METRO Group

*The Spirit of Commerce*

# ANNUAL REPORT 2003 | Consolidated Financial Statements of the METRO Group

METRO Group

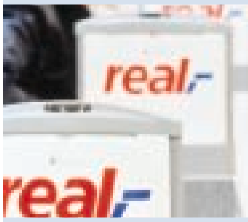
*The Spirit of Commerce*

In fiscal 2003, METRO Group consistently raised its profile as a performing international trading and retailing group. The brand message "METRO Group – The Spirit of Commerce" is the guideline: METRO Group is decisively shaping the international world of retailing and focusing on future-oriented concepts. These concepts are widely acknowledged on the international level and advance the technological progress of the entire consumer goods industry.

METRO Group consolidated the strength of its retail brands with a sustained internationalization and differentiation strategy. METRO Group will continue to pursue this path also in 2004. Three sales divisions will celebrate their anniversary this year: Media Markt and Saturn will turn 25, Metro Cash & Carry 40, and Kaufhof is looking back to as many as 125 years of corporate history.

METRO/MAKRO C&C


REAL




EXTRA


MEDIA MARKT · SATURN


PRAKTIKER


GALERIA KAUFHOF

METRO Group is active at 2,370 locations in 28 countries and ranks among the world's leading international retailing groups. METRO Group is managed by METRO AG as the strategic management holding company. The responsibility for the operating business lies with six sales divisions each acting independently on the market with its own distinct merchandizing concept. Cross-divisional service companies bundle services for the sales divisions like procurement, logistics, information technology, advertising or financing.

## METRO GROUP AT A GLANCE

METRO Group

**METRO AG**

Metro/ Makro C&C | Real | Extra | Media Markt Saturn | Praktiker | Galeria Kaufhof

Cross-divisional service companies

## AT A GLANCE – METRO GROUP IN FIGURES

| | 2003 € million | 2002 € million | 2001 € million | 2000 € million | 1999 € million |
|---|---|---|---|---|---|
| Net Sales | 53,595 | 51,526 | 49,522 | 46,930 | 43,833 |
| EBITDA | 2,615 | 2,416 | 2,383 | 2,183 | 2,038 |
| EBITA | 1,590 | 1,427 | 1,378 | 1,273 | 1,219 |
| EBIT | 1,318 | 1,166 | 1,130 | 1,025 | 1,000 |
| Earnings before tax | 817 | 830 | 673 | 754 | 681 |
| Consolidated net income | 571 | 502 | 449 | 423 | 305 |
| Consolidated net profit [1] | 496 | 443 | 401 | 359 | 234 |
| Capital expenditure [2] | 1,824 | 1,836 | 1,933 | 1,885 | 2,063 |
| Total assets | 26,580 | 22,923 | 22,320 | 22,333 | 22,402 |
| Equity capital [3] | 4,161 | 4,141 | 4,170 | 4,064 | 3,832 |
| Return on equity after taxes | 13.7% | 12.1% | 10.8% | 10.4% | 8.0% |
| | | | | | |
| **Per share** | € | € | € | € | € |
| EBITDA | 8.00 | 7.39 | 7.29 | 6.68 | 6.24 |
| EBITA | 4.87 | 4.37 | 4.22 | 3.90 | 3.73 |
| Earnings per share | 1.52 | 1.36 | 1.23 | 1.10 | 0.72 |
| Cash dividend | | | | | |
| • common stock | 1.020 [4] | 1.020 | 1.020 | 1.020 | 1.020 |
| • preferred stock | 1.122 [4] | 1.122 | 1.122 | 1.122 | 1.122 |

[1] After minority interests
[2] Additions to fixed assets (prior-year figures adjusted)
[3] Equity excluding minority interests
[4] Subject to resolution of annual general meeting

## METRO GROUP EARNINGS BY SALES DIVISIONS

| | 2003 | 2002 | Changes | |
|---|---|---|---|---|
| | € million | € million | € 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 |
| Others | 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 tax | 817.5 | 829.7 | -12.2 | -1.5 |
| Income taxes | (246.1) | (327.8) | 81.7 | 24.9 |
| **Group net income** | 571.4 | 501.9 | 69.5 | 13.8 |
| **Earnings per share** | € 1.52 | € 1.36 | € 0.16 | 12.0 |

# CONTENT

Dr. Hans-Joachim Körber, Chief Executive Officer

## Ladies and gentlemen,

The METRO Group strategy of profitable growth and consistent internationalization was again crowned by success in 2003. Whilst 2002 was already a challenging year for the retailing industry, the general climate became even more inclement in the course of 2003. World economy faced a downturn and even more so the German economy whose weakness was also reflected in a stock price low. In our specific industry, the situation was heightened by the persistent buying restraint of consumers. All in all, the scenario was not very propitious to a positive course of business. However, this environment did not keep us from reaching our self-imposed targets which we achieved thanks to the consistent pursuit of our strategy of internationalization and optimization of our merchandizing concepts.

So, 2003 again proved to be a good year for the METRO Group. We further consolidated our strong position in the domestic and international markets. We conquered additional market shares and, on balance, our operations are even more profitable and our merchandizing concepts even more attractive and customer-friendly. With activities in 28 countries, we are now one of the most international companies in worldwide retailing.

The progress achieved in bringing METRO Group forward is clearly reflected in its key business figures.

In the past fiscal year, group sales amounted to € 53.6 billion. They exceeded the prior-year mark by 4.0 percent and, net of currency effects, even by 5.7 percent. At the same time, the foreign share in total sales rose from 46.3 percent in the previous year to 47.2 percent.

This positive sales trend is first and foremost the result of our selectively continued international expansion which is rendering the company less dependent on individual national markets. Our capital investment activities outside Germany were concentrated on Asia and Eastern Europe. In those regions, we distinctly expanded the network of locations. We accomplished the market entry into the Ukraine and India with Metro Cash & Carry. In 2003 we were active in a total of 28 countries. In the conversion states of the former Eastern Bloc, our area-wide presence now enables us to participate in those growth markets. We have become firmly positioned in several EU accession countries. In 2003 the East European business once again contributed above average to the positive sales trend of our company at a growth of 7.0 percent. In Russia we achieved an outstanding increase in sales. In Asia sales were boosted by 7.2 percent.

In Western Europe the general course of business was gratifying for our group. In Germany the METRO Group demonstrated that it is able to stand its ground in a challenging environment. We gained further market shares although individual sales divisions did not quite manage to evade the negative overall trend. In a rather unfavorable general macroeconomic climate and a negative trend of its industry, the group attained sales of € 28.3 billion in Germany. This corresponds to an increment in sales of 2.2 percent from the prior-year level.

The high operating performance of METRO Group is not only reflected in its sales volume. In terms of the business result, we also achieved our target to increase earnings per share by 6 to 10 percent.

At the same time, we further improved the quality of the group result by raising our operating profit before interest and taxes (EBIT) by more than 13 percent. It should be highlighted that our international activities made an above-average contribution to the growth in earnings. Moreover, METRO Group further improved the Economic Value Added (EVA), the central control variable of the group geared to the increase in company value, by € 88.3 million. This means that the group incremented the company value and accomplished full cover of its capital cost for the first time in 2003.

The sales divisions of the METRO Group outperformed the competition. This holds especially true for the two growth drivers, METRO Group's most internationalized sales divisions Metro Cash & Carry as well as Media Markt and Saturn. In the 2003 fiscal year, these two sales divisions again raised both sales and earnings above average, contributing around 70 percent to the group's sales. Even in international comparison, they achieved outstanding returns on the capital employed. The focus of the METRO Group's capital expenditure was thus concentrated on the further expansion of these two sales divisions. Taken together, Metro Cash & Carry and the Media-Saturn group opened 91 new stores in the past fiscal year, whereupon establishing new locations primarily outside Germany. In 2003, Metro Cash & Carry registered a foreign share in total sales of around 77 percent. At Media Markt and Saturn, the 40-percent mark was surpassed for the first time.

The satisfactory operating performance of the METRO Group was again and again overshadowed in the past by our stake in Divaco. We therefore decided to terminate the investment in 2003. The divestment company Divaco had been founded in 1998 as a joint venture with financial investors for the purpose of divesting activities not belonging to the core business of METRO Group. This initiative was successful to a major extent. However, in the face of the unfavorable general economic climate of the past years, the portfolio could not be fully exploited at acceptable conditions. So, METRO Group parted with the stake in Divaco through a management buyout which ensued a charge on the result. The textile chain Adler was taken over in this context in order to ensure optimal exploitation. After this step, we can now fully concentrate on successfully shaping our company's future.

Furthermore, in 2003 we paved the way for consolidating Asset Immobilienbeteiligungen GmbH & Co. KG (AIB) effective 31 December 2003. The real estate of the retail activities of METRO Group had been pooled in that company for the purpose of divestiture. This plan was not realizable however. We did not achieve an acceptable purchase price which, in consideration of the fiscal risks involved, could have yielded a reasonable return and exerted a positive impact on the relevant debt figures.

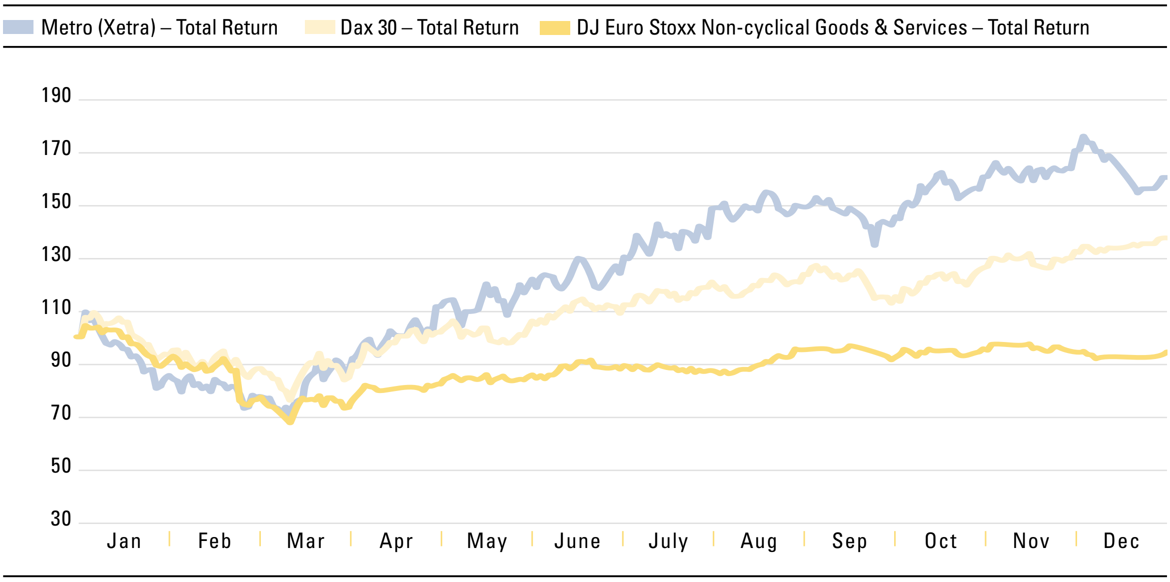
Dear stockholders, in fiscal 2003 we made good progress in sharpening the profile of METRO Group as a modern international, transparent trading and retailing company. We will concentrate all efforts on the further pursuit of this strategy in the course of the current fiscal year, and we will spare no efforts to continue on the profitable growth route of the company. In 2004, too, we want to increase sales and earnings. With this objective in mind, we will consistently continue our international expansion. In doing so, the focus of our investment activity will be abroad and concentrate on the growth drivers Metro Cash & Carry as well as Media Markt and Saturn. It is our declared aim to strengthen the market position of our sales divisions even more and gain new market shares.

We are securing the future of our company by realizing these goals and we are increasing our attractiveness for the capital markets at the same time. So, we are presenting ourselves to our customers and suppliers as an attractive, reliable business partner and foster the trust which is essential to their long-term loyalty. What is more, in this way we are heightening our reputation as an employer who can offer diversified and secure jobs with interesting career opportunities. This is of extraordinary significance for our company. Had it not been for our committed and appropriately qualified employees, we would not have been able to achieve our aims in bringing the METRO Group forward in the year 2003. This is why I would like to take this opportunity to express my thanks to all our employees for their dedicated work.

Yours sincerely,

Dr. Hans-Joachim Körber

PERFORMANCE OF THE METRO COMMON STOCK IN 2003[1)]




[1)] Metro common stock with dividend reinvestment, Dax 30 and Dow Jones Euro Stoxx Non-cyclical Goods & Services indexed at 100. Source: Datastream.

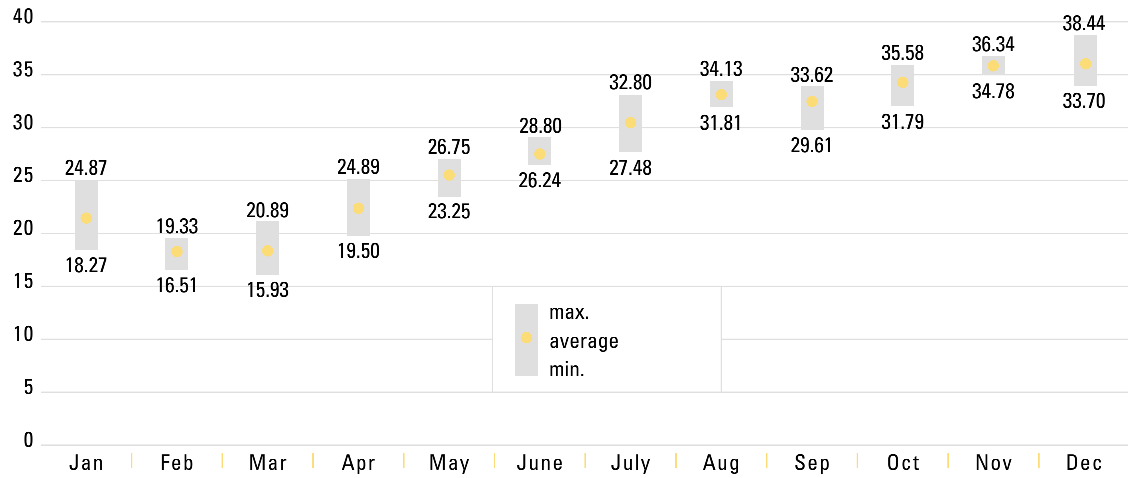
After an in total very disappointing stock market year 2002, a general rally set in worldwide in 2003 so that the market concluded the year with a distinct plus for the first time after three loss years in succession.

In the first three months of the year under review, the stock market trend was initially affected by the negative impact of persistent worldwide economic weakness along with an insecure world-political situation. It was only after the end of the war in the Middle East that the stock market slump was overcome. Hoping for economic recovery in important economic regions and with the first signs heralding a turnaround in the earnings position of the companies, investors started building up new confidence in stocks as a form of investment. In the international capital markets, this appraisal prompted an appreciable increase in stock prices over the year with a simultaneous decrease in volatility. While the tone of the stock markets worldwide was lighting up, the sustainability of global economic recovery remained doubtful.

In Germany the Dax stock market index climbed by 37.1 percent in the course of the year. This upturn was not yet to be expected at the beginning of the year 2003. On the contrary: after a sluggish start, the Dax stock market index

## HIGHEST AND LOWEST STOCK PRICES IN 2003

Highest and lowest price of Metro common stock (Xetra) in €




closed Xetra trading with 2,203 points on March 12, 2003, dropping to the lowest level since 1995. This was mainly attributable to weak growth in the German economy with the concomitant reluctance to invest, enduring discussions about reforms and the ongoing consumer retention. It was only in the course of the year that the Dax was recovering. The historically low valuation levels on the German stock market appraisal along with growing confidence in an economic rally in Germany constituted the basis for increased engagement of investors in the German stock market. As a result, at the end of 2003 the German stock market index reached a level which exceeded the lowest mark in March of the year by 80 percent. The price trend of the Dax index, which in the previous trading year 2002 was still one of the greatest losers in comparison with all other countries, consequently concluded the year 2003 with a much better performance than other important country indices.

The price gain of the Metro stock as at the end of 2003 even outperformed the Dax appreciably. Including dividend paid, the Metro stock boasted a 59.8 percent plus at the end of 2003. Over the same period, Dow Jones Euro Stoxx Non-cyclical Goods & Services as the relevant sector index dropped by 5.7 percent, considering dividends paid.

At the beginning of the year, the Metro stock price, like that of other retail companies, was burdened by the supposition of potential industry-specific accounting risks. These doubts could be dispelled in the further course through intensive communication with the capital market. In a lastingly difficult competitive environment, METRO Group already testified to its operational strength when publishing its business figures as per the end of the first quarter 2003 and succeeded in leaving its competitors behind and partly evading the trend of its industry. Thanks to the consistent internationalization and positive development of its business outside Germany, mainly in Eastern Europe, METRO Group again documented its reduced dependence on cyclical fluctuations of individual national markets. This was appreciated by investors, especially against the backdrop of ongoing weak growth in Germany. The positive key data published in the report for the second and third quarters 2003 were reflected in above-average price performance of the Metro stock in the further course of the year. The consolidation of its retail-related real estate announced in the report for the third quarter 2003 additionally supported the stock price. Against the background of the group's satisfactory operational development, the Metro stock distinctly recovered from its low of € 15.93 in March 2003 and closed at a year-end price of € 34.95 in the Xetra trade at December 31, 2003, i.e. around 120 percent above the annual low.

## Dividend continuity

For the 2003 fiscal year, the Supervisory Board and the Management Board of METRO AG will propose to the annual general meeting on June 4, 2004 that a dividend of € 1.02 per common stock and of € 1.122 per preferred stock be approved.

## Market capitalization

At year-end 2003, the market capitalization of METRO Group amounted to € 11.46 billion. Among the Dax-30 companies, METRO Group thus ranked 15th. In terms of its trading volume, the Metro stock continues to be among the 18 most intensively traded Dax stocks. In Germany the Metro stock is registered for official trading on the Frankfurt/Main and Düsseldorf stock exchanges and is included in the Xetra electronic trading system as well as the European options exchange Eurex.

## Conversion of preferred stock into common stock

Effective November 3, 2003, the German Federal Supreme Court decided in favor of METRO AG by declining the appeal from the judgment passed by the Higher Regional Court of Cologne on September 20, 2001. The actions of opposition brought against the resolution of the annual general meeting of METRO AG on July 4, 2000 relating to the conversion of preferred stock into common stock have consequently been settled. The prior judgment passed by the Higher Regional Court of Cologne on September 20, 2001 has thus become final and non-appealable. The former challenged common stock of METRO AG (security identification no. 725752) was consequently converted into "normal" common stock of METRO AG (security identification no. 725750).

## Investor relations

The METRO Group's investor relations activities are long-term oriented and hence reflect the group's strategy geared to further value enhancement. Communications with the capital markets are consistently determined by the principles of topicality, continuity, credibility and equal treatment. In line with its targeted communication strategy, METRO Group periodically presented itself to investors and analysts at all the major financial centers in Europe, the USA and Asia in fiscal 2003. In this context, the Management Board further intensified its regular contacts with investors. In addition to the annual analysts' meeting, METRO Group took advantage of seven conferences as a

## METRO STOCK KEY FIGURES: A FIVE-YEAR OVERVIEW

| Key figures | | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|---|
| Annual closing price [1] | | | | | | |
| Common stock | € | 34.95 | 22.75 | 39.85 | 49.80 | 53.40 |
| Preferred stock | € | 49.00 | 34.25 | 45.25 | 24.60 | 28.50 |
| Annual high [1] | | | | | | |
| Common stock | € | 38.44 | 42.00 | 55.49 | 50.60 | 77.07 |
| Preferred stock | € | 51.00 | 50.20 | 45.65 | 36.95 | 46.50 |
| Annual low [1] | | | | | | |
| Common stock | € | 15.93 | 15.77 | 31.99 | 33.65 | 48.11 |
| Preferred stock | € | 27.23 | 27.86 | 27.30 | 18.76 | 25.60 |
| Total outstanding | Shares | 326,787,529 | 326,787,529 | 326,787,529 | 326,787,529 | 326,787,495 |
| Common stock [2] | Shares | 324,109,563 | 324,109,563 | 324,109,563 | 324,109,563 | 303,786,183 |
| Preferred stock | Shares | 2,677,966 | 2,677,966 | 2,677,966 | 2,677,966 | 23,001,312 |
| | | | | | | |
| **Profit distribution** | | 2003 | 2002 | 2001 | 2000 | 1999 |
| Per common stock | | | | | | |
| Dividend | € | 1.02[3] | 1.02 | 1.02 | 1.02 | 1.02 |
| Dividend yield [4] | % | 2.9 | 4.5 | 2.6 | 2.0 | 1.9 |
| Per preferred stock | | | | | | |
| Dividend | € | 1.122[3] | 1.122 | 1.122 | 1.122 | 1.122 |
| Dividend yield [4] | % | 2.3 | 3.3 | 2.5 | 4.6 | 3.9 |
| | | | | | | |
| **Key figures per Metro common stock** | | 2003 | 2002 | 2001 | 2000 | 1999 |
| EBITDA | € | 8.00 | 7.39 | 7.29 | 6.68 | 6.24 |
| Earnings per share | € | 1.52 | 1.36 | 1.23 | 1.10 | 0.72 |
| Price/book value | | 2.6 | 1.8 | 3.1 | 3.9 | 4.2 |
| | | | | | | |
| **Market capitalization** | € billion | 11.46 | 7.47 | 13.04 | 16.16 | 16.91 |

[1] Stock prices: Xetra trading system
[2] Regarding former challenged common stock see notes to the financial statements no. 28 Equity, sec. “Conversion of preferred stock into common stock”
[3] Subject to approval by the AGM
[4] Based on the annual closing price

platform to inform more than 1,300 institutional and private investors on its strategy and outlining business trends. In addition, METRO Group organized more than 250 further presentations, telephone conferences, individual meetings and visits to locations in Germany and abroad.

The basic principle applied in all investor relations activities of METRO Group is compliance with fair disclosure rules according to which all market participants are informed openly and simultaneously. In this process, the Internet plays an important role as a means of communication. METRO Group achieved good positions throughout in the significant rankings of investor relations Internet web sites attributed by external institutions. The investor relations pages of the group's web site (www.metrogroup.de) offer comprehensive stock and company information and provide download facilities for presentations to analysts as well as the hand-outs of all events. Moreover, the analysts' forum also gives an overview of analysts' appraisals and recommendations concerning the Metro stock. The IR Newsletter informs about the latest developments in the group. In 2003, too, much importance was attached to the consistent extension and ongoing optimization of the group's presence on the Internet as an important channel of communication. Needless to say that the investor relations team is also available for personal contacts at all times. In future, too, METRO Group will intensify reporting and communications with the capital market concerning the group's strategy as well as its present and future business performance, and thus enhance the confidence of investors in the company.

## Joint corporate governance report of the Management Board and the Supervisory Board

The Management Board and the Supervisory Board of METRO AG attribute great importance to the principles of transparent and responsible corporate governance and control. The application of these principles is a prerequisite for safeguarding the confidence of METRO AG's stockholders in the group's strategy and hence the management and control of the company.
The Management and Supervisory Boards report as follows on the corporate governance of the company, in accordance with section 3.10 of the German Corporate Governance Code:

**Corporate Governance Code of METRO AG**
In 2002, the Management Board and the Supervisory Board of METRO AG resolved on an independent code of good conduct, the Corporate Governance Code of METRO AG which aside from the recommendations of the German Corporate Governance Code in that year's version also pays tribute to the expectations of the international capital markets. The Corporate Governance Code of METRO AG is adapted at regular intervals on the basis of changes in statutory provisions. The respective latest version of the Corporate Governance Code of METRO AG is available to the public at the company's web site www.metrogroup.de under "Company"/"Corporate Governance". In addition to the presentation of the objectives and structures of METRO AG and of METRO Group, it contains explanations on fundamental stockholder rights and relations with stockholders, the responsibilities and duties of the Management Board and of the Supervisory Board as well as the demands on transparency and accounting.

**German Corporate Governance Code**
In December 2003, the Management and Supervisory Boards of METRO AG issued their statement of compliance with the recommendations of the government commission German Corporate Governance Code pursuant to § 161 AktG (German Stock Corporation Law):

METRO AG has complied with the recommendations of the government commission German Corporate Governance Code as amended on November 7, 2002 and will comply with the recommendations of the government commission as amended on May 21, 2003, with the following exceptions:

The recommendation for individualized reporting of the remuneration of Management Board members contained in section 4.2.4 sentence 2 of the German Corporate Governance Code will not be followed because such an individualization would be contradictory to the justified right to privacy of the Management Board members.
The recommendation for individualized reporting of the remuneration of Supervisory Board members in the notes to the consolidated financial statements contained in section 5.4.5 para. 3 sentence 1 of the code will not be implemented. The remuneration of the Supervisory Board members can be inferred from the Statute of METRO AG so that an additional disclosure is considered redundant.

**Guidance for stockholders on the Internet**
Our stockholders are regularly informed about important events and their dates by means of a financial calendar which is publicized on the homepage of the company. At the annual general meeting, the stockholders of METRO AG have an opportunity to exercise their voting rights either themselves or through a proxy of their choice or a proxy nominated by the company bound to instructions given. In advance of the annual general meeting 2003, it was possible for the first time to pass instructions via Internet for exercising the voting right through a proxy nominated by the company.

**Performance-related remuneration of the Management Board**
Appropriate compensation for the corporate management is an essential component of the corporate governance of METRO Group. That is why the remuneration of the Management Board members and executive staff of METRO AG and of METRO Group includes performance incentives to safeguard a sustainable increase in the company's economic value. The total remuneration of the Management Board members of METRO AG comprises fixed and variable components. The key factors for determining the variable remuneration are the Economic Value Added (EVA) which represents the central benchmark for measuring the economic success of METRO Group as well as the stock price trend. All strategic and investment decisions of the group are oriented towards the EVA. Accordingly, it constitutes a conclusive and performance-oriented reference for variable compensation components for the Management Board of METRO AG and the executive staff of METRO Group.

The terms and conditions of the variable, EVA-oriented compensation system for the Management Board of METRO AG and the executive staff of METRO Group are regularly reviewed and determined by the Personnel and Nomination Committee of the Supervisory Board of METRO AG. Further details on the control of the company via EVA are to be found on page 37 et seqq. of this annual report.

In fiscal 2003, the Personnel and Nomination Committee of the Supervisory Board of METRO AG for the first time resolved on granting a variable stock bonus for the members of the Management Board of METRO AG. This stock bonus in the form of a program is to replace the stock option plan in future.

For determining the variable stock bonus, the Personnel and Nomination Committee of the Supervisory Board of METRO AG has defined a target stock price. The bonus allocated in each case will be granted in its full amount if the target price is reached; if the target price is surpassed, it will be granted pro rata in relation to the target price. For extraordinary, unforeseen developments, the Supervisory Board of METRO AG has reserved a potential cap. For further details concerning the terms of the stock bonus as well as information about the total remuneration for the Management Board, please refer to the notes to the consolidated financial statements, pages 187 to 190 of this annual report.

**Performance-related remuneration of the Supervisory Board**
In addition to a fixed compensation, the Supervisory Board members are also entitled to a performance-oriented, variable remuneration. The information about the amount of the total remuneration can be found in the notes to the consolidated financial statements, page 189 of this annual report. The individual remuneration level is determined in accordance with the Statute of METRO AG, accessible to the general public on the Internet home page at www.metrogroup.de under "Company"/"The Boards".

**Accounts audit**
It was agreed with the auditor of the annual accounts for the 2003 fiscal year, i.e. Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, that the chairman of the Supervisory Board shall be immediately notified of any potential causes of exclusion or partiality emerging in the course of the audit unless they are promptly eliminated. It was also agreed that the auditor should immediately report any find-

ings and events material to the functions of the Supervisory Board that may come up in connection with the accounts audit. Finally, the accounts auditor was instructed to inform the Supervisory Board and/or include a note in the auditor's opinion whenever facts should be found in the course of the accounts audit indicating a potential incorrectness of the Management and Supervisory Boards' statement concerning the German Corporate Governance Code.

**Transparency**

The Management and Supervisory Boards of METRO AG are committed to the continuous improvement of transparency. METRO AG attributes high priority to the principle of simultaneous communication of identical information to all target groups. Private investors may also obtain timely information about current developments in the group via Internet.

The mandates of Management Board and Supervisory Board members are shown on pages 198 to 204 of this annual report. Relations with associated individuals can be inferred from the notes to the consolidated financial statements, page 187 of the annual report.

**Implementation and application of the principles of corporate governance**

At least once a year, most recently on the occasion of the Supervisory Board meeting in December 2003, the Management Board and the Supervisory Board of METRO AG discuss whether the corporate governance principles of the German Corporate Governance Code and the Corporate Governance Code of METRO AG are complied with. In order to monitor compliance with these principles, the Management Board, acting in agreement with the chairman of the Supervisory Board, nominated the Head of the Audit Department as Corporate Governance Officer in 2002. With respect to the 2003 fiscal year, no deviations have to be reported, neither from the German Corporate Governance Code nor from the Corporate Governance Code of METRO AG. This demonstrates that corporate governance is actively lived at METRO AG and at the METRO Group.

Düsseldorf, March 2004

Management Board and Supervisory Board of METRO AG

# Macroeconomic environment and development of the retail industry

**World economy: bottoming out of the economic slump**

Following weak growth in 2002 overall, a worldwide cyclical uptrend was to be observed in the course of 2003. The impact of negative influences on the economic climate such as the Iraq war and the weakness of the US dollar remained limited. World economy grew by 2.7 percent in real terms. The world trading volume rose by 4.7 percent which is a distinct increase compared with the previous year.

Significant regional differences became apparent in the process. Boasting a 9-percent growth in real terms, China was taking the lead, distinctly outperforming all other countries, with the concomitant positive impact radiating to the economies of the entire Asian region. After several years of stagnation, the Japanese economy reported a real growth of 2.7 percent. The other states in the East Asian region achieved a growth of around 4 percent in their economies. All in all, the economic development in East Asia generated strong impulses, boosting the worldwide economic upswing.

Thanks to a positive trend in the second half of the year, the US economy registered a real growth of around 3 percent in 2003. By contrast, the economy in Europe experienced a much weaker growth. In the states belonging to the European Monetary Union, the GDP only rose by 0.4 percent in real terms. With a real growth of around 7 percent, GDP in Russia grew more vigorously than world economy. The other Central and East European reform states also succeeded in continuing the gratifying trend of prior years.

**Differences in growth dynamics of major world economic regions**

By tradition, the economic development in the United States of America has a substantial impact on world economic trends. It is therefore of great significance to observe that important economic indicators point in the direction of further steady growth of the US economy in the medium term. This outlook could also boost the world economy.

In 2003 decisive impulses in financial policy for a sturdy growth of the US economy emanated from the drastic increase in government spending in line with the Iraq war. The monetary policy also had an expansive effect. Private consumption consistently fueled domestic demand. Despite low capacity utilization, capital expenditures were again gaining momentum. Whereas a year earlier capital spending still declined by about 2 percent, it increased by around 4 percent in 2003. The US labor market did not experience a major improvement. The unemployment rate remained at a high level and the number of employees stagnated, albeit at appreciably rising labor productivity.

Risks that may jeopardize the continued upswing in the USA in the current year are inherent in the public budget deficit which has been rising steeply in the past two years, reaching a mark of around 5 percent of the gross domestic product at the end of 2003, as well as the country's deficit on current account. In the face of a deficit on current account of more than US$ 500 billion in 2003, the US economy needs capital imports in at least the same amount. In accumulated interaction, the high budget and current account deficits imply risks for the dollar stability that are not to be underestimated. Already in 2003, this situation was reflected in a distinct valuation loss of the dollar against the euro and yen which may have a negative impact on world economy.

Japan's economy overcame its long-standing stagnation phase in 2003; it expanded by 2.7 percent in real terms. Based on the export boom that was already triggered a year earlier, domestic demand also picked up in 2003. Private consumption rose by around 1 percent in real terms. The capital spending volume which had still shrunk by around 6 percent in the year before, increased by around 3 percent in 2003. The ongoing expansive monetary policy was increasingly taking effect in line with declining deflation. Whether or not the upward trend in the Japanese economy is likely to continue in the current year will depend on the further currency trend, among other factors.

The Asian emerging markets, i.e. East Asia excluding Japan and China, recovered very quickly from the economic slump in spring 2003. In the further course, a vigorous cyclical upturn set in so that the GDP of that region expanded by around 4 percent in real terms in the year under review. The People's Republic of China, the country with the fastest growing economy in East Asia, registered an increase in GDP by around 9 percent in real terms.

In the euro zone, economic growth again edged down in 2003. Against the backdrop of weak demand by private households in conjunction with receding capital spending by the private economy and the public fisc due to the necessity for saving, the economy in the euro zone lacked the impulses essential to a pick-up in economic activity. The upswing in exports was hampered by the strength of the euro and did not reach the dynamics which would have been expected in advance of an emerging cyclical uptrend. Greece was the only country to continue on its dynamic growth path of the previous year in 2003, reaching an increase by more than 4 percent in real terms.

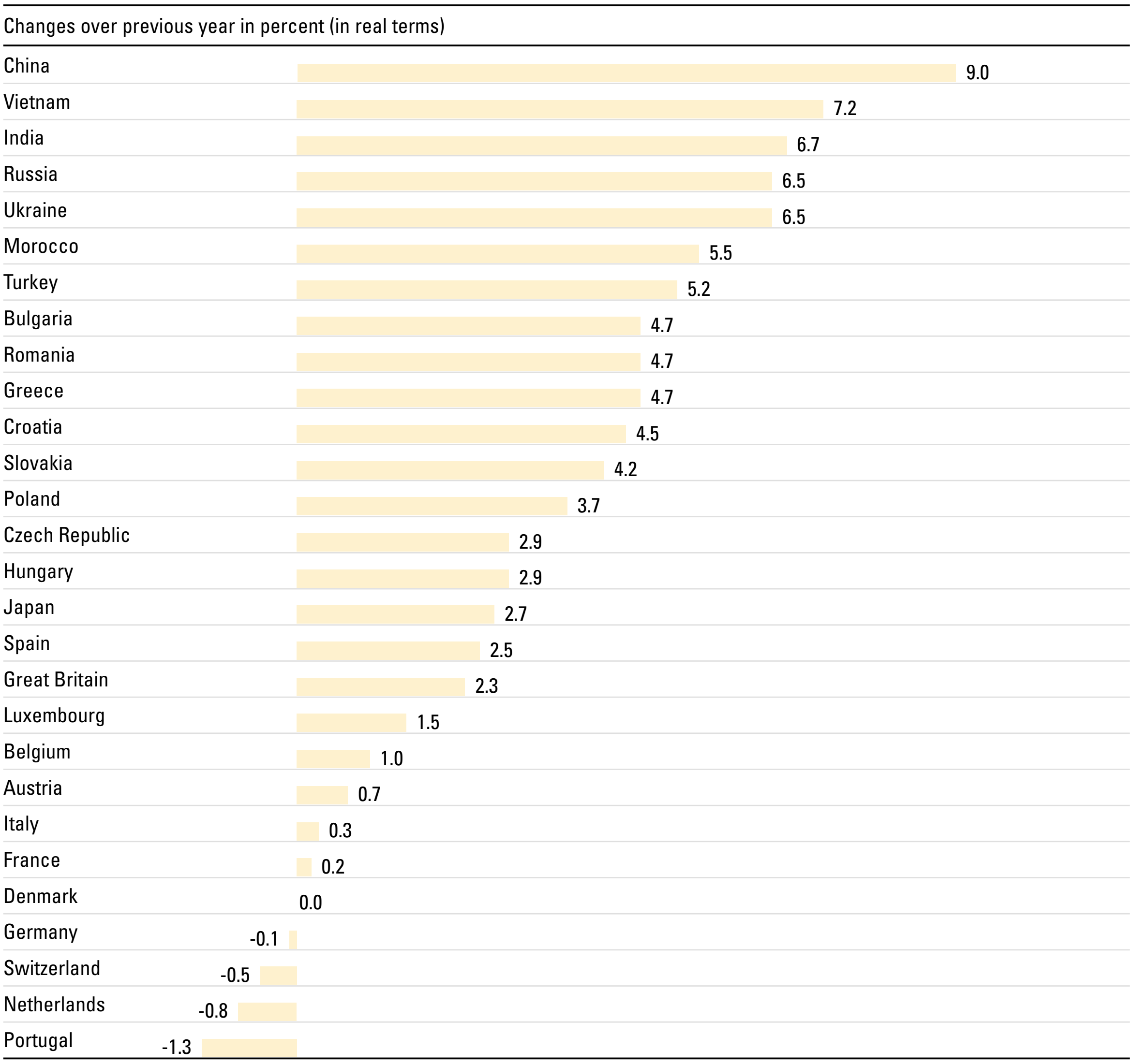
**Germany slows down cyclical rally in the euro zone**

The German economy has been stagnating since 2001. After a slight overall economic growth in 2001 (+0.8 percent) and 2002 (+0.2 percent), the GDP fell by 0.1 percent in real terms in 2003. Hence, the weakness of the German economy burdened the economic situation throughout Europe also in 2003. Fixed asset investments dropped by 2.9 percent in real terms. Consumption expenditure of private households in real terms fell short of the prior-year level by 0.1 percent whilst public spending only rose by 0.9 percent in real terms in the same period. Exports, adversely affected by the strong euro, only increased by 1.2 percent in real terms. The deficit criterion of the euro stabilization treaty of 3 percent of the GDP was again clearly missed at an actual budget deficit of 3.9 percent. The unemployment rate climbed from 9.8 percent in 2002 to 10.5 percent in 2003. In the same period, the work force declined by around 400,000. The difficult general economic situation, the rising unemployment rate as well as lengthy controversies about the restructuring of social systems in Germany triggered heavy disturbances of the consumption climate. A distinct buying resistance was to be observed throughout Germany as a consequence of a general feeling of insecurity among consumers. These unfavorable general conditions led to a further decline in sales figures of the German retailing industry in the year under review after an already extremely disappointing sales trend in 2002.

**Business activity of the retail industry in Germany**

In 2003, the retail trade turnover, excluding sales of the automotive and gas station sectors, fell by 0.6 percent in nominal and 0.7 percent in real terms. The cause of this negative trend in the industry was, aside from the unsatisfactory general economic situation, excessive capacities in selling space in the

DEVELOPMENT OF GROSS DOMESTIC PRODUCT IN THE METRO GROUP COUNTRIES IN 2003




Sources: FERI, IMF

German retailing sector in conjunction with further increased price competition setting in after the abolition of the law governing discounts and the ordinance on bonuses. Under these circumstances it proved impossible for the retailing sector to pass on cost increases. In an unfavorable environment of the industry, the number of insolvency cases in retailing reached a new all-time high in 2003.

German wholesaling in durables and consumables grew insignificantly in the year under review at +0.4 percent in nominal and +1.0 percent in real terms. In contrast, the course of business in wholesaling in the areas of food, beverages and tobacco was characterized by stagnation. Sales of +0.2 percent in nominal terms were slightly above the previous year's level, in real terms, they fell by –0.7 percent.

## Group sales

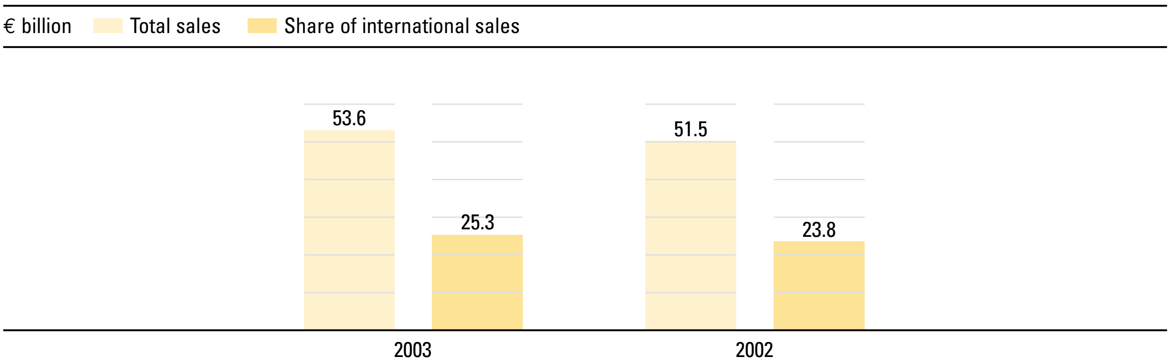
In the fiscal year 2003, METRO Group raised its sales by 4.0 percent from € 51.5 billion to € 53.6 billion. The sales divisions of METRO Group achieved a 4.3 percent growth in sales to reach € 53.3 billion. The group's growth was considerably affected by exchange rate fluctuations. Net of these effects, increase in sales of the divisions amounted to 6.0 percent and of the group to 5.7 percent. With this result, METRO Group demonstrated its operating efficiency also in 2003 and showed a distinctly higher growth in sales than the relevant competitors – despite a downward trend in the industry environment.

The share of international business in the group's total sales rose from € 23.8 billion to € 25.3 billion, standing at 47.2 percent compared with 46.3 percent in the previous year. This increase was achieved despite a substantial appreciation of the euro.

**Metro Cash & Carry**

Metro Cash & Carry again showed a positive sales performance at home and abroad in fiscal 2003 attributable to the successfully continued international

VOLUME OF GROUP SALES



DEVELOPMENT OF GROUP SALES AND DIVISIONAL SALES (NET)

| | 2003 | 2002 | Changes | |
|---|---|---|---|---|
| | € million | € million | € 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 abroad | 25,295 | 23,835 | 1,460 | 6.1 |

expansion and the further extension of its existing outlet chain and thereby underlined its significance as a growth driver within the group. Despite negative exchange rate effects resulting from the strong appreciation of the euro the cash & carry outlets improved their total sales in 2003 by 4.7 percent from € 24.0 billion to € 25.1 billion. Like-for-like, this represents a drop of 1.1 percent. Net of exchange rate effects, sales were up by 7.7 percent. Adjusted for exchange rate effects, sales on a like-for-like basis showed a positive trend, too.

In Germany, Metro Cash & Carry sales rose by 6.7 percent to € 5.9 billion compared with € 5.5 billion in the previous year – as a consequence of the takeover of three large-space cash & carry outlets, among others. The international business achieved a sales volume of € 19.2 billion, thus surpassing the prior year figure of € 18.5 billion by 4.1 percent. Net of exchange rate effects, the increase amounted to 8 percent. In Russia, the sales division recorded a particularly strong rise in sales of € 223 million compared with the prior year. The share of international business in the total sales of Metro Cash & Carry during the fiscal year under review amounted to 76.6 percent.

With the opening of numerous new stores in Germany and abroad, Metro Cash & Carry targetly continued the consistent expansion strategy pursued over the last years also in 2003, thereby further consolidating its position as the world market leader. The market entries in the Ukraine and in India in 2003, too, attest to this strategy implemented by the sales division. With these moves, it created the basis for additional growth in Eastern Europe and Asia. Following the extension of the outlet chain by 39 new stores, Metro Cash & Carry was represented in 26 countries with a total of 475 stores at the end of the fiscal year just ended. A total of 34 new stores were opened abroad, 16 of which in Western Europe, one in Morocco, 11 in Eastern Europe and six in Asia. In Germany, the outlet network was further extended with the takeover of three large selling-space stores and one small selling-space store as well as the opening of a new Metro Cash & Carry store in Neuss. One small selling-space wholesale store was closed. In the year 2003, the total selling space of all Metro and Makro Cash & Carry stores rose from 3.4 million square meters to 3.7 million square meters.

The merchandizing concept of Metro Cash & Carry was further optimized during the fiscal year just ended. It is characterized by high performance and flexibility, thus ensuring the company's international competitiveness and economic success. In 2003, a total of 20 wholesale stores were converted and modernized to "Stores of the Future". With an intelligible store structure and merchandize presentation, the "Store of the Future" makes shopping easier and faster. This caters to the specific interests of professional customers from commercial businesses and increases the attractiveness of the Metro Cash & Carry wholesale stores for this group of customers. The decision on which format is to be implemented depends on the specific customer needs of each location. This additionally improves the attractiveness of the Metro Cash & Carry wholesale stores.

**Real**

The Real sales division, which generates around 90 percent of its sales in Germany, succeeded in maintaining its prominent market position during the fiscal year just ended in a generally difficult industry environment. In the year 2003, sales reached a volume of € 8.2 billion and were thus 0.1 percent up – or 1.0 percent down on a like-for-like basis – compared with the prior-year level. Net of currency effects, the Real hypermarkets achieved a 1.2 percent growth in sales. With the continued optimization of the merchandizing concept and the further enhancement of the fresh produce competency the Real hypermarkets succeeded in outperforming their competitors.

On the German market, which was characterized by a general purchasing restraint on the part of consumers, the sales division managed to further expand its market leadership in 2003 and win additional market shares. Domestic sales of the Real hypermarkets totaled € 7.4 billion. This corresponds to an 0.9 percent rise in sales compared with the year 2002. On a like-for-like basis, the sales volume maintained the prior-year level. The takeover of seven Extra supermarkets by Real contributed to raising the sales volume. Positive impulses also resulted from the refurbishment and modernization of Real hypermarkets as well as from the consistent development of the shop-in-shop concepts. With these measures, the attractiveness of the Real hypermarkets for their customers could be improved even further. In total, eight stores were completely renovated. In the fiscal year under review, the number of "beauty & more" drugstores in the Real outlets rose by 40 and the number of sports shops by 14. As of late 2003, "Baby, Kids & Co." is now available at five additional locations. Moreover, "Tierwelt" pet stores were introduced for the first time in another 121 stores and book shops of the "B.O.B. Best of Books" company were implemented in 23 outlets. In addition, the fruit and vegetable departments were completely refurbished in a total of 27 stores to underline the sales division's fresh produce competency.

The Payback customer loyalty program was very important for the development of sales. More than half of the Real hypermarkets' total sales, i.e. 60 percent, was achieved with Payback customers. In the previous year, the Payback customer share in total sales amounted to 57 percent. Among others, the attractiveness of the customer loyalty program continues to show in the fact that, on average, Payback customers spend around 55 percent more per shopping expedition than other customers.

The sales division managed to hold its prominent position on the Polish and Turkish markets although sales in Poland did not reach the prior-year value as a consequence of a distinct appreciation of the euro against the Polish currency and the war in Iraq affecting business in Turkey.

To secure the prominent market position of Real also for the future, the outlet chain was extended by a total of 11 locations during the fiscal year just ended, also including the seven stores taken over from Extra. Eight Real hypermarkets were opened in Germany, two in Poland and another store was inaugurated in Turkey. At the end of 2003, the network of Real hypermarkets included a total of 289 stores, of which 255 in Germany and 34 abroad.

**Extra**

The sales division Extra ranks among the leading supermarket operators in Germany. The Extra outlets stood their ground in a domestic market that continued to be difficult for the entire industry and they succeeded in stopping the distinctly negative trend of the previous year. In fiscal 2003, the sales division achieved total sales of around € 2.8 billion which is 2.2 percent, or 0.9 percent on a like-for-like basis, below the prior-year level. In addition to the general purchasing restraint on the part of the consumers, one decisive factor affecting sales in 2003 was Extra's targeted optimization of its location portfolio under the restructuring of the sales division. This move was accompanied by a reduction in the number of outlets as well as selling space with the corresponding effect on sales. In total, seven Extra locations were handed over to the Real sales division, 27 outlets were closed or transferred to franchisees as part of the restructuring of the sales division successfully started in 2003. At the same time, nine new stores were opened at different locations. At year's end, the outlet chain of the Extra sales division comprised 466 supermarkets throughout Germany. The total selling space fell from 863,000 square meters to 818,000 square meters.

The optimization of the outlet network and the modernization of the stores according to the Extra merchandizing concept were consistently continued in 2003. Following the conversion of further outlets, a total of 287 Extra stores were operated on the basis of this innovative concept at the end of the year under review. The number of in-store bakeries was increased by seven to a total of 168, thereby adding to the attractiveness of the Extra supermarkets.

**Media Markt and Saturn**

In the fiscal year just ended, the Media-Saturn group again achieved a substantial growth in sales, thereby further consolidating its position as the leading operator of consumer electronics centers in Europe. Total sales of Media Markt and Saturn rose by 10.2 percent from € 9.6 billion to € 10.6 billion. On a like-for-like basis, sales grew 0.3 percent.

In Germany, the sales division further improved its already high market share in the year 2003. Domestic sales reached a volume of € 6.3 billion and were thus 3.3 percent above or – on a like-for-like basis – 1.4 percent below the prior-year level.

Due to the consistently advanced expansion in 2003, the international sales volume of the Media-Saturn group rose by 22.1 percent to stand at € 4.3 billion while at the same time winning additional market shares. On a like-for-like basis, this corresponds to a rise of 3.2 percent. The consumer electronics stores thereby also clearly outperformed their competitors in the other European markets. The share of international business in total divisional sales rose from 36.8 percent in the previous year to over 40 percent in 2003.

In the year under review, the Media-Saturn group substantially expanded its outlet network both in Germany and abroad. In total, 52 new stores were opened, thus increasing the total selling space from 1.1 million square meters to 1.3 million square meters. In Germany, 22 new consumer electronics centers were established, of which 13 Media Markt and 9 Saturn stores. Moreover, two small selling-space locations were integrated into larger stores. In other European countries, the already fast expansion was further accelerated with the opening of 30 new locations. One new Saturn store was opened in Austria and two Media Markt outlets each were opened in Belgium and Switzerland. Since the end of 2003, Media Markt is represented at five additional new locations in Spain. In France, the successful Planète Saturn concept was expanded by two locations. In Italy, the sales division extended its outlet chain by a total of eight stores, namely one operating under the Saturn brand and seven new Media Markt outlets. Three new Media Markt stores opened their gates in The Netherlands and in Hungary, respectively, and four in Poland. At the end of 2003, the sales division was represented in ten European countries at 436 locations – 269 of which in Germany and 167 abroad.

**Praktiker**

In fiscal 2003, the Praktiker sales division continued its positive sales trend of the previous year and achieved a plus of 8.8 percent to reach € 2.8 billion. On a like-for-like basis, sales rose by 9.3 percent. The company thereby substantially consolidated its market position and won back market shares.

In Germany, the Praktiker home improvement and DIY centers achieved a rise in sales of 8.9 percent to € 2.2 billion in fiscal 2003 against the continued downward trend in the market. On a like-for-like basis, sales were up 10.8 percent. Praktiker outperformed its competitors on the German market, not least due to its aggressive price positioning, and succeeded in winning additional market shares. The Praktiker stores also managed to substantially improve sales abroad due to the consistently continued expansion. At the end of fiscal 2003, sales stood at € 628 million and thus 8.6 percent above the prior-year level. On a like-for-like basis, the sales volume increased by 4.8 percent. Like in the previous year, Praktiker experienced a particularly dynamic growth in Greece and Hungary.

At the end of the fiscal year 2003, the outlet chain of the sales division comprised a total of 339 locations compared with 346 in 2002. In Germany, the number of locations was brought down from 294 to 283 under the targeted optimization of the outlet network. Thirteen stores with too small selling space were closed, two new Praktiker outlets were opened. Abroad, Praktiker extended its outlet portfolio from 52 to 56 stores. In Romania, Hungary and Turkey, a total of five new stores were opened and one Praktiker store was closed in Austria.

**Kaufhof**

Kaufhof Warenhaus AG managed to maintain its prominent position on the German market in the fiscal year 2003. The sales division won additional market shares and developed better than its competitors against the background of a market characterized by a restraint in purchasing and declining business. Influenced by unfavorable general economic conditions, sales of this division reached a volume of € 3.8 billion which is 2.1 percent – or 2.2 percent on a like-for-like basis – below the prior-year level. When compared with similar competitors, these figures attest to the capability and competitiveness of the Galeria Kaufhof concept.

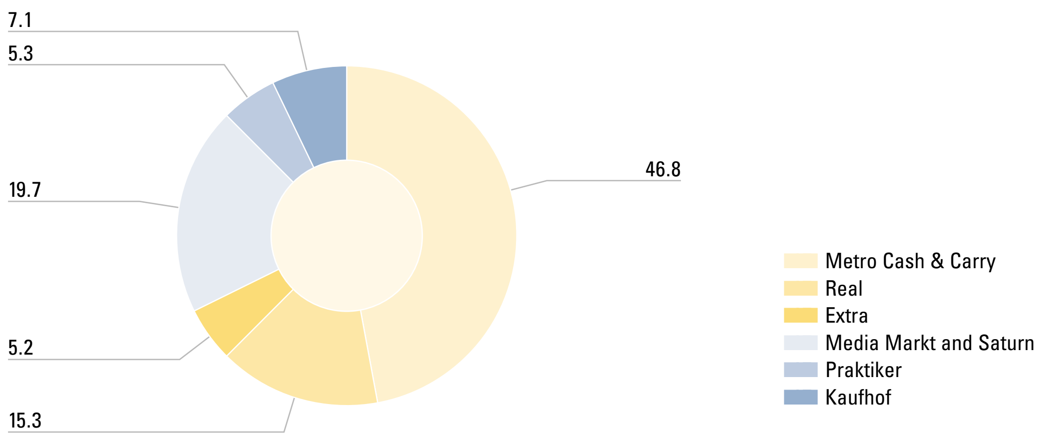
In addition to the consistent conversion of additional department stores to the Galeria concept, the continued expansion of the Payback customer loyalty program also had a positive effect on sales. Among others, the high acceptance of the Kaufhof Galeria Card translated into a rise in the sales volume achieved with Payback customers from 33.1 percent in 2002 to 37.8 percent in 2003.

Sales of the Belgian Inno department stores again showed a positive trend in the fiscal year 2003. These outlets contributed € 249 million to the total sales of the sales division. This corresponds to a 2.8 percent growth compared with the prior year.

The sales division closed one Kaufhof department store in Berlin and one Sportarena outlet in Gera in 2003 under the consistent optimization of its outlet portfolio. At the end of the fiscal year under review, Kaufhof Warenhaus AG thus operated a total of 148 department stores.

GROUP SALES BY DIVISIONS [1]

in %




[1] Other companies are not displayed in the chart.

# Portfolio of locations in Germany and abroad

## LOCATIONS PER COUNTRY

| | Metro C&C | | Real | | Extra | | Media Markt and Saturn | | Praktiker | | Kaufhof | | METRO Group[1)] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Country | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| **Germany** | 113 | 109 | 255 | 247 | 466 | 491 | 269 | 249 | 283 | 294 | 133 | 135 | 1,733 | 1,744 |
| Austria | 12 | 11 | | | | | 22 | 21 | 4 | 5 | | | 41 | 40 |
| Belgium | 8 | 6 | | | | | 3 | 1 | | | 15 | 15 | 26 | 22 |
| Bulgaria | 7 | 7 | | | | | | | | | | | 7 | 7 |
| China | 18 | 16 | | | | | | | | | | | 18 | 16 |
| Croatia | 3 | 2 | | | | | | | | | | | 3 | 2 |
| Czech Republic | 10 | 10 | | | | | | | | | | | 10 | 10 |
| Denmark | 4 | 4 | | | | | | | | | | | 4 | 4 |
| France | 80 | 78 | | | | | 18 | 16 | | | | | 98 | 94 |
| Great Britain | 33 | 29 | | | | | | | | | | | 33 | 29 |
| Greece | 6 | 6 | | | | | | | 7 | 7 | | | 13 | 13 |
| Hungary | 12 | 12 | | | | | 10 | 7 | 14 | 13 | | | 36 | 32 |
| India | 2 | 0 | | | | | | | | | | | 2 | 0 |
| Italy | 41 | 39 | | | | | 50 | 42 | | | | | 91 | 81 |
| Japan | 2 | 1 | | | | | | | | | | | 2 | 1 |
| Luxembourg | | | | | | | | | 3 | 3 | | | 3 | 3 |
| Morocco | 6 | 5 | | | | | | | | | | | 6 | 5 |
| Netherlands | 15 | 15 | | | | | 12 | 9 | | | | | 27 | 24 |
| Poland | 20 | 20 | 27 | 25 | | | 20 | 16 | 16 | 16 | | | 83 | 77 |
| Portugal | 10 | 9 | | | | | | | | | | | 10 | 9 |
| Romania | 19 | 15 | | | | | | | 4 | 1 | | | 23 | 16 |
| Russia | 7 | 3 | | | | | | | | | | | 7 | 3 |
| Slovakia | 5 | 4 | | | | | | | | | | | 5 | 4 |
| Spain | 29 | 25 | | | | | 18 | 13 | | | | | 47 | 38 |
| Switzerland | | | | | | | 14 | 12 | | | | | 14 | 12 |
| Turkey | 9 | 9 | 7 | 6 | | | | | 8 | 7 | | | 24 | 22 |
| Ukraine | 1 | 0 | | | | | | | | | | | 1 | 0 |
| Vietnam | 3 | 2 | | | | | | | | | | | 3 | 2 |
| **Abroad** | 362 | 328 | 34 | 31 | 0 | 0 | 167 | 137 | 56 | 52 | 15 | 15 | 637 | 566 |
| **Total** | 475 | 437 | 289 | 278 | 466 | 491 | 436 | 386 | 339 | 346 | 148 | 150 | 2,370 | 2,310 |

1) Including 217 (previous year 222) Dinea restaurants, of which 214 (previous year 219) in Germany and 3 (previous year 3) in Austria.

## Capital expenditure/divestments

In the 2003 fiscal year, the capital expenditure of the METRO Group totaled € 1.8 billion which was only slightly down from the previous year. More than half of the total capital expenditure volume was ploughed into the continued international expansion of the high-return and high-earning sales divisions Metro Cash & Carry as well as Media Markt and Saturn.

In the year under review, Metro Cash & Carry invested a total of € 737 million. This corresponds to a slight decline from a year earlier, by € 13 million. Capital spending was centered upon the expansion of the company to the East European region, principally driven by new stores opened in Russia and by the market entry into the Ukraine. Another focus of the capital expenditure of Metro Cash & Carry was on Asia where the existing outlet chains were expanded. With its market entry into India, Metro Cash & Carry tapped a market with a high future potential. In Western Europe, Metro Cash & Carry invested in the further strengthening of its network of locations and the modernization of its stores. In Germany, three additional cash & carry wholesale stores in "classic" format covering large sales areas were acquired.

The capital spending of the Real sales division in 2003 was lifted to € 174 million compared to € 159 million in the prior year. The Real hypermarkets were concentrating their capital expenditure on Germany. They were focussing their capital spending policy on the modernization of further hypermarkets and the optimization of their store network. In addition, new hypermarket stores were opened in Germany and abroad.

In the past fiscal year, the Extra supermarkets invested € 40 million after € 42 million in 2002. An emphasis was placed on the conversion of further stores to the Extra marketing concept.

Capital expenditure in the Media-Saturn group amounted to € 229 million in 2003 as against € 350 million a year earlier. The slide by € 121 million was chiefly attributable to the fact that the prior-year expenditure included expenses for the acquisition of shares from other stockholders. The capital spending for the continuation of targeted expansion, in contrast, was raised above the previous year's level. The distribution network was expanded in Germany and abroad by opening a total of 52 new consumer electronics centers.

Capital spending by the Praktiker sales division reached a volume of € 44 million which is 19.4 percent above the prior-year level. The funds were principally allocated to reconstruction and modernization projects in line with the continuous optimization of the merchandizing concept as well as to the opening of new centers, mainly abroad.

Investments made by the Kaufhof department stores in 2003 amounted to € 104 million which is below the level of the preceding year, of € 120 million. The capital expenditure both in Germany and Belgium was focussed on the revamp of further department stores to implement the successful Galeria concept.

**Divestments**

On 30 December 2003, METRO AG signed a contract on the sale of the shares in the Divaco companies Divacom Beteiligungs GmbH and Divafon Beteiligungsgesellschaft mbH. The sale was made by way of management buyout at a price of € 1.00 each effective 31 December 2003.

## Consolidated cash flow statement [1)]

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

| € million | 2003 | 2002 |
|---|---|---|
| Cash flow from operating activities | 3,096 | 2,606 |
| Cash flow from investment activities [2)] | (1,220) | (1,616) |
| Cash flow from financial activities | (1,820) | (1,343) |
| Total cash flows | 56 | (353) |
| Exchange rate effects on cash & cash equivalents | 0 | (6) |
| Change in cash & cash equivalents due to the first-time consolidation of companies | 233 | 0 |
| Overall change in cash & cash equivalents | 289 | (359) |
| Cash & cash equivalents at January 1 | 1,292 | 1,651 |
| Cash & cash equivalents at December 31 | 1,581 | 1,292 |

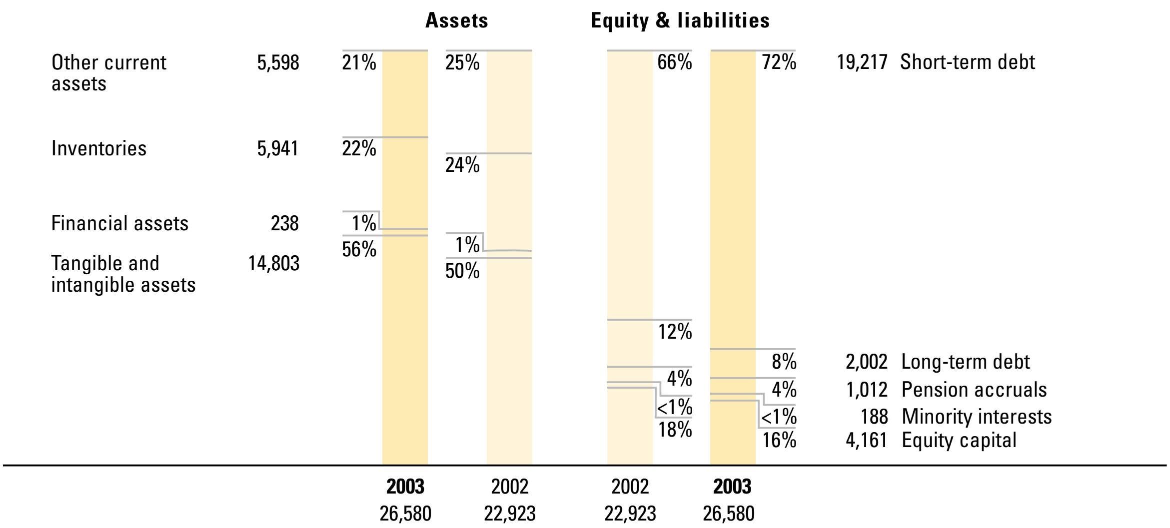
1) Abridged version. For full version see consolidated financial statements.
2) Excluding finance leases and including divestments

## Asset and capital structure

The METRO Group's 2003 balance sheet shows an equity capital of € 4,161 million. This means that 27.7 percent of fixed assets are covered by equity. Total assets of € 26,580 million bring the equity ratio to 15.7 percent. Net financial accounting debt amounts to € 3,616 million, or 13.6 percent of the balance sheet total, after netting interest-bearing assets and liabilities.

BALANCE SHEET STRUCTURE OF METRO GROUP

€ million




The proportional share of property, plant and equipment as well as financial obligations rose a result of the consolidation of the AIB group. On the other hand, off-balance obligations for minimum lease payments from operating lease relationships as well as obligations resulting from contingencies and liabilities were reduced due to the consolidation of AIB. Details regarding the impact of the AIB consolidation are shown in the Notes.

# EBIT/EBITDA

In the 2003 fiscal year, METRO Group generated earnings (EBIT) of € 1,318.1 million. This corresponds to an increase of 13.1 percent compared to the previous year's result of € 1,165.5 million. The group's EBITDA improved from € 2,416.0 million by 8.2 percent to € 2,614.6 million. Against the backdrop of the ongoing difficult situation of the industry, this increase in earnings again put METRO Group in a distinctly better position than its relevant competitors.

DEVELOPMENT OF THE GROUP'S EBIT AND THE EBIT OF THE SALES DIVISIONS

| | 2003 | 2002 | Changes | |
|---|---|---|---|---|
| | € million | € million | € 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 |
| Others | 8.2 | (13.4) | 21.6 | 161.2 |
| **EBIT METRO Group** | 1,318.1 | 1,165.5 | 152.6 | 13.1 |
| Net financial result | (500.6) | (335.8) | -164.8 | -49.1 |
| Earnings before tax | 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 trend of the sales divisions**

Despite starting losses inherent in its expansion strategy the Metro Cash & Carry sales division boosted EBIT in 2003 by 12.8 percent from € 709.1 million 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 the continuous optimization of business processes and cost structures.

The Real hypermarkets succeeded in distinctly improving further their results for the fourth year in succession. EBIT rose from € 147.0 million by € 13.5 million to € 160.5 million. This corresponds to a growth by 9.2 percent. The positive earnings trend mainly results from wider 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. Among other objectives, these restructuring measures comprised the optimizing of the location portfolio, the organization and the streamlining of the inventory.

In the fiscal year under review the consumer electronics centers of the retail 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 € 37.3 million lower 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.

## Financial result

The investment income for 2003 amounts to € -60 million. In the year under review, it was charged mainly with a waiver of claims outstanding in the amount of around € 250 million against Divaco. This expenditure is related to the termination of the Divaco commitment of METRO Group by divesting the shares in the Divaco group within the scope of a management buyout.

On the other hand, the investment income was positively influenced by a gain from the fair valuation of the AIB investment in the amount of € 221 million. € 62 million from the fair-value gain were realized in 2003 and distributed to METRO AG. The revaluation based on fair value basically takes into account the latest purchase price offers made by an investor group.

## Group net profit and earnings per share

The consolidated net income for fiscal 2003 of € 571.4 million exceeds the prior-year mark by 13.8 percent. Net of minority interests the group's net profit allocable to the stockholders of METRO AG amounts to € 496.5 million which exceeds the previous year's figure by 12.0 percent.

In fiscal 2003, the METRO Group generated earnings per share of € 1.52. This key figure calculated pursuant to IAS 33 (Earnings per Share) shows a 12.0 percent increase compared with the prior-year value of € 1.36 calculated on the same basis.

A dilution effect did not take place neither in the year under review nor in the previous year.

In fiscal 2003, the calculation was based on a weighted number of 326,787,529 shares. The group's net profit of € 496.5 million due to the stockholders was distributed among that number of shares.

| | | 2003 | 2002 | Change absolute | Change % |
|---|---|---|---|---|---|
| Consolidated net income | € million | 571 | 502 | 69 | 13.8 |
| Minority interests | € million | (75) | (59) | -16 | 28.0 |
| Group net profit after minority interests | € million | 496 | 443 | 53 | 12.0 |
| Weighted number of shares issued | shares | 326,787,529 | 326,787,529 | – | – |
| Earnings per share | € | 1.52 | 1.36 | 0.16 | 12.0 |

## Balance sheet profit of METRO AG and dividend proposal

In the year under review, METRO AG received income from shareholdings of € 1,008 million from its subsidiaries compared to € 1,248 million in the previous year. After write-downs on financial assets (€ 26 million) and inclusion of other income, expenditure and taxes, as well as after allocation of € 100 million to revenue reserves, the company shows a balance sheet profit of € 345 million compared to € 342 million in 2002.

The Supervisory Board and the Management Board of METRO AG will propose to the annual general meeting that from the reported balance sheet profit at year end of € 345.3 million a dividend in the amount of € 333.6 million be paid and that the balance of € 11.7 million be carried forward to new account. The balance sheet profit of € 345.3 million includes retained earnings of € 8.3 million. This will result in a dividend distribution of

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

## Statement of value added

With its value added statement, the METRO Group recognizes the origin and appropriation of its economic performance in the 2003 fiscal year compared to the previous year. The value added is determined by deducting from the corporate performance (return on sales and other income) the necessary advance payments relating to cost of materials, depreciation/amortization and other expenses. The origin of value added is compared to its appropriation. In this context, the contributions to the value added made by the individual interest groups are posted. The result demonstrates the macroeconomic performance strength of the METRO Group.

| Origin of value added | 2003 | | 2002 | | 2003-2002 |
|---|---|---|---|---|---|
| | € million | % | € million | % | delta % |
| Net sales | 53,595 | 96.2 | 51,526 | 95.6 | 4.0 |
| Other income | 2,131 | 3.8 | 2,355 | 4.4 | -9.5 |
| **Corporate performance** | 55,726 | 100.0 | 53,881 | 100.0 | 3.4 |
| Cost of materials | 41,496 | 74.4 | 39,923 | 74.1 | 3.9 |
| Depreciation/amortization | 1,312 | 2.4 | 1,251 | 2.3 | 4.9 |
| Other expenses | 5,508 | 9.9 | 5,572 | 10.4 | -1.1 |
| **Value added** | 7,410 | 13.3 | 7,135 | 13.2 | 3.9 |

| Appropriation of value added | 2003 | | 2002 | | 2003-2002 |
|---|---|---|---|---|---|
| | € million | % | € million | % | delta % |
| Stockholders | 334 | 4.5 | 334 | 4.7 | – |
| Employees | 5,899 | 79.6 | 5,715 | 80.1 | 3.2 |
| Public fisc | 326 | 4.4 | 399 | 5.6 | -18.3 |
| Lenders [1] | 614 | 8.3 | 519 | 7.3 | 18.3 |
| Minority interests | 75 | 1.0 | 59 | 0.8 | 27.1 |
| Corporation (earnings retention) | 162 | 2.2 | 109 | 1.5 | 48.6 |
| **Value added** | 7,410 | 100.0 | 7,135 | 100.0 | 3.9 |

[1] Including interest expenses for pension accruals

The total performance of the company was enhanced in the year under review by the growth in sales revenues of the METRO Group by 3.4 percent to € 55,726 million. Net of advance payments for materials, depreciation/amortization and other expenses, the value added of the METRO Group amounted to € 7,410 million or 13.3 percent of the corporate performance, respectively. This corresponds to a 3.9 percent increase compared to the previous year.

€ 5,899 million of the value added were contributed by the employees and € 334 million by the stockholders. € 614 million will be appropriated to the lenders, € 326 million to the public fisc and € 75 million are earmarked for minority interests. The amount of € 162 million is retained in the company as reserve.

# EVA – instrument of corporate management

**Value-oriented corporate management is the cornerstone of sustainable profitable growth**

The METRO Group is dedicated to a corporate management geared to boosting company value on a sustainable basis. The central benchmark by which to measure economic success is Economic Value Added (EVA). EVA is an internationally proven control and management system which enables all strategic and operating activities at the group to be analyzed and assessed on the basis of their contribution to the enhancement of the company value. That is why EVA is the touchstone for all strategic and capital allocation decisions at the METRO Group. Moreover, the development of EVA is the essential element in the variable remuneration system of METRO Group executives. All the way from the Management Board members of METRO AG through to the store managers of the sales divisions, the major portion of their variable income is linked to the delta EVA, i.e. the positive development of EVA, of their respective business units.

**EVA established group-wide as the central benchmark for value growth**

The ability of METRO Group to continuously increase the economic value of the company bears evidence to the performance potential of the group. It demonstrates that the METRO Group employs its capital success-fully. The increase in company value is reflected in a positive EVA. It is achieved when the net operating profit exceeds the necessary cost of the capital to be used for financing the capital employed.

The net operating profit is defined as the operating profit before financing cost but after deduction of taxes on income (NOPAT). The capital cost is the compensation expected by investors for the capital they make available and for their investment risk. To determine the cost of capital, the capital employed is multiplied by the weighted average cost of capital (WACC) i.e. the weighted average of the cost of equity capital and borrowed capital, being calculated by applying the capital asset pricing model (CAPM). The WACC dropped in 2003 to 6.5 percent as against 7.3 percent a year earlier. This mainly reflects the improved risk profile of the METRO Group, for example thanks to the continued internationalization and the resulting restriction of dependency on individual markets as well as the lower level of interest at the capital markets. This calculation makes allowance for an equity capital cost rate of 10.0 percent (previous year 10.8 percent) and a borrowed-capital cost rate before taxes of 6.0 percent (previous year 6.3 percent). The capital employed is made up of the sum total of fixed assets tied up over the period under review of one year and the net current assets including all rent obligations. Hence the following formulae are applicable to calculate EVA:

EVA = NOPAT – capital cost
or
EVA = NOPAT – (capital employed x weighted average cost of capital rate)

EVA is calculated by deducting the cost of capital from the NOPAT of the group and of the sales divisions, respectively. The crucial value for the assessment of the entrepreneurial success is delta EVA, i.e. the difference between the current EVA and that of the previous year.

Consistently applied as a control instrument in corporate practice, EVA will always channel capital into those business units which promise to achieve the highest value added. EVA exercises a resource-allocating function.

**EVA and delta EVA at METRO Group in fiscal 2003**

In the 2003 fiscal year, the METRO Group achieved a positive EVA of € 203.7 million for the first time since the introduction of this control and management tool. The total improvement of € 213.2 compared to the prior-year mark results in an amount of € 88.3 million from operational business developments and an amount of € 124.9 million from structural effects. This means that METRO Group was in a position to employ its working capital so successfully that economic value was added. As in the previous year, the return on capital employed (RoCE) reached the mark of 7.5 percent. Consequently, it distinctly exceeded the capital cost rate of 6.5 percent in fiscal 2003. With this development, METRO Group again proved successful in its corporate strategy geared to profitable growth.

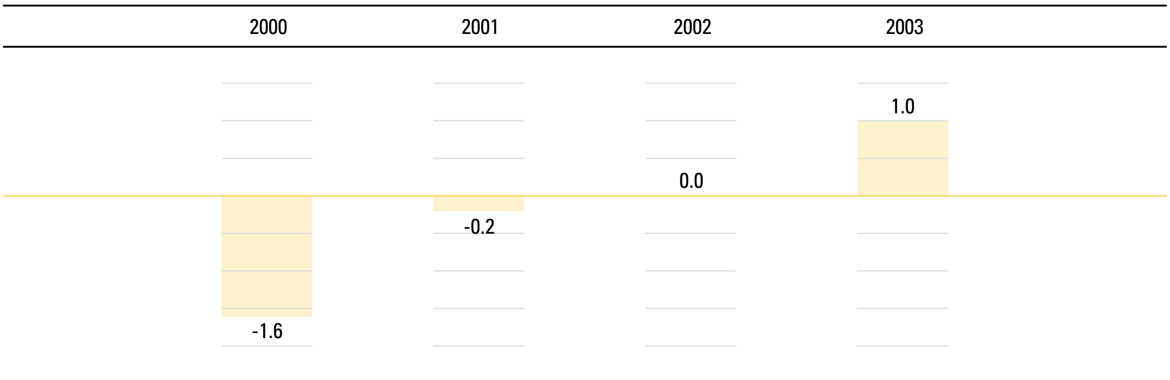
The NOPAT of the METRO Group climbed by € 114.6 million to € 1,541.1 million. At the same time, the capital employed rose by € 405.4 million to € 20,575.7 million. Aside from the expansive strategy of the METRO Group

| | 2003 | | | | delta EVA | | |
|---|---|---|---|---|---|---|---|
| | NOPAT € million | Capital employed € million | EVA € million | RoCE % | total € million | thereof operational € million | thereof structural effects [1] € million |
| Metro Cash & Carry | 696.0 | 5,234.1 | 355.8 | 13.3 | 27.9 | 28.5 | (0.6) |
| Real | 259.5 | 5,164.9 | (76.2) | 5.0 | (12.7) | 24.3 | (37.0) |
| Extra | (8.5) | 1,413.5 | (100.4) | (0.6) | (9.8) | (12.9) | 3.1 |
| Media Markt and Saturn | 266.0 | 1,416.6 | 173.9 | 18.8 | 23.6 | 13.5 | 10.1 |
| Praktiker | 70.7 | 2,540.6 | (94.5) | 2.8 | 27.0 | 26.5 | 0.5 |
| Kaufhof | 86.5 | 2,004.7 | (43.8) | 4.3 | 4.4 | (9.5) | 13.9 |
| **Metro sales divisions** | 1,370.2 | 17,774.4 | 214.8 | 7.7 | 60.4 | 70.4 | (10.0) |
| Other companies/consolidation | 170.9 | 2,801.3 | (11.1) | 6.1 | 152.8 | 17.9 | 134.9 |
| **METRO Group** | 1,541.1 | 20,575.7 | 203.7 | 7.5 | 213.2 | 88.3 | 124.9 |

[1] The structural effects mainly concern the reduction of WACC and changes in the EVA calculation scheme.

the increase in capital is attributable to the lower borrowed-capital cost rate before taxes which causes a theoretical increase in cash values from rental obligations. The cost of capital only rose slightly by € 26.4 million to € 1,337.4 million due to the lower WACC compared to the previous year's mark. The return on sales referred to the capital employed rose slightly above the comparable prior-year value of 2.8 percent, at 2.9 percent. The capital turnover remained constant at 2.6.

DIFFERENCE BETWEEN ROCE AND WACC IN PERCENT POINTS SINCE THE INTRODUCTION OF EVA AT METRO GROUP



## 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 if to accept certain risks, the METRO Group is guided by the principle of sustainable 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 by-laws 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 groupwide. 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 early on any changes in the consumers' demands and behavior. 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 ideas 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 adds to 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 in-house 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, section no. 40.

**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 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 mandatory goals, principles, responsibilities and competencies for the financial division of METRO AG. 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 also a member, is responsible for monitoring all relevant financial risks in consideration of current market trends and the efficiency of the financial risk strategies derived.

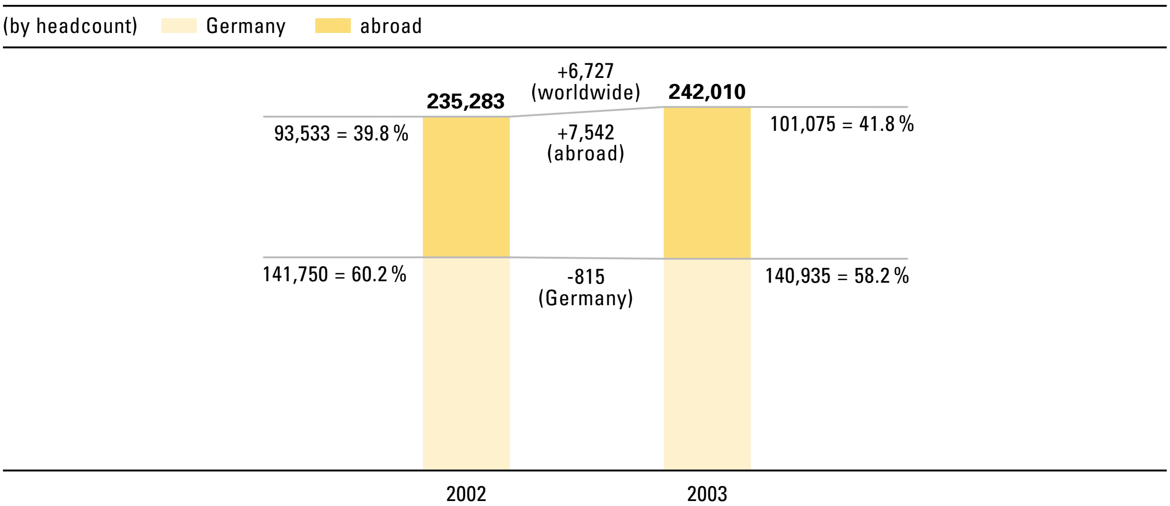
# Employees

## Personnel structure

### METRO Group – an important national and international employer

In line with the ongoing dynamic growth of METRO Group, the number of employees in the group rose further in the past fiscal year. Excluding trainees, METRO Group had a headcount of 242,010 on an annual average. Expressed in terms of full-time employees, the workforce increased group-wide by a total of 3.6 percent, from 191,512 to 198,486. In the year under review, METRO Group created 6,974 new, additional full-time jobs. Thus, the company once again testified to its position as a major global employer.

WORKFORCE OF METRO GROUP IN 2003 COMPARED TO THE PREVIOUS YEAR

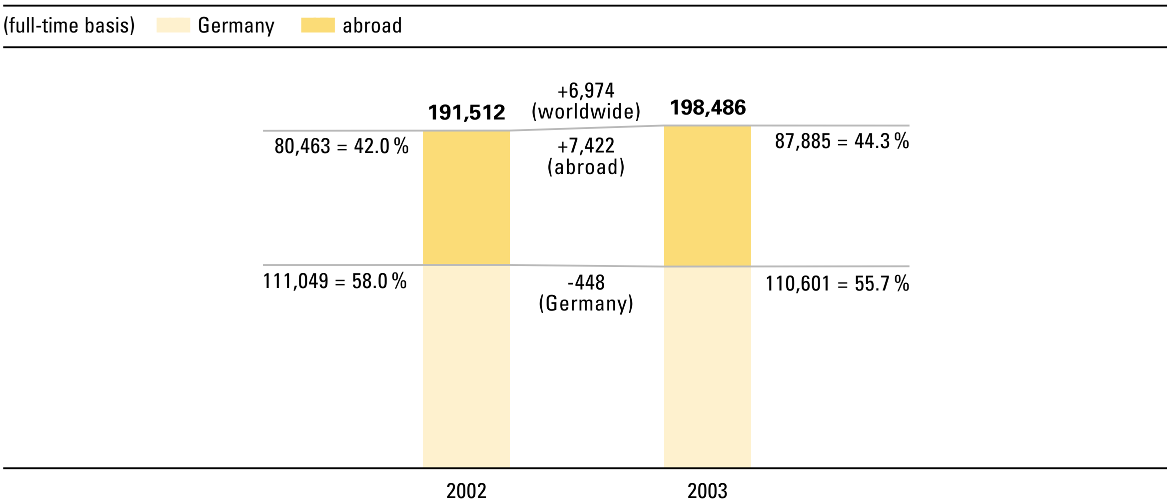



The proportion of part-time employees receded group-wide by 0.8 percent, from 45.0 percent to 44.2 percent in 2003. The average job tenure of employees rose to 7.1 years from 7.0 in the previous year. This clearly reflects the high degree of staff loyalty and identification with the company. The average age of the employees rose group-wide by 0.9 years, from 34.8 to 35.7 years.

### Slight decrease in number of employees in Germany

In line with the personnel adjustment to the general economic conditions, the number of employees on a full-time basis in Germany dropped on an annual average by 0.4 percent, from 111,049 in the previous year to 110,601 in 2003. An increase in the workforce of the sales divisions Metro Cash & Carry as well as Media Markt and Saturn contrasted with a slight decrease at the other sales divisions. The average job tenure of the employees in Germany rose further compared to a year earlier, from 8.6 to 8.9 years. The average age of the employees in Germany, of 37.9 years, remained at prior-year level.

WORKFORCE OF METRO GROUP IN 2003 COMPARED TO THE PREVIOUS YEAR



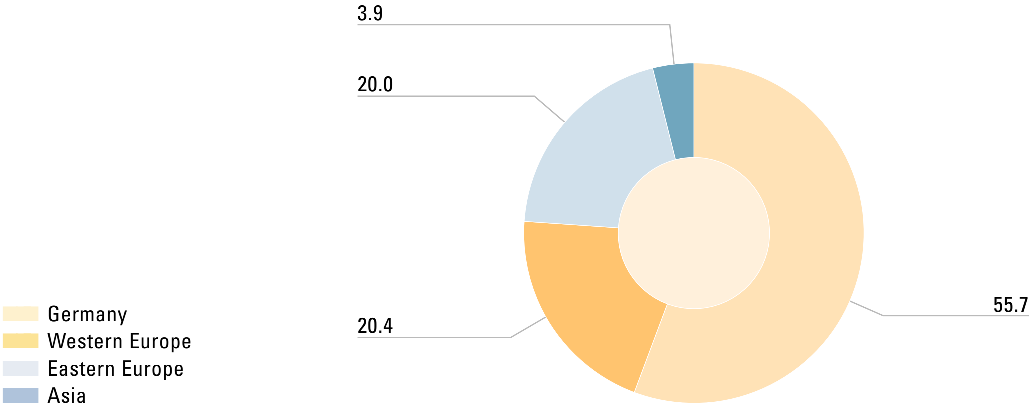

**Marked increase in number of employees abroad in line with consistent further internationalization**

The targeted continuation of the METRO Group's internationalization in 2003 led to a distinct increase in headcount abroad. Converted to full-time equivalents, the number of employees at the METRO Group outside Germany rose by 7,422. This corresponds to a 9.2 percent increase. The proportion of employees working abroad related to the total headcount of METRO Group thus climbed from 42.0 percent in 2002 to 44.3 percent in the past fiscal year. In 2003, METRO Group was represented in 27 countries outside Germany. In total, on an annual average, 87,885 full-time employees abroad worked for the METRO Group. Of these, 91.2 percent were employed in Europe, namely 40,510 in Western Europe and 39,669 in Eastern Europe. In the East European region the workforce increased above average at a growth rate of 9.7 percent in line with the concentrated expansion of the METRO Group's business activities there. In Russia, the headcount rose from the previous year by 1,478, in Romania by 696 and in the Ukraine by 320.

In those Asian countries in which METRO Group is represented as well as in Morocco, the number of employees increased by 17.3 percent in total, to 7,706.

METRO GROUP EMPLOYEES BY REGION

(full-time basis) in %




**Heterogeneous development of employee numbers at the sales divisions**

In congruence with its vigorous growth, the Metro Cash & Carry sales division distinctly raised the number of its employees in Germany and abroad. The workforce rose by 7.4 percent to a total of 77,347 full-time equivalents. In Germany, the number of employees in the wholesale stores grew by 2.5 percent from the year 2002, to 15,967, as a result of the integration of further stores. Converted to full-time equivalents, 4,943 new employees were added at the foreign locations. Consequently, the total number of all employees abroad rose by 8.8 percent compared to the previous year, to 61,380. At a share of 39.0 percent in the workforce of METRO Group, Metro Cash & Carry is the sales division to count the highest number of employees within the group.

At the Real hypermarkets, the number of employees in 2003, corresponding to 34,427 full-time equivalents, was almost at the prior-year level of 34,526.

The Extra supermarkets reduced their workforce by 5.3 percent, from 13,311 to 12,601. This adjustment followed the continued optimization of the outlet network, the further spin-off of small-area stores to franchisees and the pooling of administrative functions with those of the Real sales division.

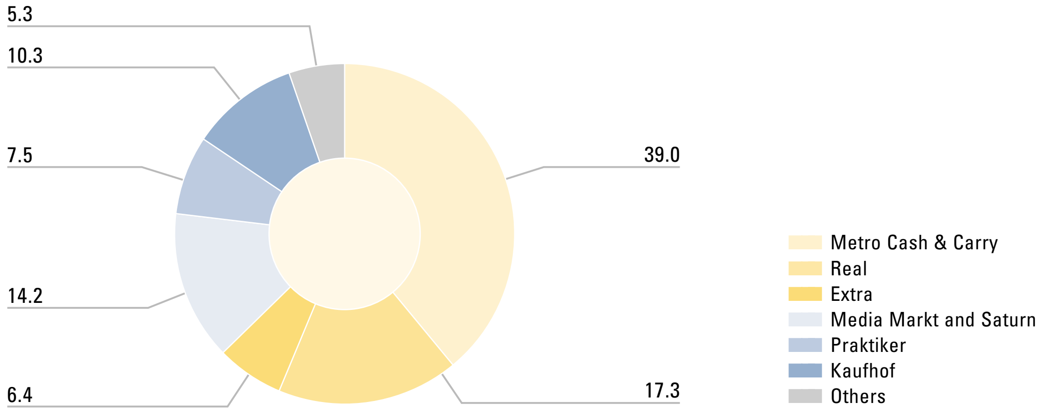
At Media Markt and Saturn, the further densification of the outlet chain as a result of ongoing dynamic growth in Germany and within Europe in 2003 again boosted the workforce. In Germany, the number of employees in the consumer electronics centers rose by 3.1 percent to 15,753 and outside Germany, by 22.7 percent to 12,418 employees.

Praktiker Bau- und Heimwerkermärkte AG had a total of 14,937 employees on an annual average in the past fiscal year, calculated as full-time equivalents. Abroad, the sales division reports an increase in the workforce by 8.6 percent to 4,742 for fiscal 2003 whilst in Germany the headcount fell by 2.9 percent from the previous year in line with the consistently continued streamlining of the outlet portfolio.

At the Kaufhof department stores, the number of employees corresponding to 20,484 full-time jobs was on balance slightly below the prior-year level. In

PROPORTION OF METRO GROUP EMPLOYEES BY SALES DIVISION

(full-time basis) in %



DISTRIBUTION OF EMPLOYEES BY COUNTRY AND BY SALES DIVISION IN 2003 (FULL-TIME BASIS)[1]

| | Metro Cash & Carry | Real | Extra | Media Markt and Saturn | Praktiker | Kaufhof | Other companies | METRO Group |
|---|---|---|---|---|---|---|---|---|
| Germany | 15,967 | 27,714 | 12,601 | 15,753 | 10,195 | 19,056 | 9,316 | 110,601 |
| Poland | 5,138 | 5,611 | | 1,771 | 1,275 | | 309 | 14,105 |
| France | 7,409 | | | 1,202 | | | 6 | 8,617 |
| Italy | 4,163 | | | 3,181 | | | 20 | 7,363 |
| Hungary | 3,169 | | | 813 | 1,164 | | | 5,146 |
| China | 4,559 | | | | | | 486 | 5,045 |
| Romania | 4,273 | | | | 297 | | | 4,570 |
| Belgium | 2,768 | | | 228 | | 1,428 | | 4,424 |
| Great Britain | 4,406 | | | | | | 4 | 4,410 |
| Spain | 2,449 | | | 1,815 | | | | 4,264 |
| Netherlands | 3,151 | | | 973 | | | 6 | 4,131 |
| Austria | 1,976 | | | 1,599 | 160 | | 32 | 3,766 |
| Turkey | 1,679 | 1,086 | | | 570 | | 181 | 3,516 |
| Czech Republic | 3,258 | | | | | | | 3,258 |
| Russia | 2,772 | 16 | | | | | | 2,788 |
| Greece | 1,098 | | | | 1,072 | | 5 | 2,175 |
| Portugal | 1,846 | | | | | | | 1,846 |
| Bulgaria | 1,781 | | | | | | | 1,781 |
| Slovakia | 1,322 | | | | | | | 1,322 |
| Vietnam | 1,004 | | | | | | | 1,004 |
| Switzerland | | | | 837 | | | 154 | 991 |
| Morocco | 990 | | | | | | | 990 |
| Croatia | 665 | | | | | | | 665 |
| Denmark | 494 | | | | | | | 494 |
| India | 406 | | | | | | | 406 |
| Ukraine | 344 | | | | | | | 344 |
| Japan | 251 | | | | | | | 251 |
| Luxembourg | | | | | 204 | | | 204 |
| Singapore | 10 | | | | | | | 10 |
| **Total** | 77,347 | 34,427 | 12,601 | 28,171 | 14,937 | 20,484 | 10,519 | 198,486 |

[1] Including rounding differences

Belgium, the department store chain increased its staff in the past year by 5.2 percent to 1,428 employees.

**METRO Group – an attractive vocational trainer for young people**

METRO Group professes its social responsibility as an employer and vocational trainer. The sales divisions and companies of the group therefore offer several thousand interested juniors a wide range of varied and attractive apprenticeship places every year. With an eye on the further demographic development in Germany, training young people who are willing to perform and recruiting them for a job in the company is at the same time regarded as an important contribution to securing the future of the company. In the past fiscal year, in Germany 2,943 trainees started their trading career at METRO Group. This means that in 2003 METRO Group employed 3.4 percent more new trainees than in the previous year. On an annual average in 2003, the company employed a total of 8,412 trainees in Germany, so that the high apprenticeship rate of 7.6 percent was maintained.

**Optimization of HR management through "METRO Group Performance Management"**

Satisfied employees appropriately qualified for their job and willing to perform are a basic prerequisite for sustainable, profitable growth of the METRO Group now and in future. The company therefore endeavors to continuously further optimize its HR management. With this objective in mind, in the past fiscal year a new personnel concept was developed in the company under the title of "METRO Group Performance Management". This concept focuses on the establishment of a strategic key data system that allows to value important success factors in HR management. Success factors according to this definition are, for example, job qualification, willingness to perform, international alignment as well as the employees' disposition and ability for innovations.

**Access to employee portal "mymetro" extended**

The employee portal "mymetro" which was tried and tested at METRO AG in 2002 was extended to MGI METRO Group Information Technology in the course of the past fiscal year. It is planned to introduce this system throughout the group. "mymetro" is a comprehensive technical work and communication platform by means of which information, programs and electronic work flows can be efficiently linked and which allows to improve the knowledge management within the group. Via "mymetro", all linked employees can design the work surface of their PCs in accordance with their individual requirements and gain quick access to the data that are relevant for them. This facility renders routine work much easier and increases the efficiency of work processes. The group's sales divisions and companies may also deposit specific contents in the portal which are only made available to selected users.

## Collective bargaining policy

### Reasonable result of collective bargaining

The 2003 collective bargaining round meant a great challenge for the retailing industry in several respects. It was necessary to take account of the extremely difficult situation of the retailing industry in Germany by finding a reasonable trade-off in wage policy. Moreover, the previously negotiated wage agreements in other segments of the economy rendered the talks difficult as they contained clauses that were not acceptable for the retailing sector. In addition, the search for a compromise was burdened by controversies in anticipation of the amendment to the German Shop Closing Hours Act. After a conflict-laden bargaining round of several months results were eventually achieved in the wholesale and export trade as well as the retailing sectors which imposed a still tolerable annual burden on employers of less than 1.5 percent for a term of 24 months.

New collective agreements becoming necessary in 2003 in line with the amendment of the German Shop Closing Hours Act also pay regard to the especially tight economic situation of the retailing industry in Germany, remaining largely cost-neutral for the employers without affecting their competitiveness. One factor contributing to this acceptable arrangement is the full waiver of additional wage pays for work on Saturdays before Christmas agreed for a period of two years.

### Retailing industry as a pioneer of an innovative bargaining policy

The fair balance of interests between employers and employees based on forward-looking collective agreements acceptable to both parties is a significant precondition for the group's sustainable, profitable growth. In cooperation with other renowned retailing companies, METRO Group therefor founded "Fachgemeinschaft Innovative Tarifpolitik" (FIT) as a federation for innovative bargaining policy. This association pursues the aim to try out efficient forms in a fundamental redesign of local union agreements and establish a model for a future-oriented collective agreement code exemplary for the service sector. To this end, FIT jointly with the service employees' union Verdi is developing innovative approaches to an up-to-date bargaining policy, away from the customary collective wage discussions but with the involvement of the federations of employers HDE (Trade Association of German Retailers) and BAG (Federal Retailers' Association). In the past fiscal year, FIT focused on the shaping of a modern compensation system. In the first half of 2004, FIT and Verdi will be establishing joint models for future collective agreements. Such schemes will also consider current data on work flow and requirements profiles. Following a successful test phase, the new concepts are to be integrated into the local union agreements. Both, employers and employees will definitely benefit from the planned agreements.

**Company pension scheme gaining in importance**

Since 1997 already, METRO Group has been helping its staff to set up voluntary old-age provision based on the "Metro-Zukunfts-Paket" (Metro Future Package), having adapted this scheme to the new statutory and collective bargaining requirements. Since 2002, the group's German employees have had an opportunity to improve their retirement benefits by converting part of their emoluments into voluntary pension contributions that receive preferential tax and social security treatment. METRO Group is making contributions and grants that are well above the collectively agreed level in the sector. These attractive fringe benefits are strengthening employee loyalty to the group and underline METRO Group's claim to be a company safeguarding the interests of its employees. Until the end of 2003, more than 50,000 employees of the group in Germany benefited from this scheme already. The innovative concept of provision for old-age is considered exemplary also outside the METRO Group.

**Progress in the integration of severely handicapped employees**

In 2003, METRO Group had a total of 3,775 employees with officially recognized severe handicaps. Hence, the proportion of severely handicapped employees of the group rose from 3.6 percent in 2002 by 0.3 percent. One focal objective of the commitment of METRO Group and its sales divisions was to recruit young people with severe handicaps for vocational training. In fiscal 2003, a total of 28 further trainees with recognized severe handicaps were employed. The total number of trainees with severe handicaps thus rose to 52.

Initiatives of METRO Group in 2003, the "European Year of People with Disabilities" underline the METRO Group's commitment to handicapped people. The Metro Forum initiated by the company in October 2003 which met with great response in public was a successful attempt to draw public's attention to the special problems of handicapped people in their search for an occupation and in working life. At the forum, representatives from the economy, social organizations and authorities as well as politics debated about the specific hurdles severely handicapped people have to overcome in working life as well as measures to ensure equal treatment and integration of people with disabilities.

## HR development

### Safeguarding the company's future through individualized promotion of young executives

The selection and promotion of high-performing, highly qualified junior executives is a primordial task of HR development. The further profitable growth of METRO Group substantially depends on whether and to what extent the sales divisions and companies of the group succeed in winning talented young junior staff for cooperation in the company in future and, what is more, preparing them selectively for management functions. In order to optimally leverage HR potentials, METRO Group relies on its group-wide, internally standardized staff development concept entitled "Metro Management Planning" (MMP). Based on this concept, talents are identified early on and prepared for management responsibilities by selective programs. MMP allows to tap international management resources throughout the group. The concept considers criteria that are valid and applicable group-wide, such as core competencies which are indispensable for a management position as well as clear assessment standards.

Further important elements of the METRO Group's hitherto successful HR policy are the top management's accessibility, in principle, to all capable employees as well as the proven recruiting of executives from the company's own ranks.

Thorough practical preparation on the job for management responsibilities is complemented by targeted training schemes for future top executives which are offered within the scope of “Metro Corporate University” (MCU). Such courses impart the knowledge required for taking over key functions later on within the METRO Group. Focal subjects of such courses are the Metro corporate policy, and internal knowledge is combined with the external know-how of experts with international experience. Employees from 28 nations attend the qualification programs, reflecting the cross-cultural environment that prepares for future assignments abroad and for work in an international team. Members of METRO Group’s Management Board are personally committed to the training and promotion of junior staff at “Metro Corporate University”, either as mentors or as lecturers.

With “Metro Business Simulation“ (MBS), METRO Group is the first retailing company to provide to its potential junior executives and other employees a custom-designed internet-based retail management simulation game mapping the management work flows and structures in a simplified form. MBS participants are to take on the role of sales division managers, having to steer their company virtually on a sustainable success course without losing sight of the interests of the group as a whole.

Moreover, all employees have the opportunity to attend the in-company training courses offered regularly which cover a diversified catalog of subjects around trading and retailing. In 2003, a total of 28,000 employees participated in training sessions offered group-wide.

**METRO Group breaks new ground in recruiting junior staff**

With the successful “Meeting Metro” event organized in 2002 for the first time and repeated in 2003, METRO Group selectively addresses young academics from the areas of business administration, economics and business information technology at universities in order to present the great variety of job activities and career opportunities within an internationally active trading and retailing group and arouse the students’ interest in employment after graduation.

On the occasion of the two-day information event “Meeting Metro”, METRO Group introduces students and teachers alike to the tasks and functions of its companies as well as the trading and retailing sector as a whole. The opportunity to interview the attending Metro staff in personal talks about career start and development prospects was also seized by a large number of participants in the year 2003. METRO Group will repeat these successful information events also in future and thus sharpen its profile as an attractive employer.

# Advanced retailing

**METRO Group makes an active contribution to the innovation and modernization of the international retailing business**

Continuous optimization of business processes in close cooperation with partners from industry and the service sector including international competitors is of primary importance for the future success of METRO Group in the national and international markets. Such efforts focus on the objective of advancing the innovation and modernization of worldwide retailing with an eye on optimal compliance with the consumers' expectations, along with efficiency boosts in business processes. With this goal in mind, METRO Group is, on the one hand, involved in numerous national boards and international specialist organizations dealing with the standardization and optimization of all relevant areas of the value chain on a strategic and operational level. On the other hand, METRO Group launches projects of its own to test and implement new concepts and technologies for the retailing business of the future.

The activities initiated within METRO Group for the purpose of optimizing the value chain have been pooled under the preliminary title "Advanced Retailing". This is a strategic concept geared to a continuous improvement of business processes which is a significant contribution to the further strengthening of the prominent position in the areas of innovation and technology. Such targets are initially implemented within the scope of internal individual projects, with the teams taking advantage of national and international expert knowledge available. In particular, the group-internal projects reap the benefits of the exchange of know-how and experience with the numerous national and international bodies where METRO Group is represented worldwide and which sound out the possibilities of using state-of-the-art technologies and develop new retailing standards. Although the subjects covered by the projects are in part fundamentally different, the mode of procedure is always the same. The strategic starting point of every newly launched project are invariably the customers' expectations in the specific retailing segment analyzed. With this focus, the demand for innovation is ascertained in each individual case. A concrete set of actions is established on this basis designed to ensure better compliance with customer demands. These concepts are developed in close cooperation between the sales divisions and companies of METRO Group on the one hand, and producers and suppliers on the other. The actions defined in the individual sales divisions of the group are implemented by thoroughly trained specialists. The corporate function ECR (Efficient Consumer Response) of METRO Group is responsible for coordinating all projects of Advanced Retailing.

On balance, the project work described and the underlying integral analysis of consumer needs along with the management of the value chain lead to the optimal adjustment of the flow of merchandize and information tuned to the customers' demands. This way, improvements in retailing are achieved along the complete value chain.

**METRO Group is committed to the worldwide standardization and harmonization of business processes**

Among other aspects, the METRO Group's commitment to Advanced Retailing also includes its representation in all important international bodies dealing with the development of generally accepted retailing standards. In the first place, METRO Group makes constructive contributions to work teams of the Global Commerce Initiative (GCI), catering to the development of uniform process flows and standards on a strategic and operational level, such as the classification of merchandize categories. METRO Group is the only German retailing company represented in this significant association of the worldwide leading companies from commerce and industry.

In 2003, METRO Group participated in a total of more than 30 development projects implemented under GCI's responsibility. These include a project that focuses on the elaboration of an electronic product code (EPC), an internationally accepted code designed to replace the barcode which is still customary in retailing. A standardization of the code contents and the introduction of an innovative data storage medium for this code will make a substantial contribution to an efficiency boost in retailing process flows in future. In this context, efforts are made to define a uniform article identification based on an encrypted number code by which specific product information such as best before, price or weight can be directly assigned to the respective articles.

Moreover, METRO Group is engaged in the organization entitled Efficient Consumer Response Europe (ECR Europe) where producers, wholesalers and retailers as well as service providers have joined forces with the aim of optimizing the processes along the entire value chain in commerce for all companies involved. For example, one of the projects initiated by ECR Europe caters to the definition of new, improved standards for the height of load of trucks in order to substantially increase the utilization rate of existing transport capacities. A further project is designed to adjust even better the stores' supply with merchandize by the producers to the respective consumer demand and thus to preclude delivery bottlenecks.

Furthermore, METRO Group contributes its expertise, especially in the electronic exchange of business data and process optimization, to the work of Centrale für Coorganisation Germany (CCG). CCG defines itself as a service and competence center for intercompany business processes in the German consumer goods industry and akin sectors of economy. Aside from the elaboration and implementation of technical standards, one of the primary tasks of this organization is the harmonization of business processes on a national and international level.

**METRO Group attests to its strong innovative potential with self-initiated future-oriented projects**

Besides its cooperation with numerous national and international organizations, METRO Group also initiated projects of its own designed to contribute to the standardization and harmonization of retailing process flows, within the scope of its Advanced Retailing program. In the past fiscal year, it launched and/or continued a total of 28 own projects under this program. These include the following initiatives:

Collaborative planning, forecasting and replenishment (CPFR). CPFR describes a process by which producers and retailers can jointly improve the planning, forecasting and execution of their merchandizing business in order to have the merchandize demanded by the consumer always available in sufficient quantity, just in time. Within the scope of CPFR, METRO Group and its partners in the consumer goods industry are testing new, efficient standards and processes for optimizing the quantities ordered. For this purpose it exchanges information with its suppliers via Internet, coordinates advertising campaigns and controls merchandize inventories. Through improved coordination between the partners with respect to the goods volumes needed, it is viable to distinctly reduce the warehousing and handling costs while at the same time warranting the permanent availability of the merchandize in the stores.

**Customer Relationship Management (CRM).** Under the term "Customer Relationship Management" METRO Group unites the comprehensive management of customer relations with the objective of building up long-term customer loyalty to the sales divisions of the company and tapping new customer potentials. CRM pursues an integral approach by combining varied information from different sources, such as from market research systems. Under CRM, METRO Group compiles key data and establishes evaluation systems with the aid of which successful customer loyalty programs such as the Payback program implemented at Galeria Kaufhof and Real can be efficiently controlled and extended.

**Category Management plus (CMplus).** CMplus is an internet-based software developed by METRO Group to optimize the category management, applied for the first time in the past fiscal year. Through efficient pooling of customer-specific merchandize category information and the integration of relevant and always up-to-date market research data, this software constitutes a handy tool for category managers. Using CMplus, they may selectively call up the data relating to every category at their workstation and thus obtain a reliable basis for all strategic and operational decisions in category management. The software allows METRO Group to align its assortment policy selectively with customer demands. The company plans to cooperate with all its suppliers on the basis of CMplus in future.

**GCI Global Scorecard.** The Global Scorecard developed by GCI and ECR is an internationally applicable measuring instrument by means of which the successful implementation of the various measures in the area of Advanced Retailing can be assessed in the company itself and also in cooperation with partners from commerce and industry. METRO Group utilizes the innovative method of the GCI Global Scorecard for the continuous implementation of its group-internal benchmarking processes and performance assessment of its sales divisions in direct comparison with peer companies. On this basis, it is possible to check to what extent established and new standards are implemented in the sales divisions and what improvement actions may potentially have to be taken. Within the scope of a benchmarking conducted by METRO

Group and based on market partner surveys, in 2003 for example Metro Cash & Carry Deutschland was rated as an internationally leading company with respect to the implementation of standards and development of future-oriented technologies in retailing.

**Outlook**

METRO Group will also in future contribute to the development of new national and international processes, standards and technologies for optimizing the business work flows in retailing, and implement them in its sales divisions, through cooperation in international bodies and trade organizations as well as its own initiatives. At the center of all activities is the best possible fulfillment of customer expectations and the further increase in profitability by optimizing value-added processes. This way, METRO Group is in future bound to document even more distinctly its undisputed, high technology and innovation potential to the inside and outside.

## Environmental protection

The METRO Group's corporate strategy is based on the principle of giving equal consideration to both economic and ecological aspects in its corporate policy. Only when these two interests are reconciled will the company achieve sustainable success in its domestic and international markets. This principle is expressed in the establishment and continuous optimization of environmental management in the company which has borne fruit through a distinct reduction of the consumption of resources and the volume of waste produced in the group. As a result, substantial savings potentials have been generated. At the same time, the company has made a significant contribution to the concept of environmental protection. The complete waiver of environmentally harmful fluorinated hydrocarbons in the operation of the cold store in Hamm, newly erected in 2003 under the management of the logistics company MDL, stands out as an important example of this dual strategy of the company. The logistics company which is part of the METRO Group uses ecologically friendly ammonia as alternative refrigerant in this large-scale store, thereby materially reducing energy costs.

The company expects further efficiency boosts to be attained in the area of environmental management for which the cross-divisional service company MFS METRO Group Facility Services GmbH is responsible throughout the group based on uniform standards, through the development of internationally comparable key data for energy and water consumption as well as waste volumes. Work on this project commenced in the 2003 fiscal year. Such key data are to constitute the fundamentals for international benchmark studies which are to be conducted in the coming years. In turn, the information thus obtained is to form the basis for compiling a concrete catalog of measures aimed at the further optimization of environmental management.

In the waste management sector, which, like all other environment-relevant services, is centralized in MFS having full responsibility for this task, the company succeeded in implementing the high waste disposal and clean-up standards of METRO Group in additional countries in the past year.

The year 2003 also saw the establishment of an internet-based environment information system which has further improved the exchange of information and experience between the employees responsible for environmental protection throughout the group.

The second sustainability report to be published in 2004 will provide detailed information about the improvements actually achieved in environmental management in 2003. Aside from the progress made by the group in the areas of economy, human resources and social commitment, this report is primarily also to document the success of responsible, environment-oriented corporate policy.

## Social commitment

METRO Group's self-image as one of the worldwide leading trading and retailing companies is essentially influenced by its acceptance of social responsibility. This is reflected in the group's diversified commitment in the most varied social, economic and cultural areas.

**Active cooperation with associations and organizations**

METRO Group is thoroughly involved in the process of shaping the economic-political and legal framework for national and international trading and retailing. To this end, the group is engaged in a continuous exchange of ideas with organizations and representatives of various groups from politics, the economy and society. METRO Group managers contribute their know-how and their experience in order to prepare future-oriented solutions for current challenges in the retailing sector in close cooperation with other economically and socially committed groups. Together with other representatives of the sector and their institutions, they are active in committees of the retailing and wholesaling associations in developing and submitting practice-oriented draft bills and preparing recommendations for efficient implementation. Furthermore, within the scope of its social commitment, METRO Group also formulates its own corporate and trade-specific interests in a dialog with the respective decision-makers. Through active cooperation in the examiners' committees of the Chambers of Commerce, METRO Group also supports those institutions' efforts in training junior staff for the retailing industry.

**Consistent education and promotion of cross-cultural understanding**

Encouraging committed and high-performing young people to work for METRO Group is an indispensable prerequisite for the success of the group in national and international business. For several years, the group has been staging various individual initiatives and events to address students in order to familiarize them with the various training schemes and career opportunities they have in an internationally active retailing group and arouse their interest in the retailing and wholesaling trade. METRO Group thus establishes contacts with potential future managers and other staff early on.

The German-Polish promotion project "Metro Edukacja" stands out as a convincing example of the training of young people. The scheme is geared to fostering the specialist knowledge of young people in the retailing and wholesaling trade. In close cooperation between Polish commercial colleges and the Education Center of the Retail Trade (Bildungszentrum des Einzelhandels BZE) of the German State of Saxony, suitable curricula were designed to give the students an insight into the world of trading and retailing and familiarize them with the importance of this industry in a prospering market economy. The sales divisions active in Poland, i.e. Metro Cash & Carry (Makro), Real and Praktiker are making available practical training under the scheme. Since 2002, moreover the "Metro Edukacja" project has added a vocational training program for trainees. By the end of the past fiscal year, 770 students and trainees had been participating in the project at a total of 30 Polish trade establishments. For the years 2004 and 2005, there are plans to extend "Metro Edukacja" to other countries in Central and Eastern Europe.

In order to increasingly recruit trainees from the German market to work for the METRO Group and to provide suitable training opportunities at Metro for as many young people leaving school as possible, METRO Group launched various training initiatives through its METRO Group Regional Meetings (MGRM). The METRO Group Regional Meetings are regional work teams in which representatives of the sales divisions and cross-divisional service companies take on varied social and economic responsibilities on a local level jointly with public institutions and associations, supporting initiatives for urban development, for example. Another example of the group's commitment to training is a training exchange of MGRM Frechen to help young people in their decision making process for a qualified vocational training in cooperation with schools, vocational training institutions, the local employment office, the sales divisions and personnel development function of the METRO Group in 2003.

Also in 2003, METRO Group further extended its participation in the learning partnerships of the institute "Unternehmen & Schule" in order to improve the networking between schools and business companies. A primary objective of this cooperation backed by the chambers of commerce, employers' association and school boards is to render school education more practical and familiarize the students with the tasks and responsibilities waiting for them in the economy. In the past year, METRO Group cooperated with 26 schools in North-Rhine Westphalia on this basis in order to impart to students an understanding of retailing and economic aspects.

**Corporate citizenship**

METRO Group supports social projects in the vicinity of department stores and markets of its sales divisions. This includes, for example, the "Trainee Social Commitment" project. Under this project, a team of about 30 particularly qualified trainees from all six sales divisions and from the cross-divisional service companies volunteer to work for a charitable cause for two days every year. This honorary work is designed to foster social competence, self-confidence and team spirit among the participants, properties which are essential to career development.

Furthermore, the company supports people in need on local and regional levels by providing them with free food. In 2003, METRO Group with around 500 Metro Cash & Carry, Real and Extra stores again took part in "Die Tafel", a food distribution initiative active with great success in all German States.

**Sponsorship for many cultural and sporting events**

METRO Group also pays tribute to its social responsibility by sponsoring various regional cultural and sporting projects. In Düsseldorf, where its headquarters are located, the group has entered into a long-term partnership with the museum of arts "Museum Kunst Palast". For instance, one project of the museum backed by METRO Group in 2003 which aroused much attention was the exhibition "The Record of Time" by the New York artist Laurie

Anderson. The group also supported the cultural festival "Düsseldorfer Altstadtherbst" as well as the Benrath Music Festival.

Since 2002, METRO Group has also been committed to ice hockey and has been sponsoring the team of the 1st German Ice Hockey League in Düsseldorf, sporting the name "DEG METRO STARS". As one of the chief sponsors of the FIS World Cup of ski sprinters, METRO Group sponsored the official opening of the Nordic season of the cross-country skiers organized by the West German Skiing Association in October of the past fiscal year.

For the fourth time in a row in 2003, the Real sales division took charge of the title sponsoring for the Berlin marathon, an international sporting event with 40,000 participants from 90 nations.

**Metro-Handelslexikon (Metro Trading Encyclopedia)**
With the first "Metro-Handelslexikon" (Metro Trading Encyclopedia) METRO Group published a comprehensive compendium of data, facts and addresses on retailing and wholesaling in Germany, Europe and worldwide in October 2003. With this publication, the group created a new source of information for interested parties from the economy, politics, associations, media as well as colleges, schools and universities, and thus contributed to sharpening the profile of trade in public as a varied and versatile industry. The encyclopedia has been received very well by expert circles, but also the interested public.

## Important post-year-end developments

The following significant events took place until February 26, 2004:

In line with the divestment of the Divaco group (see page 30), 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 stockholder of Adler in the amount of € 280 million. The purchase transaction took effect at January 1, 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 estate 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 even more intensely the economically beneficial vehicles of customer retention offered by attractive customer loyalty programs. 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 continue to 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.


Concepts
Expansion
Internationality

# Metro Cash & Carry

Metro Cash & Carry is the world's leading self-service wholesale store. This sales division is active in a total of 26 countries making it the most internationally oriented sales division within the METRO Group. At the same time, it has the highest share in the company's consolidated sales with 46.8 percent and is a growth driver within the group. The assortment of Metro Cash & Carry targets commercial customers and large-scale consumers for whom the Metro and Makro stores offer an extraordinarily extensive and high-quality range of both food and nonfood products at an attractive price-performance ratio. The basis for the economic success of this sales division is the high efficiency and flexibility of this internationally well-proven merchandizing concept.

In 2003, Metro Cash & Carry generated total sales of € 25.1 billion. With 46.8 percent share in consolidated sales, Metro Cash & Carry continued to be the sales division with the highest sales of the METRO Group also during the fiscal year under review. As a consequence of its targeted international expansion, 77 percent of the sales volume are achieved abroad. At the end of fiscal 2003, 475 wholesale stores were operated in 26 countries under the brand names Metro and Makro with a total selling space of 3.7 million square meters. The number of full-time employees rose from 72,010 to 77,347 staff members worldwide on an annual average.

## Metro Cash & Carry – A reliable partner for commercial customers and large-scale consumers

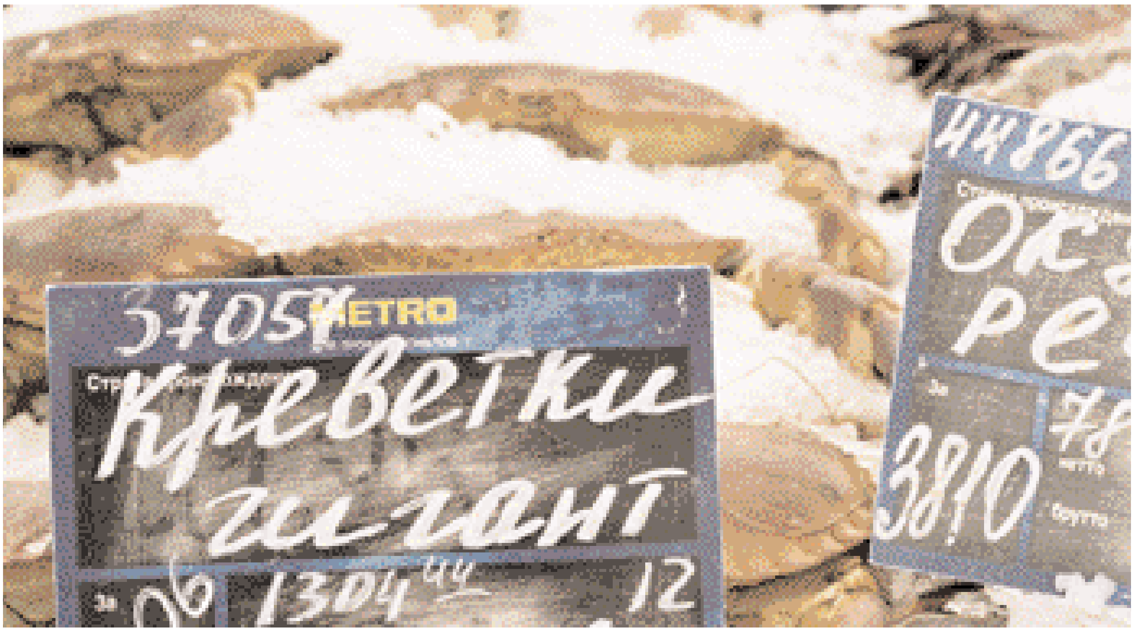
Under the motto "From professionals for professionals", the merchandizing concept of Metro Cash & Carry focuses on the specific needs of commercial customers and large-scale consumers including, in particular, hotels, restaurants and kiosks, small food retailers, institutions like hospitals and authorities as well as a growing number of service companies. For these customer groups, Metro Cash & Carry offers an exceptionally wide range of high-quality products under one roof. Depending on the size and type of store, the assortment includes up to 20,000 items in the food range and 30,000 items in the nonfood sector. The offering comprises almost the complete product range of leading national and international brands. In addition, the customer can chose from strong private labels which include the brands "Aro" and "Metro Quality" in the food sector and "Watson", "Fleurelle" and "Steinbach" in the nonfood range, among others. These products are exemplary for high quality and a favorable price-performance ratio. One of the characteristics of all Metro and Makro Cash & Carry markets esteemed by customers worldwide is the high competence for freshness which is permanently assured by efficient logistics systems and the water-tight quality assurance system operated by METRO Group with its stringent quality standards applicable across the entire group.

In addition to the extraordinarily large variety of the assortment and the reliable product quality, attractive wholesale prices and the consistently high level of supply security substantially contribute to the success of the merchandizing concept with commercial customers. Besides the possibility of covering their complete needs time-efficiently in one single shop, they also appreciate the extended opening hours and the accessibility of the wholesale stores.


COMPANY

| Metro Cash & Carry | |
|---|---|
| Sales | € 25.1 billion |
| EBIT | € 799.6 million |
| Number of locations | 475 in 26 countries |
| Total selling space | 3.7 million square meters |
| Headcount (annual average of full-time equivalents) | 77,347 |


INTERNATIONALITY




EXPANSION


CONCEPTS


## Successful international expansion strategy continued and distribution network further extended

Metro Cash & Carry is the sales division with the strongest international orientation within the METRO Group. On average, one or two new foreign markets are opened up every year. In this context, the sales division secures important strategic advantages over its competitors through early market entries. Fiscal 2003 saw the market entries in India and the Ukraine. Moreover, the sales division further extended its existing distribution network. Expansion activities concentrated on the emerging markets in Asia and Eastern Europe. With its internationally tried and tested merchandizing concept of self-service wholesale Metro Cash & Carry at the same time also made an important contribution to the establishment of an efficient trading and supply infrastructure in these countries. This benefits in particular small commercial retailers because the sales division also guarantees a permanently high level of supply security, among others.

The success of the purposefully continued internationalization is chiefly based on the strength and flexibility of the continuously developed merchandizing concept. Despite different market conditions and cultural environments, it can be applied to all foreign markets as it offers sufficient flexibility to accommodate local consumer habits. The latter is particularly apparent in the field of assortment policy. The product range offered by the Metro Cash & Carry markets varies from one country to the next, and is geared to the specific national and regional customer expectations and demands. Metro Cash & Carry purchases the major part of the products, i.e. 80 to 90 percent on average, from local producers and suppliers. This intensive integration of national and local businesses into the business activities of Metro Cash & Carry at the same time also promotes the high acceptance of the sales division on the foreign markets. This acceptance is additionally reinforced by the fact that the personnel hired for the stores, including the management staff, is almost exclusively recruited from the local market. In some countries like for example Hungary, Poland or Rumania, Metro Cash & Carry ranks among the most important private employers.

In addition to tapping new markets, Metro Cash & Carry is continuously extending its existing national and international outlet chain. During the fiscal year under review, the sales division opened a total of 39 new stores in Germany and abroad. With these new outlets, Metro Cash & Carry was represented at a total of 475 locations at the close of the fiscal year. In October 2003, the latest German Metro Cash & Carry store opened its gates in Neuss. This store is operated according to a new, single-floor concept which makes shopping even faster and more convenient for the professional customer. On a selling space of 16,000 square meters, a total of 50,000 different products are offered, of which about 20,000 in the food range and 30,000 in the nonfood sector.


## Consistently optimized merchandizing concept boosts earnings power

In the year 2003, the Metro Cash & Carry sales division again optimized its successful merchandizing concept to further advance its profitable growth trend. One of the focal points was the consistent conversion of additional stores to the "Store of the Future" concept launched a few years ago and successfully developed further ever since. In 2003, another 20 wholesale stores were converted to this concept or modernized. These stores are characterized by an even more efficient store design and product presentation that speeds up the shopping process. It efficiently accommodates the specific interests of the professional customer. Under the further optimization of the merchandizing concept, also the distinctive characteristics of the Metro Cash & Carry brand profile were revised in 2003 and guidelines for a worldwide uniform and modern corporate design defined. These measures shall help communicate the strengths of this sales division more clearly to external customers and internal staff members.

## Location-specific store formats guarantee high market penetration

To closely adapt the services portfolio of Metro Cash & Carry to the expectations and needs of its customers, the orientation towards different store formats constitutes the main element of the further optimization of the merchandizing concept of Metro Cash & Carry, in addition to the modernization of the wholesale stores and a uniform corporate design. With its three formats Classic, Junior and Eco stores which differ in selling space and assortment focus, Metro Cash & Carry is capable of ideally adjusting to the different market conditions and the varying regional customer needs. Different market potentials which are specific to each location are thus fully tapped. The largest product diversity is offered by the Classic stores operated mainly in Germany. On a selling space of 10,000 to 16,000 square meters, they provide the customer with a comprehensive assortment of food and nonfood products. The Junior stores have a smaller selling space in the range of 7,000 to 9,000 square meters and are mainly operated in Eastern Europe as well as in Southern Europe. This store format is particularly suited for locations with a smaller trading area. Stores of this type mainly offer a wide variety of food products supplemented by an extensive nonfood program to its commercial customers. The merchandizing range of the Eco stores, by contrast, is primarily limited to food items with a particular emphasis on fresh produce. They are mainly geared to catering to the needs of customers in the restaurant and hotel business who need large quantities of fresh and quality food on a daily basis. In terms of selling space, they range from 2,500 to 4,000 square meters.

## Optimized workflow opens up additional earnings potential

With the objective of continually increasing profitability, Metro Cash & Carry further continued the transnational harmonization of workflows and organizational processes during the period under review. This included the standardized and thus more efficient processing of orders, an improved warehouse and shelf management as well as the harmonized and optimized processing of incoming goods which had so far been handled in different ways by the individual stores using a variety of forms and data processing systems, among others. Metro Cash & Carry also made substantial progress in establishing a group-wide uniform IT and information infrastructure. With the objective of achieving an even closer and more coordinated transnational cooperation of all IT managers at the international headquarters of Metro Cash & Carry, at the international locations as well as at the cross-divisional service company MGI METRO Group Information Technology, a new organizational structure for the IT and information management of the sales division was introduced in May 2003. Under the new structure, the responsibilities and competencies in all areas relevant for technology have been assigned unequivocally. By optimizing IT processes and information infrastructure, in particular the international data exchange within the company was further accelerated, the update of software programs facilitated and an even more efficient control of the organizational and workflow processes achieved. Moreover, cooperation with the other sales divisions and cross-divisional service companies of the METRO Group in the fields purchasing and logistics on a regional and international level was intensified further during the year under review. With this set of measures for the optimization of business processes, Metro Cash & Carry has tapped additional savings potential. This contributed to further increasing the profitability of the sales division.

## International training centers for a targeted employee qualification being set up

The continuously advanced international expansion of Metro Cash & Carry also requires a systematic market- and trade-specific development of personnel. Therefore, the sales division in 2003 laid the foundations for the setting up of special training centers where the employees of Metro Cash & Carry will receive both professional and personal training. The training centers will offer a comprehensive program with specific technical training in the food and nonfood sectors as well as seminars for personality development of the employees. With this move, the sales division intends to further promote employee qualification and achieve a high qualification level that is comparable throughout all locations worldwide. This year, training centers will be opened in Shanghai, Paris and Düsseldorf followed by a center in Moscow scheduled to open in 2005.

## Outlook

Metro Cash & Carry will continue on its path of profitable growth also during the ongoing fiscal year and purposefully advance its international expansion. The high performance potential of the sales division, the further expansion of its business abroad, the continued customer-oriented optimization of the merchandizing concept as well as the permanent improvement of business processes constitute a good basis for substantially increasing profitability again yet in 2004. The sales division will further extend its world market leadership in the self-service wholesale business also against the backdrop of increasingly fierce international competition and difficult macroeconomic conditions.

In the current year, the sales division will focus its expansion on Eastern Europe and Asia. Around two thirds of all store openings scheduled for 2004 are planned in these emerging markets. The measures for the continuous further development and optimization of the merchandizing concept, will also continue to be consistently implemented. With this objective in mind, additional wholesale stores will be remodeled and the cross-company optimization of organizational processes and workflows will be advanced. The introduction of new, transnational logistics centers for fresh produce and imported goods is geared at improving the flow of goods in the corresponding assortment ranges, thereby contributing to an increase in the profitability of the sales division.


real
Choice
Customer loyalty
Assortment

# Real

With its innovative and strong merchandizing concept, the Real sales division succeeded in further maintaining its prominent market position in the German hypermarket segment in fiscal 2003. A high-quality assortment of goods at attractive prices and a high competence for freshness are but two of the particular strengths of this concept. During the fiscal year under review, the hypermarket network with now 289 outlets registered sales totaling € 8.2 billion with a daily frequency of up to one million customers in Germany alone. Real succeeded in winning additional market shares on the domestic market which was characterized by a drop in demand, while the sales division asserted its prominent market position in Poland and Turkey. Under the cooperation between Real and Extra in many administrative areas, both sales divisions will be able to benefit from synergies with a positive effect on results.

At the close of the fiscal year under review, Real's German distribution network comprised 255 outlets with an average selling space ranging between 5,000 and 8,000 square meters. The Real hypermarkets are characterized by a comprehensive assortment of up to 70,000 products. This is where customers can satisfy their weekly demand from a wide range of attractively priced, high-quality food products all under one roof. Moreover, Real hypermarkets offer a competitive assortment of nonfood items. The food products account for 75 percent of total sales. Fresh produce, one of the particular strengths of this sales division, make up for a substantial part of this figure. The 27 Real hypermarkets in Poland and the seven outlets in Turkey operated under this brand name successfully asserted their important market position during the period under review.

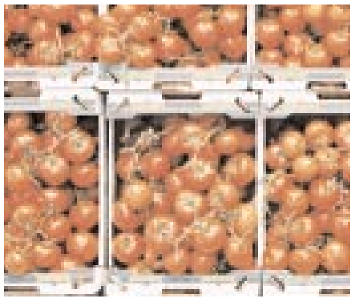
## Further optimization of the merchandizing concept raised the brand profile of this sales division

With a view to further optimizing their customer-oriented sales concept, the Real hypermarkets further extended their distinct competence for freshness during the period under review. The new marketing concept for meat sold at the counter by skilled and friendly staff launched in April 2003 throughout Germany is intended to attract the quality-conscious customer with high demands on freshness and quality. Real thereby consistently takes advantage of the industry's general withdrawal from individual customer attendance as an opportunity to raise its own profile, in particular also with a view to competitors targeting the discount market. The intensification of personal customer attendance was accompanied by a 12 percent extension of the hypermarkets' assortment in the meat and cold cuts range.

COMPANY

| Real | |
|---|---|
| Sales | € 8.2 billion |
| EBIT | € 160.5 million |
| Number of locations | 289 in 3 countries |
| Total selling space | 2.1 million square meters |
| Headcount (annual average of full-time equivalents) | 34,427 |

CHOICE



CUSTOMER LOYALTY

ASSORTMENT

In the nonfood segment, the existing successful shop-in-shop concepts were developed further and the assortment was updated to better meet the customers' continually changing expectations and tap additional customer potential. With the "B.O.B. Best of Books" shops, Real is targeting those customers who like to read and who conveniently combine the purchase of books with that of other goods. "Baby, Kids & Co." offers a very extensive assortment of food and nonfood products intended particularly for children up to the age of six, thus especially catering to the needs of young families. The drugstore concept of "beauty & more" covers the product ranges from body care, cosmetics and health through to wellness with a wide assortment of goods. The concept of "Real-Tierwelt" (Real's animal world) is geared towards pet owners and comprises all relevant pet foods as well as numerous accessories. Overall, the shop-in-shop concepts decisively contributed to the growth in sales and earnings of this sales division in the nonfood area also in 2003.

To induce the customers to spend and get a feeling for the pleasure of enjoying food and drinks was the objective of a special promotion launched during the period from October to November 2003 at all Real hypermarkets under the motto "Lust statt Frust" (Relish, don't relinquish). With a selection of interesting products offered at particularly favorable prices as well as raffles that attract the customers' attention with prizes for a total value of half a million euros, the sales division created incentives to spend and attracted the interest of consumers to visit its hypermarkets, in particular among the target group of young families. The prizes included electrical appliances, wellness and beauty weekends but also exceptional services such as temporary home help and babysitters.

## Extended opening hours resulted in a pick-up of sales

For the Real sales division, the extension of store opening hours on Saturdays resulted in new impulses for a rise in sales. Real made extensive use of this new legal option. The expectations raised in connection with the liberalization of store opening hours were fully met. Those hypermarkets which quickly extended their business hours on Saturdays were able to achieve a significant rise in sales on an average of 6 percent compared with the corresponding prior-year period.

## First hypermarket equipped with self-checkout lanes

In 2003, the Real sales division again underlined its distinct innovation capability. Having the customer in mind and with the objective of rendering the customer's shopping experience even more convenient and comfortable, Real used state-of-the-art technologies and equipped the first Real hypermarket with four self-checkout lanes. This gives customers the opportunity to speed up their checkout process. At the new checkout lanes which have already been successfully tested in METRO Group's Extra Future Store in Rheinberg, the customers can conveniently scan their purchases, pack them and pay – all on their own. A Real employee is available to help customers with the operation of the equipment, where necessary, and to assist them in case of problems. With the introduction of these technical innovations, which have been widely accepted by the customers as first field trials have shown, long checkout queues will be a thing of the past. This new form of self-checkout is to be understood as an alternative to the conventional checkout process. For those customers who would like to use the customary checkout service, the traditional checkout systems will continue to be available in the future.

## Payback continues to be an important instrument for customer loyalty

In view of the ever fiercer competition in food retailing, customer loyalty is of particular importance for business success. This is why the Real Customer Club joined the Payback system, which is Germany's leading customer loyalty program with over 25 million members, already at an early stage. During the period under review, Real was able to further raise the number of participants in the Payback program. The business potential of this customer loyalty program is elucidated by a glance at the sales volume generated with Payback customers. In the fiscal year under review, this volume per purchase was 55 percent higher than that generated with other customers.

## Merger of the Real administration with that of the Extra sales division opens up additional earnings potential

Essential tasks in the central administration of the companies Real and Extra have been combined in fiscal 2003 with the objective of further increasing efficiency and earnings by a cross-divisional cooperation in food retail. The cooperation covers the areas construction/installation, organization/IT, controlling, human resources, invoice verification, accounting/finance, legal services and real estate, marketing as well as internal audit

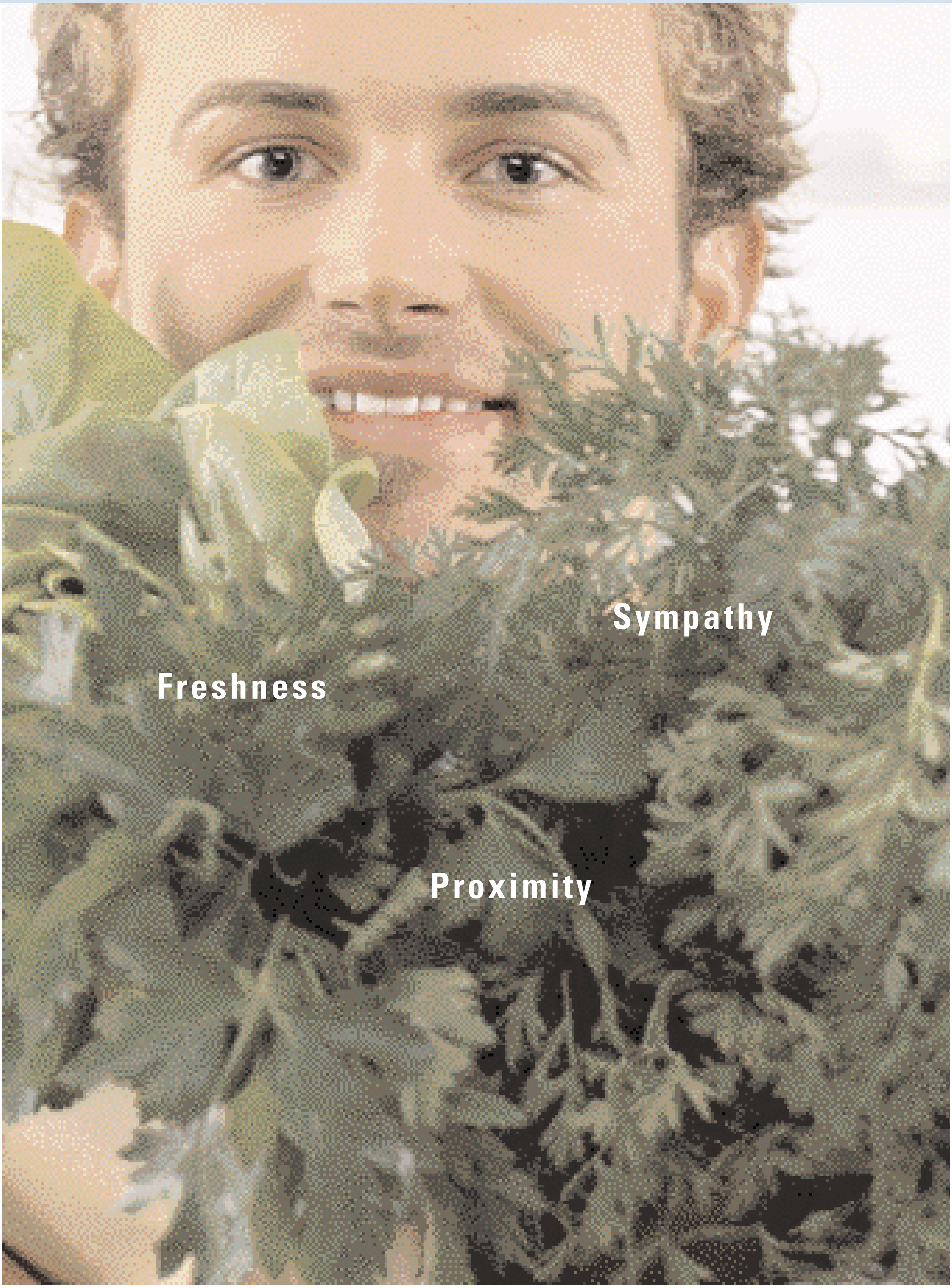

and expansion. This interaction allows both companies to react even faster and more flexibly to market changes. In addition, Real and Extra succeeded in improving their cost structures, thereby further increasing the earnings power and also the competitiveness. Areas relevant for the profiling of Real and Extra as retail brands, e.g. advertising and category management, remained unaffected by the cooperation. These functions will continue to be managed by both sales divisions independently and under their respective responsibility.

## Real assumes social responsibility and integrates handicapped people

Real is committed to its social and socio-political responsibility which traditionally forms an integral part of corporate policy. This self-conception translates into the great efforts taken by the sales division to offer handicapped people a permanently secure job in the company. With this policy, Real wants to set an example for the equality of opportunities and against the marginalization of handicapped people from the workplace. It is one of the particular achievements of this sales division that it has succeeded in doubling the number of handicapped employees over the past three years. At the "Encounter Day" organized by the Rhineland Regional Council on 17 May 2003 in Xanten, Real was honored for its integrational achievements as a particularly handicapped-friendly company.

## Outlook

During the current business year, the Real sales division will further optimize its merchandizing concept. The planned measures aim at further improving the earnings power and sales figures of Real as well as shaping an even more distinct profile of the company as a strong, consumer-oriented partner for its customers. Moreover, Real intends to further expand its business activities on foreign markets. In this context, the sales division plans to consistently strengthen its market position in Turkey and in Poland. Another important milestone in the continued internationalization of this sales division is the planned opening of the first Real hypermarket in Moscow scheduled for the fourth quarter 2004 which is associated with great expectations.


Sympathy
Freshness
Proximity

# Extra

The Extra sales division is among the important supermarket chains in the German retailing sector. In fiscal 2003, it succeeded in maintaining its market position and stopping the negative trend of the prior year. This was in particular achieved by comprehensive restructuring measures which have not been completed yet. On the basis of an optimized merchandizing concept, Extra made a name for itself as a customer-friendly neighborhood store with an extensive, attractively-priced assortment and special competence for fresh produce. To increase the efficiency and profitability of the sales division, the outlet portfolio was adjusted in the year 2003, essential administrative functions of Extra were streamlined and combined with those of the Real sales division.


At the end of the fiscal year under review, Extra operated a total of 466 supermarkets in Germany. These stores are conveniently located in the neighborhood of its customers and have a clear layout with an average selling space of 1,800 square meters where they offer a comprehensive and high-quality assortment of 20,000 to 30,000 products to satisfy the customers' daily consumer needs. The assortment mainly comprises food products and is supplemented by an attractive range of nonfood items. In addition to the variety of products, a pleasant shopping atmosphere and the friendly, expert customer assistance underline the clear profile of the Extra markets as consumer-friendly, strong partners in the respective neighborhood. Extra distinguishes itself from its competitors, in particular the discounters, by its freshness orientation and the personal assistance offered to its customers.

> Extra distinguishes itself as a strong neighborhood store with a high competence for freshness

The Extra supermarkets achieve around 90 percent of their total sales with food products. In this area, the customers can chose from a vast offering of fresh products such as fruit, vegetables, cold cuts, meat, dairy products and fresh bakery products. The remaining ten percent of sales are achieved with nonfood articles such as textiles, china ware, small electrical appliances or toys. The assortment includes well-known brands but also a large selection of so-called entry-level products, i.e. quality products at discount prices. In this segment, Extra first of all offers its customers a wide range of goods from its private label "Tip", which is well-received by the customers on account of the high quality and the particularly attractive price-performance ratio. Through close cooperation with local suppliers, the Extra supermarkets can also individually extend their assortment by regional products and thus offer special beverages or vegetables to satisfy high local demand,

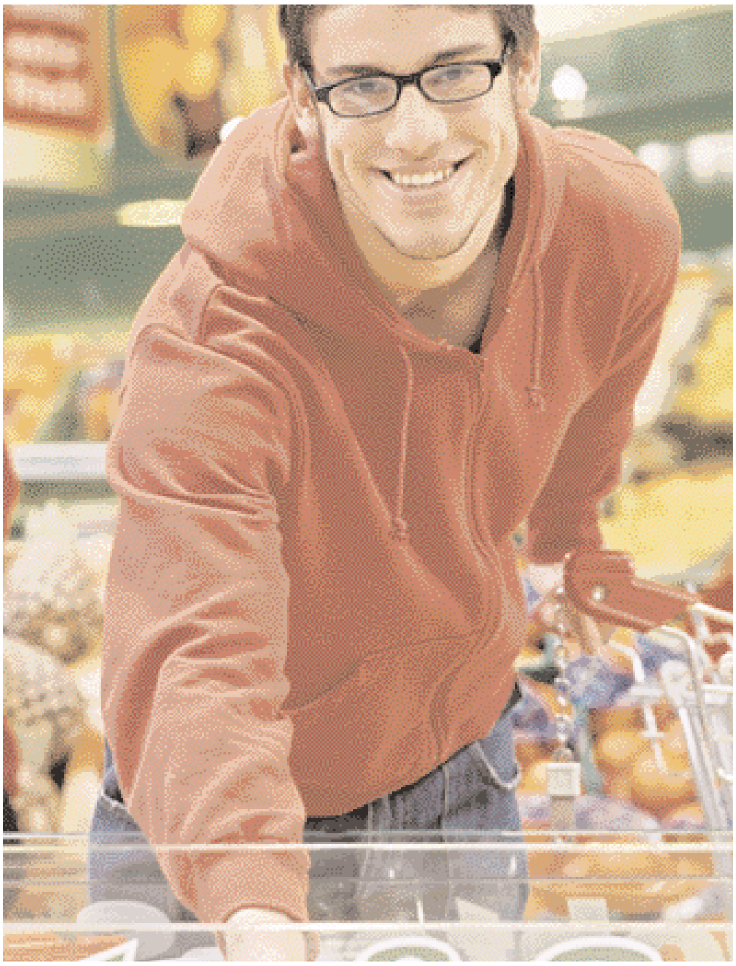

COMPANY

| Extra | |
|---|---|
| Sales | € 2.8 billion |
| EBIT | € -75.7 million |
| Number of locations | 466 |
| Total selling space | 818,000 square meters |
| Headcount (annual average of full-time equivalents) | 12,601 |


PROXIMITY

FRESHNESS

SYMPATHY



for example. Depending on the respective neighborhood, the stores of this sales division may also feature so-called ethnic products such as typical Russian, Turkish and Asian food. The assortment competence of the Extra markets is supplemented by a customer-friendly store design which, among others, is characterized by a particularly clear layout and a presentation of product groups that is adapted to the shopping habits of its customers.

In addition, the Extra supermarkets distinguish themselves from their competitors by their specific service orientation. Thus, numerous counters with expert staff and individual service meet the customers' demand for personalized, competent assistance, in particular when shopping for meat products.

## Increased profitability through more efficient organization and optimization of the merchandizing concept

Since early 2003, the Extra supermarket chain has been undergoing fundamental restructuring with the objective of improving its efficiency and, most of all, its profitability. To this effect, the regional structure of the supermarket chain was simplified and adjusted to that of Real to generate cross-divisional synergies without, however, affecting the individual brand profile of Extra. This results in clear cost savings, for example in logistics, and enables the Extra sales division to react faster and better to the continually changing customer demands. Moreover, nearly all central administrative functions of the two sales divisions Extra and Real, such as controlling, accounting and internal auditing, have been merged. Those functions which are relevant for the specific profiling of the two sales divisions, like advertising, are not included in the cooperation and are managed by the two sales divisions independently and under their full responsibility. Significant cost reductions were achieved by the removal of one hierarchical level and the resulting streamlining of the distribution structure.

Under the optimization of its store portfolio, Extra handed over 12 stores with a selling space of less than 1,000 square meters to franchisees. An additional seven outlets with a particularly large selling space of over 4,000 square meters were integrated into the Real hypermarket network. The performance capability of the remaining stores in the Extra portfolio was improved through extensive optimization measures. Consequently, Extra increased its assortment competence by a clear streamlining of the nonfood segment to the benefit of particularly sought-after products, which was realized in 80 stores in the first phase. This way, additional shelf space was cleared for promotion activities. With this optimization measure, Extra improved sales while the selling space remained the same. Furthermore, additional in-shop bakeries were set up under the consistent extension of Extra's competence for freshness. These bakery shops, which are very well received by the customers, offer a wide range of always freshly baked cakes and a large variety of bread and rolls fresh from the oven. Moreover, additional Extra markets were converted to the customer-oriented and strong "fresh & easy" concept introduced for the first time in 2002.

## Longer opening hours on Saturdays have a positive effect

The options available as a result of the liberalization of opening hours on Saturdays were adopted individually by each store in consideration of the local economic environment and with a view to its competitors. Those Extra outlets which have extended their opening hours on Saturdays registered an over-proportionally positive development in sales and result compared with the other markets.

## New image campaign sharpens brand profile

Under the motto "Mehr Extra zum Leben" (More Extra for Living), the sales division started a new image campaign at the beginning of the third quarter 2003. It contributes to sharpening the brand profile of the Extra markets against their competitors. Among others, Extra stresses its assortment competence and underlines the attractive price-performance ratio of its offers by way of newly designed flyers presenting continually changing nonfood articles as the "Extra of the Week". With the promotion campaign "Extra Discount Price – For over 700 Products", the company in particular targets discount-oriented customers. On billboards and posters, the sales division underlines its price competence and communicates the attractiveness of its private brand product line "Tip" in terms of quality and price. In its informative and lively new Internet presence the sales division presents itself to its existing and potential customers as a competent and customer-oriented food retailer. The Extra homepage registered a high number of visits from the very beginning.


## Intensive staff training increases customer care competence

The positioning as a competent freshness center with high customer orientation requires special skills, in particular from the staff working at the counters for cold cuts, cheese and meat. To raise its profile against its competitors through qualified, extensive service, Extra launched a new training program focusing on optimum product presentation and expert customer care. Among others, employees are trained in merchandize knowledge and sales conversation by a team of experienced consultants.

## Outlook

Extra will proceed with the fundamental restructuring process initiated in 2003 also in the current year. The action catalog for 2004 specifies a further optimization of the store portfolio as well as a comprehensive, customer-oriented modernization of those markets that remain in the store portfolio. The clearly defined objective of these measures is to increase the profitability of the sales division. Moreover, it is planned to further consolidate the position of the Extra supermarkets as important, freshness-oriented neighborhood stores in the ongoing fiscal year, to attract new customer groups, and to win additional market shares.


Impulses
Entertainment
Trends

# Media Markt and Saturn

Media Markt and Saturn rank among the growth drivers of the METRO Group. In the year 2003, they have expanded their leadership on the European market for consumer electronics centers even further. Both formats succeeded in continuing on their profitable growth path despite a general downward trend in this sector. In addition to a flexible, decentralized organization, the bases for their prominent market position and continued business success are in particular their two competitive merchandizing and marketing concepts which are characterized by comprehensive assortments that meet the customers' expectations at an attractive price-performance ratio.

Media Markt and Saturn are managed as two independent brands under the umbrella of the Media-Saturn-Holding company. At the end of 2003, the sales division operated a total of 436 stores in Europe. With 179 outlets, Media Markt had the most dense sales network of all consumer electronics centers in Germany at the close of 2003. Saturn operated 90 stores, including the world's largest consumer electronics center in Hamburg with a selling space of 16,000 square meters.

Both sales formats offer all relevant products and services in the consumer electronics segment. In the period under review, Media Markt and Saturn once again convincingly demonstrated their extraordinary capability as un-mistakable retail brands and further extended their uncontested leadership position in Europe among the operators of consumer electronics centers. In 2003, around 155 million customers visited the outlets of both sales formats in Germany and other European countries. The attractiveness and competitiveness of the consumer electronics centers operated by Media Markt and Saturn are based on merchandizing concepts that center around the customers with their different wishes and expectations. The ambitious goal of covering the vast spectrum of individual customer needs resulted in an extraordinarily broad and varied assortment of branded products. Up to 40,000 items from the segments consumer electronics, household appliances, new media, telecommunications, computers and photography are kept on stock at Media Markt. At Saturn, the assortment of each store even comprises up to 100,000 items. The trademark of this sales format is the extraordinarily large range of CDs. At Saturn, customers can select from up to 60,000 titles, at the Cologne flagship store even from over 300,000 titles. With this diversity, which is unique in the industry, Saturn does not only offer its customers an extraordinary product range to chose from but also a special shopping experience at the same time. The competent and individual customer support by expert employees at the consumer electronics centers operated by Media Markt and Saturn matches the scope and quality of the assortment, just like the comprehensive offer of customer-friendly services which include an in-house repair service in each market as well as the delivery and installation of large appliances at the customer's home, for example.

## Media Markt and Saturn – An "entrepreneurs' enterprise"

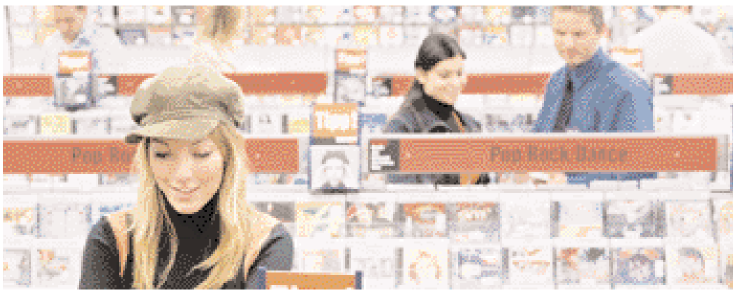
Another success factor that has substantially contributed to the uninterrupted profitable growth of the Media-Saturn group for several consecutive years is the capability inherent in the merchandizing concept to quickly and flexibly adjust to changing customer needs and promptly react to current market trends. This is mainly ensured by decentralized organizational structures within the sales formats. The managers of the Media Markt and Saturn outlets are co-shareholders who take on independent entrepreneurial responsibility for the assortment, staff, sales and profits of their respective consumer electronics center. This promotes the development of entrepreneurial thinking and acting as well as the motivation and personal responsibility for the business success. They can precisely adjust their assortment to the specific local customer expectations which vary from one location to the next and thereby, for example, directly and efficiently react to the price and assortment


COMPANY

| Media Markt and Saturn | |
|---|---|
| Sales | € 10.6 billion |
| EBIT | € 345.2 million |
| Number of locations | 436 in 10 countries |
| Total selling space | 1.3 million square meters |
| Headcount<br>(annual average of full-time equivalents) | 28,171 |


IMPULSES


TRENDS

ENTERTAINMENT


promotions of their competitors. If the demand for one category recedes, it can be effectively compensated by extending the product range in another area. In addition to the large individual entrepreneurial leeway given to the consumer electronics centers, the sales division benefits from the strength of its network which has very positive effects, particularly on procurement.

## Media Markt and Saturn – Strong brand profiles in the public

With the help of extremely catchy, emotive advertising campaigns, Media Markt and Saturn succeeded in gaining a firm place in the customers' perception with their distinct brand profiles, thereby further consolidating their position as successful retail brands. Both the Media Markt advertising campaign with the slogan "Ich bin doch nicht blöd" (Actually, I'm not stupid) and the message of Saturn "Geiz ist geil!" (Stinginess is cool!) hit the mark in a unique way and have gained wide attention well beyond the boundaries of the consumer electronics center segment. Both campaigns do not only address the price-conscious customer but express the modern, dynamic corporate philosophy of the Media-Saturn group geared to optimally satisfy their customers' desire for the latest electronics products with high quality at favorable prices. The promotion campaign of Saturn very quickly achieved an extraordinary name recognition and in addition became one of the most frequently quoted advertising slogans. The Saturn campaign was honored for its originality and efficiency with the 2003 "Golden Effie" award, the "Oscar" of the advertising industry in Germany and Austria. The successful, unconventional advertising has helped both brands reach a name recognition of 99 percent among the population.

In parallel to their aggressive advertising, the Media-Saturn group increased the customer benefit and operational ease of their Internet portals with detailed product and user information and clear descriptions of trends and innovations in the electronics industry, such as the Bluetooth communication technology as well as attractive extra services on the web sites. The latter include, among others, the option to download music and an online picture service where hardcopies can be produced from digital photos. This continually optimized and updated Internet presence used as a modern technical platform for customer contacts received a very positive feedback from consumers. It attracts additional attention for the Media Markt and Saturn brands. Moreover, it helps increase customer loyalty and tap new customer groups. The high number of around 430 million visitors last year in Germany alone attests to the attractiveness of the sales formats' comprehensive information and communication services offered on the Internet.



## Expansion advanced further in Germany and abroad

During the fiscal year under review, Media Markt and Saturn dynamically continued their organic growth and further extended their market leadership in Germany and other European countries. In 2003, the sales formats opened a total of 52 new consumer electronics centers. The outlet network in Germany was extended by 22 stores. Two locations with small selling space have been integrated into larger stores. At the end of 2003, both sales formats were thus represented at a total of 269 locations on the largest individual market in Europe. In other European countries, the market presence of the sales formats rose by 30 locations to a total of 167 stores. This was the largest expansion abroad in one single year ever registered. At the close of 2003, about 40 percent of all Media Markt and Saturn outlets were located abroad, namely in Austria, Belgium, France, Hungary, Italy, The Netherlands, Poland, Spain and Switzerland. In its expansion across Europe, the Media-Saturn group managed to successfully establish its strong merchandizing concepts also on foreign markets and to quickly achieve market leadership among the consumer electronics retailers in some of these countries.

Overall, both sales formats succeeded in yet again accelerating their already fast expansion of the past few years in 2003, after having opened an average of 32 new locations per year over the past ten years in Germany and abroad and tapping five countries with as many as 103 new consumer electronics centers over the last six years alone.

In parallel to the expansion of the location network across Europe, the modernization of existing centers was consistently pursued. Thus, a total of 33 Media Markt and Saturn stores were remodeled to meet the demands of a changed market environment and higher customer expectations in Germany alone.

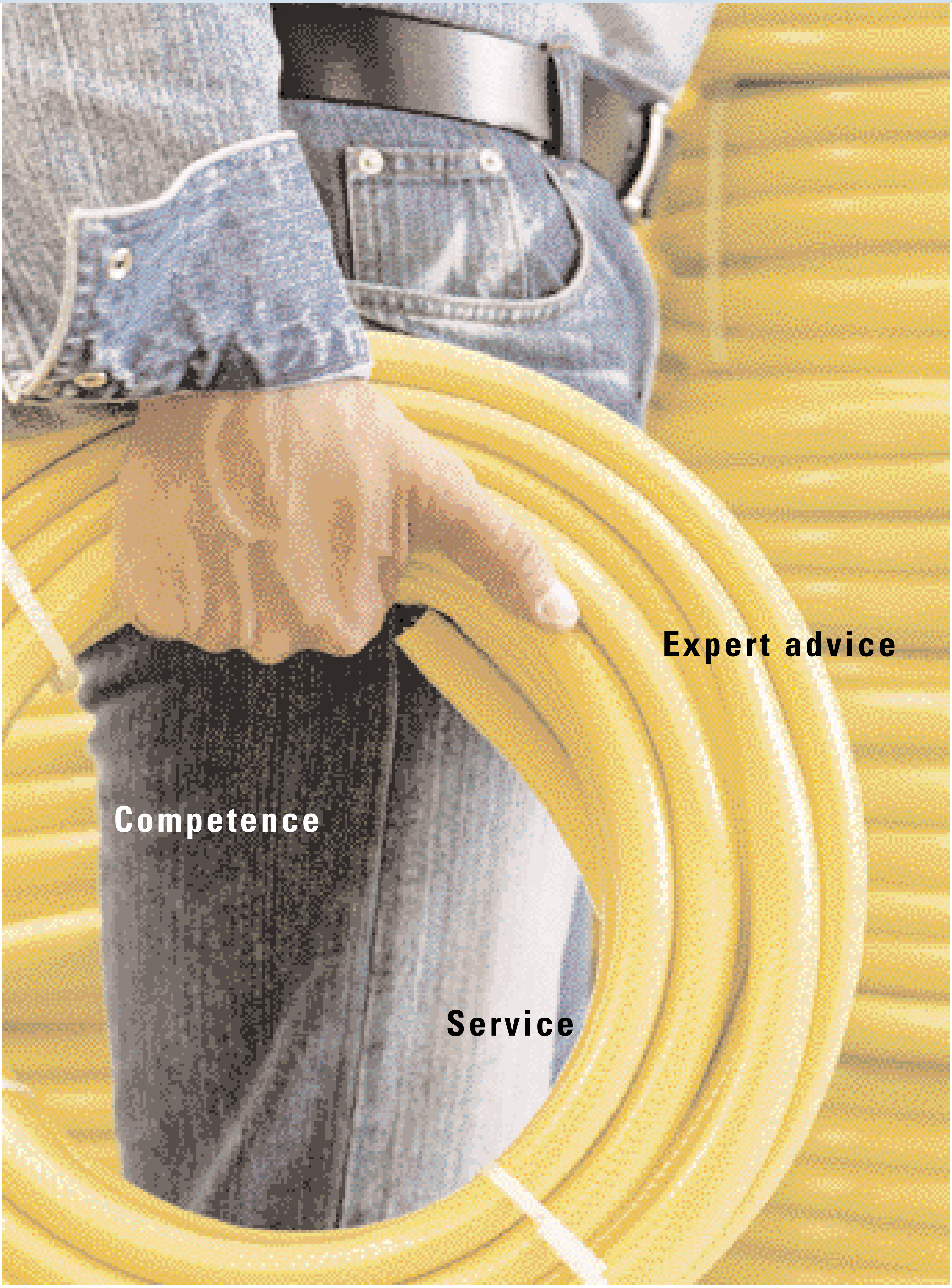
## Qualified employees as a precondition for successful expansion

Given their fast expansion, both sales formats have a high demand for competent and motivated expert staff. The consistent vocational and further training of their employees decisively contributes to the business success of Media Markt and Saturn. In particular the initial training is very important. Consequently, Media Markt and Saturn started a training offensive in the year 2003. At the beginning of the new training year, every store in Germany offered one extra vocational training position in addition to the elevated number of training positions already available. This way, additional training opportunities in a profession with a promising future were created for 250 young people. With a total of around 3,000 training positions, the Media-Saturn group once again underlined its strong position in the field of vocational training last year. The Federal Minister for Economics and Labor, Wolfgang Clement, expressly honored this offering of additional vocational training positions under his "Teamwork for Germany" initiative launched to induce companies to provide additional vocational training opportunities, and highlighted it as exemplary in the Ministry's advertisements.

## Outlook

Media Markt and Saturn will continue with the consistent expansion of their market leadership in the consumer electronics sector in Europe also in the ongoing fiscal year. Their successful and extraordinarily attractive sales formats in terms of both assortment and price as well as their efficient decentralized organizational structure constitute a good basis for a continued high growth in sales and earnings.

For the year 2004, plans include the market entry in Portugal and thus a higher market attendance in Southwestern Europe. In addition to Media Markt, expansion activities in Poland will be continued also with Saturn in 2004. With their fast internationalization and the Europe-wide pooling of purchasing volumes, the sales formats open up additional advantages in competition, which will contribute to extending their leadership position on the market. Moreover, the optimization of organizational structures and workflow will be continued to further improve the profitability of the consumer electronics centers.

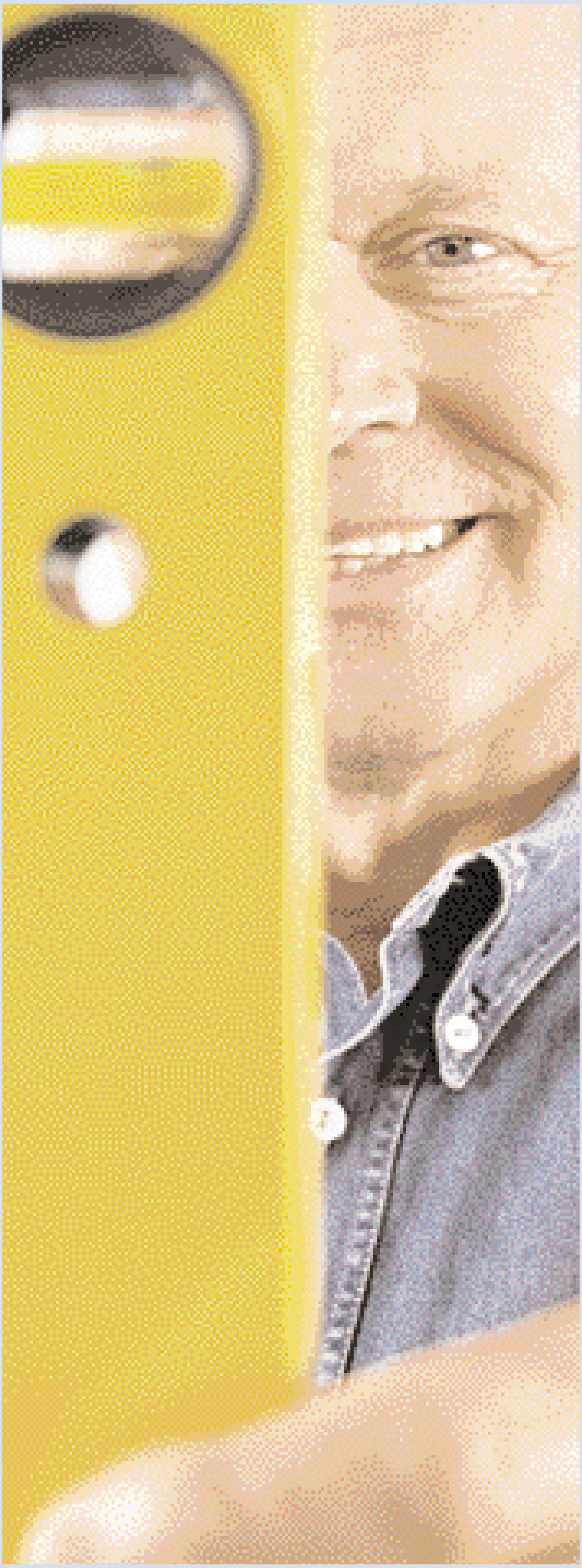

Expert advice
Competence
Service

# Praktiker

In fiscal 2003, Praktiker Bau- und Heimwerkermärkte AG maintained its strong hold on the market as a leading operator of home improvement and DIY centers in Germany and further raised its profile as a competitive supplier. The sales division once again managed to increase its market share in an environment characterized by fierce competition and difficult economic conditions in Germany. The bases for this success are the consistent implementation of the repositioning program and extremely catchy marketing campaigns where the company strongly emphasized its assortment and price competence. Praktiker proceeded with its European expansion.


With their strong and customer-oriented merchandizing concept, the home improvement and DIY centers of the Praktiker sales division managed to successfully maintain their ground in the fiscal year just ended. At sales of around € 2.8 billion and with a dense distribution network of 339 centers – of which 283 in Germany, Praktiker ranks among the most important home improvement and DIY center chains in Germany and Europe. On an average selling space of 6,000 square meters, Praktiker home improvement centers offer their customers a competent and diverse assortment of around 70,000 items in the areas of building, workshop, decorating and gardening products which was extended in 2003 by wellness products such as accessories for saunas and whirlpools. The offering includes both branded products and private labels characterized by good quality and an attractive price-performance ratio. Praktiker underlines the high quality level of its goods assortment by granting a ten-year warranty on products of its private label "budget", among others. In some outlets, the assortment is supplemented by selected items to satisfy specific regional demands. One example is the new Praktiker store in Berlin which also offers accessories for boats. With its merchandize offering, the sales division addresses both the professional craftsman and the hobby do-it-yourselfer. In addition to the diversity of the assortment, Praktiker offers expert and individual advice to its customers. Comprehensive information and specific support in the planning of do-it-yourself projects is also available on Praktiker's homepage at www.praktiker.de.

The distinctly raised competitiveness of the Praktiker home improvement and DIY centers during the fiscal year just ended is attributable to the comprehensive, successfully implemented restructuring of the company during the last few years, on the one hand, and to the continuous optimization of the merchandizing concept, on the other. The success of the sales division was also to a large degree attributable to marketing campaigns which successfully communicated Praktiker's high assortment and price competence.



COMPANY

| Praktiker | |
|---|---|
| Sales | € 2.8 billion |
| EBIT | € -13.8 million |
| Number of locations | 339 in 8 countries |
| Total selling space | 2.0 million square meters |
| Headcount<br>(annual average of full-time equivalents) | 14,937 |


COMPETENCE


EXPERT ADVICE

SERVICE

## Price reduction campaigns create sustained purchasing impulses

With several price reduction campaigns and 20 percent discounts, the Praktiker outlets managed to improve customer frequency and sales in the year 2003. In March 2003, for example, Praktiker doubled the number of customers compared with the prior-year period during a one-week jubilee sale on the occasion of the sales division's 25th anniversary, and thereby clearly increased sales. The company was able to benefit from this sale and win additional market shares also beyond the duration of the campaign. An additional price reduction campaign launched in autumn 2003 without a time limit which granted a 20 percent discount on nearly all products helped Praktiker attract the attention of home improvement and DIY customers and win new customers. With these measures, the sales division successfully raised its profile as a strong and price-competent supplier and at the same time escaped the stagnating trend of the industry by achieving a rise in sales. The sales division did not only manage to increase customer frequency from a total of 71 million to 75 million contacts but also distinctly raise the number of customers who will permanently prefer Praktiker as a selling point for home improvement and DIY products as compared with the prior year.

## Low-price assortment doubled

Another measure with which Praktiker defended its claim to price leadership in the German home improvement and DIY sector in the year under review was to almost double its low-price assortment to over 200 items. These include, for example, tools belonging to the core assortment of a home improvement and DIY center and which are therefore more in the customer's focus. Praktiker offers selected products from this range at particularly attractive prices on a permanent basis.

## Key account program extended by new customer loyalty program

The sales division's key account program with the heading "Mehr kaufen, mehr sparen" (Buy more, save more) introduced in 2001 was successfully continued and supplemented by additional elements. The elevated number of 120,000 customers who owned a Key Account Card by the end of the year 2003 impressively attests to the strong interest in this program and to its attractiveness. By granting a discount that rises in relation to the purchase volume, Praktiker wants to achieve long-term customer loyalty, especially of professional craftsmen with a particularly large demand for

home improvement products. Under this program, all key account customers are granted a 3 percent discount for a purchasing volume from € 1,500, and a 5 percent discount from € 2,500 per annum. The customers receive these discounts in the form of merchandize vouchers when reaching the corresponding threshold. Moreover, customers who purchase goods for over € 2,500 per year at Praktiker also benefit from two campaigns each month since 2003, granting 10 percent discount on specific categories. Since last year, key account customers who spend over € 7,500 per year at Praktiker receive a direct discount of 10 percent on every purchase.

## Further cost reduction measures implemented

With the objective of further improving the company's profitability while at the same time maintaining price leadership among the German home improvement and DIY centers under increasingly fierce competition on a permanent basis, Praktiker implemented further measures to reduce costs and enhance efficiency in 2003. These measures centered on a further streamlining of the organizational structures and workflow. Thus, the intensified use of efficient IT systems in the stores and improvements of the merchandize management system have substantially contributed to the optimization of the business processes in the sales division during the fiscal year under review. In addition, the company succeeded in further reducing the cost of materials.

## Optimization of domestic distribution network accelerated

In view of continually growing competition on the home improvement and DIY market, one of the main tasks in fiscal 2003 was the optimization of the domestic store portfolio. In the period under review, a total of 13 stores with small selling space were closed down. At the same time, two modern, large-space stores with a distinct assortment competence were opened, one of them in Berlin. This store with a selling space of 14,500 square meters is the largest of all Praktiker centers. Moreover, several stores were remodeled and their offering extended by individual assortment ranges such as garden centers. Furthermore, Praktiker also succeeded in gaining an edge over its competitors by relocating some of the stores or taking over larger locations from the competitors.


## Praktiker increasingly taps the growth potential of East European markets

Since the industry's situation in Germany only offers limited growth potential because of years of stagnation, Praktiker is in particular tapping the potential of foreign markets and consistently advancing its international expansion. In doing so, the sales division concentrates on East European countries. During the fiscal year under review, the number of foreign locations rose from 52 to 56 stores. In 2003, the company's foreign share in total sales already stood at 22.3 percent. One particular focus of its international expansion is Romania, the most populous country in the Balkans, where the sales division opened three new stores. In the medium term, the network in Romania is to be extended to 15 locations. The company was represented in a total of 8 countries in 2003. In four of these countries, namely in Greece, Hungary, Romania and Turkey, Praktiker took over the market leadership.

## Outlook

Praktiker will stand its ground as the price leader on the German market also during the ongoing fiscal year and strongly showcase this with extremely catchy business promotions. Together with the high assortment competence of its Praktiker stores, the sales division will thus once again achieve a further consolidation of its market position. The emphasis on its price and assortment competence also forms a good basis for winning additional market shares in 2004 and further improving earnings. The main tasks for the ongoing fiscal year also include the further optimization of the store portfolio. The company plans to open additional home improvement centers, particularly in regions with a high population density, like for example the urban areas of Munich and Hamburg or in the Ruhr region. Moreover, Praktiker will consistently tap the growth potential on the foreign markets and proceed with its expansion. In 2004, the sales division in particular plans to expand its distribution network in Romania and to open up the first Praktiker outlet in Bulgaria. On the Bulgarian market, Praktiker is targeting a leading position, too.


Diversity
Quality
Service

# Kaufhof

Clear customer focus, a diverse and high-quality assortment, competent assistance by qualified employees, a pleasant shopping atmosphere as well as an appealing merchandize presentation are the main success factors of the Galeria Kaufhof concept. In addition to a distinct capability for innovation and flexibility, they form the foundation of the unchallenged conceptual and systems leadership of Kaufhof Warenhaus AG in the German department store business. During the fiscal year just ended, the company asserted its prominent market position. In a business environment characterized by a general purchasing restraint on the part of consumers, this sales division developed better overall than its competitors.

In the year under review, Kaufhof Warenhaus AG further raised its profile as a successful, unmistakable retail brand. It focused on the consistent further development and implementation of the trend-setting Galeria concept – one of the most successful and lively merchandizing concepts for department stores in Europe. Another two stores were converted following the guidelines of this concept during the period, and are now able to offer customers a shopping experience that is unique in many ways. This includes the modern Galeria Kaufhof store in downtown Gießen with a selling space of 12,000 square meters. In Gera, a new Galeria Kaufhof department store opened its gates in the recently established shopping and service center Elster-Forum. In June 2003, the foundation stone for the construction of a new Galeria Kaufhof department store in Fulda was laid which is scheduled to open in 2004. In parallel to the conversion of existing and the establishment of new Galeria Kaufhof stores, several older downtown outlets were remodeled under the continuous further development of the Galeria concept. This contributed to substantially increasing their attractiveness for customers.

At the end of the fiscal year just ended, 82 outlets of a total of 115 department stores of Kaufhof Warenhaus AG were operated on the basis of the successful Galeria concept. With this systematically advanced conversion of the Kaufhof department stores to the Galeria concept, the sales division created a good basis for the future in view of an increasingly fierce competition for customer loyalty and market shares. The high performance capability of the Galeria concept shows in the business results of the converted department stores, among others. As in prior years, their results developed better than those of stores still awaiting conversion. In the fiscal year under review, they generated 85 percent of the total sales volume of Kaufhof Warenhaus AG.

## The Galeria concept – The foundation for sustained success in the department store segment

Under the motto "Galeria Kaufhof – Ich freu' mich drauf!" (I can't wait!), the Galeria concept makes shopping a true experience for the customer. This is in particular achieved by a proven high level of assortment competence that translates into a broad range of quality products which always also considers the latest trends. This way, the expectations and needs of sophisticated department store customers are met. With the rich selection of national and international branded goods and their attractive presentation in brand shops, Kaufhof clearly distinguishes itself from similar competitors. During the fiscal year just ended, Galeria Kaufhof reacted to the customers' increasing price sensitivity by including attractive entry-level brands in its assortment, particularly for jewelry and clothing. This gives customers the possibility to buy high brand quality at a favorable price-performance ratio. The fact that many of these entry-level brands are exclusively offered by Galeria Kaufhof constitutes an important unique selling proposition for the sales division. In the year 2003, the significance and number of private label

COMPANY

| Kaufhof | |
|---|---|
| Sales | € 3.8 billion |
| EBIT | € 94.1 million |
| Number of locations | 148 in 2 countries |
| Total selling space | 1.5 million square meters |
| Headcount (annual average of full-time equivalents) | 20,484 |




DIVERSITY

QUALITY


SERVICE



products on offer has also risen further. These items, too, appeal to the customer on account of their high quality and favorable prices. The particular assortment and price competence of Galeria Kaufhof also shows in its capability to react fast and flexibly to changing customer needs, and offer the corresponding merchandize promptly. Thanks to this flexibility, Kaufhof was able to win further market shares in the year 2003, mainly in the textiles range.

In addition to their high assortment competence, the Kaufhof department stores are shaping their profile by an emotive and eye-catching presentation of merchandize. The products are placed in a theme world to give the customer a hands-on experience of their value and possible utilization. An accentuated lighting concept, the sophisticated guidance system and the well-structured corridor layout facilitate orientation and additionally improve the customers' well-being. Moreover, the Galeria Kaufhof store in Gera, for the first time introduced shop window dummies individually created by sculptors to give customers a descriptive idea of the new fashion trends.

The emotional customer appeal of the Galeria department stores matches the nation-wide marketing activities of this sales division which are in part supplemented by individual events organized by the different department stores. One example were the Italian weeks in 2003 which invited customers to visit the department stores, conveying an impression of the specific lifestyle in the transalpine country with interesting merchandize offerings, typical decorations and an elaborate entertainment program.

The Galeria concept will be continuously developed further and improved with the objective of achieving an optimum customer focus to prove its innovative power and performance on a permanent basis. To this effect, the sales division uses the latest methods and findings in market research and controlling. These tools help detect variations in consumer behavior as well as changed customer expectations early on and update the merchandizing concept accordingly. To ensure a timely and effective implementation of the findings on changed customer expectations in operations, the sales division started the "Personnel Management Sales" project in early 2002. The project aims at further sharpening the staff's customer focus and creating an environment that enables them to fully concentrate on customer care and meet the increased customer expectations at work. With this objective in mind, manpower planning among other things was modified to achieve more process orientation and the organization as well as the workflow in the department stores were optimized. The sales division at the same time also opened up additional productivity potential through flexible working hours combined with a new HR management system.

## Multi-channel marketing strengthens customer loyalty and taps new consumer groups

The use of modern multimedia technologies forms an integral part of the successful Galeria concept. Under the multi-channel marketing strategy, Galeria Kaufhof combines product information with a comprehensive service and entertainment offering. Customers can obtain these services from so-called "service desks" placed at prominent locations inside the department stores. These service desks guide customers through the different merchandize worlds with a combination of text, images, sound, video, interactivity and fragrance.

## Successful Payback customer retention program extended further

Exceeding 25 million participants, Payback is the most successful customer loyalty program in Germany. Kaufhof Warenhaus AG tapped the business potential of this system for its department stores already at an early stage. In the year 2003 alone, the number of Kaufhof Galeria Card holders rose to 6.5 million, following 4.5 million in 2002. This corresponds to an increase of 44 percent over one year. With this card, Galeria Kaufhof posesses a particularly efficient marketing instrument for individualized customer appeal and retention. The regular mailing of the status of Payback bonus points with enclosed discount vouchers is well received by the customers. In addition, Galeria Kaufhof has started addressing customers with particularly high business volumes with the supplementary "Status Program" since late 2002 by giving them exclusive benefits and additional services in the context of direct marketing promotions. It showed that granting target-group-specific benefits is more effective than giving general discounts to all consumers alike.

## Increased sales due to longer opening hours

Kaufhof Warenhaus AG proactively used the opportunities arising from the liberalization of opening hours on Saturdays. Special promotions such as raffles or "weekend discounts" at the restaurants of the Kaufhof department stores contributed to making shopping during the additional business hours even more attractive for customers. As a result of this measure, the significance of Saturday as the day with the highest customer frequency and sales increased further. In particular young customers were newly attracted as a result of the extended business hours. The sales division used a flexitime scheme to ensure that the additional opening hours do not result in additional work for the employees.

## Inno again with a positive business trend

Since 2001, the portfolio of Kaufhof Warenhaus AG also includes 15 department stores in 12 Belgian cities operated under the names Inno respectively Galeria Inno. In 2003, the conversion of the Belgian outlet network to the tried and tested Galeria concept was continued. Under this scheme, the already high performance of the Inno department stores was further improved through the implementation of the Galeria concept, and total sales of the Belgian Inno stores were once again boosted in 2003. The Inno outlets account for around 6.5 percent of the total sales of Kaufhof Warenhaus AG. During the ongoing fiscal year, activities will concentrate on the conversion of the largest Inno department store in Brussels. With this move, Inno is consistently pursuing the adjustment of its product range with a strong focus on branded products. In the Belgian capital, the assortment will be extended to include additional renowned brands.

## Outlook

With the objective of further raising the profile of the Galeria Kaufhof brand as a strong, unmistakable retail brand, Kaufhof Warenhaus AG will concentrate on the consistent implementation and further development of the successful Galeria concept also in future. The opening of new and the conversion of existing department stores according to the specifications of this highly performing and trend-setting merchandizing concept is planned for 2004. The plans include, among others, the remodeling of the outlet in Mönchengladbach as well as the opening of a fifth department store in the greater Frankfurt area. The reopening of the Inno store on Rue Neuve in Brussels scheduled for autumn 2004 will set new standards in the department store business of the Belgian capital. Moreover, one of the main tasks for the ongoing fiscal year will be the continued extension of the customer loyalty programs, the extended use of new technologies in marketing, the opening up of new customer groups, the expansion of the assortment by renowned branded products as well as the continued optimization of business processes. This way, the sales division will create a solid basis for improving its sales and earnings power.

# Cross-divisional service companies of the METRO Group

The cross-divisional service companies of the METRO Group excelled through a high level of efficiency. Their range of central services includes purchasing, logistics, IT services as well as advertising and environmental management. The pooling of these services and the resulting synergies and savings potentials benefit the individual sales divisions and the group as a whole. The cross-divisional service companies played quite a significant role in METRO Group's successfully continued profitable growth during the fiscal year just ended.

## Purchasing

High efficiency is the particular characteristic of MGB METRO Group Buying GmbH. This company organizes and manages all merchandize procurement activities within the group in close coordination with the sales divisions. The 1,450 staff of MGB with its headquarters in Düsseldorf and subsidiaries in Poland, Russia, Turkey and Hong Kong are specialized in the procurement of merchandize and have a profound knowledge of the international markets. In 2003, they controlled a total purchasing volume of € 44 billion. Based on this order volume, the internationally acknowledged high quality standards of METRO Group could once again be enforced with all domestic and foreign suppliers during the fiscal year under review. This applies to all types of merchandize, but in particular to the purchasing of food products. In addition, particularly advantageous purchasing conditions were negotiated on this basis which substantially benefited the sales divisions. This helped strengthen the competitiveness and increase the profitability of the individual METRO Group companies.

The business success achieved by MGB in purchasing was also promoted by the use of the Internet platform GlobalNetXchange (GNX) joined in 2000 which has been continuously intensified since then. It contributed to substantially improving the efficiency in procurement. The growing significance of this worldwide organization of purchasing which had only become possible through technological progress translates into the fact that 1,557 online auctions with a purchasing volume of € 863 million were conducted in 2003. This corresponds to a growth of more than 70 percent compared with the prior year. In 2002, the number of online auctions stood at 617 with a purchasing volume of slightly above € 500 million.

One important step that internally anticipates the inexorable growing together of the European markets was MGB's change of its organizational structure which took effect on 1 November 2003 and according to which purchasing throughout the EU will be considered and organized as domestic trade in future and no longer as imports. As a consequence, the purchasing company Gemex Trading AG, which, among others, in the past focused on tapping new supply sources in Eastern Europe, Russia and South East Asia, was integrated into MGB METRO Group Buying GmbH during the period. The Gemex offices in Poland and Turkey have been taken over by the MGB companies in the respective country. The former Gemex subsidiary in Hong Kong has since been operating under the name MGB METRO Group Buying HK Limited (Hong Kong). With this move, the MGB group now controls all inner- and extra-European purchasing activities of the METRO Group, including imports from Asia and from other countries outside the European Union.

To ensure a successful procurement for the METRO Group sales divisions in future as well, MGB plans to further intensify cooperation with its external partners during the ongoing fiscal year. The plans include, among others, the optimization of purchasing by a pooling of assortments and by intensified cooperation with selected suppliers. Moreover, the electronic interchange of assortment data between MGB and its suppliers is to be extended. This set of measures shall lead to further improved efficiency in the process chain and strengthened competitiveness of the group's sales divisions.

## Logistics

Every day, MGL METRO Group Logistics GmbH and MDL METRO Group Distribution Logistics GmbH & Co. KG achieve maximum performance in logistics. They control the worldwide merchandize flows of the METRO Group companies and are responsible for the smooth transportation and distribution of more than 1.2 million packaging units every day to the 2,370 stores of the METRO Group in 28 countries. The main task of MGL with a staff of 93 is the handling of all merchandize transports from the manufacturers to the METRO Group sales divisions in Germany, Austria, Poland and Turkey. In the year 2003, the total volume of the transports centrally controlled by MGL amounted to twelve million packages, twelve million pallets and 22 million hanging garments, involving a total of around 4,300 manufacturers and/or suppliers.

MGL's successful operations are mainly based on a proprietary logistics concept which was prized on account of its innovative procurement logistics. Under this concept, the merchandize is collected from the manufacturer's premises and directly distributed to the individual stores – all under the central responsibility of MGL. The stores usually receive their merchandize within 24 hours. With the implementation of this system, intermediate storage of the merchandize can be omitted. Also, the stocking up of merchandize at the stores and the related storage costs were substantially reduced under the optimization of logistics. At the same time, the number of deliveries to the ramps was reduced. This, too, resulted in savings for the sales divisions.

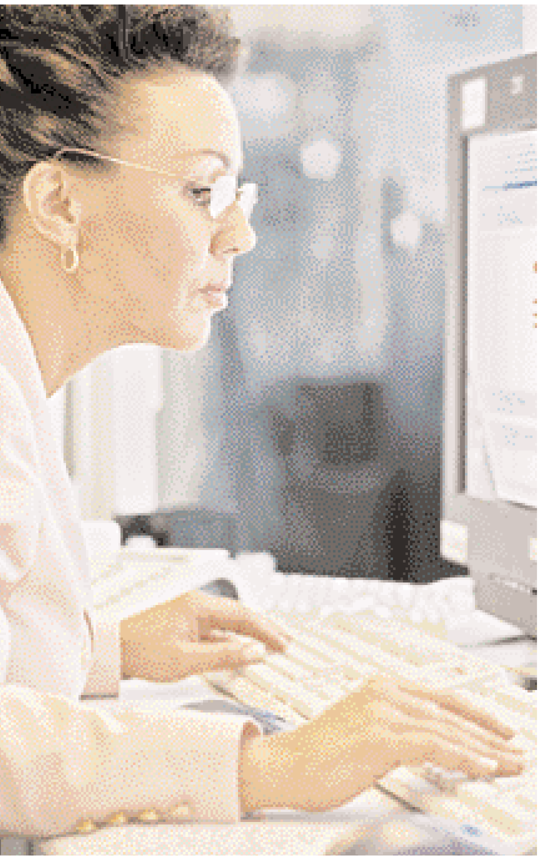
In order to manage the complex and extraordinarily sophisticated logistic challenges, MGL cooperates with a few particularly strong logistics providers on the international level only. They exclusively comprise companies which are active in those countries where the METRO Group is represented, have a national coverage transport network and the requisite transshipment centers. MGL intends to continuously expand the international transport network which it coordinates and also offer its special services parallel to the market entry of the METRO Group in a new country.

In the same way as MGL focuses on the coordination of transports, warehouse management and distribution specialist MDL with its staff of now 3,348 in 2003 concentrates on the operation of eight central warehouses for food products with integrated fresh produce platforms and another two central warehouses for nonfood items as well as the transport of the goods from the warehouses to the stores of the sales divisions. MDL's responsibility also includes the supply of all Real and Extra stores with their complete food assortment, including fresh produce and frozen food items. In 2003, MDL for the first time also started delivering frozen goods to the Metro Cash & Carry stores from a newly built warehouse in Hamm. In addition to the above logistics services, the portfolio of MDL also includes quantity, quality and price controls as well as order picking.

With an even more efficient organization of its processes as well as the improvement of the electronic data interchange with suppliers during the fiscal year under review, MDL succeeded in further cutting inventory levels, thereby tapping additional savings potential to the benefit of the sales divisions.

## Information technology

MGI METRO Group Information Technology GmbH is the name of the company that is responsible for the central IT services at the METRO Group. In 2003, the company's 818 experts developed a large number of customized software programs and data bases for the procurement, logistics, controlling and human resources functions of the sales divisions and the cross-divisional service companies. In addition, the employees operated the group's central server and the group-wide network with over 50,000 e-mail accounts as well as the data warehouse with a data volume of about 40 Terabytes.



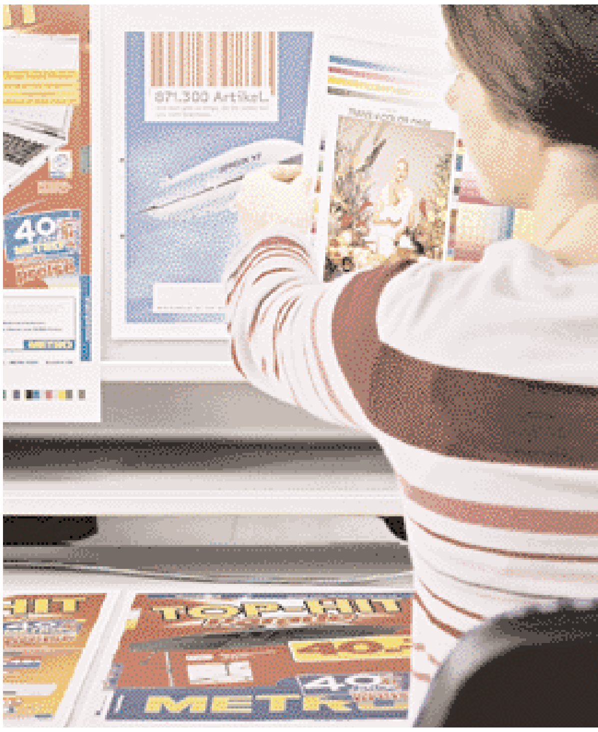
During the fiscal year under review, this cross-divisional service company further extended its international activities and is now active as the IT service provider in charge offering its complete service portfolio in all countries where the Metro Cash & Carry sales division is also represented. At the same time, this company established the IT environment required for the accelerated group-wide harmonization of important applications such as the merchandize management system and the data warehouse facilities. Moreover, it also completed the technical preparations for a further acceleration and harmonization of business processes and for the optimization of cost management at the METRO Group sales divisions. This includes, among others, software solutions to support master data and catalog management. With these solutions, the article master data from different internal and external sources, e.g. external catalog systems, can be consolidated. In Spain, MGI successfully implemented a new checkout system based on standard software.

The "mymetro" employee portal launched in autumn 2002 with the objective of rendering the work processes at METRO Group even more efficient, was supplemented by MGI with innovative software components for the computerized processing of internal procurement and HR management processes.

The METRO Group Future Store Initiative established under the leadership of MGI attracted maximum attention among experts and the public. This project is designed to test technologies of the future in retailing. METRO Group is the first retailing company in Germany to test the complex interaction of the latest technologies with a view to their suitability for daily use and their benefit for customers and the company at the Extra Future Store opened in Rheinberg in 2003. The findings gained from the operation of the Extra Future Store will also be used for the consistent further development and optimization of MGI's existing IT systems and solutions.

## Advertising

MGA METRO Group Advertising GmbH has the central responsibility for the procurement, management and coordination of advertising services at the METRO Group. In regional terms, its area of responsibility covers Europe including Germany. In addition, MGA is working on the continuous optimization of the business transactions involved in advertising and on harmonizing and/or simplifying them across all sales divisions. Examples in this context are the administration of the image data base to which all METRO Group sales divisions have access, or the provision of billing systems. By pooling these activities under the roof of MGA, cost advantages and competitive advantages are generated for all METRO Group sales divisions. With the same objective, MGA's Polish subsidiary is focusing on the strategic purchasing of services in production and the media, and their efficient processing.



In parallel to the progressing internationalization of the METRO Group, MGA is continuously extending its service business and its advisory activities on the foreign markets. This process was purposefully continued during the fiscal year under review. Based on the company's contacts throughout Europe, the international purchasing of advertising material and advertising services was improved substantially. With the introduction of a transnational technical platform under the designation "Web-based workflow for advertising production", MGA also created the preconditions for standardizing and improving the production processes for advertising material at an international level. During the ongoing fiscal year, MGA first introduced this platform in Germany for the sales divisions Metro Cash & Carry, Real and Extra. A further roll-out to other group companies is planned.

In 2003, MGA METRO Group Advertising GmbH employed a total staff of 64. Another eight employees are working in Warsaw at the local Polish subsidiary of MGA.

## Environmental management

METRO Group is strongly committed to environmental protection and consistently adjusts its economic activity to the conservation of natural resources. Following the principle of a sustainable recycling management, the group therefore introduced an efficient resource management, taking into account the individual needs of the sales divisions, among other measures. With around 100 employees, MFS METRO Group Facility Services GmbH organizes all environmental services of the METRO Group. In 2003, it achieved a service volume of around € 120 million. In addition to a comprehensive and competent service portfolio in the field of waste disposal, MFS also offers a wide range of services such as cleaning of business premises, maintenance of hygiene standards, disposal of grease interceptors and pest control. The pooling of these services required by the sales divisions under the roof of MFS and the standardization of work processes ensure reliable and cost-efficient handling. The electronic data interchange with the sales divisions allows to


document the waste flows and draw up waste audits. On the basis of these figures, the company managed to further improve the efficiency of its disposal and environmental management concepts in 2003.

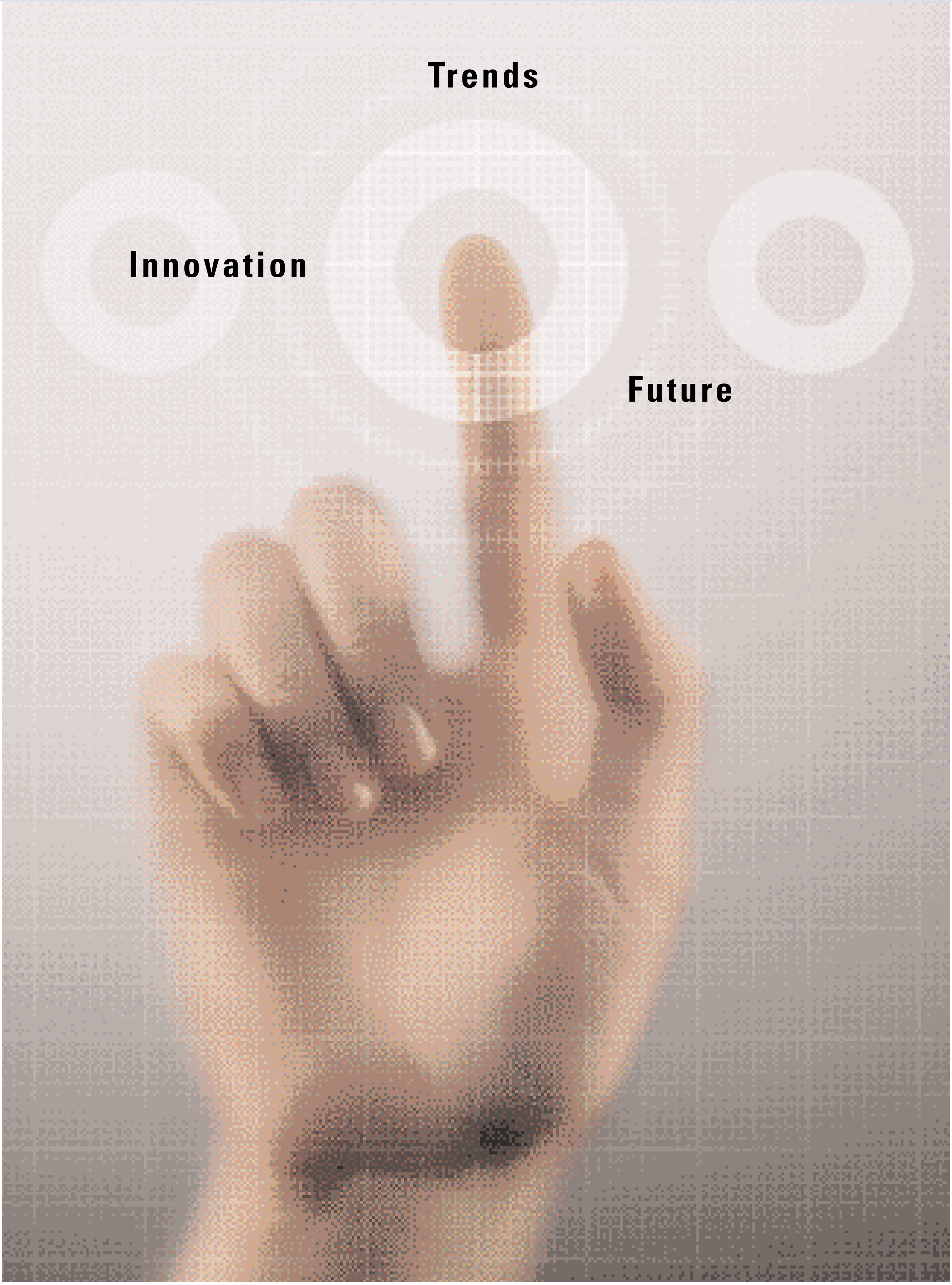
Under the accelerated international expansion of the METRO Group and the growing together of the Single European Market, the uniform, Europe-wide processing of the environmental and waste management services at METRO Group is increasingly gaining in importance. The close cooperation of MFS with selected local service providers as well as the transnational exchange of know-how in the fields environment and waste disposal allow for an increased utilization of cross-border synergies with clear cost advantages for the METRO Group. In 2003, MFS was active in a total of nine countries.

## Restaurant and catering

With 217 restaurants, Dinea Gastronomie GmbH ranks among the leading restaurant chains in Germany. Operating under its three brands Dinea, Grillpfanne and Axxe, the company successfully established itself in different market segments. Dinea targets the sophisticated department store customer who is looking for a gastronomic experience and is offered a "market place for gastro-shopping". Grillpfanne, by contrast, provides an offering geared towards fast service to price and quality-conscious hypermarket and specialty store customers. The Axxe brand with its highway service areas focuses on travellers and offers a comprehensive round-the-clock restaurant service. During the fiscal year under review, the Dinea group with its 3,031 employees catered to about 60 million guests.

The different revised launches of the three brands characterized by a modern and particularly appealing design of the logos as well as improved advertising material received a positive customer feedback. As a result of the consistently pursued optimization of the network of locations, the number of restaurants was reduced by five locations during the fiscal year just ended.

For the ongoing fiscal year, the Dinea group plans a customer-oriented modernization of selected Dinea and Grillpfanne restaurants. The service portfolio will be optimized. The network of Axxe restaurants will be expanded in future.


Trends
Innovation
Future

# METRO Group Future Store Initiative
# The future of retailing

Testing intelligent technical novelties, developing a pioneering spirit with future-oriented ideas, finding the best solutions for the customer, finding answers to questions that others have not even formulated yet: the innovation process that is currently under way in retailing is really exciting. It will fundamentally change this industry. Those who want to participate in shaping the future of retailing have to be open for new concepts and must always consider the needs and expectations of the customers. The objective is to create more efficiency and customer focus in retailing. One driving force which is developing concepts and visions for tomorrow's retailing is the METRO Group Future Store Initiative.

## A trip through the Future Store

**1. At the start**

At the Service Point the customer receives his Personal Shopping Assistant (PSA), a small computer with numerous functions. He then fastens the PSA to the shopping trolley and identifies himself with his personal **Future Card**. Now, the customer can use all the functions offered by the device – shopping at the Future Store can start.

## The Extra Future Store – a test laboratory for tomorrow's retailing

Shopping at the Future Store is an experience of the future of retailing. This is ensured by manifold technological innovations such as the computer-based "Personal Shopping Assistants", "Self-Checkout Lanes" and "Intelligent Scales". Specially trained service staff will assist the customer in handling the technology and answer all questions relating to shopping at the Future Store.

## METRO Group Future Store Initiative – a strong partnership for groundbreaking technologies

The key for innovation in retailing lies in a cooperation between manufacturers, suppliers, IT specialists, service companies, and retailers. Therefore, METRO Group launched the METRO Group Future Store Initiative together with strong partners from the above-mentioned sectors. The objective of the Initiative is to advance the modernization of retailing through increased application of modern technologies. Besides METRO Group, Intel, SAP and IBM as well as about 40 other companies from the consumer goods industry, the IT sector and the services sector contribute their know-how to the Initiative. The use of the innovative technologies allows to offer customers an even more individualized and convenient shopping experience with customized offers. In addition, retailers and industry can jointly optimize their business processes, reduce process costs and also substantially improve customer satisfaction. Ordering and supply activities are accelerated and simplified, warehouse management is improved. The first project of the METRO Group Future Store Initiative is the Extra Future Store in the North Rhine-Westphalian community of Rheinberg. This is where those latest technologies are tested for their practical use and customer acceptance which may fundamentally change the world of retailing already tomorrow – throughout the entire process chain from the producer to the consumer.

**2. On your way with the PSA**

The customer opens his personal shopping list on the **PSA**. On the display, he can check where the different items are to be found in the store and how much they cost. Be it special offers, product information or the total of the goods purchased so far: a simple touch of the screen is enough – and the PSA will quickly and individually help with the shopping.

# The partners
# METRO Group Future Store Initiative

**TECHNOLOGY**

AVERY DENNISON · BIZERBA · CHECKPOINT · CISCO · FEIG · FUJITSU SIEMENS · HEWLETT-PACKARD · IBM
INTEL · INTERMEC · LIEBHERR · METTLER TOLEDO · MULTIQ · NCR · PHILIPS · SYMBOL · WINCOR NIXDORF

**SOFTWARE**

ALGOTEC · CITTADINO · MICROSOFT · OATSYSTEMS · ONLINE SOFTWARE · ORACLE
PIRONET NDH · SAP · SONOPRESS

**SERVICES**

ALPHA · BCG – THE BOSTON CONSULTING GROUP · CHEP · DHL · EYCKELER & MALT
HINTZPETER & PARTNER · KURT SALMON ASSOCIATES · LOYALTY PARTNER · WANZL · WMS

**CONSUMER GOODS**

COCA-COLA · GILLETTE · HENKEL · JOHNSON & JOHNSON · KRAFT FOODS · NESTLÉ · PROCTER & GAMBLE

***"With this project we are demonstrating how new technologies can pave the way for innovative business processes in a real-life shopping environment. The Extra Future Store is the best proof that technology can open up new economic potential."***

*Dr. Peter Zencke,
Member of the SAP Executive Board*

***"Intel supplies the requisite computer capacity to process the data volumes of the Extra Future Store in real time. The result is an unprecedented efficiency and transparency of the supply chain in retailing which will also benefit the consumer."***

*John Davies,
Vice President of Intel Solution Market Development Group*

***"IBM offers a broad portfolio of e-business solutions for retailers and the consumer goods industry. We are proud of the strategic partnership with METRO Group in this innovative project."***

*Walter Raizner,
Chairman of the Management Board of IBM Deutschland*

**3. Intelligent weighing**

In the fresh produce department the customer can select fruit or vegetables and place them on the **Intelligent Scale**. By means of a built-in digital camera the scale automatically recognizes the type of fruit or vegetable and prints out the corresponding price label. No more complicated search for the correct symbol – the Intelligent Scale knows what to do and improves the shopping convenience.

## The claim of the METRO Group – innovation and technological leadership in retailing

In view of its position as the fifth largest trading and retailing group in the world with a distinctly innovative company profile, METRO Group claims a pro-active role in shaping the international technical innovation of the retail trade. It firmly underlined this claim with the launching of the METRO Group Future Store Initiative.

For METRO Group as an international retailing group, the optimization of business processes and their harmonization on the basis of international standards as well as the development of future-oriented technical concepts constitute a top priority. In this process and in cooperation with its sales divisions, it is continuously developing its successful merchandizing concepts with their specific services in line with the changing customer expectations. Today's customers, for example, expect an individual address and demand that their personal expectations with regard to the assortment, product quality, product presentation and customer care are met on a permanent basis.

Innovative technologies enable METRO Group even better to fulfill the customers' wishes. They will change communication between retailers and customers and at the same time contribute to further improving the processes in retailing. This way, the development and application of new technologies will contribute to securing the long-term business success of METRO Group.

**4. Always the correct price**

The customer works off his shopping list item by item. Prior to placing the purchases in the shopping trolley, he scans their barcode across the PSA. The prices indicated on the product, at the check-out and on the **electronic price labels** on the shelf are always identical. Since the information on the electronic price labels is transmitted by the central merchandize management system just like the price information at the checkout, the customer will always receive reliable price information.


With the Future Store Initiative, METRO Group documents its claim to be an impulse generator in the development of new technologies for the entire retail sector. Under the Initiative, new technologies are developed and the introduction of technical standards is advanced. The main question is which specific benefit can be derived from these developments for customers and retailers because only those technologies which are accepted by the customers in practical application will be successfully applied in retailing.

At the Extra Future Store in Rheinberg, customers and international experts have the possibility to experience tomorrow's technologies in a complex interaction and under real-life conditions already today. The main technical modules of the Future Store were presented at international specialist conventions. One example is the participation of the METRO Group Future Store Initiative at the ECR Europe Conference in Berlin in May 2003 with the much acclaimed presentation of the "Future Lab" to the expert public, which was soon followed by a demonstration of the Extra Future Store's technical innovations on the fourth ECR day in the Vienna Imperial Palace. The focus was on the acceptance of new technologies by the customers as well as their contribution to a customer-oriented organization of the supply chain. At the German Logistics Congress held in Berlin in October 2003, the benefit of the Future Store technologies for the logistics processes in retailing was demonstrated. In January 2004, the Initiative presented its technical concepts at the Annual Convention & Expo of the National Retail Federation in New York, the largest international trade fair for retailers. The events met with a good response by the press and the experts alike.

**5. All products available at all times**

Reading devices built into the **Smart Shelves** ensure that there are always sufficient products available: by means of the RFID tag on the product, the shelf automatically recognizes when a customer takes out a product. If the stocks in the shelf are nearing depletion or someone has placed the wrong product in the wrong place, a message is automatically transmitted to the backstore. This way, the Smart Shelves ensure the continuous availability of products to the benefit of customers and facilitate planning for retailers.

## Future Store technology in practical application

From the outside, the Extra Future Store looks like a conventional Extra supermarket. Only the sign board "Future Store" above the entrance informs customers that something completely new is awaiting them. In late April 2003, the Extra Future Store was opened accompanied by large public interest. The Extra Future Store offers its customers a completely new dimension of shopping. Intelligent technologies provide more service and additional information.

## Intelligent technologies for more service and customer care

Since its opening, the Extra Future store has been frequented by around 3,000 customers per day. For shopping, customers can obtain support and information from a "Personal Shopping Assistant (PSA)". The PSA, a small, handheld computer, is fastened to the shopping trolley and operated via a touchscreen. The customer identifies himself to the PSA with his customer card, the "Extra Future Card". On the basis of the shopping lists saved from past visits to the Extra Future Store, the customer is given suggestions for his purchases, for example. In addition, the PSA indicates the direct way to the desired item from the comprehensive assortment of a total of 40,000 products in the almost 3,900 square meter Extra Future Store. Moreover, the PSA informs the customer about interesting special offers. With an integrated barcode scanner customers can scan their purchases before placing them into the trolley so that they are always informed of the total price of the products in the

**6. Information at a glance**

Stopover at the wine department: the customer wants to buy a bottle of red wine. At the **Information Terminal** he can obtain information on the different types of grapes, the wine-growing regions and differences in the taste of the wines. Which wine goes better with pasta, which one with meat? The Information Terminals at the Future Store know the answer – and even print out suggestions for recipes and tips for housekeeping or healthy nutrition.

trolley. Differing prices occasionally found on the product, at the shelf or at the checkout, are finally a thing of the past as the price input is controlled via a central system and any change in the price will be shown consistently on the PSA screen, on the electronic price labels at the shelves, and at the scanner checkouts in an instant. Moreover, the use of barcode scanners contributes to further accelerating the checkout process: a touch on the screen is all it takes to transfer the total price to the checkout. In addition to the PSA customers at the Extra Future Store can of course also continue to rely on the services of experienced and trained sales staff.

## Customer satisfaction shows sustained growth

Prior to the conversion of the supermarket to the Extra Future Store, 34 percent of customers were very satisfied with the shopping opportunities. Only six months after the opening of the Extra Future Store, the number of customers who gave a particularly positive statement already stood at 54 percent. During the same period, the share of regular customers rose from 30 to 43 percent. 77 percent of the customers have already used the technical novelties. Even senior customers with a certain inhibition as regards new technologies were among this group. Only a few months after the opening of the Extra Future Store, it already showed that innovative technologies can decisively contribute to raising the attractiveness of the store for customers, even better meeting their individual expectations in terms of assortment and service, promoting long-term customer loyalty, and thereby achieving a sustained improvement of the profitability in retailing.

**7. Advertising with a utility value**

On one of the electronic **advertising displays** at the Future Store the customer notices that his favorite pop group has launched a new CD. The advertising display will guide him to the nearby multimedia section. The customer retrieves the CD from the shelf and scans the tag at the Information Terminal: now he can listen in to each song.

## Innovative technology to support employees

Employees also benefit from the technical novelties. Especially their Personal Digital Assistants (PDAs), small handheld computers with barcode scanners, contribute to making work more efficient and gaining additional time for optimized customer care and individual assistance. With the PDA, the staff can check the store inventories at any time and order new products via the central merchandize management system, for example. The work-intensive and time-consuming checking of the individual shelves can thus be omitted.

The data exchange and communication at the Extra Future Store are handled by a wireless local area network (WLAN). This way, 37,000 electronic price labels can be managed, special offers can be displayed, advertising displays can be controlled and the functioning of the PSAs can be ensured.

## Special personnel concept for employees at the Future Store

The operation of the Extra Future Store with its numerous technical innovations and its focus on customer satisfaction and customer care also constitutes a new and very demanding challenge for employees. On the one hand, they are required to have basic and sometimes even expert knowledge in the handling of the new technologies used in the store, and on the other hand, they have to be prepared to convincingly familiarize customers with the benefits of these technologies, explain the

**8. Easy and fast checkout**

The customer has all his purchases in his trolley. To use the **Comfort Checkout**, he activates the "checkout" function on the PSA. The scanned data are then automatically transmitted to the checkout – the customer no longer needs to place every single item on the conveyor belt. If the customer opts for the **Self Checkout**, he has to scan his purchases at the checkout and pays cash or with EC or credit card at an automatic teller. This concludes the shopping process. Fast, comfortable and without any queues – an optimum finale for a unique shopping experience.

equipment and its functioning and dissipate any reservations that may exist. In order to match this new profile, a personnel concept particularly geared to the needs of the Future Store was developed which included an intensive training of regular staff as well as of newly hired employees prior to the conversion of the Extra Future Store, among others. The basis of this personnel concept was a compilation and analysis of all work processes conducted prior to the opening of the technically upgraded store. This document was used to determine the needs in terms of functions and qualification. The results were reconciled with the existing personnel resources, i.e. with the number and individual qualification of employees. This reconciliation then served as the basis for the development of a comprehensive training concept for all employees of the Future Store, which was also consistently implemented afterwards. As a consequence, all employees were intensively trained in customer care and service orientation and also received special technical training already prior to the opening of the store. In addition, group training sessions were held at regular intervals during the opening hours in the first months after the opening of the Future Store, where employees were able to identify improvement potential in their daily routine and jointly develop specific solutions.

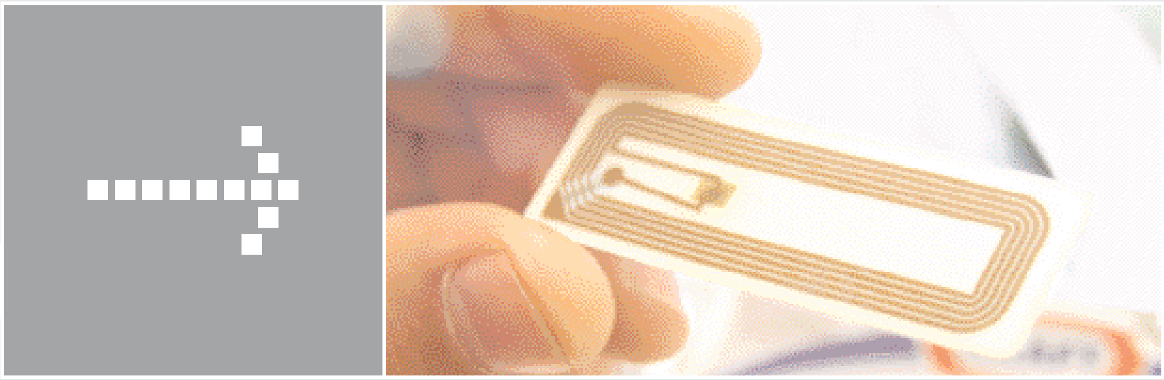
New employees were hired to work at the Future Point, the central customer information point in the store. They have to fulfill a multitude of tasks that are decisive for customers' acceptance of the technologies of the future. They are not only responsible for handing out the Personal Shopping Assistants but also have to assist customers with the most diverse subjects like the Extra Future Card or special technologies. Moreover, these employees have the important task of enthusing customers for the innovative technologies used in the Future Store and communicating their benefits. This personnel concept decisively contributed to customers' very good acceptance of the technological innovations in the Future Store already soon after its opening.

## Radio Frequency Identification (RFID) – a technology that revolutionizes the process chain

Renowned retailers and brand manufacturers worldwide have recently started testing a key technology that will revolutionize the process chain over the next few years: Radio Frequency Identification – RFID for short. This technology allows the contactless radio transmission of product data such as product number, manufacturer and best before date. The core of this technology is a so-called RFID tag: an ultra-thin label with an embedded programmable chip and a miniature antenna. The number code saved on the chip, the Electronic Product Code, can be read by RFID readers in the backstore and in the frontstore. The readers are connected to Metro's merchandize management system so that the code is automatically assigned to the correct product information.

## Successful RFID tests at the Extra Future Store

At the Extra Future Store in Rheinberg, METRO Group tested RFID and its interaction with other technologies jointly with the partners of the METRO Group Future Store Initiative – with success. The much acclaimed pilot project has demonstrated: RFID helps retailers increase the efficiency of their processes while at the same time substantially reducing storage costs. On the basis of RFID, the goods can be located precisely along the complete supply chain. At the exit of the backstore to the frontstore in the Extra Future Store, for example, an RFID gate reads the tags of each pallet and box passing this barrier. The gate transmits the corresponding RFID numbers to the RFID goods flow system. This is where the goods are recorded as being "moved to the frontstore". This way, retailers can continuously and reliably control their inventories. Out-of-stock situations occur less frequently, order management is optimized.



## One step ahead of the trend

METRO Group recognized the potential of RFID early on and is one of the leading innovators when it comes to advancing this technology worldwide. So far, METRO Group has mainly been using the RFID technology in warehouse management to ensure an optimum availability of the goods for its customers. Already starting from November 2004, around 100 suppliers of METRO Group are to provide their pallets and transport packaging for ten central warehouses of the retail group as well as around 250 stores of the sales divisions Metro Cash & Carry, Real, Extra and Galeria Kaufhof with RFID tags. With this move, METRO Group will be one of the first retailers to use RFID along the complete process chain.

In addition, METRO Group, together with other retailers, founded the “EPC Retail Users Group of Europe” and is a leading member of “EPCglobal”. The objective of these initiatives is to create confidence in the RFID technology on a long-term basis and to establish uniform RFID standards worldwide. To this purpose, the participating companies from the IT and consumer goods industries as well as from the retailing sector formulate their requirements for the new technology and best practices for implementation along the process chain.

## Focus on customers’ interests

METRO Group informs its customers in detail and openly on the use of the new technology. At the Extra Future Store of METRO Group, products and readers with RFID technology are marked with special stickers. Trained staff, a brochure and an interactive terminal offer background information to interested customers. METRO Group is also the first retailer to develop a De-Activator. With this device, the customers can overwrite the information saved on the RFID tag prior to leaving the store. The data are then no longer readable outside of the store. With this move, METRO Group demonstrates that data privacy is one of its top priorities.

# Income statement
## for the financial year from 1 January to 31 December 2003

| € million | Note no. | 2003 | 2002 |
|---|---|---|---|
| **Net sales** | 1 | 53,595 | 51,526 |
| Cost of sales | | (41,687) | (40,126) |
| **Gross profit on sales** | | 11,908 | 11,400 |
| Other operating income | 2 | 1,461 | 1,532 |
| Selling expenses | 3 | (10,636) | (10,377) |
| General administration expenses | 4 | (1,031) | (1,013) |
| Other operating expenses | 5 | (112) | (115) |
| **Earnings before interest, taxes and amortization, EBITA** | | 1,590 | 1,427 |
| Amortization of goodwill | 6 | (272) | (261) |
| **Earnings before interest and taxes, EBIT** | | 1,318 | 1,166 |
| Net investment income | 7 | (60) | 38 |
| Net interest result | 8 | (425) | (378) |
| Other financial result | 9 | (16) | 4 |
| **Net financial result** | | (501) | (336) |
| **Earnings before taxes** | | 817 | 830 |
| Income taxes | 10 | (246) | (328) |
| **Group net income** | | 571 | 502 |
| Minorities | 11 | (75) | (59) |
| **Group net profit** | | 496 | 443 |
| **Earnings per share in €** | 12 | 1.52 | 1.36 |

# Balance sheet as per 31 December 2003

## ASSETS

| € million | Note no. | Balance at 31 Dec 2003 | Balance at 31 Dec 2002 |
|---|---|---|---|
| **Fixed assets** | 17 | | |
| Goodwill | 18 | 3,987 | 4,070 |
| Other intangible assets | 19 | 326 | 188 |
| Tangible assets | 20 | 10,490 | 7,201 |
| Financial assets | 21 | 238 | 229 |
| | | 15,041 | 11,688 |
| **Current assets** | | | |
| Inventories | 22 | 5,941 | 5,506 |
| Trade receivables | 23 | 339 | 369 |
| Other receivables and other assets | 24 | 2,061 | 2,857 |
| Cash and cash equivalents | 25 | 1,593 | 1,323 |
| | | 9,934 | 10,055 |
| **Deferred tax assets** | 26 | 1,456 | 1,084 |
| **Prepaid expenses & deferred charges** | 27 | 149 | 96 |
| | | 26,580 | 22,923 |

## LIABILITIES

| € million | Note no. | Balance at 31 Dec 2003 | Balance at 31 Dec 2002 |
|---|---|---|---|
| **Equity** | 28 | | |
| Capital stock | | 835 | 835 |
| Additional paid-in capital | | 2,551 | 2,558 |
| Reserves retained from earnings | | 279 | 305 |
| Group net profit | | 496 | 443 |
| | | 4,161 | 4,141 |
| **Minorities** | 29 | 188 | 105 |
| **Provisions** | | | |
| Provisions for pensions and similar commitments | 30 | 1,012 | 960 |
| Other provisions | 31 | 758 | 725 |
| | | 1,770 | 1,685 |
| **Liabilities** | 32 | | |
| Financial debts | 33 | 7,802 | 5,587 |
| Trade payables | 34 | 9,907 | 9,119 |
| Other liabilities | 35 | 2,097 | 1,965 |
| | | 19,806 | 16,671 |
| **Deferred tax liabilities** | 26 | 526 | 196 |
| **Deferred income** | 36 | 129 | 125 |
| | | 26,580 | 22,923 |

# Cash flow statement

| € million | 2003 | 2002 |
|---|---|---|
| EBIT | 1,318 | 1,166 |
| Depreciation and amortization on fixed assets (excl. financial assets) | 1,297 | 1,250 |
| Change in provisions for pensions and similar commitments | (6) | 56 |
| Change in net working capital | 330 | 357 |
| Income taxes paid | (113) | (392) |
| Other [1] | 270 | 169 |
| **Cash flow from operating activities** | 3,096 | 2,606 |
| M&A transactions | (184) | (92) |
| Expenditure for tangible assets (excl. finance leases) | (1,118) | (1,308) |
| Other expenditure [2] | (127) | (344) |
| Disposal of fixed assets | 209 | 128 |
| **Cash flow from investing activities** | (1,220) | (1,616) |
| Profit distributed to | | |
| METRO AG stockholders | (334) | (334) |
| other stockholders | (88) | (25) |
| Change in minority interests | – | (3) |
| Raising of financial debts | 1,909 | 513 |
| Redemption/repayment of financial debts | (831) | (777) |
| Interest paid | (574) | (528) |
| Interest received | 141 | 172 |
| P&L transfers and other financing activities | (2,043) | (361) |
| **Cash flow from financing activities** | (1,820) | (1,343) |
| **Total cash flows** | 56 | (353) |
| Exchange rate effects on cash and cash equivalents | 0 | (6) |
| Change in cash and cash equivalents due to the first-time inclusion of companies | 233 | 0 |
| **Overall change in cash and cash equivalents** | 289 | (359) |
| Cash and cash equivalents at 1 January | 1,292 | 1,651 |
| Cash and cash equivalents at 31 December | 1,581 | 1,292 |

[1] The item "Other" was combined with the item "Net gains/losses from disposals of fixed assets". The corresponding figure for the prior year was adjusted accordingly.
[2] The item "Other expenditure" was combined with the item "Change in non-interest liabilities from investing activities". The corresponding figure for the prior year was adjusted accordingly.

# Statement of changes in equity

| € million | Capital stock | Additional paid-in capital | Reserves retained from earnings | Net earnings | Total |
|---|---|---|---|---|---|
| 1 Jan 2002 | 835 | 2,558 | 376 | 401 | 4,170 |
| Group net profit | – | – | – | 443 | 443 |
| Cash dividend | – | – | – | (334) | (334) |
| Subsequent measurement under IAS 39 | – | – | (39) | – | (39) |
| Currency translation effects | – | – | (99) | – | (99) |
| Reclassification group net profit | – | – | 67 | (67) | – |
| Other | – | – | – | – | – |
| 31 Dec 2002/1 Jan 2003 | 835 | 2,558 | 305 | 443 | 4,141 |
| Group net profit | – | – | – | 496 | 496 |
| Cash dividend | – | – | – | (334) | (334) |
| Release equity component of convertible bond | – | (7) | (57) | – | (64) |
| Subsequent measurement under IAS 39 | – | – | 7 | – | 7 |
| Currency translation | – | – | (91) | – | (91) |
| Reclassification group net profit | – | – | 109 | (109) | – |
| Other | – | – | 6 | – | 6 |
| **31 Dec 2003** | 835 | 2,551 | 279 | 496 | 4,161 |

# Notes to the consolidated financial statements

## Notes to the group accounting principles and methods

**Accounting principles**

METRO AG's consolidated financial statements were prepared in accordance with the rules of the International Accounting Standards Board (IASB), London, and the interpretations of the Standing Interpretations Committee (SIC). METRO AG's consolidated financial statements comply with all provisions of the International Financial Reporting Standards (IFRS) adopted and published as of 31 December 2003.

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

As the prerequisites of § 292a HGB have been satisfied, the present consolidated financial statements, prepared in accordance with the International Financial Reporting Standards (IFRS), have an exempting effect on the duty to prepare consolidated financial statements in accordance with the HGB. This assessment is based on German Accounting Standard no. 1 (DRS 1) of the Deutsche Rechnungslegungs Standards Committee DRSC e.V.

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

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

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

**Consolidated group and associated companies**

Besides METRO AG, the consolidated financial statements comprise 613 (previous year 388) German and 254 (previous year 235) foreign subsidiaries in which METRO AG directly or indirectly holds the majority of voting rights.

32 (previous year 14) subsidiaries were not included in the consolidation as their impact on the group's financial position and performance is of minor significance. The combined sales of these companies account for distinctly less than one percent of group sales.

The group of consolidated companies changed as follows versus the previous year:

| | |
|---|---|
| Status 1 January 2003 | 624 |
| Changes in fiscal 2003: | |
| Companies merged to other consolidated subsidiaries | (25) |
| Companies divested | (2) |
| Companies newly formed | 59 |
| Companies acquired | 7 |
| First-time consolidation of shareholdings | 211 |
| Other changes | (6) |
| **Status 31 December 2003** | 868 |

Changes in the consolidation due to the first-time consolidation of shareholdings mainly result from the consolidation of **Asset Immobilienbeteiligungen GmbH & Co. KG (AIB)** as well as the subsidiaries of AIB (AIB Group) with effect from 31 December 2003. The consolidation of the AIB group (207 companies) was effected after negotiations with Westdeutsche Landesbank and Provinzial Rheinland Versicherung AG on the acquisition of the majority of votes were successfully concluded in late December 2003, and the authority approvals had been obtained. METRO AG now holds 75 percent of the voting rights in AIB.

The AIB Group was consolidated using the purchase method. Prior to waiving the intention to sell and acquiring the majority of votes pursuant to IAS 39 (Financial Instruments: Recognition and Measurement), AIB had been classified as an "asset held for trading". The capital consolidation of AIB was therefore effected by offsetting the last fair value measurement of the shareholding against the revaluated pro rata equity of AIB. No goodwill was generated in the process.

The effects from the first-time consolidation of the AIB group on the consolidated balance sheet mainly result from an addition to tangible assets (€ 2,911 million) and the increase in financial debts (€ 2,297 million). As the first-time consolidation was to be effected on 31 December 2003, there were no impacts on the consolidated income statement.

In addition to the AIB group, four special purpose companies holding legal ownership in the administration buildings of the company's Düsseldorf location at Metro-Strasse/Schlüterstrasse which had been acquired in 2002 with the intention to sell, were for the first-time included in the scope of consolidation with effect from 31 December 2003 after waiving the intention to sell.

Any material effects from changes in the consolidation group are detailed in the Notes to the financial statement items concerned.

Additions due to newly formed companies (59 companies) are attributable to the expansion of the sales divisions Metro Cash & Carry as well as Media Markt and Saturn.
Three associated companies are valued at equity. A total of 12 companies (previous year 12) are not valued at equity. In these companies, METRO Group holds voting rights ranging between 20 percent and 50 percent but the application of the equity method was not required on the grounds of materiality. These shareholdings are reported at cost.
A complete list of the group companies as well as the associated companies is filed in the Commercial Register (HRB 39473) of the Local Court Düsseldorf. An overview of the major group companies is shown on page 205.

**Consolidation principles**

The financial statements of German and foreign subsidiaries included in the consolidated accounts are prepared according to uniform accounting methods, as required by IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries).
Consolidated subsidiaries which, unlike METRO AG, do not close their fiscal year at 31 December prepared interim financial statements for consolidation purposes.
In accordance with IAS 22 (Business Combinations), capital consolidation is effected by offsetting the carrying amounts of the investment against the revaluated pro rata equity of the subsidiaries as per their acquisition date. Any differences remaining after the allocation of hidden reserves and encumbrances are capitalized as goodwill and amortized to income on a straight-line basis in accordance with their useful lives.
Investments accounted for under the equity method are treated in accordance with the principles applying to full consolidation, with any goodwill being included in the recognition of the investment, and amortization of this goodwill being included in the investment result. Any deviating accounting methods used in the financial statements' underlying equity valuation are retained as long as they do not substantially contradict the METRO Group's uniform accounting methods. Investments operating as marketing companies are carried as "Other assets" under current assets and recognized in accordance with IAS 39 (Financial Instruments: Recognition and Measurement), as these companies will be dissolved once the marketing activities have been completed. Shares in non-consolidated group companies are also recognized in accordance with IAS 39. Any amounts written back or written down for shares in consolidated subsidiaries carried in the separate financial statements have been reversed in the consolidated accounts.

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

**Currency translation**

In the subsidiaries' separate financial statements, foreign currency transactions are translated at the date of the transaction. Exchange losses incurred up to the balance sheet date on the measurement of receivables and payables are accounted for; gains and losses from exchange rate changes are recognized in income.

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

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

The financial statements of subsidiaries based in hyperinflationary economies are translated in accordance with IAS 29 (Financial Reporting in Hyperinflationary Economies). Just like the income statement items, assets and liabilities are translated at the closing rate. This principle affects group companies based in Romania and Turkey.

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

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

| | | Average rate € | | Closing rate € [1] | |
|---|---|---|---|---|---|
| | | 2003 | 2002 | 2003 | 2002 |
| 1 | US dollar | 0.88035 | 1.05807 | 0.79177 | 0.95356 |
| 1 | Pound sterling | 1.44557 | 1.59061 | 1.41884 | 1.53728 |
| 100 | Polish zloty | 22.73696 | 25.93058 | 21.26800 | 24.87438 |
| 1.000 | Romanian lei | 0.02664 | 0.03199 | 0.02430 | 0.02864 |
| 100 | Swiss francs | 65.74811 | 68.15567 | 64.18897 | 68.85156 |
| 1 | Bulgarian leva | 0.51129 | 0.51129 | 0.51129 | 0.51129 |
| 100 | Chinese renminbi | 10.68885 | 12.78341 | 9.56620 | 11.51644 |
| 100 | Danish kroner | 13.45761 | 13.45809 | 13.43183 | 13.46112 |
| 100 | Hong Kong dollars | 11.35553 | 13.56064 | 10.25110 | 12.23406 |
| 100 | Moroccan dirham | 9.23609 | 9.61941 | 9.03489 | 9.39536 |
| 100 | Slovak korunas | 2.41013 | 2.34198 | 2.42895 | 2.40900 |
| 100 | Czech korunas | 3.13993 | 3.24607 | 3.08547 | 3.16686 |
| 1.000.000 | Turkish lira | 0.59007 | 0.69478 | 0.56445 | 0.57219 |
| 100 | Hungarian forint | 0.39439 | 0.41157 | 0.38095 | 0.42321 |
| 1 | Croatian kuna | 0.13221 | 0.13501 | 0.13073 | 0.13419 |
| 100 | Russian roubles | 2.88430 | 3.36826 | 2.69557 | 3.00554 |
| 100 | Indian rupees | 1.90228 | 2.17867 | 1.73644 | 1.98692 |
| 100 | Japanese yen | 0.76401 | 0.84721 | 0.74047 | 0.80392 |
| 10.000 | Vietnamese dong | 0.56852 | 0.69387 | 0.50722 | 0.62049 |
| 1 | Ukrainian hryvnja | 0.16521 | 0.19876 | 0.15010 | 0.18074 |
| 1 | Singapore dollar | 0.50784 | 0.59129 | 0.46517 | 0.54699 |
| 100 | Serbian dinars | 1.52771 [2] | | 1.46015 [2] | |

[1] As per 31 December 2003
[2] First-time inclusion in the consolidated financial statements as per 31 December 2003

## Accounting methods

### Recognition of income and expenses

As a matter of principle, **net sales** and **other operating income** are reported upon rendering of the service or delivery of the goods or merchandize and hence upon transfer of the risk to the customer.

**Operating expenses** are recognized as expenses when the claim to payment is met or effective the date of cause.

As a rule, **dividends** are recognized when the legal claim to payment arises. **Interest** is recognized as prorated income or expenses.

To improve the presentation of the performance, expenses and income are reported on a net basis to the extent stipulated or permitted by IFRS.

**Intangible assets**

In accordance with IAS 22 (Business Combinations), goodwill from capital consolidation is capitalized and amortized on a straight-line basis over a period of 15 to 20 years. Goodwill resulting from the acquisition of companies in the cash & carry segment or Swiss service companies is amortized over a period of 25 years. The success of existing concepts which have basically been retained unchanged for decades justifies the useful life of 25 years. The useful life of goodwill is determined in particular as a function of the strategic importance of the respective acquisition for the group and the possibility of generating synergies. The valuation of goodwill is regularly reviewed. If there are any indications of an impairment, the goodwill is written down correspondingly to its recoverable amount.

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

**Tangible assets**

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

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

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

**Leasehold improvements** are depreciated over the lease term, **low-value assets** are fully written off in the year of their acquisition.

In accordance with IAS 17 (Leases), economic ownership of **leased assets** is attributable to the lessee if substantially all the risks and rewards incident to ownership of the asset are transferred to the lessee (finance lease). If economic ownership is allocable to METRO Group companies, the leased asset is capitalized at fair value or at the lower present value of the lease payments when the lease is concluded. In analogy to comparable purchased tangible assets, leased assets are depreciated over their useful lives or the lease term, if shorter. The liabilities resulting from the future lease payments are carried as liabilities.

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

**Financial assets**

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

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

**Shares in group companies, investments and long-term securities** are assets to be classified as "available-for-sale financial assets". They are measured at cost for the first recognition period. If the fair values of these financial assets can be reliably determined in subsequent periods, they are recognized at their fair values; if there are no active markets and if their fair values cannot be determined without undue effort, they are recognized at (amortized) cost.

**Loans** are classified as "loans and receivables originated by the company" and therefore measured at amortized cost. Financial assets designated as hedged items in the framework of a fair value hedge are recognized at their fair value.

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

If there are any indications of an impairment, the assets are written down to their lower recoverable amounts by way of a non-scheduled depreciation.

**Inventories**

Merchandize recognized as **inventories** is reported at cost. As a rule, the cost is determined by means of the weighted average cost formula. Merchandize is measured as per balance sheet date at the lower of cost or net realizable value.

Merchandize is written down on a case-by-case basis if the anticipated net realizable value declines below the carrying amount of the inventories. Such net realizable value corresponds to the anticipated estimated selling price less the estimated costs necessary to make the sale. When the reasons for a write-down of the merchandize have ceased to exist, the write-down is reversed.

**Receivables and other assets**

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), **trade receivables** are classified as "loans and receivables originated by the company" and recognized at cost. Where their recoverability appears doubtful, they are recognized at the lower recoverable amount. Besides the necessary specific bad-debt allowances, a lump-sum bad-debt allowance is carried to account for the general credit risk.

**Other receivables and other assets** classified as "loans and receivables originated by the company" under IAS 39 (Financial Instruments: Recognition and Measurement) are measured at amortized cost.

**Other assets** include investments and derivative financial assets to be classified as "held for trading" in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). They are measured at cost for the first recognition period. Where the fair values of these financial instruments can be reliably determined, such fair values are carried. Where no active markets exist and the fair values cannot be determined without undue effort, the assets are carried at amortized cost.

All other receivables and assets are recognized at cost.

If there are any indications of an impairment, the assets are written down to the lower recoverable amount by way of a non-scheduled depreciation.

**Cash and cash equivalents**

Securities reported under **cash and cash equivalents** are classified as "held for trading" in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) and are recognized at their fair values.

**Deferred taxes**

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

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

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

**Prepaid expenses & deferred income**

Prepaid expenses & deferred income on the assets and liabilities side mainly include transitory deferrals.

**Provisions**

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

Other provisions for pensions and similar commitments are formed on the basis of actuarial valuations under IAS 19.

Other provisions are formed if and when de jure or de facto obligations to third parties that are based on past business transactions or events may result in an outflow of financial funds and can be reliably determined. They are stated at the anticipated settlement amount with due regard to all identifiable risks attached, and are not offset against any claims to recourse. The settlement amount with the highest possible likelihood of occurrence is used. Accrued long-term liabilities such as for deficient rental cover or reinstatement obligations are carried at their settlement amounts discounted to the balance sheet date. For companies in Germany, a tax rate of 4.5 percent is applied as discount rate while for companies abroad the corresponding local capital market interest rate is used.

**Liabilities**

As a matter of principle, all financial debts are recognized at amortized cost using the effective interest method in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Financial debts designated as the hedged item in a fair value hedge are carried as liabilities at their fair value. The fair values indicated for the financial debts have been determined on the basis of the interest rates applicable at the balance sheet date for the remaining maturities and redemption structures.

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

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

Trade liabilities are recognized at amortized cost.

Other liabilities are carried at their settlement amounts unless they represent derivative financial assets which are recognized at their fair values under IAS 39 (Financial Instruments: Recognition and Measurement).

**Contingent liabilities**

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

**Accounting for derivative financial instruments/hedge accounting**

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

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement), all derivative financial assets are recognized at their fair values and shown under "Other receivables or other assets" or "Other liabilities".

Derivative financial assets are measured on the basis of inter-bank terms and conditions, including the credit margin or stock exchange price applicable to the METRO Group, if necessary; the bid price and offer price at the balance sheet date are applied. Where no stock exchange prices are used, the fair value is determined by means of recognized accounting models. The recognized fair values equal the amounts for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
Gains and losses from derivative financial assets designated as qualified hedges in the framework of a fair value hedge or for which a qualified hedge relationship could not be established in accordance with the provisions of IAS 39 (Financial Instruments: Recognition and Measurement) and which, accordingly, did not qualify for hedge accounting, are carried in the income statement with an effect on income. Results from derivative financial assets for which a cash flow hedge has been formed and whose effectiveness has been established, are carried in equity with no effect on income up to the date of realization of the hedged transaction. Any potential changes in results due to the ineffectiveness of these financial instruments are recognized in the income statement with an immediate effect on income.

**Accounting for stock option plans**

To the extent that this is economically reasonable, the stock option plans (SOP), stock appreciation rights (SAR) or similar rights granted in the framework of the stock-oriented compensation scheme are secured by means of hedging transactions. The cost of the hedges is ratably spread over the term of the SOP/SAR and similar rights, and recognized as personnel expenses. If the conclusion of the hedge does not coincide with the granting of the rights, a prorated provision amounting to the pro rata temporis value of the granted rights is formed. The market value is determined using the costs that would have been incurred if a hedge transaction had been concluded at the balance sheet closing date.

**Use of assumptions and estimates**

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

# Notes to the consolidated income statement

## 1. Net sales

Breakdown of net sales:

| € million | 2003 | 2002 |
|---|---|---|
| Metro Cash & Carry | 25,093 | 23,972 |
| Real | 8,205 | 8,198 |
| Extra | 2,773 | 2,835 |
| Media Markt and Saturn | 10,563 | 9,583 |
| Praktiker | 2,811 | 2,584 |
| Kaufhof | 3,819 | 3,900 |
| Other companies [1] | 331 | 454 |
| | 53,595 | 51,526 |

[1] The sales shown under "Other companies" were mainly generated by the Dinea group at € 180 million (previous year € 183 million), the Gemex group at € 99 million (previous year € 184 million) and MGE Warenhandelsgesellschaft mbH & Co. KG at € 35 million (previous year € 78 million).

€ 25.3 billion of net sales (previous year € 23.8 billion) were generated by group companies based outside of Germany.

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

## 2. Other operating income

| € million | 2003 | 2002 |
|---|---|---|
| Rents | 414 | 397 |
| Advertising services | 310 | 288 |
| Services/cost refunds | 215 | 231 |
| Central A/P clearing for sales divisions | 81 | 80 |
| Release of accruals | 67 | 48 |
| Release of liabilities | 49 | 51 |
| Commissions | 43 | 49 |
| Building/construction work | 40 | 38 |
| Gains from the disposal of fixed assets and from write-up | 30 | 34 |
| Damages and indemnities | 18 | 33 |
| Sale-and-leaseback transactions | 18 | 18 |
| Other | 176 | 265 |
| | 1,461 | 1,532 |

The "Other operating income" basically remained unchanged compared with the prior year. In contrast to the annual report 2002, services rendered by MGA METRO Group Advertising GmbH in the amount of € 24 million (previous year € 29 million), earnings achieved from the marketing of secondary raw materials by MFS METRO Group Facility Services GmbH totaling € 10 million (previous year € 14 million) to third parties and the receipt of cost refunds for the handling of warranty cases in the amount of € 10 million (previous year € 5 million) have been reported under "Services/cost refunds" in 2003 instead of under "Other". Moreover, the item "Release of other liabilities" was reported separately this year.

### 3. Selling expenses

| € million | 2003 | 2002 |
|---|---|---|
| Personnel expenses | 5,223 | 5,075 |
| Cost of materials | 5,413 | 5,302 |
| | 10,636 | 10,377 |

The € 259 million rise in selling expenses compared with the previous year value mainly results from the expansion of the sales divisions Metro Cash & Carry as well as Media Markt and Saturn. The other sales divisions, too, showed a development of selling expenses in fiscal 2003 in line with sales. The cost of materials primarily include the expenses for rent, amortization, advertising and buildings (energy, maintenance, etc.) attributable to the selling function.

### 4. General administration expenses

| € million | 2003 | 2002 |
|---|---|---|
| Personnel expenses | 544 | 529 |
| Cost of materials | 487 | 484 |
| | 1,031 | 1,013 |

The rise in personnel expenses for general administration is mainly attributable to increased expenses for social security. Expenses for wages and salaries only experienced a moderate increase. Cost of materials include in particular expenses for consulting services, amortization, rent as well as expenses for HR management and costs for training and continued education.

### 5. Other operating expenses

Other operating expenses mainly include expenses for construction contracts in the amount of € 19 million (previous year € 35 million), losses from disposals of fixed assets totaling € 14 million (previous year € 24 million) as well as common valuation adjustments for asset items of € 22 million (previous year € 11 million).
While expenses for construction contracts are reported under "Other operating expenses", income from construction contracts is reported under "Other operating income".

### 6. Amortization of goodwill

| € million | 2003 | 2002 |
|---|---|---|
| Amortization of goodwill from capital consolidation | 259 | 248 |
| Amortization of goodwill from separate financial statements | 13 | 13 |
| | 272 | 261 |

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

### 7. Net investment income

Compared with the prior year, net investment income dropped by € 98 million. Important effects on the net investment income in 2003 result from expenses due to the waiver of claims against Divaco in the amount of around € 250 million and an income from the fair value measurement of the investment in AIB (€ 221 million). € 62 million of the fair value income were capitalized in 2003 and distributed to METRO AG. The measurement according to the fair value method mainly considers the last purchase price offers submitted by an investor group.
Net investment income also includes the scheduled amortization of goodwill on associated companies acquired in the framework of equity valuation totaling € 3 million.
As in the year before, net investment income was not affected by any "available-for-sale" financial assets in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

## 8. Net interest result

The net interest result can be broken down as follows:

| € million | 2003 | 2002 |
|---|---|---|
| Other interest and similar income | 158 | 122 |
| Interest and similar expenses | (366) | (305) |
| Interest element of lease payments under finance leases | (162) | (149) |
| Interest element of the transfers to provisions for pensions and similar commitments | (55) | (46) |
| | (425) | (378) |

## 9. Other financial result

| € million | 2003 | 2002 |
|---|---|---|
| Other financial income | 202 | 358 |
| Other financial expenses | (218) | (354) |
| | (16) | 4 |

The measurement of derivative financial assets resulted in a deterioration of the "Other financial result" totaling € 15 million. In addition, amortization on loans in the amount of € 7 million and higher commission payments (€ 5 million) contrasted with an improved result from the indexing and currency translation of annual financial statements from hyperinflationary countries (€ +7 million).
As in the year before, the "Other financial result" was not affected by any "available-for-sale" financial assets in accordance with IAS 39 (Financial Instruments: Recognition and Measurement).

## 10. Income taxes

Taxes on income include income taxes paid or due in the individual countries, plus deferred taxes. The German companies of the METRO Group are taxed at an average trade earnings tax of 17.35 percent of trade earnings, an amount deductible in the determination of corporate income tax. The corporate income tax amounts to 25.00 percent, plus 5.50 percent solidarity surtax thereon. The aggregate tax rate is 39.15 percent.

Deferred taxes are determined on the basis of the respective tax rates expected to apply in the individual countries upon realization. These rates are generally based on the legislation current or enacted at the balance sheet date.

Non-German income tax is calculated on the basis of the respective laws and regulations applying in the individual countries. The income tax rates applied to foreign companies vary in a range of 13.00 percent to 42.30 percent.

| € million | 2003 | 2002 |
|---|---|---|
| Taxes paid or due | 390 | 321 |
| thereof in Germany | [122] | [96] |
| thereof abroad | [268] | [225] |
| Deferred taxes | (144) | 7 |
| | 246 | 328 |

The current tax expenses of € 246 million (previous year € 328 million) are € 74 million down (previous year € 3 million up) on the expected income tax expenses of € 320 million (previous year € 325 million) which would result if the German income tax rate were applied to the group's taxable income for the year.

Reconciliation of expected to current income tax expense:

| € million | 2003 | 2002 |
|---|---|---|
| Group earnings before taxes | 817 | 830 |
| Expected income tax expense (39.15%) | 320 | 325 |
| Effects of differing national tax rates | (118) | (115) |
| Amortization of goodwill from capital consolidation | 51 | 48 |
| Expenses from non-consolidated subsidiaries | 0 | 94 |
| Expenses from consolidated subsidiaries | 0 | (73) |
| Tax expenses and income relating to other periods | (83) | 6 |
| Nondeductible business expenses | 51 | 60 |
| Other differences | 25 | (17) |
| | 246 | 328 |

**11. Minorities**

Minorities break down into profit shares of € 97 million (previous year € 79 million) and loss shares of € 22 million (previous year € 20 million). They mainly represent P&L shares of minority stockholders in the sales divisions Metro Cash & Carry as well as Media Markt and Saturn.

### 12. Earnings per share

Earnings per share are determined by dividing the group net income after minority interests by the number of shares issued. A diluting effect did not occur, neither in the year under review nor in the previous year.

| | 2003 | 2002 |
|---|---|---|
| Weighted number of no-par value shares issued | 326,787,529 | 326,787,529 |
| Group net income after minority interests (€ million) | 496 | 443 |
| Earnings per share (€) | 1.52 | 1.36 |

### 13. Amortization/depreciation/write-down

| € million | 2003 | 2002 |
|---|---|---|
| Scheduled depreciation of tangible assets and amortization of intangible assets, including goodwill | 1,297 | 1,250 |
| Non-scheduled write-down of tangible and intangible assets | – | – |
| Write-down of financial assets | 15 | 1 |
| | 1,312 | 1,251 |

Write-down of financial assets relates to the write-down of loans (€ 7 million), investments (€ 5 million) as well as the scheduled amortization of goodwill on associated companies acquired in the framework of equity valuation totaling € 3 million.

### 14. Cost of materials

The cost of sales includes the following cost of materials:

| € million | 2003 | 2002 |
|---|---|---|
| Cost of raw materials, supplies and goods purchased | 41,448 | 39,873 |
| Cost of services purchased | 48 | 50 |
| | 41,496 | 39,923 |

### 15. Personnel expenses

Personnel expenses can be broken down as follows:

| € million | 2003 | 2002 |
|---|---|---|
| Wages and salaries | 4,827 | 4,735 |
| Social security payments, expenses for pensions and related employee benefits | 1,075 | 980 |
| thereof pension expenses | [38] | [32] |
| | 5,902 | 5,715 |

Personnel expenses include the prorated expense for hedges totaling € 11 million (previous year € 9 million) contracted by METRO Group for the stock option programs (SOP/SAR) launched in the period from 1999 to 2002. In addition, a provision totaling € 4 million was formed for options, stock appreciation rights and similar rights granted in 2003.

Annual average headcount of the group:

| Headcount | 2003 | 2002 |
|---|---|---|
| White collar | 184,680 | 188,610 |
| Blue collar | 57,330 | 46,673 |
| Apprentices/trainees | 10,027 | 9,881 |
| | 252,037 | 245,164 |

The above figure includes an absolute number of 107,063 (previous year 105,853) part-time employees. The proportion of persons employed outside of Germany stood at 44.3 percent compared with 42.0 percent in the previous year on the basis of full-time equivalents.

### 16. Other taxes

Other taxes of € 80 million (previous year € 71 million) are included in the cost of sales and the selling and administrative expenses.

# Notes to the consolidated balance sheet

## 17. Fixed assets

| € million | Goodwill | Other intangible assets | Tangible assets | Financial assets | Total fixed assets |
|---|---|---|---|---|---|
| **Cost of acquisition or production** | | | | | |
| Balance at 1 Jan 2003 | 5,674 | 449 | 12,597 | 262 | 18,982 |
| Currency translation | – | (2) | (192) | (2) | (196) |
| Change in consolidated group | – | 27 | 3,081 | 90 | 3,198 |
| Additions | 191 | 187 | 1,421 | 25 | 1,824 |
| Disposals | (4) | (36) | (492) | (96) | (628) |
| Transfers | – | (3) | (7) | (3) | (13) |
| Balance at 31 Dec 2003 | 5,861 | 622 | 16,408 | 276 | 23,167 |
| **Depreciation/amortization/write-down** | | | | | |
| Balance at 1 Jan 2003 | 1,604 | 261 | 5,396 | 33 | 7,294 |
| Currency translation | – | (1) | (60) | – | (61) |
| Additions, scheduled | 272 | 66 | 959 | 3 | 1,300 |
| Additions, non-scheduled | – | – | – | 12 | 12 |
| Disposals | (2) | (30) | (388) | (9) | (429) |
| Write-ups | – | – | – | (1) | (1) |
| Transfers | – | – | 11 | – | 11 |
| Balance at 31 Dec 2003 | 1,874 | 296 | 5,918 | 38 | 8,126 |
| **Book value at 31 Dec 2003** | 3,987 | 326 | 10,490 | 238 | 15,041 |
| Book value at 31 Dec 2002 | 4,070 | 188 | 7,201 | 229 | 11,688 |

## 18. Goodwill

Of the total goodwill of € 3,987 million (previous year € 4,070 million) as per 31 December 2003, € 3,853 million (previous year € 3,924 million) relate to differences resulting from capital consolidation, with another € 134 million (previous year € 146 million) goodwill taken over from the separate financial statements of subsidiaries.

As in the previous year, no write-downs were made in the fiscal year under review.

### 19. Other intangible assets

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

| € million | Concessions, franchises, industrial property and similar rights and assets as well as licenses thereto | [thereof internally generated intangible assets] | Prepayments made | Total |
|---|---|---|---|---|
| **Cost of acquisition or production** | | | | |
| Balance at 1 Jan 2003 | 447 | [114] | 2 | 449 |
| Currency translation | (2) | – | – | (2) |
| Change in consolidated group | 27 | – | – | 27 |
| Additions | 176 | [58] | 11 | 187 |
| Disposals | (36) | [(5)] | – | (36) |
| Transfers | (3) | [(1)] | – | (3) |
| Balance at 31 Dec 2003 | 609 | [166] | 13 | 622 |
| **Depreciation/amortization/write-down** | | | | |
| Balance at 1 Jan 2003 | 261 | [34] | – | 261 |
| Currency translation | (1) | – | – | (1) |
| Additions, scheduled | 66 | [26] | – | 66 |
| Additions, non-scheduled | – | – | – | – |
| Disposals | (30) | [(2)] | – | (30) |
| Write-ups | – | – | – | – |
| Transfers | – | – | – | – |
| Balance at 31 Dec 2003 | 296 | [58] | – | 296 |
| **Book value at 31 Dec 2003** | 313 | [108] | 13 | 326 |
| Book value at 31 Dec 2002 | 186 | [80] | 2 | 188 |

No write-downs were made in the fiscal year under review, as in the previous year.
As in the previous year, intangible assets are not subject to any material restrictions of title or disposal.

## 20. Tangible assets

Tangible assets developed as follows in the year under review:

| € million | Land and buildings | Plant and machinery | Other plant, business and office equipment | Prepayments made and assets under construction | Total |
|---|---|---|---|---|---|
| **Cost of acquisition or production** | | | | | |
| Balance at 1 Jan 2003 | 7,870 | 7 | 4,539 | 181 | 12,597 |
| Currency translation | (116) | – | (71) | (5) | (192) |
| Change in consolidated group | 3,014 | – | 7 | 60 | 3,081 |
| Additions | 688 | 1 | 509 | 223 | 1,421 |
| Disposals | (112) | – | (345) | (35) | (492) |
| Transfers | 216 | 3 | 56 | (282) | (7) |
| Balance at 31 Dec 2003 | 11,560 | 11 | 4,695 | 142 | 16,408 |
| **Depreciation/write-down** | | | | | |
| Balance at 1 Jan 2003 | 2,464 | 5 | 2,922 | 5 | 5,396 |
| Currency translation | (19) | – | (41) | – | (60) |
| Additions, scheduled | 414 | – | 545 | – | 959 |
| Additions, non-scheduled | – | – | – | – | – |
| Disposals | (61) | – | (327) | – | (388) |
| Write-ups | – | – | – | – | – |
| Transfers | 31 | 2 | (22) | – | 11 |
| Balance at 31 Dec 2003 | 2,829 | 7 | 3,077 | 5 | 5,918 |
| **Book value at 31 Dec 2003** | 8,731 | 4 | 1,618 | 137 | 10,490 |
| Book value at 31 Dec 2002 | 5,406 | 2 | 1,617 | 176 | 7,201 |

The addition from the change in the consolidated group chiefly results from the first-time inclusion of the AIB group (€ 2,911 million) and the special purpose companies holding ownership in the administrative buildings located at Metro-Strasse/Schlüterstrasse in Düsseldorf (€ 162 million).

Additions to tangible assets primarily relate to the opening of new stores at Metro Cash & Carry as well as Media Markt and Saturn.

As in the previous year, no write-downs took place in the year under review.

Restrictions on disposal in the form of land charges and assignments as security for tangible assets are attributable to the first-time consolidation of the AIB group in the year under review, amounting to € 681 million (previous year € 5 million). The charge entered in the land register amounts to € 586 million.

Purchasing commitments for tangible assets were entered into in the amount of € 12 million (previous year € 17 million).

Fixed assets which have been made available to the group in the framework of a finance lease are included at € 2,082 million (previous year € 1,862 million) and mainly relate to leased buildings.

Finance leases are typically signed for a non-cancelable term of 15 to 25 years. Upon expiration of the initial non-cancelable term, the agreement regularly provides for an option to renew the lease at least once for another 5-year term. The leases are based on interest rates varying from 3.4 to 14.4 percent depending on the respective market and date of conclusion of the agreement.

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

As a result of the first-time inclusion of the AIB group in the consolidated financial statements, commitments of € 400 million were added due to finance lease agreements. On the other hand, the consolidation of the AIB group led to a reduction of commitments from operating lease agreements between companies of the AIB group and other METRO group companies in the amount of € 3,335 million.

The maturities of obligations from finance and operating lease agreements in future periods are as follows:

| € million | within 1 year | 1 to 5 years | over 5 years |
|---|---|---|---|
| **Finance leases** | | | |
| Future lease payments due (nominal) | 414 | 1,302 | 2,236 |
| Discounts | 24 | 292 | 1,043 |
| Present value | 390 | 1,010 | 1,193 |
| **Operating leases** | | | |
| Future lease payments due (nominal) | 1,176 | 4,208 | 6,171 |

Future lease payments due from finance leases include the purchase price payments needed to exercise favorable acquisition options, in the amount of € 150 million.
In future, lease payments will be made to the METRO Group from finance subleases at a nominal value of € 467 million (previous year € 477 million).
The nominal value of future operating sublease payments made to the METRO Group amounts to € 1,618 million (previous year € 1,314 million).
As in the previous year, no write-downs were made in the fiscal year under review.
The fiscal year result contains payments from lease agreements in the amount of € 1,448 million (previous year € 1,376 million) and payments from sublease agreements in the amount of € 407 million (previous year € 395 million).
As a result of the first-time consolidation of the AIB group, there are claims for lease payments against entities not belonging to the METRO Group falling due in subsequent periods as follows:

| € million | within 1 year | 1 to 5 years | over 5 years |
|---|---|---|---|
| **Finance leases** | | | |
| Expected future lease payments (nominal) | 4 | 15 | 23 |
| Discounts | 0 | 3 | 10 |
| Present value | 4 | 12 | 13 |
| **Operating leases** | | | |
| Expected future lease payments (nominal) | 21 | 59 | 51 |

The non-guaranteed residual value from finance lease agreements with entities outside the METRO Group amounts to € 1 million.
The still unrealized financial gain (finance lease from the viewpoint of the lessor, AIB group) is € 13 million.

### 21. Financial assets

Financial assets experienced the following changes in the year under review:

| € million | Shares in group companies | Loans | Investments | Long-term securities | Total |
|---|---|---|---|---|---|
| **Cost of acquisition** | | | | | |
| Balance at 1 Jan 2003 | 2 | 120 | 135 | 5 | 262 |
| Currency translation | – | – | (2) | – | (2) |
| Change in consolidated group | 2 | 80 | 7 | 1 | 90 |
| Additions | – | 25 | – | – | 25 |
| Disposals | – | (45) | (51) | – | (96) |
| Transfers | – | – | (3) | – | (3) |
| Balance at 31 Dec 2003 | 4 | 180 | 86 | 6 | 276 |
| **Amortization/write-down** | | | | | |
| Balance at 1 Jan 2003 | 1 | 2 | 30 | – | 33 |
| Currency translation | – | – | – | – | – |
| Additions, scheduled | – | – | 3 | – | 3 |
| Additions, non-scheduled | – | 7 | 5 | – | 12 |
| Disposals | – | – | (9) | – | (9) |
| Write-ups | – | (1) | – | – | (1) |
| Transfers | – | – | – | – | – |
| Balance at 31 Dec 2003 | 1 | 8 | 29 | – | 38 |
| **Book value at 31 Dec 2003** | 3 | 172 | 57 | 6 | 238 |
| Book value at 31 Dec 2002 | 1 | 118 | 105 | 5 | 229 |

Investments of the AIB group are recognized under "Change in consolidated group".

Disposals relate to investments at the sales divisions Metro Cash & Carry, Real as well as Media Markt and Saturn.

Scheduled amortization of investments refers to goodwill amortization based on the equity valuation of associated companies.

### 22. Inventories

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Food merchandize | 1,656 | 1,499 |
| Nonfood merchandize | 4,285 | 4,007 |
| | 5,941 | 5,506 |

Breakdown of inventories by sales division:

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Metro Cash & Carry | 1,927 | 1,744 |
| Real | 653 | 635 |
| Extra | 228 | 228 |
| Media Markt and Saturn | 1,671 | 1,431 |
| Praktiker | 586 | 620 |
| Kaufhof | 646 | 664 |
| Other companies | 230 | 184 |
| | 5,941 | 5,506 |

Inventories at the Metro Cash & Carry sales division increased due to expansion and stocking for the campaign “40 years Metro Cash & Carry” starting in January 2004. At the Media Markt and Saturn sales division inventories also rose as a result of the division’s expansion.

**23. Trade receivables**

Of the total trade receivables in the amount of € 339 million (previous year € 369 million), € 0.2 million (previous year € 0.4 million) have a remaining term of more than one year.

**24. Other receivables and other assets**

| | 31 Dec 2003 | | 31 Dec 2002 | |
|---|---|---|---|---|
| € million | Total | thereof with a remaining term of more than 1 year | Total | thereof with a remaining term of more than 1 year |
| Due from suppliers | 1,023 | – | 1,020 | – |
| Tax receivables | 397 | 1 | 587 | – |
| Other assets | 641 | 163 | 1,250 | 83 |
| | 2,061 | 164 | 2,857 | 83 |

The carrying amounts of the monetary assets included in the above items correspond to their market values.

The decrease in other assets essentially results from the consolidation of assets in line with the first-time inclusion of the AIB group and the special purpose entities holding the location Metro-Strasse/Schlüterstrasse in Düsseldorf in the consolidated accounts.

As in the prior year, other receivables and other assets shown under this caption are not subject to any material restrictions on title or disposal.

## 25. Cash and cash equivalents

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Checks and cash on hand | 113 | 109 |
| Bank balances | 1,468 | 1,183 |
| Other short-term deposits | 12 | 31 |
| | 1,593 | 1,323 |

The increase in cash and cash equivalents is due to expansion. At the closing date, financial management was not able to place all cash taken in by METRO AG. An amount of € 36 million is included which originates from the first-time consolidation of the AIB group.

## 26. Deferred taxes

Potential tax savings resulting from temporary differences and unutilized tax losses totaling € 136 million (previous year € 117 million) were not capitalized. The non-capitalization of deferred taxes mainly relates to loss carry-forwards abroad which will probably not be realizable and which can only be carried forward within certain limits.

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

| | 31 Dec 2003 | | 31 Dec 2002 | |
|---|---|---|---|---|
| € million | asset | liability | asset | liability |
| Intangible assets | 370 | 98 | 119 | 79 |
| Tangible assets | 65 | 858 | 18 | 766 |
| Financial assets | 12 | 5 | 2 | 1 |
| Inventories | 51 | 4 | 37 | 4 |
| Receivables and other assets | 10 | 63 | 34 | 43 |
| Pension provisions and similar obligations | 136 | 2 | 134 | 1 |
| Other provisions | 45 | 25 | 68 | 4 |
| Liabilities | 1,023 | 22 | 918 | 40 |
| Loss carry-forwards | 584 | – | 725 | – |
| Total from separate financial statements | 2,296 | 1,077 | 2,055 | 938 |
| Deferred taxes from consolidation | 216 | 505 | (69) | 160 |
| Offset | (1,056) | (1,056) | (902) | (902) |
| | 1,456 | 526 | 1,084 | 196 |

Deferred taxes of € 15 million reduced equity without affecting income (previous year € 4 million increase).
Deferred tax assets from temporary differences in the amount of € 226 million, deferred tax assets from loss carry-forwards of € 29 million and deferred tax liabilities from temporary differences in the amount of € 202 million added in line with the first-time consolidation of the AIB group result from the AIB group's individual financial statements.

**27. Prepaid expenses and deferred charges**

Prepaid expenses and deferred charges comprise rent, lease and interest prepayments as well as other payments. Of the total prepaid expenses & deferred charges, € 47 million have a remaining term of up to one year. The increase compared to a year earlier results from the advance payment of rents due to be paid in China, Russia and Vietnam in connection with the conclusion of lease agreements.

**28. Equity**

In terms of its amount and composition, i.e. the ratio of common to preferred stock, subscribed capital has not changed versus 31 December 2002 and totals € 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 then existing 23,001,346 non-voting preferred shares could be converted at a rate of 1:1 into bearer shares carrying votes 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 are as follows:

| Category: 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 preference 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. With respect to the terms of the stock option plan, details are provided under caption no. 45.

**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 total maximum of € 40,000,000 (authorized capital I) by 23 May 2007.

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 total maximum 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 total maximum 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 total maximum 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).

**Reserves retained from earnings**

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Legal reserve | 25 | 23 |
| Reserve required by company by-laws | 48 | 28 |
| Reserve for measurement under IAS 39 (incl. deferred taxes) | (1) | (8) |
| Reserve for currency translation | (124) | (33) |
| Other reserves retained from earnings | 331 | 295 |
| | 279 | 305 |

Reserves retained from earnings include the effects from measurement with no effect on income in accordance with IAS 39 (Financial Instruments: Recognition and Measurement) plus deferred taxes thereon. In the fiscal year under review, a total of € 7 million (previous year € -39 million) were reported under equity with no effect on income, including an amount of € 6 million (previous year € -36 million) accounted for by financial derivatives within cash flow hedges and € 1 million (previous year € -3 million) by assets classified as "available for sale". As in the previous year, results were not affected by assets classified as "available for sale".
Equity was reduced by € 91 million (previous year € 99 million reduction) due to currency translation differences. The losses are primarily attributable to Poland, Great Britain, Russia, Hungary and China.
Moreover, reserves retained from earnings were curtailed by € 57 million due to the effects from the premature redemption of the convertible DM bond issued in 1998.

**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 upon application by former stockholders of the three merged companies in judicial review proceedings. The applicants claim that the respective share exchange ratios were understated to their detriment.
In a judgment handed down on 20 November 2001, the Oberlandesgericht (higher regional court) of Düsseldorf dismissed the immediate appeal of the applicants against the decision of the Landgericht (regional court) of Cologne dating from 16 February 2000 holding that the petitions of the former outside Kaufhof stockholders for additional cash compensation were unjustified. 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 28 "Equity") 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 yet been determined.

**Mandatory disclosures pursuant to §§ 21 sect. 1, 22 sect. 1, 1 and 2 WpHG (German Securities Trading Act)**

METRO AG is controlled via Metro Vermögensverwaltung GmbH & Co. KG and/or other companies of the majority shareholders Beisheim, Haniel and Schmidt-Ruthenbeck. By way of a contractual agreement the stockholders have ensured the uniform exercise of their rights from the METRO AG majority shareholding. For further details of the disclosures effected in 2002, see the notes to the individual financial statement of METRO AG.

**Dividend distribution proposal**

In accordance with § 58 sect. 2 AktG (German Stock Corporation Act), dividend distribution by METRO AG is based on METRO AG's net profit for the year reported in the annual financial statements prepared under German commercial law. The Supervisory and Management Boards of METRO AG propose to the annual general meeting to pay from the reported balance sheet profit of € 345.3 million a dividend of € 1.020 per share of common stock and € 1.122 per share of preferred stock, i.e. a total of € 333.6 million and to carry the remaining amount of € 11.7 million forward to new account. The balance sheet profit of € 345.3 million includes profit carried forward from the previous year of € 8.3 million.

**29. Minorities**

Minority interests include the shares of third parties in the capital stock of the consolidated subsidiaries. At year end these amounted to € 188 million (previous year € 105 million). The increase in the share of minor stockholders compared to a year earlier results from the consolidation of the AIB group. Significant minority interests are held in Media-Saturn-Holding GmbH.

**30. Provisions for pensions and similar commitments**

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Pension provisions (employer's commitments) | 584 | 577 |
| Provisions for indirect commitments | 180 | 188 |
| Provisions for severance benefits | 78 | 71 |
| Provision for company pension upgrades | 4 | 3 |
| Provisions for company pension plans | 846 | 839 |
| Other provisions for similar pension obligations | 166 | 121 |
| | 1,012 | 960 |

Most of the pension obligations are benefits granted under the company pension scheme. There are also performance-related benefit claims resulting from employer's commitments and against external funds (benevolent funds in Germany and pension funds abroad) which are wholly or partly fund-financed according to IAS 19 (Employee Benefits) as post-employment benefits. Depending on the specific benefit plans the pension benefits are commensurate with income and length of service; in addition, there are length-of-service related pension benefits that are paid on the basis of fixed lump sums. Newly recruited employees have no pension entitlements under the company pension plan.

Provisions for severance benefits and for company pension upgrades were recognized under "Other provisions for similar pension obligations" in the previous year.

The above commitments are measured on the basis of actuarial valuations based on each country's legislative, economic and fiscal conditions. The commitments which exist almost exclusively in the European economic area are assessed on the basis of an assumed rate of interest of 5.50 percent (previous year 5.75 percent), an average wage and salary trend of 2.50 percent (previous year 2.80 percent) and an average pension increase of 1.20 percent (previous year 1.20 percent). The employee turnover rate is determined individually for each business and with due regard to age and length of service. The actuarial assumptions and calculations are based on country-specific mortality tables.

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

| € million | 2003 | 2002 |
|---|---|---|
| **Net present value (PBO)** | | |
| Balance at 1 January | 1,235 | 1,209 |
| Severance benefits/company pension upgrades | 74 | – |
| Fund-covered foreign pension obligations | 232 | – |
| Adjusted balance at 1 January [1] | 1,541 | 1,209 |
| Change in consolidated group | 13 | – |
| Interest expenses | 86 | 65 |
| Service cost | 33 | 15 |
| Past service cost | – | 15 |
| Pension payments | (97) | (86) |
| Actuarial gains (-)/losses (+) | 64 | 17 |
| **Balance at 31 December** | 1,640 | 1,235 |

| € million | 2003 | 2002 |
|---|---|---|
| **Changes in plan assets** | | |
| Balance at 1 January | 316 | 350 |
| Severance benefits/company pension upgrades | – | – |
| Fund-covered foreign pension obligations | 253 | – |
| Adjusted balance at 1 January [1] | 569 | 350 |
| Change in consolidated group | – | – |
| Anticipated return on plan assets | 31 | 19 |
| Pension payments | (54) | (53) |
| Employer contributions incl. vesting balances | 65 | 54 |
| Actuarial gains (+)/losses (-) | (22) | (54) |
| **Balance at 31 December** | 589 | 316 |

[1] At 1 January 2003 for the first time surplus-covered fund-financed foreign commitments were shown at their gross amounts. The actuarial losses generated in this context amount to € 15 million and are included in the actuarial gains/losses (€ -234 million) not yet recognized. Moreover, the severance benefits and the benefits from company pension upgrades have been considered which had been summarized under “Similar pension obligations” in prior years.

| € million | 2003 | 2002 |
|---|---|---|
| **Funding level** | | |
| Net present value PBO, provision-financed | 657 | 608 |
| Net present value PBO, partly or wholly fund-financed | 983 | 627 |
| Subtotal | 1,640 | 1,235 |
| Market value of plan assets | (589) | (316) |
| Balance at 31 December | 1,051 | 919 |
| Not yet recognized actuarial gains (+)/losses (-) | (234) | (140) |
| Past service cost | (13) | (14) |
| **Net debt balance at 31 December** | 804 | 765 |

Provisions for company pensions (€ 846 million) are netted with assets for indirect pension plans in Great Britain and the Netherlands in the amount of € 42 million so that the remaining net debt is € 804 million.

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

| € million | 2003 | 2002 |
|---|---|---|
| Interest expense on net present value PBO | 86 | 65 |
| Anticipated return on plan assets | (31) | (19) |
| Effective interest expenses | 55 | 46 |
| Service cost [1)] | 28 | 15 |
| Past service cost | 1 | 1 |
| Recognized actuarial gains (-)/losses (+) | 7 | 2 |
| | 91 | 64 |

[1)] Including setoff of contributions made by employees

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

## 31. Other provisions

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

| € million | Real-estate related obligations | Obligations from merchandize trading | Restruc-turing | Tax risks | Other provisions | Total |
|---|---|---|---|---|---|---|
| Balance at 1 January 2003 | 81 | 36 | 49 | 184 | 375 | 725 |
| Currency translation | – | (1) | – | – | (2) | (3) |
| Addition | 39 | 78 | 11 | 35 | 117 | 280 |
| Release | (14) | (3) | (7) | (19) | (83) | (126) |
| Utilization | (17) | (56) | (22) | (19) | (76) | (190) |
| Change in consolidated group | 11 | – | – | 13 | 44 | 68 |
| Interest portion in addition/change in interest rate | 2 | – | – | – | – | 2 |
| Transfers | 11 | 62 | 8 | 3 | (82) | 2 |
| **Balance at 31 December 2003** | **113** | **116** | **39** | **197** | **293** | **758** |
| Thereof due within one year | 22 | 115 | 20 | 29 | 138 | 324 |

The addition to real-estate related obligations essentially relates to amounts of inadequate rental cover due to the closure of locations.

The provision for rebates from the Payback scheme was transferred from "Other provisions" to "Obligations from merchandize trading" (€ 60 million). Furthermore, in the year under review € 47 million from this provision were utilized for payments in exchange for Payback digits presented by customers. The addition to the Payback provision is € 58 million so that the provision amounted to € 71 million at 31 December 2003.

The change in the consolidated group essentially refers to the consolidation of the AIB group.

In addition, other provisions mainly cover liabilities from surety and warranty/guarantee risks in the amount of € 82 million (previous year € 71 million) as well as litigation costs/risks of € 43 million (previous year € 35 million).

## 32. Liabilities

| € million | 31 Dec 2003 Total | up to 1 year | 1 to 5 years | Remaining term over 5 years | 31 Dec 2002 Total |
|---|---|---|---|---|---|
| Bonds | 2,758 | 502 | 2,256 | – | 1,812 |
| Due to banks | 1,566 | 467 | 602 | 497 | 797 |
| Note loans | 582 | 22 | 560 | – | 393 |
| Notes payable | 303 | 303 | – | – | 256 |
| Liabilities from finance leases | 2,593 | 273 | 824 | 1,496 | 2,329 |
| **Financial debts** | 7,802 | 1,567 | 4,242 | 1,993 | 5,587 |
| **Trade payables** | 9,907 | 9,903 | 4 | – | 9,119 |
| Tax liabilities | 741 | 741 | – | – | 648 |
| Prepayments received on orders | 19 | 19 | – | – | 26 |
| Payroll | 663 | 663 | – | – | 649 |
| Liabilities from other financial transactions | 142 | 142 | – | – | 116 |
| Miscellaneous liabilities | 532 | 453 | 70 | 9 | 526 |
| **Other liabilities** | 2,097 | 2,018 | 70 | 9 | 1,965 |
| | 19,806 | 13,488 | 4,316 | 2,002 | 16,671 |

The € 2,297 million increase in financial debts results from the consolidation of AIB. Taking account of the bank balances of AIB (€ 197 million), this amount is composed of the financial debt incurred by METRO AG for financing AIB (€ 1,285 million), liabilities to banks (€ 807 million) and liabilities from finance leases (€ 400 million) of AIB. As a consequence of the consolidation, obligations from finance leases in the amount of € 195 million are no longer applicable. Another € 3,335 million from operating lease agreements existing between the companies of the AIB group and other group companies have been eliminated. Contingencies and liabilities receded by € 327 million and other obligations rose by € 83 million.

## 33. Financial debts

For long-term funding the Debt Issuance Programme launched in 2000 is available the original nominal volume of which was increased from € 3 billion to € 5 billion in 2003. In the framework of this programme, bonds with maturities of up to 30 years can be issued under German or English law in any currency. In 2003, bonds were issued in a total volume of € 1.75 billion.

In February 2003, a 5.125-percent bond at an aggregate par value of € 850 million with a term to maturity of five years was issued in order to refinance the zero-coupon convertible DM bond of DM 1.5 billion issued in 1998 for which investors exercised their right of termination as was to be expected. Moreover, in May 2003 a floating-rate bond at an aggregate par volume of € 600 million with a term to maturity of three years was issued. Both bond categories were increased by € 150 million each in the course of the year under review.

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

| Funding | Currency | Total amount issued in million currency | Remaining term | Par values 31 Dec 2003 € million | Book values 31 Dec 2003 € million | Fair Values 31 Dec 2003 € million |
|---|---|---|---|---|---|---|
| Debt Issuance Programme | EUR | 429 | up to 1 year | 429 | 502 | 508 |
| | | 2,206 | 1 to 5 years | 2,206 | 2,219 | 2,256 |
| | | – | over 5 years | – | – | – |
| | JPY | – | up to 1 year | – | 0 | 0 |
| | | 5,000 | 1 to 5 years | 37 | 37 | 38 |
| | | – | over 5 years | – | – | – |
| | CZK | – | up to 1 year | – | 0 | 0 |
| | | 9 | 1 to 5 years | 0 | 0 | 0 |
| | | – | over 5 years | – | – | – |

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

| Funding | Interest terms | Currency | Fixed-interest period | Weighted interest rate of original bond principal | Total amount issued in million currency |
|---|---|---|---|---|---|
| Debt Issuance Programme | Fixed interest bonds | EUR | up to 1 year | 5.23 | 404 |
| | | | 1 to 5 years | 5.30 | 1,419 |
| | | | over 5 years | – | – |
| | | JPY | up to 1 year | – | – |
| | | | 1 to 5 years | 1.32 | 5,000 |
| | | | over 5 years | – | – |
| | | CZK | up to 1 year | – | – |
| | | | 1 to 5 years | 10.50 | 9 |
| | | | over 5 years | – | – |
| | Floating rate bonds | EUR | up to 1 year | 2.67 | 25 |
| | | | 1 to 5 years | 2.94 | 787 |
| | | | over 5 years | – | – |

The interest adjustment dates of floating rates are within one year.

In addition to bonds, bank credits, note loans and finance leases are used for long-term financing purposes.

The average fixed-interest rate applicable to note loans is 5.57 percent. The table below shows the maturity structure and the book values of the accrued interest maturing within one year.

| Funding | Currency | Issue volume in million currency | Remaining term | Par values 31 Dec 2003 € million | Book values 31 Dec 2003 € million | Fair values 31 Dec 2003 € million |
|---|---|---|---|---|---|---|
| Note loans | EUR | – | up to 1 year | – | 22 | 22 |
| | | 560 | 1 to 5 years | 560 | 560 | 597 |
| | | – | over 5 years | – | – | – |

See caption no. 20 for details on obligations from finance leases.

For **short- and medium-term financing** METRO Group uses regular issuance programs customary in capital markets such as the Euro Commercial Paper Program launched in 1999, for example, with a utilizable volume of up to € 3 billion. In May 2003, an additional commercial paper program with a utilizable volume of € 1 billion was started in order to tap further investor groups on the French capital market. Both programs were utilized at € 1.2 billion (previous year € 965 million) on average in 2003.

In addition, METRO Group has access to syndicated credit lines totaling € 3,497 million with term ends between July 2005 and November 2008. In case of utilization the interest rates range from EURIBOR +35.0 basis points (BP) to EURIBOR +46.25 BP.

The terms of contract for syndicated credit lines provide for a reduction of the spreads of 5 to 7.5 BP in the case of upgrading of the METRO Group's rating by one grade. An impairment of the rating by one grade would lead to an extension of the spread of 9 to 12.5 BP.

At 31 December 2003, additional bilateral bank facilities in the amount of € 3,247 million (previous year € 1,257 million) were available for the METRO Group of which € 1,460 million (previous year € 901 million) have a term to maturity of less than one year. At the balance-sheet closing date a total of € 1,566 million (previous year € 797 million) were utilized. Of these, € 467 million had a remaining term of less than one year (previous year € 252 million).
In addition, bills of exchange for € 303 million (previous year € 256 million) were used for short-term financing.
As a matter of principle, METRO Group does not provide collaterals for financial debts. An exception is the first-time consolidation of the AIB group. For the real-estate portfolio of AIB companies at 31 December 2003 real security was granted at a value of € 586 million.
The share of the most important creditor in relation to the sum of liabilities to banks and note loans is 12 percent. A loan loss can at any time be covered by existing, unutilized credit facilities and/or the existing money and capital market programs. Hence the METRO Group is not exposed to any significant creditor default risk.
The METRO Group always has a sufficient liquidity reserve available so that even in the case of unexpected events with negative accounting effects the group's ability to act is not impaired.

**34. Trade payables**

The book values of the trade payables are essentially in conformance with the fair market value. As in the year before, these liabilities are largely due within one year. The increase compared to the previous year is due to expansion of business on the one hand and, on the other, results from the build-up of inventories in connection with anniversary advertisement campaigns at the sales divisions Metro Cash & Carry as well as Media Markt and Saturn.

**35. Other liabilities**

Other liabilities comprise a multitude of individual items such as payables to non-group stockholders, liabilities under rental contracts and liabilities for the cost of the annual accounts.
Other liabilities as carried in the balance sheet essentially correspond to their fair market value.

### 36. Deferred income

Deferred income essentially includes prorated book gains from sale & leaseback transactions in accordance with IAS 17 (Leases), released to income over the underlying lease periods. In the year under review, € 18 million were released to income on schedule, as in the previous year.

Of the total deferrals, € 27 million (previous year € 21 million) have a remaining term of less than one year.

# Other notes

**37. Notes to the consolidated cash flow statement**

In accordance with IAS 7 (Cash Flow Statement), the consolidated statement of cash flows describes how cash levels have changed in the group through cash inflows and outflows in the year under review.

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

Cash flow from operating activities improved substantially in the year under review and stood at € 3,096 million up € 490 million from the prior year (€ 2,606 million). The basis for this improvement was the € 152 million rise in the EBIT to € 1,318 million. Moreover, cash outflows for tax payments were lower by € 279 million and cash inflows from other operating activities totaling € 101 million positively contributed to the cash flow from current operating activities. At € 330 million, the cash inflows from changes in the net operating assets were only slightly below the prior year level.

Investing activities in the year under review account for a cash outflow of € 1,220 million (previous year € 1,616 million). The total cash outflow from investing activities amounted to € 1,429 million, which is € 315 million down on last year's corresponding cash outflow. Cash outflows from company acquisitions totaling € 184 million result from the acquisition of cash & carry stores in Germany. The amount of the investments in tangible fixed assets shown as cash outflows differs from the addition reported in the analysis of fixed assets by the non-cash additions under finance leases. In the year under review, the cash inflow from divestments totaled € 209 million (previous year € 128 million).

The cash flow from financing activities in fiscal 2003 shows a cash outflow totaling € 1,820 million (previous year € 1,343 million). Major changes compared with the prior year are primarily attributable to higher profit distributions to minority shareholders of € 88 million, which is € 63 million up compared to the corresponding cash outflows from the previous year. Financing of AIB in the course of the fiscal year under review resulted in an increase of cash inflows from financial liabilities in the amount of € 1,482 million and the corresponding increase in cash outflows reported under "Other financial activities".

Moreover, the item "Other financial activities" saw cash outflows of € 250 million resulting from short-term financial receivables.

**38. Segment reporting**

Segment reporting was drawn up according to IAS 14 (Segment Reporting). Segmentation is in line with the group's internal control and reporting systems. For segment details, please refer to the group management report and the chapter "Metro Brands".
Primary reporting is by divisions. Secondary reporting distinguishes between the regions Germany, Western Europe excluding Germany, Eastern Europe and other countries.

- External sales represent sales by the divisions to non-group related parties.
- Internal sales represent the inter-divisional transfers.
- EBIT as the segment control parameter equals net income for the period before net financial result, extraordinary items and income tax.
- Segment EBITA corresponds to EBIT before amortization of goodwill.
- Segment EBITDA corresponds to EBIT before depreciation of tangible assets, intangible assets and amortization of goodwill.
- The segments' operating assets comprise fixed assets (intangible and tangible assets, shares in associated companies) and current assets (excluding cash and cash equivalents). Derivative goodwill is assigned to the divisions.
- Segment liabilities cover non-interest liabilities.
- Segment investments refer to intangible assets (including derivative goodwill), tangible assets and financial investments.
- Depreciation relates to segment assets allocated to the individual divisions.
- Transfers between segments are made at arm's length prices.

## Primary segments (divisions)

| € million | Cash & Carry 2003 | Cash & Carry 2002 | Food retail [1] 2003 | Food retail [1] 2002 |
|---|---|---|---|---|
| External sales (net) | 25,093 | 23,972 | 10,978 | 11,033 |
| Internal sales (net) | 185 | 170 | 1 | – |
| Sales revenues (net) | 25,278 | 24,142 | 10,979 | 11,033 |
| EBITDA | 1,200 | 1,078 | 362 | 383 |
| EBITA | 904 | 805 | 179 | 194 |
| EBIT | 800 | 709 | 85 | 100 |
| Net financial result | (30) | (11) | (68) | (67) |
| Amortization/depreciation/write-down | 403 | 369 | 285 | 283 |
| on goodwill | 104 | 96 | 94 | 94 |
| all others | 299 | 273 | 191 | 189 |
| Capital expenditure | 737 | 750 | 214 | 201 |
| Operating assets | 10,009 | 9,953 | 3,502 | 3,731 |
| Non-interest liabilities | 4,872 | 4,773 | 1,453 | 1,524 |
| Headcount on balance sheet date (FTE) | 81,268 | 75,087 | 47,455 | 47,870 |
| Selling space (in 1,000 m²) | 3,725 | 3,423 | 2,896 | 2,882 |
| Permanent establishments (number) | 475 | 437 | 755 | 769 |

[1] In 2003, € 11 million in income from the sale of stores to Real were eliminated at Extra.
[2] 2003 includes the takeover of restructuring expenses for the administration of Extra totaling € 12 million.

## Secondary segments (regions)

| € million | Germany 2003 | Germany 2002 | Western Europe excluding Germany 2003 | Western Europe excluding Germany 2002 |
|---|---|---|---|---|
| External sales (net) | 28,300 | 27,691 | 16,264 | 15,308 |
| Internal sales (net) | 18 | 13 | 135 | 220 |
| Sales revenues (net) | 28,318 | 27,704 | 16,399 | 15,528 |
| EBITDA | 1,357 | 1,285 | 932 | 842 |
| EBITA | 736 | 673 | 689 | 620 |
| EBIT | 576 | 525 | 607 | 535 |
| Net financial result | (308)[3] | 432 | 31 | 142 |
| Amortization/depreciation/write-down | 796 | 762 | 326 | 306 |
| on goodwill | 160 | 148 | 82 | 85 |
| all others | 636 | 614 | 244 | 221 |
| Capital expenditure | 1,049 | 934 | 417 | 517 |
| Operating assets | 13,575 | 11,057 | 7,489 | 7,367 |
| Non-interest liabilities | 7,132 | 6,587 | 4,154 | 3,953 |
| Headcount on balance sheet date (FTE) | 112,044 | 111,637 | 43,108 | 40,260 |
| Selling space (in 1,000 m²) | 7,414 | 7,295 | 2,260 | 2,102 |
| Permanent establishments (numbers) | 1,733 | 1,744 | 394 | 356 |

[3] Variances 2003/2002 result from the restructuring of investments in the cash & carry segment.

| Nonfood specialty stores 2003 | Nonfood specialty stores 2002 | Department stores 2003 | Department stores 2002 | Other/ consolidation[2] 2003 | Other/ consolidation[2] 2002 | METRO Group 2003 | METRO Group 2002 |
|---|---|---|---|---|---|---|---|
| 13,374 | 12,167 | 3,819 | 3,900 | 331 | 454 | 53,595 | 51,526 |
| 2 | 1 | 5 | 4 | (193) | (175) | – | – |
| 13,376 | 12,168 | 3,824 | 3,904 | 138 | 279 | 53,595 | 51,526 |
| 571 | 470 | 249 | 292 | 233 | 193 | 2,615 | 2,416 |
| 383 | 285 | 99 | 139 | 25 | 4 | 1,590 | 1,427 |
| 331 | 239 | 94 | 131 | 8 | (13) | 1,318 | 1,166 |
| (11) | (19) | (44) | (40) | (348) | (199) | (501) | (336) |
| 241 | 231 | 155 | 161 | 228 | 207 | 1,312 | 1,251 |
| 52 | 46 | 5 | 8 | 17 | 17 | 272 | 261 |
| 189 | 185 | 150 | 153 | 211 | 190 | 1,040 | 990 |
| 273 | 387 | 104 | 120 | 509 | 378 | 1,837 | 1,836 |
| 5,103 | 4,636 | 1,323 | 1,403 | 2,883 | (515) | 22,820 | 19,208 |
| 4,109 | 3,571 | 967 | 987 | 1,422 | 1,089 | 12,823 | 11,944 |
| 45,836 | 41,707 | 20,890 | 21,365 | 10,565 | 10,433 | 206,014 | 196,462 |
| 3,263 | 3,083 | 1,457 | 1,456 | 95 | 95 | 11,436 | 10,939 |
| 775 | 732 | 148 | 150 | 217 | 222 | 2,370 | 2,310 |

| Eastern Europe 2003 | Eastern Europe 2002 | Other countries 2003 | Other countries 2002 | Consolidation 2003 | Consolidation 2002 | METRO Group 2003 | METRO Group 2002 |
|---|---|---|---|---|---|---|---|
| 8,053 | 7,524 | 978 | 1,003 | – | – | 53,595 | 51,526 |
| – | – | 624 | 538 | (777) | (771) | – | – |
| 8,053 | 7,524 | 1,602 | 1,541 | (777) | (771) | 53,595 | 51,526 |
| 412 | 340 | (18) | (15) | (68) | (36) | 2,615 | 2,416 |
| 278 | 215 | (45) | (39) | (68) | (42) | 1,590 | 1,427 |
| 252 | 191 | (46) | (40) | (71) | (45) | 1,318 | 1,166 |
| (13) | (16) | (11) | (10) | (200)[3] | (884) | (501) | (336) |
| 160 | 150 | 27 | 25 | 3 | 8 | 1,312 | 1,251 |
| 26 | 24 | 1 | 1 | 3 | 3 | 272 | 261 |
| 134 | 126 | 26 | 24 | – | 5 | 1,040 | 990 |
| 298 | 272 | 73 | 113 | – | – | 1,837 | 1,836 |
| 3,327 | 2,827 | 580 | 510 | (2,151) | (2,553) | 22,820 | 19,208 |
| 1,490 | 1,408 | 281 | 228 | (234) | (232) | 12,823 | 11,944 |
| 42,373 | 37,543 | 8,489 | 7,022 | – | – | 206,014 | 196,462 |
| 1,514 | 1,339 | 248 | 203 | – | – | 11,436 | 10,939 |
| 212 | 186 | 31 | 24 | – | – | 2,370 | 2,310 |

## 39. Management of financial risks

**Interest rate risks** are generated by potential changes in the fair value of a financial instrument due to fluctuations of the market interest rates and impact the amount of interest payments within METRO Group. The tools employed to limit these interest rates are interest rate swaps, interest rate hedging contracts and interest rate capping agreements. These tools allow the adjustment of the interest rates for the underlying original finance transactions to an optimum mix of variable and fixed interest financing instruments. The target structure of the loan portfolio specifies a ratio of 40 percent variable and 60 percent fixed interest rates.

**Currency risk exposure** is created for the METRO Group in the international buying of merchandize and on the basis of costs that are incurred in a currency other than the relevant local currency or are tied to the development of another currency. The resulting currency risk exposure has to be hedged at the date when it is incurred. In this case, exchange rate futures as well as interest rate and currency swaps are used to limit the currency risks.

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

| | 31 Dec 2003 | | | 31 Dec 002 | | |
|---|---|---|---|---|---|---|
| | | Fair values | | | Fair values | |
| € million | Nominal volume | Financial assets | Financial liabilities | Nominal volume | Financial assets | Financial liabilities |
| **Interest rate transactions** | | | | | | |
| Interest rate hedging contracts | – | – | – | 150 | – | 0 |
| within fair value hedges | [–] | [–] | [–] | [–] | [–] | [–] |
| within cash flow hedges | [–] | [–] | [–] | [–] | [–] | [–] |
| Interest rate swaps | 2,477 | 52 | 92 | 1,602 | 39 | 67 |
| within fair value hedges | [1,203] | [38] | [–] | [371] | [30] | [–] |
| within cash flow hedges | [1,095] | [0] | [60] | [1,100] | [0] | [67] |
| Interest rate capping agreements | 0 | 0 | 0 | 0 | 1 | 1 |
| within fair value hedges | [–] | [–] | [–] | [–] | [–] | [–] |
| within cash flow hedges | [0] | [0] | [0] | [–] | [–] | [–] |
| | 2,477 | 52 | 92 | 1,752 | 40 | 68 |
| **Currency transactions** | | | | | | |
| Exchange rate futures | 685 | 4 | 26 | 667 | 4 | 22 |
| within fair value hedges | [9] | [0] | [–] | [–] | [–] | [–] |
| within cash flow hedges | [255] | [1] | [25] | [313] | [1] | [21] |
| Interest rate/currency swaps | 231 | 13 | 18 | 252 | 5 | 24 |
| within fair value hedges | [37] | [0] | [11] | [90] | [0] | [7] |
| within cash flow hedges | [(8)] | [0] | [–] | [44] | [1] | [0] |
| | 916 | 17 | 44 | 919 | 9 | 46 |
| **Total** | 3,393 | 69 | 136 | 2,671 | 49 | 114 |

The nominal volume of the exchange rate futures and the interest rate capping agreements is determined by the net position of amounts bought and sold underlying the individual transactions. The nominal volume of the interest rate swaps and interest rate/currency swaps and the interest rate hedging agreements is reported at gross values.
The derivative financial instruments have the following maturities:

| | | | Fair values |
|---|---|---|---|
| | | | Maturities |
| € million | up to 1 year | 1 to 5 years | over 5 years |
| **Interest rate transactions** | | | |
| Interest rate swaps | 2 | (31) | (11) |
| within fair value hedges | [1] | [37] | [–] |
| within cash flow hedges | [(2)] | [(58)] | [–] |
| Interest rate capping agreements | – | 0 | – |
| within fair value hedges | [–] | [–] | [–] |
| within cash flow hedges | [–] | [0] | [–] |
| **Currency transactions** | | | |
| Exchange rate futures | (22) | 0 | – |
| within fair value hedges | [0] | [–] | [–] |
| within cash flow hedges | [(24)] | [0] | [–] |
| Interest rate/currency swaps | 0 | (5) | – |
| within fair value hedges | [–] | [(11)] | [–] |
| within cash flow hedges | [0] | [–] | [–] |
| **Total** | (20) | (36) | (11) |

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

Creditworthiness risks may result from a counterparty's failure to perform in whole or in part in connection with financial investments and with derivative financial instruments, for example as a result of insolvency. 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 standing assessments. To every partner an individual limit is allocated whose compliance is constantly monitored by the treasury systems.

### 40. Contingent liabilities and other contingencies

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Liabilities from suretyships and guarantees | 82 | 195 |
| Liabilities from guarantee and warranty contracts | 982 | 1,572 |
| | 1,064 | 1,767 |

The decline in contingent liabilities and other contingencies primarily relates to suretyships and guarantees for liabilities of the AIB group which are eliminated as a consequence of the inclusion of the AIB group in the scope of consolidation with effect from 31 December 2003.

### 41. Other financial obligations

| € million | 31 Dec 2003 | 31 Dec 2002 |
|---|---|---|
| Commitments from share tender rights | 156 | 291 |
| Purchasing/sourcing commitments | 97 | 149 |
| Other | 480 | 386 |
| | 733 | 826 |

The reduction in commitments from share tender rights results from the exercising of option agreements regarding the acquisition of shares in three cash & carry companies in the year under review.

The decrease in purchasing/sourcing commitments is attributable to the progress made in the construction of several new buildings at the Düsseldorf location (project "Stadtkante Düsseldorf").

Regarding commitments from rent and lease agreements, reference is made to the finance and operating lease agreements listed under caption no. 20.

### 42. Shareholdings

The list of shareholdings of METRO AG pursuant to § 313 HGB (German Commercial Code) is filed with the commercial register of the Local Court of Düsseldorf (HRB 39 473). In addition, it can also be requested from METRO AG.

### 43. Events after the balance sheet date

Until 26 February 2004 (date of the release of the annual financial statements for publication) the following significant events occurred:

In line with the divestment of the Divaco group (cf. page 30), the METRO AG subsidiary Metro Kaufhaus und Fachmarkt Holding GmbH took over 100 percent of the voting rights and equity in the fashion chain **Adler Modemärkte GmbH** (Adler) at a purchase price of € 60 million. The shareholding in Adler involves liabilities to banks by Amoda GmbH as the sole shareholder of Adler in the amount of € 280 million. The acquisition took effect at 1 January 2004. Metro Kaufhaus und Fachmarkt Holding GmbH plans to resell Adler.
In January and February 2004, real estate at a total value of € 192.7 million held by the AIB group was successfully placed on the market.

**44. Notes on related parties**
In the years 2003 and 2002 the METRO Group maintained the following business relations to related companies:

| | Goods/services provided | | Goods/services received | |
|---|---|---|---|---|
| € million | 2003 | 2002 | 2003 | 2002 |
| Supplies and other services | 1 | 1 | 110 | 112 |

In exercising share tender rights and for the optimization of the domestic distribution network, METRO Group acquired the shares in the cash & carry companies Mülheim, Essen and Berolina effective 2003. The shares were purchased from third parties and from companies belonging to the scope of related companies.
One related company owes these three cash & carry companies € 0.9 million from settlements dating back to the time prior to the change in ownership.
Business relations with related companies are based on contractual agreements that provide for prices corresponding to the arm’s length principle.
The METRO Group does not maintain business relations with any related persons.

**45. Stock-based compensation for executive staff**
In 1999 METRO AG introduced a program for stock-based compensation. The entitled persons include the members of the Management Board and other top executives of METRO AG as well as the Management Board members and executives of selected companies from the group.
The executives of METRO AG and of the cross-divisional service companies receive options from the stock option program. The executives from the sales divisions receive so-called stock appreciation rights which, when exercised, will trigger a cash payment.
Participation in the stock option program gives participants the right to acquire METRO AG common stock on a pre-defined price basis over a previously defined period of time. The exercise terms and conditions stipulated by the Metro Management Board for the stock option plan provide in particular that the company grant the qualifying SOP beneficiaries in lieu of the

delivery of new common shares a cash compensation equal to the differential between the basis price and the applicable closing price of Metro shares prior to exercising the option.

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

| | 2003 | | 2002 | |
|---|---|---|---|---|
| | SOP units | SAR units | SOP units | SAR units |
| Outstanding at 1 Jan | 1,760,068 | 2,961,825 | 1,199,725 | 2,094,480 |
| Issued | 526,475 | 1,537,500 | 645,408 | 1,328,245 |
| Exercised | – | – | – | – |
| Expired | 328,680 | 663,800 | 85,065 | 460,900 |
| **Outstanding at 31 Dec** | 1,957,863 | 3,835,525 | 1,760,068 | 2,961,825 |

The exercise rights limited to a period of one year can be invoked after a blocking period of three years. Exercising the rights is dependent upon the condition that, after the end of the blocking period, the stock price of METRO AG was at least 30 percent above the basis price (exercise hurdle) for 20 consecutive stock exchange trading days before the exercise.

The first exercise period for the rights of the 1999 tranche began at the end of the first banking day in Frankfurt after the annual general meeting (AGM) of METRO AG in May 2002 and ended eight weeks after the annual general meeting in 2003. These rights expired at the end of the exercise period.

The first exercise period for the rights of the 2000 tranche began at the end of the first banking day in Frankfurt after the annual general meeting of METRO AG in May 2003 and will end eight weeks after the annual general meeting in 2004.

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

| Tranche | Expiry dates | Basis price | Exercise hurdle | SOP 31 Dec 2003 Units outstanding | SOP 31 Dec 2002 Units outstanding | SAR 31 Dec 2003 Units outstanding | SAR 31 Dec 2002 Units outstanding |
|---|---|---|---|---|---|---|---|
| 1999 | 8 weeks after AGM in 2003 | 54.59 € | 70.97 € | – | 316,360 | – | 431,030 |
| 2000 | 8 weeks after AGM in 2004 | 44.14 € | 57.38 € | 399,645 | 403,125 | 552,015 | 585,630 |
| 2001 | 8 weeks after AGM in 2005 | 43.72 € | 56.84 € | 399,685 | 403,185 | 661,050 | 696,675 |
| 2002 | 8 weeks after AGM in 2006 | 28.73 € | 37.35 € | 632,058 | 637,398 | 1,186,235 | 1,248,490 |
| 2003 | 8 weeks after AGM in 2007 | 26.99 € | 35.09 € | 526,475 | – | 1,436,225 | – |
| | | | | 1,957,863 | 1,760,068 | 3,835,525 | 2,961,825 |

The stock-based compensation for Management Board members is detailed under caption no. 46.

**46. Supervisory Board and Management Board**

The total emoluments paid to Supervisory Board members in their entirety amounted to € 1.02 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, € 0.06 million referred to the fixed fee and € 0.96 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 members in fiscal 2003 amounted to € 7.7 million. The fixed remuneration accounted for € 3.6 million thereof and € 4.1 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 out below. The total prorated time value of the stock bonuses was € 0.3 million.

The prorated time value of the stock options granted in prior years amounted to € 0.4 million. 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 expiry 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 program have been described under caption no. 45.

The following essential conditions shall apply to the payment of  stock bonuses:

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 target stock price 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 exempted 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 compensation elements 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 Management Board members of METRO AG and of the companies merged into METRO AG and their surviving dependants received € 3.7 million; accruals of € 42.4 million for the pensions of this group have been provided for in the accounts of METRO AG.
For the composition of the Supervisory Board and Management Board, please refer to caption no. 51.

### 47. Disclosure of the share ownership of Management Board 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 Management Board and Supervisory Board members also amounted to less than one percent at the balance sheet date.

## Separate notes and disclosures pursuant to Section 292 a HGB (German Commercial Code)

### 48. Accounting, measurement and consolidation methods deviating from German legislation

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

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

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

**49. 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).

**50. Election to be exempt from §§ 264 section 3 and 264 b HGB, respectively**

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

**a) Operating companies and service entities**

| | |
|---|---|
| A LA CARTE Warenvertriebsgesellschaft mbH | Düsseldorf |
| Allkauf SB-Warenhaus GmbH & Co. KG | Mönchengladbach |
| Axxe Reisegastronomie GmbH | Cologne |
| Baumarkt Holding GmbH | Kirkel |
| C + C Schaper GmbH | Hanover |
| Deutsche Gesellschaft für Anlageverwaltung mbH (DEGAV) | Düsseldorf |
| Dinea Gastronomie GmbH | Cologne |
| EFGEE GmbH | Cologne |
| Emotions GmbH | Cologne |
| Extra Verbrauchermärkte Deutschland GmbH & Co. KG | Sarstedt |
| Gemini Personal Service GmbH | Cologne |
| GKF Vermögensverwaltung GmbH & Co. 6. Objekt KG | Saarbrücken |
| GPM Consulting GmbH & Co. KG | Düsseldorf |
| Kaufhaus Kerber GmbH & Co. KG | Fulda |
| Kaufhof Warenhaus AG | Cologne |
| Kaufhof Warenhaus am Hauptbahnhof Berlin GmbH | Berlin |
| Kaufhof Warenhaus Rostock GmbH | Rostock |
| KIM GmbH | Cologne |
| Lust for Life Gastronomie GmbH | Cologne |
| MGA METRO Group Advertising GmbH | Düsseldorf |
| Metro Cash & Carry Eastern Europe GmbH | Düsseldorf |
| MGC METRO Group Clearing GmbH | Düsseldorf |
| Meister feines Fleisch - feine Wurst GmbH & Co. KG | Gaufelden-Nebringen |
| MES Metro Event Service GmbH | Saarbrücken |
| Metro Cash & Carry International Holding GmbH | Düsseldorf |
| Metro Cash & Carry International GmbH | Düsseldorf |
| Metro Cash & Carry Western Europe GmbH | Düsseldorf |
| Metro Cash & Carry Deutschland GmbH & Co. KG | Düsseldorf |
| Metro Einzelhandel Holding GmbH | Düsseldorf |
| Metro Großhandelsgesellschaft mbH | Düsseldorf |
| MIB METRO Group Insurance Broker GmbH | Düsseldorf |
| MRE METRO Group Real Estate Management GmbH | Saarbrücken |
| MTT METRO Group Textiles Transport GmbH | Düsseldorf |
| Metro Handels GmbH | Saarbrücken |
| Metro International GmbH | Düsseldorf |
| Metro International Beteiligungs GmbH | Düsseldorf |
| Metro Kaufhaus und Fachmarkt Holding GmbH | Düsseldorf |
| Metro Leasing GmbH | Saarbrücken |
| Metro Luxemburg Holding GmbH | Düsseldorf |
| MDL METRO Group Distribution Logistics GmbH & Co. KG | Sarstedt |

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|---|---|
| Metro Online GmbH | Düsseldorf |
| Metro SB-Großmärkte GmbH & Co. KG Esslingen | Esslingen |
| Metro SB-Großmärkte GmbH & Co. KG Linden-Großen-Linden | Linden-Großen-Linden |
| Metro Sechste Gesellschaft für Vermögensverwaltung mbH | Düsseldorf |
| MFM METRO Group Facility Management GmbH | Düsseldorf |
| MFS METRO Group Facility Services GmbH | Leinfelden-Echterdingen |
| MGB METRO Group Buying GmbH | Düsseldorf |
| MGE Warenhandels GmbH & Co. KG | Düsseldorf |
| MGL METRO Group Logistics GmbH | Düsseldorf |
| MGP METRO Group Account Processing GmbH | Kehl-Sundheim |
| MGS METRO Group Services Holding GmbH | Düsseldorf |
| MGT METRO Group Travel Services GmbH | Düsseldorf |
| Multi-Center Warenvertriebs GmbH & Co. KG | Böblingen |
| MDH Secundus GmbH & Co. KG | Düsseldorf |
| Praktiker Bau- und Heimwerkermärkte AG | Kirkel |
| Praktiker Baumärkte GmbH | Kirkel |
| Praktiker GmbH | Kirkel |
| Praktiker Vierte Baumärkte GmbH | Kirkel |
| Real Holding GmbH | Alzey |
| Real Multi-Markt Warenvertriebs-GmbH & Co. KG | Alzey |
| Real SB-Warenhaus GmbH | Alzey |
| SIG Import GmbH & Co. KG | Düsseldorf |
| Sportarena GmbH | Cologne |
| Varena-Lagerhaus GmbH | Unna |
| WestBTL Handel-Beteiligungs GmbH | Düsseldorf |

**b) Real estate companies/newly acquired AIB**

| | |
|---|---|
| Asset Immobilienbeteiligungen GmbH & Co. KG | Saarbrücken |
| Adagio Grundstücksverwaltungsgesellschaft mbH | Saarbrücken |
| Adolf Schaper GmbH & Co. Grundbesitz KG | Saarbrücken |
| ALS Grundstücksverwaltung GmbH | Saarbrücken |
| ALS Grundstücksverwaltung GmbH & Co. Objekt-KG | Saarbrücken |
| Ariston Grundstücksverwaltung GmbH & Co. Vermietungs-KG | Saarbrücken |
| Asset Grundbesitz GmbH | Saarbrücken |
| Asset Immobilienbeteiligungen GmbH | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Wohnanlage Frankfurt KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Aachen, Adalbertstr. 20-30 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Aschaffenburg KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Bergen-Enkheim KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Bonn, Acherstr. KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Cottbus KG | Saarbrücken |

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| Asset Verwaltungs-GmbH & Co. Objekt Darmstadt KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Dortmund KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Düren KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Düsseldorf, Königsallee 1 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Frankfurt/Main KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Freiburg im Breisgau KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Gelsenkirchen KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Hamburg, Mönckebergstr. 3 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Hamburg-Poppenbüttel, Kritenbarg 10 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Hanau KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Hannover KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Hof KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Kassel KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Köln, Hohe Str. 11-15a, 28, 33-53 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Köln, Schildergasse 94-96a KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Köln-Kalk, Kalker Hauptstr. 118-122 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Lüdenscheid KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Mainz KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Mönchengladbach KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Mülheim/Ruhr KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt München, Pelkovenstr. 155 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Nürnberg, Königsstr. 42-52 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Nürnberg, Roritzerstr. KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Offenbach KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Saarbrücken, Bahnhofstr. 82-92, 98-100 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Siegburg KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Stuttgart, Königstr. 6 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Stuttgart-Bad Cannstadt, Badstr., Marktstr. 3 KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Wetzlar KG | Saarbrücken |
| Asset Verwaltungs-GmbH & Co. Objekt Würzburg KG | Saarbrücken |
| BAUGRU Immobilien-Beteiligungsgesellschaft mbH & Co. Grundstücksverwaltung KG | Saarbrücken |
| Dalos Beteiligungs GmbH & Co. Vermietungs-KG | Munich |
| Deutsche SB-Kauf GmbH & Co. KG | Saarbrücken |
| Dorina Immobilien-Vermietungsgesellschaft mbH | Cologne |
| FZB Fachmarktzentrum Bous Verwaltungsgesellschaft mbH & Co. KG | Bous |
| FZG Fachmarktzentrum Guben Verwaltungsgesellschaft mbH & Co. Vermietungs-KG | Saarbrücken |
| GBS Gesellschaft für Unternehmensbeteiligungen mbH | Saarbrücken |
| Gewerbebau Flensburg GmbH | Flensburg |
| Gewerbebau Flensburg GmbH & Co. Objekt Fachmarktzentrum KG | Flensburg |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 21. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 22. Objekt-KG | Saarbrücken |

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| GKF Vermögensverwaltungsgesellschaft mbH & Co. 24. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 25. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 3. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. 8. Objekt-KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Gewerbegrundstücke KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Grundstücksverwaltung KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Braunschweig C&C KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Castrop-Rauxel KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Fulda KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Kronach KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Rastatt KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Rinteln KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Rüsselsheim KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Stuttgart/Deizisau KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Objekt Trier KG | Saarbrücken |
| GKF Vermögensverwaltungsgesellschaft mbH & Co. Vermietungs- und Handels-KG | Saarbrücken |
| Horten Aktiengesellschaft | Düsseldorf |
| Horten Verwaltungs GmbH & Co. Objekt Duisburg KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Aachen KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Braunschweig KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Bremen KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Düsseldorf Berliner Allee KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Düsseldorf Carschhaus KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Erlangen KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Giessen KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Hamburg KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Hamm KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Hannover KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Heidelberg KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Heilbronn KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Hildesheim KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Ingolstadt KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Kempten KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Krefeld KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Ludwigshafen KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Moers KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Münster KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Neumünster KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Nürnberg KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Oldenburg KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Osnabrück KG | Saarbrücken |

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| Horten Verwaltungs GmbH & Co. Objekt Pforzheim KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Regensburg KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Reutlingen KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Schwäbisch Gmünd KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Schweinfurt KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Stuttgart KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Trier KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Ulm KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Wiesbaden KG | Saarbrücken |
| Horten Verwaltungs GmbH & Co. Objekt Witten KG | Saarbrücken |
| Kaufhof Warenhaus am Alex GmbH | Berlin |
| Kaufhof Warenhaus Neubrandenburg GmbH | Saarbrücken |
| Lerus Verwaltung GmbH & Co. Objekt Duisburg KG | Saarbrücken |
| Lerus Verwaltung GmbH & Co. Objekt Kleve KG | Saarbrücken |
| Lerus Verwaltung GmbH & Co. Objekt Marl KG | Saarbrücken |
| Lerus Verwaltung GmbH & Co. Objekt Riesa KG | Munich |
| Lerus Verwaltung GmbH & Co. Objekt Schönebeck KG | Munich |
| Lerus Verwaltung GmbH & Co. Objekt Schwelm KG | Munich |
| Lerus Verwaltung GmbH & Co. Objekt Stolberg KG | Munich |
| Lerus Verwaltung GmbH & Co. Objekt Nordhausen und Magdeburg KG | Munich |
| Lerus Verwaltung GmbH & Co. Objekt Voerde und Kamen KG | Saarbrücken |
| Lerus Verwaltung GmbH & Co. Objekt Vermietungs-KG | Saarbrücken |
| MTE Grundstücksverwaltung GmbH & Co. Objekt Duisburg OHG | Pöcking |
| Nigra Verwaltung GmbH & Co. Einundzwanzigste Vermietungs-KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Elfte Vermietungs-KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Fünfundzwanzigste Vermietungs-KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Neunte Vermietungs-KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Bochum KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Bonn KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Detmold KG | Pöcking |
| Nigra Verwaltung GmbH & Co. Objekt Dortmund KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Dresden-Heidenau KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Eschweiler KG | Pöcking |
| Nigra Verwaltung GmbH & Co. Objekt Frankenthal-Einkaufszentrum KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Frankenthal-Studernheim KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Germersheim KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Gießen KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Haibach KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Herne KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Herten KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Kassel KG | Munich |

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| Nigra Verwaltung GmbH & Co. Objekt Krefeld KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Kulmbach KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Langendreer KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Moers KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Neunkirchen KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Neuwied KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Nürnberg Regensburger Str. KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Objekt Oberhausen OHG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Rendsburg KG | Pöcking |
| Nigra Verwaltung GmbH & Co. Objekt Saarbrücken KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Salzgitter KG | Munich |
| Nigra Verwaltung GmbH & Co. Objekt Überlingen KG | Munich |
| Nigra Verwaltung GmbH & Co. Siebte Vermietungs-KG | Saarbrücken |
| Nigra Verwaltung GmbH & Co. Vierzehnte Vermietungs-KG | Munich |
| Nigra Verwaltung GmbH & Co. Zehnte Vermietungs-KG | Munich |
| Nodal Beteiligungs GmbH & Co. Vermietungs-KG | Munich |
| Rutil Verwaltung GmbH & Co. SB-Warenhaus Bielefeld KG | Pöcking |
| Schaper Grundbesitzverwaltungsgesellschaft mbH | Saarbrücken |
| Secundus Grundstücksverwertungs-GmbH & Co. Objekt Stuttgart-Königstr. KG | Cologne |
| STW Grundstücksverwaltung GmbH | Saarbrücken |
| Wirichs Immobilien GmbH | Saarbrücken |
| Wolfgang Wirichs GmbH | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Dritte Vermietungs-OHG | Munich |
| Zarus Verwaltung GmbH & Co. Erste Vermietungs-KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Braunschweig Berliner Str. KG | Munich |
| Zarus Verwaltung GmbH & Co. Objekt Brühl KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Davenstedter Str. 80 KG | Munich |
| Zarus Verwaltung GmbH & Co. Objekt Düren OHG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Hannover-Linden KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Hannover-Südstadt KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Hildesheim KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Misburg KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Mutterstadt KG | Pöcking |
| Zarus Verwaltung GmbH & Co. Objekt Neckarhausen KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Neuwiedenthal KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Niedersachsen KG | Munich |
| Zarus Verwaltung GmbH & Co. Objekt Nordenstadt KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Objekt Osnabrück KG | Munich |
| Zarus Verwaltung GmbH & Co. Siebte Vermietungs-KG | Saarbrücken |
| Zarus Verwaltung GmbH & Co. Zweite Vermietungs-KG | Saarbrücken |

## 51. 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, 26 February 2004

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein

Mierdorf

Unger

# Overview of major group companies

| Name | Head office | Stake<br>% | Equity<br>€ 1,000 |
|---|---|---|---|
| **METRO AG** | Düsseldorf | | 4,422,621 |
| Metro Kaufhaus und Fachmarkt Holding GmbH | Düsseldorf | 100.00 | 3,508,269 |
| Metro Einzelhandel Holding GmbH | Düsseldorf | 100.00 | 1,948,125 |
| **Cash & Carry** | | | |
| Metro Cash & Carry International GmbH | Düsseldorf | 100.00 | 3,159,714 |
| Metro Cash & Carry International Holding GmbH | Düsseldorf | 100.00 | 3,816,767 |
| **Hypermarkets** | | | |
| Real Holding GmbH | Alzey | 100.00 | 370,527 |
| **Supermarkets** | | | |
| Extra Holding  GmbH | Sarstedt | 100.00 | 276,533 |
| **Consumer electronics centers** | | | |
| Media-Saturn-Holding GmbH | Ingolstadt | 75.41 | 224,252 |
| **Home improvement and DIY centers** | | | |
| Praktiker Bau- und Heimwerkermärkte AG | Kirkel | 100.00 | 403,345 |
| **Department stores** | | | |
| Kaufhof Warenhaus AG | Cologne | 100.00 | 168,726 |
| **Other companies** | | | |
| Asset Immobilienbeteiligungen GmbH & Co. KG | Saarbrücken | 49.00[1)] | 190,713 |
| MGB METRO Group Buying GmbH | Düsseldorf | 100.00 | 51,223 |
| MIAG C.V. | Diemen/NL | 100.00 | 550,001 |
| Dinea Gastronomie GmbH | Cologne | 100.00 | 8,238 |
| MDL METRO Group Distribution Logistics GmbH & Co. KG | Sarstedt | 100.00 | 5,153 |
| MRE METRO Group Real Estate Management GmbH | Saarbrücken | 100.00 | 11,114 |
| MGI METRO Group Information Technology GmbH | Düsseldorf | 100.00 | 90,200 |

[1)] METRO AG holds 75 percent of the voting rights.

## Auditor's opinion

We duly audited the consolidated financial statements prepared by METRO AG consisting of the consolidated balance sheet, the consolidated income statement, the statement of changes in shareholders' equity, the consolidated cash flow statement and the Notes thereto for the fiscal year from 1 January to 31 December 2003. The preparation and contents of the consolidated financial statements fall within the responsibility of METRO AG's Management Board. Our task, based on the audit performed by us, is to express an opinion on whether the consolidated financial statements are in conformity with the International Financial Reporting Standards (IFRS).

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

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

Our audit, which also covered the group management report from 1 January to 31 December 2003 as prepared by the Management Board, did not result in any objections.

In our opinion the group management report, together with the other information provided in the consolidated financial statements, on the whole provides a suitable understanding of the group's position and adequately outlines the risks of its future development. In addition, we confirm that the consolidated financial statements and the group management report for the fiscal year from 1 January to 31 December 2003 satisfy the requirements for exempting the company from preparing consolidated financial statements and a group management report in accordance with German law.

Duisburg, 27 February 2004

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

| | |
|---|---|
| Dr. M. Kußmann<br>(German CPA) | Dr. H. Herrmann<br>(German CPA) |

# Report of the Supervisory Board

METRO Group successfully continued its international expansion in fiscal 2003. The company positioned itself in further 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 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 |

## Addresses

METRO AG
Metro-Strasse 1
40235 Düsseldorf
Phone: +49 (2 11) 68 86-0
www.metrogroup.de

Metro Cash & Carry International GmbH
Metro-Strasse 8
40235 Düsseldorf
Phone: +49 (2 11) 9 69-0
www.metro-cc.com

Real SB-Warenhaus GmbH
Administrative Head Office:
Reyerhütte 51
41065 Mönchengladbach
Phone: +49 (21 61) 4 03-0
www.real.de

Extra Verbrauchermärkte GmbH
Am Teinkamp 7
31157 Sarstedt
Phone: +49 (50 66) 89-0
www.extra-markt.de

Media-Saturn-Holding GmbH
Wankelstrasse 5
85046 Ingolstadt
Phone: +49 (8 41) 6 34-0
www.mediamarkt.de
www.saturn.de

Praktiker Bau- und Heimwerkermärkte AG
Am Tannenwald 2
66459 Kirkel
Phone: +49 (68 49) 95-00
www.praktiker.de

Kaufhof Warenhaus AG
Leonhard-Tietz-Strasse 1
50676 Cologne
Phone: +49 (2 21) 2 23-0
www.galeria-kaufhof.de

MGB METRO Group Buying GmbH
Schlüterstrasse 3
40235 Düsseldorf
Phone: +49 (211) 9 69-0
www.mgb.de

MGL METRO Group Logistics GmbH
Metro-Strasse 8
40235 Düsseldorf
Phone: +49 (2 11) 9 69-0

MDL METRO Group Distribution
Logistics GmbH & Co. KG
Am Teinkamp 7
31157 Sarstedt
Phone: +49 (50 66) 89-0

MGI METRO Group Information
Technology GmbH
Metro-Strasse 12
40235 Düsseldorf
Phone: +49 (2 11) 9 69-0
www.mgi.de

MGA METRO Group Advertising GmbH
Metro-Strasse 2
40235 Düsseldorf
Phone: +49 (2 11) 9 69-0

MFS METRO Group Facility Services GmbH
Denkendorfer Strasse 11
70771 Leinfelden-Echterdingen
Phone: +49 (7 11) 9 02 76-0
www.metro-mfs.de

Dinea Gastronomie GmbH
Hansestrasse 67-71
51149 Cologne
Phone: +49 (22 03) 3 09-0
www.dinea.de

## 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 |
| Code numbers | |
| Common stock | 725 750 |
| Preferred stock | 725 753 |
| Stock markets | Frankfurt, Düsseldorf, Xetra |

# Glossary

**Overview of important terms used in the annual report 2003**

### Concept optimization

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

### Cross-divisional service companies

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

### Data Warehouse

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

### Efficient Consumer Response (ECR)

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

### Food, nonfood

In the METRO Group the following categories are considered part of our food assortment: fresh produce (including fruit, vegetable, fresh meat and fish, dairy products), non-perishable foodstuffs (including sausages and other meat products, canned food, delicatessen, staple diets like noodles, and sauces), frozen food products, beverages of all kinds (including alcoholic beverages), cigarettes, food supplements (like vitamin products), pet food, detergents and household cleaners. All other merchandize comes under the heading of “nonfood”.

### Fresh produce competency

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

### Future Store

METRO Group’s Future Store is a completely new type of supermarket of Metro’s Extra sales division where the main new technologies available today that will shape the retailing of tomorrow are tested for the first time in complex interaction. These technologies include basic technologies like the Radio Frequency Identification (RFID) or technical systems with a high specific benefit for the customer, e.g. self-checkouts. As the first major project of the METRO Group Future Store Initiative, the Future Store promotes the technical innovation in retailing and tests the process applicability of the technical systems as well as their acceptance by the customers.

### Logistics

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

### Meeting Metro

METRO Group presents itself to the job market using the brand name “Meeting Metro” as an umbrella for its activities. On the occasion of an information event under the same heading which is organized one to two times a year, METRO Group presents the company as well as the retailing sector to students of economics and trading-related areas and to teachers. Such events provide a forum for illustrating the great variety of job activities and career opportunities within an internationally active retailing group. In this way, Metro sharpens its profile as an attractive employer. Comprehensive information about Meeting Metro is to be found on the homepage at www.meeting-metro.de.

### Merchandizing concept

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

### Payback

With more than 25 million members in Germany this is the market leader in customer retention programs. Participating customers receive a club card. For every purchase for which they present their card they will be credited with a certain number of bonus points. In addition, Payback customers benefit from special discount promotions and target group specific product offers. The Payback program provides the opportunity for target group oriented marketing and individual customer address. With the successful participation of the sales divisions Real and Galeria Kaufhof in the Payback program, METRO Group has assumed a pioneering role that has attracted a great deal of attention in the entire trade and retail sector.

### Process optimization

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

### Profitable growth

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

### Quality assurance

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

### Retail brands

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

### RFID, Radio Frequency Identification

New technology for the contactless data transfer operating on the physical basis of alternating electromagnetic fields. Under the METRO Group Future Store Initiative, METRO Group is currently testing the practical application of RFID in retailing at the Future Store. Labels provided with RFID technology can be read by a computer-controlled device (reader) without requiring visual contact. This innovative technology provides decisive impulses for the optimization of the process chain.

### Sales divisions

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

### Value-oriented corporate management

The management focus on increasing corporate value is an essential principle governing the work in the METRO Group and its sales divisions. It is reflected in the total focus on profitability targets and the Economic Value Added (EVA), among others.

A detailed glossary of important terms of the trade and retail business is provided in the Metro Trade Encyclopedia on pages 44-113. The Trade Encyclopedia (in German) can be ordered at: handelslexikon@metro.de

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