-year-end developments

The following significant events took place until 25 February 2004:
In line with the divestment of the Divaco group, Metro Kaufhaus und Fachmarkt Holding GmbH as a subsidiary of METRO AG acquired 100 percent of the voting rights and the capital in the textile retailing chain Adler Modemärkte GmbH (Adler) at a purchase price of € 60 million from the Divaco group. The stake in Adler includes liabilities to banks of Amoda GmbH as the sole shareholder of Adler in the amount of € 280 million. The purchase transaction took effect at 1 January 2004. Metro Kaufhaus und Fachmarkt Holding GmbH plans to resell Adler.
In January and February 2004 real estate corresponding to a total counter value of € 192.7 million from the real property of the AIB group was successfully placed on the market.

Outlook

In 2004, METRO Group will consistently continue on the path of profitability-oriented growth and expansion in domestic and international markets. The future-oriented corporate strategy and highly efficient merchandizing concepts of METRO Group provide a sound basis for a successful 2004 fiscal year.
The continuous upward trend of METRO Group in recent years was first and foremost driven by targeted internationalization. Metro Cash & Carry as well as Media Markt and Saturn, the sales divisions recording outstanding sales and earnings will continue to expand in the current fiscal year, setting course for international markets. Metro Cash & Carry will open numerous new stores, primarily in Eastern Europe and Asia. Moreover, plans for 2004 envision the market entry of Real in Russia, of Praktiker in Bulgaria and of Media Markt in Portugal.
Promoting the image of the sales divisions as distinctive retail brands will remain a first priority also in the current fiscal year. With an eye on this target, the business policy of the company will continue to cater also in future to the needs and wishes of the customers. The sales divisions will highlight their price and assortment competency even more rigorously, and, in addition, exploit the economically beneficial vehicles of customer retention offered by attractive customer loyalty programs even more intensely. Above and beyond this, the further optimization of business processes in the entire METRO Group will be pursued consistently in order to heighten its competitive edge through cost leadership.
In the current fiscal year, METRO Group will place particular emphasis on the further development of technological innovations in retailing. The gradual introduction of RFID technology, successfully tested in the Future Store in practical application, will trigger an efficiency boost in the logistics of METRO Group.

For 2004, the group is targeting profitable growth, further improvement of the earnings per share as well as a continued increment in the economic value added. For the planned initiatives, especially the continuation of its selective expansion, the company has budgeted capital investments on the previous year's level of around € 1.8 billion.

Report pursuant to § 312 AktG (German Stock Corporation Act)

METRO AG is controlled through Metro Vermögensverwaltung GmbH & Co. KG and further companies held by major stockholders Beisheim, Haniel and Schmidt-Ruthenbeck. Accordingly, the Management Board of METRO AG has prepared a dependency report on group affiliations pursuant to § 312 AktG (German Stock Corporation Act).

This report for the year 2003 received the unqualified auditor's opinion of Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, and has been submitted to the Supervisory Board. At the end of the report, the Management Board made the following statement:

"The Management Board of METRO AG declares that in every legal transaction the company received an equitable quid pro quo under the circumstances known to the Management Board at the time when these businesses were transacted. Any other actions requiring reporting were neither taken nor omitted".

Balance sheet
as at 31 December 2003

ASSETS

€ million	Note No.	As at 31 Dec 2003	As at 31 Dec 2002
Fixed assets	2		
Intangible assets	3	7.552	2.211
Tangible assets	4	7.692	6.940
Financial assets	5	7,027.243	6,177.189
		7,042.487	6,186.340
Current assets			
Receivables and sundry assets	6	4,147.779	3,677.607
Checks, cash on hand and in bank	7	474.021	362.849
		4,621.800	4,040.456
Prepaid expenses and deferred charges	8	6.868	7.094
		11,671.155	10,233.890

EQUITY & LIABILITIES

€ million	Note No.	As at 31 Dec 2003	As at 31 Dec 2003
Stockholders' equity			
Capital stock	9	835.419	835.419
Additional paid-in capital	10	2,557.964	2,557.964
Reserves retained from earnings	23	683.977	583.977
Balance sheet profit	24	345.261	341.871
		4,422.621	4,319.231
Accruals	11	635.780	653.555
Liabilities	12	6,600.925	5,260.370
Deferred income	13	11.829	734
		11,671.155	10,233.890

Income Statement
for the fiscal year ended on 31 December 2003

€ million	Note No.	2003	2002
Income from investments	17	982.329	1,168.479
Net financial result	18	(109.859)	(94.182)
Other operating income	19	142.246	130.262
Personnel expenses	20	(40.366)	(125.642)
Amortization on intangible assets and depreciation of tangible assets		(3.126)	(2.165)
Other operating expenses	21	(524.737)	(725.924)
Result from ordinary operations		446.487	350.828
Income taxes	22	(8.553)	(6.794)
Other taxes		(948)	(2.163)
Net income		436.986	341.871
Profit carried forward from previous year	24	8.275	–
Transfer to sundry reserves	23	(100.000)	–
Balance sheet profit	24	345.261	341.871

Notes

1. Disclosure, accounting and valuation principles

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

Intangible assets are stated at acquisition cost, tangible assets at purchase or production cost, both less accumulated scheduled amortization or depreciation, less unscheduled write-downs and less accelerated cost recovery (ACR) charges as applicable or required. Additions to personal property are generally depreciated by using the tax convenience. Scheduled depreciation is made on a straight-line basis. Unscheduled write-downs are used whenever any impairment in the value of the asset is deemed to be of a long-term nature. So-called low-value assets are fully written off in the year of their addition.

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

Long-term loans are capitalized at par, no or low-interest loans being shown at their discounted present values.

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

Receivables and payables in foreign currency are hedged as a matter or principle. Hence, their valuation is based on the hedged exchange rate.

Short-term securities are valued at the lower of cost, market or current value.

Accruals provide for foreseeable or apprehensible risks, uncertain commitments and impending losses, as deemed appropriate in accordance with sound business practice and judgment. The actuarial present value is used to provide for accrued pension obligations, on the basis of a yearly interest rate of 6 percent, all pursuant to § 6a EStG [German Income Tax Act]. METRO AG provides for any accrued deficient cover of employee benevolent funds. Non-current accruals, such as for deficient rental cover or employment anniversary allowance commitments, are disclosed at par, i.e. they are not discounted.

Liabilities are generally stated at the amount repayable.

Financial derivatives of interest rate and currency management are used to reduce risks, their valuation being separate and item by item as well as predicted on the imparity principle (which requires unrealized losses to be accrued and prohibits unrealized profits to be recognized). In accordance with the true-and-fair-view standards of § 264 Section 2, 1 HGB and in line with international practice, derivative financial transactions that constitute economic units and whose hedging purposes are adequately documented to be objectively interrelated are valued on an offset basis, i.e. within one position valued as a unit, losses from unsettled contracts are offset against, up to the amount of, unrealized gains. Losses in excess are accrued, gains in excess remaining unrecognized.

The formation of separate valuation units is premised on factors such as individual risk compensation of offsetting deals, interest rate and currency identity, financial-standing identity, and substantially matching maturities. Non-listed financial instruments are either marked to the market, or valued by using generally accepted option pricing models or, for non-option-type derivatives, according to the present value method.

Currency-related financial transactions are, depending on their position, valued at their bid or offer price.

As a matter of principle, specific accruals provide for contingent losses from derivative financial instruments. Unrealized gains remain unreported in balance sheet terms. For interest rate futures valued separately, net settlement payments made to compensate for reduced values have generally been booked against expenses.

Notes to the balance sheet

2. Fixed assets

€ million	Cost of acquisition: As at 1 Jan. 2003	Additions	Transfers	Disposals	A/D/W (accum-lulated)	As at 31 Dec 2003	A/D/W in fiscal year
Intangible assets							
Rights and licences	1.943	893	534	538	893	1.939	657
Advance payments made	1.042	5.105	(534)	–	–	5.613	–
	2.985	5.998	–	538	893	7.552	657
Tangible assets							
Leasehold improvements	3.640	220	–	–	1.353	2.507	467
Sundry plant, business and office equipment	6.671	3.257	–	1.886	2.857	5.185	2.002
	10.311	3.477	–	1.886	4.210	7.692	2.469
Financial assets							
Shares in group companies	5,784.173	1,071.551	406.938	109.080	414.217	6,739.365	26.004
Loans to group companies	771.994	–	(255.646)	309.762	–	206.586	–
Investments	26.978	–	(155)	200	3.221	23.402	–
Other long-term loans	56.062	2.002	–	174	–	57.890	–
	6,639.207	1,073.553	151.137	419.216	417.438	7,027.243	26.004
Total	6,652.503	1,083.028	151.137	421.640	422.541	7,042.487	29.130

3. Intangible assets

Advance payments made include software systems in the process of development and licenses.

4. Tangible assets

The additions to tangible assets relate to motor vehicles, leasehold improvements and an exhibition stand for the Future Store Initiative. Disposals essentially refer to the expiry of the service life of the items concerned.

5. Financial assets

In the year under review, additions to shares in group companies amounting to € 1,071.551 million were posted. These essentially refer to capital increases in the amount to € 945.119 million at MGS METRO Group Services Holding GmbH. € 49.397 million related to MGB METRO Group Buying GmbH and € 39.671 million to Metro Cash & Carry International GmbH. In line with the company's internationalization, capital increases took place at Real Hipermarketler Zinciri A.S./Turkey, at Real Hypermarket OOO/Russia and at Praktiker Yapi Marketleri A.S./Turkey.

Valuation at the lower current value for Real Sp.z o.o./Poland, Real Hipermarketler Zinciri A.S./Turkey and Praktiker Yapi Marketleri A.S./Turkey led to write-downs totaling € 26.004 million. A write-up of € 5.205 million was effected on the previous year's downward valuation adjustment at Metro SB-Handels AG.

Transfers of items relating to shares in group companies in the amount of € 406.938 million contain € 255.646 million due to a loan waiver for the purpose of capital increase at Praktiker Bau- und Heimwerkermärkte AG and € 151.121 million as a result of the transfer of the Asset Immobilienbeteiligungen GmbH & Co. KG item from current assets.

Disposals of shares in group companies of € 109.080 million result, among other items, from the sale of Praktiker Yapi Marketleri A.S./Turkey to BMH Baumarkt Holding GmbH and the sale of Gemex Trading AG/Switzerland to METRO Group Settlement AG (formerly Metro International AG/Switzerland).

Retirements of € 309.762 from loans to group companies result from the scheduled redemption of the loans to Real SB-Warenhaus GmbH and to Allkauf SB-Warenhaus GmbH & Co. KG.

6. Receivables and sundry assets

€ million	31 Dec 2003	31 Dec 2002
Due from group companies	4,016.705	2,886.238
Receivables under investor/investee relations	4.416	5.991
Sundry assets	126.658	785.378
of which with a remaining term of more than one year	[5.238]	[11.771]
	4,147.779	3,677.607

Compared to the previous year, the receivables due from Asset Immobilienbeteiligungen GmbH & Co. KG (AIB) were transferred from sundry assets to receivables due from group companies. The increase in receivables due from group companies is essentially attributable to the granting of short-term loans to companies of the AIB group.

Moreover, the decrease in sundry assets is due to lower tax receivables and a waiver of receivables from the Divaco group.

7. Checks, cash on hand and in bank

€ million	31 Dec 2003	31 Dec 2002
Checks, cash on hand	3	4
Cash in bank	474.018	362.845
	474.021	362.849

The bank balances result from cash pool earnings at the end of the year.

8. Prepaid expenses and deferred charges

This caption includes € 5.020 million of loan discount being the difference between the redemption amount and the loan face value of a € 850 million bond under the debt issuance program.

9. Capital stock

In terms of its amount and composition, i.e. ratio of common to preferred stock, subscribed capital has not changed versus 31 December 2002 and totaled € 835,419,052.

On 4 July 2000, the annual general meeting and the special meeting of preferred stockholders of METRO AG resolved, inter alia, that all of the existing 23,001,346 non-voting 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. As a consequence, the amount and structure of the subscribed capital is as follows:

Class: no-par bearer shares, accounting par value € 2.56		31 Dec 2003	31 Dec 2002
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 1998, METRO AG's wholly owned subsidiary Metro International Finance B.V., Amsterdam, issued zero bearer bonds with the right of conversion into bearer preferred stocks in METRO AG totaling € 766,937,822 guaranteed by METRO AG ("convertible DM bond") based on the respective resolution of the annual general meeting of METRO AG on 9 July 1997.

The bond terms provided for the right of bond creditors to premature redemption of the bond at 9 July 2003 at a compounded par value. This right was exercised to a large extent. As a result, Metro International Finance B.V. made use of its right under the bond terms to give due notice on 9 July 2003 to redeem the bond as from 9 August 2003. The bond was fully redeemed on 11 August 2003 and its listing terminated. In 2000, the contingent capital decreased by € 86.92 due to the exercise of conversion rights. However, the increase in capital stock of the company based on contingent capital I made available on 9 July 1997 for the convertible DM bond did not take place.

On 22 May 2003, a new contingent increase in capital stock by € 127,825,000 was resolved on (contingent capital I). This contingent capital increase is connected with the authorization given to the Management Board to issue, with the consent of the Supervisory Board, bonds with warrants and/or convertible bonds of up to a total of € 1,000,000,000 and to grant the bond holders option or conversion rights for up to 50,000,000 new shares of common stock of the company by 22 May 2008. So far, no bonds with warrants and/or convertible bonds were issued on the basis of the mentioned authorization of the Management Board.

On 6 July 1999, the annual general meeting resolved on 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).

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

Under METRO AG's stock option plan, stock options were granted on 3 September 1999, on 19 August 2000, on 23 July 2001, on 19 July 2002 and on 23 June 2003 of which a total of 1,957,863 were effective as at 31 December 2003. Upon satisfaction of the exercise terms and conditions, these stock options may entail the issuance of up to 1,957,863 shares of common stock, corresponding to 0.60 percent of the capital stock.

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 stock 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 individual tranches are exercised.

Authorized capital I

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

A subscription right is to be granted to existing stockholders. 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 fractions of shares from rounding.

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

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 contribution in one or several tranches for a maximum total of € 60,000,000 by 23 May 2007 with the prior approval of the Supervisory Board (authorized capital II). The Management Board is also authorized to decide on the exclusion of the subscription right and to determine all further details of the capital increases 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 contribution in one or several tranches for a maximum total of € 100,000,000 with the prior approval of the Supervisory Board by 6 July 2004 (authorized capital III), granting existing stockholders 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 fractions of shares from rounding.

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

The Management Board has been further authorized to exclude the common stockholders' right to subscribe to preferred stock and the preferred stockholders' right to subscribe to common stock, with the prior approval of the Supervisory Board, provided that the ratio of common and preferred stocks issued in the capital increase corresponds to the ratio of such shares in the capital stock at the date at which the capital increase was resolved, and further provided that different issue prices of the new common and preferred stocks are fixed in accordance with the market price ratio of the stocks 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 contribution in one or several tranches for a maximum total of € 125,000,000 with the prior approval of the Supervisory Board 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.

Acquisition of treasury stock

Pursuant to § 71 section 1, 8 AktG, the annual general meeting of 22 May 2003 authorized the company to acquire treasury stock up to an equivalent of ten percent of the capital stock (cf. item 7 on the agenda of the annual general meeting of 22 May 2003) on or before 22 November 2004.

Neither the company nor any company controlled or majority-owned by METRO AG nor any other company controlled or majority-owned by METRO AG acting on behalf of METRO AG have exercised this authorization (cf. § 160 Section 1, 2 AKtG).

Status of judicial review proceedings

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

In a judgment handed down on 20 November 2001, the Oberlandesgericht (higher regional court) of Düsseldorf dismissed the immediate appeal of the applicants against the decision of the Landgericht (regional court) of Cologne dating 16 February 2000 holding that the petitions of the former outside Kaufhof stockholders for additional cash compensation were unjustified. The Kaufhof judicial review has thus been completed with legal effect. Thus, the first final court judgment has now been handed down confirming that the share exchange ratios laid down in the merger agreements were correct.

The other two judicial review proceedings are still pending before the regional courts of Saarbrücken and Frankfurt/Main.

Status of conversion of preferred stock into common stock

The resolution by the annual general meeting of METRO AG on 4 July 2000 concerning the conversion of preferred into common stock (cf. caption 9 above "Capital stock") was the object of actions for avoidance which were rejected by the regional court of Cologne in the first instance in March 2001 and by the higher regional court of Cologne in the second instance, in September 2001. On 3 November 2003, the Federal Supreme Court took the non-appealable decision in favor of the company not to accept the appeal from the judgment passed by the higher regional court of Cologne. The actions for avoidance have thus been ended and the formerly challenged common stock with the security code no. 725 752 is now kept as normal common stock of METRO AG under security code no. 725 750.

Resolutions of the annual general meeting on 22 May 2003

Action for avoidance and nullity was lodged before the regional court of Düsseldorf, commercial division (file no. 41 O 122/03) against the following resolutions adopted by the annual general meeting of METRO AG on 22 May 2003:

1. Resolution under agenda item 3 by which the annual general meeting approved the acts of the Management Board and
2. Resolution under agenda item 5 by which the annual general meeting elected Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, as auditor of the company for the 2003 fiscal year.

A date for the hearing has not been determined yet.

10. Additional paid-in capital

At 31 December 2003, the additional paid-in capital was unchanged at € 2,557.964 million.

11. Accruals

€ million	31 Dec 2003	31 Dec 2002
Pension accruals	187.498	216.457
Tax accruals	138.732	134.257
Other accruals	309.550	302.841
	635.780	653.555

Pension accruals of € 126.218 million provide for direct pension commitments while accruals of € 60.754 million (€ 88.584 million in the previous year) have been set aside to cover shortfalls of underfunded benevolent funds; this also includes € 46.036 million in respect of the valuation of the fund’s assets at the closing rate effective at the balance sheet date. Allocations to benevolent plans totaled € 20.342 million.

Tax accruals adequately provide for tax audit risks.

Other accruals chiefly comprise the following:

€ million	31 Dec 2003	31 Dec 2002
Risks from rental contracts and realty sold	162.370	160.799
Risks from investees	50.569	76.324
Risks from financial transactions	21.802	1.159
Commitments towards employees	5.599	7.580
Litigation risks	4.317	4.343
Other	64.893	52.636
	309.550	302.841

Accruals for risks from leases and realty sold cover rental and conveyancing risks.

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

Accruals for risks from financial transactions principally relate to swap agreements taken over against cash payment.

Other accruals essentially contain provisions for interest payments on taxes due after tax audits and outstanding invoices.

12. Liabilities

€ million	31 Dec 2003	31 Dec 2002
Bonds	1,797.303	–
Due to banks	849.758	630.698
Trade payables	3.636	1.923
Due to group companies	3,647.851	4,445.541
Sundry liabilities	302.377	182.208
of which taxes	[80.772]	[120.420]
of which social security	[286]	[252]
	6,600.925	5,260.370

Under the existing debt issuance programme, a bond at a par value of € 850 million with a maturity of five years was issued in the fiscal year under review as well as a bond at a par value of € 600 million maturing within three years. The two bonds were increased by € 150 million each in the course of the year under review.

The decrease of liabilities to group companies is essentially attributable to the premature redemption of the convertible bond at Metro International Finance B.V.

The increase in sundry liabilities mainly results from short-term deposit with Kaufhof Unterstützungsverein e.V. of excessive cash at METRO AG as at the balance sheet closing date.

Breakdown of maturities/due dates of liabilities as at 31 December 2003:

€ million	31 Dec 2003 total	within 1 year	over 5 years
Bonds	1,797.303	47.303	–
Due to banks	849.758	849.758	–
Trade payables	3.636	3.636	–
Due to group companies	3,647.851	3,647.851	–
Sundry liabilities	302.377	263.444	27
	6,600.925	4,811.992	27

There are no liabilities secured by rights of lieu or similar rights.

13. Deferred income

The deferred income includes premiums from bonds and one-off payments from the conclusion of interest rate swaps.

14. Contingent liabilities

€ million	31 Dec 2003	31 Dec 2002
Guarantee and warranty contracts	4,205.431	4,541.324
of which in favor of group companies	[3,289.065]	[3,062.133]
Sureties and guarantees	146.957	158.483
of which in favor of group companies	[146.925]	[106.276]
	4,352.388	4,699.807

15. Other financial obligations

€ million	31 Dec 2003	31 Dec 2002
Commitments from share tender rights	156.455	103.950
Obligations from financial derivatives	94.688	91.818
of which to group companies	[35.546]	[24.021]
Obligations from loans granted	91.939	96.375
Obligations from rentals and leases (per annum)	50.761	53.576
of which in favor of group companies	[7.848]	[9.946]
of which to group companies	[1.851]	[1.851]
	393.843	345.719

16. Derivative financial instruments

At the balance sheet closing date the following derivative financial instruments were being used to minimize risks:

€ million	Nominal volume	Market value
Interest-rate transactions		
OTC products:		
Interest rate swaps	2,545.285	(52.176)
	2,545.285	(52.176)
Currency transactions		
OTC products:		
Futures	222.628	433
Interest-rate/currency swaps	1,261.168	(1.780)
	1,483.796	(1.347)
Total	4,029.081	(53.523)

The nominal volumes of the currency futures transactions are calculated from the net positions based on the underlying purchase/selling prices and those of the interest swaps, interest-rate/currency swaps are reported in gross figures. Insomuch as swap transactions, instead of an annulment agreement, are concluded on micro hedge level based on contrary swap transactions with the same external partners or with external partners of comparable credit standing, the balance of the nominal volume of such transactions is shown after setoff. The market value is the marked-to-market balance of unrealized gains and losses netted within any one class of financial derivatives. No direct relationship exists with the accruals for financial transaction risks (Note 11) as derivatives in valuation units with primary financial transactions do not require the creation of reserves.

For details of the accounting and valuation procedures used for financial derivatives, see Note 1.

Notes to the income statement

17. Net investment income

€ million	2003	2002
Income from P+L transfer agreements	969.742	1,080.760
Income from investments	78.914	176.911
of which from group companies	[15.987]	[83.804]
Expenses from loss absorption	(40.323)	(10.076)
Write-down of financial assets	(26.004)	(79.116)
	982.329	1,168.479

Expenses arising from loss absorption relate primarily to MGS METRO Group Services Holding GmbH and MRE METRO Group Real Estate Management GmbH.
Extraordinary write-downs on financial assets were effected concerning the shares in the following group companies: Real Hipermarketler Zinciri A.S./Turkey, Praktiker Yapi Marketleri A.S./Turkey and Real Sp.z o.o./Poland.

18. Financial result

€ million	2003	2002
Other interest and related income	143.222	89.292
of which from group companies	[70.021]	[55.748]
Income from long-term loans	28.260	42.240
of which from group companies	[25.007]	[38.341]
Other financial income	5.946	11.610
of which from group companies	[64]	[59]
Interest and related expenses	(270.747)	(232.613)
of which to group companies	[91.874]	[(106.546)]
Other financial expenses	(16.540)	(4.711)
	(109.859)	(94.182)

The items "Other financial income" and "Other financial expenses" chiefly relate to the results of interest rate hedging with derivatives including gains and losses on foreign currency transactions and commissions.

19. Other operating income

€ million	2003	2002
Rents (realty and personalty)	49.980	57.651
Income from the write-back of accruals	41.589	3.652
Administrative services for subsidiaries	28.572	19.022
Book gains from the disposal of assets	10.718	698
Write-ups on financial assets	5.205	–
Income from capital redemption	–	46.486
Sundry income	6.182	2.753
	142.246	130.262

Rents primarily reflect transitory realty rents.

The administrative services for subsidiaries relate to charged-on services rendered by METRO AG for the cross-divisional service companies and sales divisions of the METRO Group.

Book gains from the disposal of assets essentially refer to income from the disposal of financial assets within the METRO Group.

A write-up was made at Metro SB-Handels AG under the obligation to reinstate original values.

20. Personnel expenses

€ million	2003	2002
Wages and salaries	32.075	33.790
Social security contributions, expenses for pensions and related benefits	8.291	91.852
of which for pensions	[5.601]	[89.552]
	40.366	125.642

The stock option plan (SOP) launched in 1999 as a long-term incentive program was continued in 2003. Seventeen senior executives (including the members of the Management Board) were granted a total of 238,443 stock options or options in the form of stock bonuses. METRO AG hedged the options from 1999 through 2002 by acquiring stock options. The expenses for these transactions will be prorated on a straight-line basis over the life of the option plan. In fiscal 2003, they amounted to € 1.351 million. For the options from 2003, a provision was set up corresponding to the market value of the rights granted. This market value was derived from the cost of a hedging transaction to cover this period and was calculated at € 440,000. The conditions for exercising the options granted in 1999 were not met so that these options have expired.

Wages and salaries include severance and year-end payments totaling € 7.727 million.

The decrease in social security contributions and expenses for pensions and related benefits includes a gain of € 24.776 million from the reinstatement of the original value of the fund assets of a benevolent scheme as at the closing date.

21. Other operating expenses

€ million	2003	2002
Waiver of receivables from the Divaco group	250.000	181.700
Leasing and conveyancing risks	65.041	102.610
Realty rents	53.249	60.959
General administrative overheads	33.616	21.421
Waiver of receivables from Extra Verbrauchermärkte Deutschland GmbH & Co. KG, restructuring expenses in the previous year write-down on receivables	33.550	35.000
Legal and other consulting fees	28.678	17.151
Service fees charged by subsidiaries to METRO AG	23.514	14.834
Allocation of positive synergy effects to sales divisions	11.681	13.051
Allowance for loans	7.816	42.059
Provision for accrued inter-company lease obligations	2.927	3.153
Losses from the disposal of fixed assets	12	41
Purchase price reduction Extra Verbrauchermärkte GmbH	–	185.653
Roll-out costs customer loyalty systems	–	28.615
Sundry	14.653	19.677
	524.737	725.924

On 30 December 2003, METRO AG signed a contract for the sale of the shares in the Divaco companies Divacom Beteiligungs GmbH and Divafon Beteiligungsgesellschaft mbH. The sale was made by way of a management buyout with effect from 31 December 2003. The expenses incurred in this context are included in this caption.

22. Income taxes

This caption shows tax expenses netted against tax refunds.

23. Allocation of net income to sundry reserves

Pursuant to § 58 Section 2 AktG, the Supervisory Board and the Management Board have allocated an amount of € 100.000 million to sundry reserves from the net income at year end of € 436.986 million.

24. Appropriation of net earnings

The Supervisory Board and the Management Board of METRO AG propose that the reported balance sheet profit of € 345.261 million be used to pay a dividend of € 333.596 million and that the remaining € 11.665 million be carried forward to new account.

The balance sheet profit of € 345.261 million includes profit of € 8.275 million carried forward from the previous year.

	Number of shares	Cash distribution in €
Distribution of a dividend of € 1.020 per common stock	324,109,563	330,591,754
Distribution of a dividend of € 1.122 per preferred stock	2,677,966	3,004,678
	326,787,529	333,596,432

In accordance with the company's articles of association, holders of preferred stock are entitled to receive an extra dividend of 10 percent if the common stock dividend equals or exceeds € 1.02.

Additional disclosures

25. Employees

METRO AG's workforce averaged 258 in the 2003 fiscal year, calculated from the four quarterly mean headcounts; 2 being wage earners and 256 salaried employees. Parttime and temporary employees have been converted to full-time equivalents (FTE).

26. Stock ownership

The statement of stock ownership of METRO AG pursuant to § 285 HGB is deposited with the commercial register of the Amtsgericht (local court) of Düsseldorf (HRB 39473). It can also be obtained directly from METRO AG.

27. Group affiliation

The annual financial statements of METRO AG, Düsseldorf are included in the consolidated financial statements of METRO AG which were prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with the requirements of § 292 a HGB.

28. Disclosures under § 160 section 1 AktG

On 19 April 2002, METRO AG published, in accordance with § 41 sect. 3 WpHG (Securities Trading Act) a statement pursuant to § 41 Sect. 2 WpHG the contents of which are disclosed as follows:

The stockholders and reporting parties under the terms of § 41 sect. 2, 1 WpHG stated below communicated on 2 April 2002 that as of 1 April 2002 they were holding voting rights in METRO AG (including the voting shares attributable to them pursuant to § 22 WpHG) as follows:

	Voting stock in % (rounded)	thereof attributable acc. to § 22 WpHG	% (rounded)
1. Metro Vermögensverwaltung GmbH & Co. KG, Schlüterstraße 3, 40235 Düsseldorf	55.70	Sect. 1, 1: Sect. 2:	0.13 16.17
2. Metro Vermögensverwaltung GmbH, Schlüterstraße 3, 40235 Düsseldorf	55.70	Sect. 2:	55.70
3. Haniel Finance B.V., Overtoom 60-62, NL-1054 HK Amsterdam	55.70	Sect. 2:	50.29
4. Beisheim Holding GmbH, Neuhofstraße 4, CH-6340 Baar	55.70	Sect. 2:	50.29
5. Suprapart AG, c/o Dr. Andreas Renggli, Baarer Str. 8, CH-6300 Zug	55.70	Sect. 2:	50.29
6. Franz Haniel & Cie. GmbH, Franz-Haniel-Platz 1, 47119 Duisburg	55.70	Sect. 2:	55.70
7. O.B. Betriebs-GmbH, Helene-Wessel-Bogen 39, 80939 München	55.70	Sect. 2:	55.70
8. BVG Beteiligungs- und Vermögensverwaltungs GmbH, Huyssenallee 44, 45128 Essen	55.70	Sect. 2:	55.70
9. Otto Beisheim Stiftung, Neuhofstraße 4, CH-6340 Baar	55.70	Sect. 2 and 3:	55.70
10. Supra Holding AG, c/o Dr. Andreas Renggli, Baarer Str. 8, CH-6300 Zug	55.70	Sect. 2 and 3:	55.70
11. OBV Vermögensverwaltung GmbH & Co. KG, Mörsenbroicher Weg 200, 40470 Düsseldorf	55.70	Sect. 2 and 3:	55.70
12. Gebr. Schmidt Verwaltungsgesellschaft mbH & Co. KG, Huyssenallee 44, 45128 Essen	55.70	Sect. 2 and 3:	55.70
13. Weka Trust, Pflugstr. 10, FL-9490 Vaduz	55.70	Sect. 2 and 3:	55.70
14. Prof. Dr. Otto Beisheim, Neuhofstraße 4, CH-6340 Baar	55.70	Sect. 2 and 3:	55.70
15. Dr. Michael Schmidt-Ruthenbeck, Gartenstraße 33, CH-8002 Zürich	55.70	Sect. 2 and 3:	55.70

In total, 55.70 percent of the voting rights are exercised by mutual agreement pursuant to § 22 sect. 2 WpHG.
Preceding individual statements are included in the above summary disclosure.

29. Supervisory Board and Management Board

Total emoluments paid to all Supervisory Board members amounted to € 1.019 million. Besides the reimbursement of cash expenses, the Supervisory Board members received a fixed fee and a success-related fee geared to the dividend. Of the total emoluments, € 59,000 referred to the fixed fee and € 960,000 to the success-related remuneration. No other emoluments or benefits were paid to the Supervisory Board members by other companies in the METRO Group.
Total emoluments paid to the Management Board in fiscal 2003 amounted to € 7.735 million. The fixed remuneration accounted for € 3.577 million thereof, and € 4.158 million referred to the variable, success-related remuneration. Economic Value Added (EVA) was the benchmark used to measure the success-related remuneration.
Additionally, the Management Board members received stock bonuses in the gross amounts of € 357,900 for Dr. Körber (chairman) as well as € 296,550 each for Messrs. Feuerstein, Mierdorf and Unger. The stock bonus will be raised subject to the conditions set forth below. The total prorated time value of the stock bonuses was € 284,000.
The prorated time value of the stock options granted in prior years amounted to € 399,000.
Whether or not the stock bonuses and option values will ever be actually paid to the Management Board members depends on the possibility to meet the requirements for payment of the stock bonuses and/or options after expiration of the strike periods (especially overcoming the exercise hurdles). The exercising prerequisites for the options granted in 1999 were not fulfilled so that the relevant rights have expired.
The details of the terms of the stock option plan have been described under caption 45 of the "Additional disclosures" in the Notes to the consolidated financial statements.
The essential prerequisites for payment of the stock bonuses are outlined below:
The stock price resulting from the arithmetic mean of the closing prices of the common stock of METRO AG in the Xetra trade of Deutsche Börse AG in Frankfurt am Main, in each case based on 20 successive stock exchange trading days, must attain the amount of € 35.09.
This stock price target must be met in a defined period, starting with the annual general meeting at which the annual accounts for the 2005 fiscal year are presented and ending at the close of the 8th week after the annual general meeting at which the annual accounts for fiscal 2006 are presented. Specific intermediate periods such as the duration of a trading prohibition resulting from the relevant insider rules of the company are excepted from this period.
The stock bonus is increased by € 442 for Dr. Körber (chairman) and by € 366 each for Messrs.

Feuerstein, Mierdorf and Unger for every cent by which the mentioned mean stock price exceeds the value of € 35.09.
All components of the remuneration must be reasonable per se and in total. The bonus may be capped by resolution of the Personnel and Nominations Committee.
Former members of the Management Boards of METRO AG and the companies merged with METRO AG and their surviving dependants received € 3.715 million; accruals of € 42.198 million for the pensions of this group have been provided for in the accounts of METRO AG.

30. Disclosure of the share ownership of Management and Supervisory Board members

As of 31 December 2003, the ownership of shares, including options and other derivatives of individual Supervisory and Management Board members neither directly nor indirectly exceeded one percent of the shares issued by the company. The total share ownership of all the Supervisory and Management Board members also amounted to less than one percent at the balance sheet date.

31. Statement of compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board of METRO AG issued their statement of compliance with the recommendations of the government commission German Corporate Governance Code in December 2003 pursuant to § 161 AktG and published it on the internet homepage of METRO AG (www.metrogroup.de).

Corporate Boards of METRO AG and their mandates

Members of the Supervisory Board

Jan von Haeften (Chairman)
until 22 May 2003
Businessman
a) Franz Haniel & Cie. GmbH (Chairman)
until 10 May 2003

Günther Hülse (Chairman)
from 22 May 2003
CEO of Franz Haniel & Cie. GmbH
a) Celesio AG (Chairman)
TAKKT AG (Chairman)
Allianz Lebensversicherungs AG
from 11 April 2003
b) Imperial Reederei GmbH
(Member of the Advisory Board)

Dr. Wulf H. Bernotat
from 22 May 2003
CEO of E.ON AG from 1 May 2003
a) Allianz AG from 29 April 2003
E.ON Energie AG (Chairman)
from 1 May 2003
RAG AG (Chairman) from 20 May 2003
Ruhrgas AG (Chairman) from 20 May 2003
b) Powergen UK plc., Coventry, (Chairman)
from 1 May 2003

Peter Brenner
until 22 May 2003
Deputy Regional Chairman of the Ver.di
Union District of Lower Saxony/Bremen
a) BauBeCon Holding AG
LBS Norddeutsche Landesbausparkasse
Berlin-Hanover

Prof. Dr. Klaus Brockhoff
from 22 May 2003
Rector of Management University
"Wissenschaftliche Hochschule für
Unternehmensführung – Otto-Beisheim-
Hochschule"
a) Steuler Industriewerke GmbH (Chairman)
b) Norddeutsche Private Equity GmbH
(Member of the Advisory Board)

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

Volker Claus
CPA and Tax Consultant
b) Gebr. Schmidt Verwaltungsgesellschaft
mbH (Member of the Advisory Board)

Dr. h.c. Hans-Dieter Cleven
until 22 May 2003
CEO of Beisheim Holding GmbH
until 31 May 2003
Vice President of the Board of Directors of Metro Holding AG until 31 May 2003
CEO of Metro Vermögensverwaltung GmbH & Co. KG until 31 May 2003
CEO of OBV Vermögensverwaltungs GmbH & Co. KG until 31 May 2003
a) Jamba AG (Chairman)
until September 2003
b) Albergo Giardino S.A. (Vice President of the Board of Directors)
Beisheim Holding Schweiz AG
(Vice President of the Board of Directors)
until 31 May 2003
Völkl Sports Holding AG (President of the Board of Directors)

Peter Cziglar
until 22 May 2003
Team Head at Real SB-Warenhaus GmbH
Currently released from duties as member of the General Works Council at Real SB-Warenhaus GmbH
a) Real Holding GmbH

Ulrich Dalibor
National Chairman of the Retail Section of the Ver.di Union
a) Metro Großhandelsgesellschaft mbH
Kaufhof Warenhaus AG
from 13 March 2003

Prof. 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 of the Board of Directors)
KGG Kreditgarantiegemeinschaft Handel in Bayern GmbH
(Chairman of the Board of Directors)

Marliese Grewenig
from 22 May 2003
Chairwoman of the General Works Council of Praktiker AG
a) Praktiker Bau- und Heimwerkermärkte AG from 13 May 2003 (Vice Chairwoman)

Hubert Haselhoff
from 22 May 2003 until 31 December 2003
Business graduate “Diplomkaufmann”
Chairman of the General Works Council of Extra Verbrauchermärkte GmbH
until 27 September 2003
a) Extra Verbrauchermärkte GmbH
(Vice Chairman) until 31 December 2003

Hanns-Jürgen Hengst
until 22 May 2003
Department Head, Kaufhof Warenhaus AG

Jürgen Hennig
from 22 May 2003
Businessman, Metro Großhandelsgesellschaft mbH

Hermann Hesse
until 22 May 2003
Vice Chairman of the General Works Council of Kaufhof Warenhaus AG
until 30 June 2003

Cilli Holzer
until 22 May 2003
Commercial Clerk, Kaufhof Warenhaus AG

Anja Kiehne-Neuberg
from 22 May 2003
Head of Section Personnel and Organization Development at Kaufhof Warenhaus AG

Werner Klockhaus
Vice Chairman of the Group Works Council of METRO AG
Vice Chairman of the General Works Council of Real SB-Warenhaus GmbH

Dr. Hermann Krämer
until 22 May 2003
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. Klaus Mangold
from 22 May 2003
Member of the Management Board of DaimlerChrysler AG until 16 December 2003
CEO of DaimlerChrysler Services AG until 16 December 2003
Executive Advisor to the Chairman of DaimlerChrysler AG for Central and Eastern Europe and Central Asia
from 16 December 2003
a) Jenoptik AG
Leipziger Messe GmbH
b) Chubb Corporation, Warren, New Jersey (Member of the Board of Directors)
Dresdner Bank Luxembourg S.A., Luxembourg (Member of the Board of Directors)
Rhodia S.A., Paris (Member of the Conseil d'Administration)
Magna International Inc., Toronto (Member of the Board of Directors)
from December 2003

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

Marianne Meister
from 22 May 2003
Chairwoman of the General Works Council of Metro Großhandelsgesellschaft mbH
a) Metro Großhandelsgesellschaft mbH (Vice Chairwoman)

Dr. rer. pol. Klaus von Menges
from 22 May 2003
Businessman and Agronomist
a) DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH
Dillinger Stahlbau GmbH (Chairman) until 30 June 2003
Dresdner Bank Lateinamerika AG until March 2004
Ferrostaal AG from 10 March 2003
ThyssenKrupp Serv AG until January 2004
b) Dresdner Bank AG (Member of the Advisory Council for the Regions Ruhr and Westphalia)
HSBC Trinkaus & Burkhardt KGaA (Member of the Board of Directors)

Dr.-Ing. e. h. Dipl.-Ing. Bernd Pischetsrieder
CEO of Volkswagen AG
a) Audi AG (Chairman)
Dresdner Bank AG
Münchener Rückversicherungs-Gesellschaft
b) Scania AB (Chairman of the Board of Directors)
SEAT S.A. (Member of the Consejo de Administración)
Tetra-Laval Group (Member of the Board of Directors)

Sylvia Raddatz
from 1 January 2004
Commercial Clerk, Extra Verbrauchermärkte Deutschland GmbH & Co. KG
a) Extra Verbrauchermärkte GmbH from 18 March 2003

Renate Rohde-Werner
from 22 May 2003
Trained Retail Saleswoman,
Kaufhof Warenhaus AG

Dr. jur. Hans-Jürgen Schinzler
CEO of Münchener Rückversicherungs-Gesellschaft until 31 December 2003
a) Deutsche Telekom AG from 20 May 2003
ERGO Versicherungsgruppe AG (Chairman) until 31 December 2003
MAN Aktiengesellschaft (Vice Chairman) until 4 June 2003
Münchener Rückversicherungs-Gesellschaft from 2 January 2004
Bayerische Hypo- und Vereinsbank AG from 3 March 2003; (Vice Chairman) from 1 January 2004
b) Aventis S.A.

Dr. Manfred Schneider
Business graduate "Diplomkaufmann"
a) Allianz AG
Bayer AG (Chairman)
DaimlerChrysler AG
Linde AG (Chairman) from 27 May 2003
RWE AG
TUI AG

Hans Peter Schreib
until 22 May 2003
Attorney at Law
Member of the Board of Deutsche Schutzvereinigung für Wertpapierbesitz e. V.
a) Gildemeister AG until 16 May 2003
K+S AG until 7 May 2003

Christian Strenger
until 22 May 2003
Member and/or Chairman of several
German and foreign corporate management
and supervisory boards
a) BASF Coatings AG until 19 March 2003
DWS Investment GmbH
Fraport AG
b) The Germany Funds Inc., New York
(Chairman)
Incepta plc., London

Hans-Peter Wolf
until 22 May 2003
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 boards of business enterprises

Committees of the Supervisory Board and their members

Presidential Committee
Jan von Haeften (Chairman) until 22 May 2003
Günther Hülse (Chairman) from 22 May 2003
Klaus Bruns (Vice Chairman)
Hermann Hesse until 22 May 2003
Werner Klockhaus from 22 May 2003
Dr. Manfred Schneider

Personnel and Nominations Committee
Jan von Haeften (Chairman) until 22 May 2003
Günther Hülse (Chairman) from 22 May 2003
Klaus Bruns (Vice Chairman)
Hermann Hesse until 22 May 2003
Werner Klockhaus from 22 May 2003
Dr. Manfred Schneider

Accounting and Audit Committee
Jan von Haeften (Chairman) until 22 May 2003
Günther Hülse (Chairman) from 22 May 2003
Klaus Bruns (Vice Chairman)
Volker Claus from 22 May 2003
Dr. h.c. Hans-Dieter Cleven until 22 May 2003
Ulrich Dalibor
Prof. Dr. Dr. h.c. Erich Greipl until 22 May 2003
Dr. Karlheinz Marth
Dr. Hans-Jürgen Schinzler from 22 May 2003

Mediation Committee pursuant to § 27 section 3 MitbestG (German law on codetermination)
Jan von Haeften (Chairman) until 22 May 2003
Günther Hülse (Chairman) from 22 May 2003
Klaus Bruns (Vice Chairman)
Dr. h.c. Hans-Dieter Cleven until 22 May 2003
Prof. Dr. Dr. h.c. Erich Greipl from 22 May 2003
Hermann Hesse until 22 May 2003
Werner Klockhaus from 22 May 2003

Members of the Management Board

Dr. Hans-Joachim Körber (CEO)
a) Divaco Beteiligungs Aktiengesellschaft until 30 September 2003
Kaufhof Warenhaus AG (Chairman)
Real Holding GmbH (Chairman)
b) Divaco AG & Co. KG until 30 September 2003
Divaco Beteiligungs AG & Co. KG until 30 September 2003
Divaco AG & Co. Handelsbeteiligungen KG until 30 September 2003
Loyalty Partner GmbH
Skandinaviska Enskilda Banken AB

Stefan Feuerstein
a) Dinea Gastronomie GmbH (Chairman) from 27 March 2003
Extra Verbrauchermärkte GmbH (Chairman)
Real Holding GmbH
b) Gemex Trading AG (President of the Board of Directors) until 31 October 2003
Metro International AG (President of the Board of Directors) from 13 January 2003
Metro SB-Handels AG (President of the Board of Directors) from 13 January 2003

Zygmunt Mierdorf (Executive Vice President Human Resources)
a) Extra Verbrauchermärkte GmbH
Praktiker Bau- und Heimwerkermärkte AG (Chairman)
Real Holding GmbH
b) Asset Immobilienbeteiligungen GmbH & Co. KG
Wagner International AG
Tertia Handelsbeteiligungs GmbH (Chairman)

Thomas Unger
a) Divaco Beteiligungs Aktiengesellschaft from 1 October 2003
Real Holding GmbH
b) Assevermag AG (President of the Board of Directors)
Divaco AG & Co. KG from 1 October 2003
Divaco Beteiligungs AG & Co. KG from 1 October 2003
Divaco AG & Co. Handelsbeteiligungen KG from 1 October 2003
Metro Capital B.V.
Metro Euro Finance B.V.
Metro Finance B.V.
METRO Group Settlement AG (President of the Board of Directors)
Metro International AG (Board of Directors)
Metro International Finance B.V.
Metro International Service AG (President of the Board of Directors) until 31 October 2003
Metro Reinsurance B.V.

Düsseldorf, 25 February 2004

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein Mierdorf Unger

Auditor's opinion

We duly audited the annual financial statements including the accounts and the management report of METRO AG for the fiscal year from 1 January 2003 to 31 December 2003. The accounting as well as the preparation of the annual financial statements and the management report in accordance with German GAAP (HGB) and any supplementary provisions contained in METRO AG's articles of association are the responsibility of the legal representatives of the company. Our task, based on the audit performed by us, is to express an opinion on the annual financial statements including the accounting and the management report.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and with due regard to the generally accepted standards on the auditing of financial statements as established by Institut der Wirtschaftsprüfer (IDW), the institute of auditors and certified public accountants in Germany. These standards require the audit to be planned and conducted in such a way that reasonable assurance is obtained on whether the annual financial statements are free of any material misstatements that might affect the presentation of the asset, finance and earnings situation of the company as portrayed by the annual financial statements and the management report prepared in line with pertinent principles of proper accounting. In determining the precise audit procedure, knowledge about the business activities and the economic and legal environment of the group as well as the expectation of potential misstatements is taken into consideration. The audit also includes an examination, on a sampling basis, of the effectiveness of the internal accounting-related controlling system as well as the evidence supporting the amounts reported and the disclosures made in the annual financial statements. Furthermore, it involves the assessment of the accounting principles used and the major assumptions made by the legal representatives as well as an appreciation of the overall presentation of the annual financial statements. We believe that our audit provides a reasonably reliable basis for our opinion.

Our audit did not result in any objections.

It is our considered opinion that the annual financial statements, drawn up in accordance with the principles of proper accounting, present a true and fair view of the group's assets, financial position as well as earnings situation. The management report provides a suitable understanding of the company's position and adequately outlines the risks of its future development.

Duisburg, 26 February 2004

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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

Report of the Supervisory Board

METRO Group successfully continued its international expansion in fiscal 2003. The company positioned itself in new countries to tap fresh potentials: Metro Cash & Carry entered the market in the Ukraine and, as the first Western retailing company, in India. Being represented in nearly all Eastern European countries, METRO Group now holds a leading position in these markets. METRO Group is already active and well-positioned in several EU accession countries. The share of international business in total group sales rose to 47.2 percent in fiscal 2003.

By contrast, the business development in Germany was hampered by an adverse macroeconomic climate, incessant debates about necessary reforms and the persistent buying resistance of consumers in response to a lack of clarity. METRO Group successfully maintained its hold in this difficult economic environment, it continued its strategy of profitable growth and won new market shares.

The Management Board of METRO AG coordinated the strategic alignment of the group with the Supervisory Board. The progress achieved in implementing this strategy was the subject of regular consultations between the Management Board and the Supervisory Board of METRO AG. The Management Board regularly, promptly and comprehensively informed the Supervisory Board of METRO AG on all business plans relevant for the corporation and the group including financial, capital expenditure, income and personnel planning, the course of business, risk situation and risk management.

Six Supervisory Board meetings of METRO AG were held in fiscal 2003. With the exception of the Supervisory Board's constituent meeting following the election of the shareholders' new Supervisory Board members at the annual general meeting held in May 2003, all meetings saw the presentation of comprehensive reports by the Management Board which were discussed in depth. All actions and business transactions requiring Supervisory Board approval, the economic situation of the company including that of the sales divisions as well as all events of particular significance were dealt with very thoroughly. Projects and undertakings of particular importance or urgency were notified to the Supervisory Board also in between the meetings. Moreover, the chairman of the Supervisory Board discussed important developments and decisions with the Chief Executive Officer outside the regular Supervisory Board meetings.

Committees

The Supervisory Board of METRO AG was supported in its activities by the committees created from its own ranks, namely the presidential committee, the personnel and nominations committee, the accounting and audit committee as well as mediation committee required pursuant to § 27 section 3 MitbestG (German Codetermination Law). The presidential committee met four times, i.e. twice jointly with the accounting and audit committee and twice with the personnel and nominations committee. There was no need for the mediation committee to meet. The Supervisory Board received regular reports on the work of the committees.

Corporate governance

The Corporate Governance Code adopted by the Supervisory Board and Management Board of METRO AG was published in June 2002. This code specifies the principles applied by the company for corporate governance and control.

In December 2003, the Supervisory Board last reviewed and deliberated on the implementation of the German Corporate Governance Code and the Corporate Governance Code of METRO AG, and verified its efficiency. There is no need to report about deviations from the principles of the Corporate Governance Code of METRO AG were not found in fiscal 2003.

In accordance with section 3.10 of the German Corporate Governance Code, the Management Board and the Supervisory Board of METRO AG report on the corporate governance of METRO Group on pages 12 to 15 of the group's annual report. The report includes an explanation of the basic principles governing the remuneration of the Management Board. In December 2003, the Management and Supervisory Boards of METRO AG issued an updated declaration of compliance with the recommendations of the Government Commission German Corporate Governance Code pursuant to § 161 AktG (German Stock Corporation Act) and made this declaration permanently available to the public on the company's web page.

Annual financial statements and consolidated financial statements

The consolidated financial statements and the group management report as well as the annual financial statements and the management report of METRO AG were audited by Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, following a resolution by the annual general meeting 2003 of METRO AG held on 22 May 2003 and the subsequent mandate by the Supervisory Board. The auditor issued an unqualified opinion for the annual financial statements and the management report of METRO AG as well as for the consolidated financial statements and the group management report. The annual financial statements of METRO AG and the consolidated financial statements of METRO Group including the corresponding management reports were submitted to the Supervisory Board members jointly with the audit reports two weeks before the annual accounts meeting of the Board.

The consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS). The financial statements presented 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 attended by the auditors. The Supervisory Board of METRO AG concurs with the audit result which does not contain any reservations. The Supervisory Board examined and approved the annual financial statements submitted by the Management Board for METRO AG as well as for the METRO Group 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 § 312 AktG (German Stock Corporation Act) the Management Board of METRO AG drafted a report on the relationships of the company to associated companies for the 2003 fiscal year and submitted it to the Supervisory Board prior to the annual accounts meeting. The auditor also audited this particular report, submitted a written report on the 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 of METRO AG raised no objections to the Management Board's declaration pursuant to § 312 AktG and to the auditor's opinion.

Appointments and resignations

In fiscal 2003, the Supervisory Board of METRO AG was newly appointed by the elections of the employee representatives on 11 March 2003 and of the shareholders' representatives at the annual general meeting held on 22 May 2003. The constituent meeting of the Supervisory Board took place on that same day after the annual general meeting.

Re-elected as Supervisory Board members were Klaus Bruns, Dipl.-Kfm. Volker Claus, Ulrich Dalibor, Prof. Dr. Dr. h.c. Erich Greipl, Werner Klockhaus, Dr. Karlheinz Marth, Dr.-Ing. e.h. Dipl.-Ing. Bernd Pischetsrieder, Dr. Hans-Jürgen Schinzler and Dr. Manfred Schneider.

Newly elected Supervisory Board members are Dr. Wulf H. Bernotat and Prof. Dr. Klaus Brockhoff, Marliese Grewenig, Hubert Haselhoff, Jürgen Hennig and Günther Hülse, Anja Kiehne-Neuberg, Dr. Klaus Mangold, Marianne Meister, Dr. rer. pol. Klaus von Menges and Renate Rohde-Werner.

Mr. Hubert Haselhoff resigned from his post on the Supervisory Board for health reasons effective 31 December 2003. The Management Board and the Supervisory Board of METRO AG thanked him for his many years of committed work for the METRO Group. Mr. Haselhoff passed away on 20 January 2004. The members of the Management and Supervisory Boards express their deepest sympathy to his bereaved family. They will always remember him with the highest regard.

His successor on the Supervisory Board of METRO AG is Mrs. Sylvia Raddatz.

The Supervisory Board would like to thank the Management Board, the other executives as well as all employees and employee representatives for their work during the fiscal year under review.

Düsseldorf, March 2004

THE SUPERVISORY BOARD

Günther Hülse
Chairman

Financial schedule

Business press conference/analysts' meeting	24 March 2004
Quarterly report Q1 2004	30 April 2004
Annual general meeting	4 June 2004
Quarterly report Q2 2004	30 July 2004
Quarterly report Q3 2004	29 October 2004

Codes

Metro Stock	
Reuters codes	
Common stock	MEOG.DE
Preferred stock	MEOG_p.DE
Bloomberg codes	
Common stock	MEO GR
Preferred stock	MEO3 GR
ISIN codes	
Common stock	DE 000 725 750 3
Preferred stock	DE 000 725 753 7
Codes numbers	
Common stock	725 750
Preferred stock	725 753
Stock markets	Frankfurt, Düsseldorf, Xetra

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