METRO Group

The Spirit of Commerce

Annual Report **2002** | Annual financial statements of METRO AG

Content

METRO AG management report

Annual financial statements

At 31 December 2002, the annual financial statements of METRO AG, the holding company of the METRO Group, show a balance sheet total of € 10.2 billion compared to € 10.1 billion in the previous year.
Financial assets and receivables from group companies constitute the major items on the asset side. Financial assets decreased due to the sale of WestBTL Handel-Beteiligungsgesellschaft mbH to MGS METRO Group Services Holding GmbH and the valuation of some foreign companies at the lower current value.
The increase in receivables from group companies primarily accounts for the changes in receivables and other assets.
The liabilities side is marked by the change in accruals including, within pension accruals, the valuation of a benevolent fund's assets at the closing rate on the balance sheet date. Within other accruals, there were increases in accruals for risks from the investment area, risks from rental contracts and realty sold and interest payments on taxes arising from tax audits.
The Income Statement is characterized by an increased income from investments, higher other operating expenses and increasing personnel expenses. The improvement in the income from investments is balanced by a net increase in other operating expenses of € 270.317 million mainly attributable to a late reduction in the purchase price of Extra Verbrauchermärkte GmbH of € 185.653 million. In addition, Divaco claim against Asset Immobilienbeteiligungen GmbH & Co. KG (AIB) resulting from a retail real estate transfer to AIB effected in 1999 amounting to € 120 million had to be taken into consideration. This has now been settled by METRO AG in the present financial statements. An additional € 60 million were made available to Divaco to cover restructuring expenses and the costs of winding up marginal activities. Personnel expenses were especially burdened by additions to accruals for the under-funding of company benevolent funds amounting to € 77.006 million. € 70.812 million of this total are accounted for by asset reduction due to exchange rate losses.
METRO AG's net income amounted to € 341.871 million.
The equity ratio dropped slightly to 42.2 percent and net debt fell by € 15.614 million to € 267.849 million.

Profit appropriation

The Supervisory Board and Management Board of METRO AG will propose to the annual general meeting on 22 May 2003 that the reported balance sheet profit of € 341.871 million be used to pay dividends in the amount of € 333.596 million and that the remaining € 8.275 million be carried forward.

	Number of shares	Cash dividend €
Distribution of a dividend of € 1.020 per common stock	324,109,563	330,591,754
Distribution of a dividend of € 1,122 per preferred stock	2,677,966	3,004,678
	326,787,529	333,596,432

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

Sales and earnings development of the sales divisions

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

Development of group sales and sales division sales (net)

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

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

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

	2002 € million	2001 € million	Changes over prior year € million	%
Metro Cash & Carry	709.1	625.5	83.6	13.4
Real	147.0	117.8	29.2	24.8
Extra	(47.2)	(14.4)	-32.8	-227.8
Media Markt/Saturn	280.2	223.9	56.3	25.1
Praktiker	(41.6)	(9.7)	-31.9	-328.9
Kaufhof	131.4	187.0	-55.6	-29.7
EBIT Metro sales divisions	1.178.9	1,130.1	48.8	4.3
Others	(13.4)	0.1	-13.5	–
EBIT METRO Group	1,165.5	1,130.2	35.3	3.1
Net fiscal result	(335.8)	(456.9)	121.1	26.5
Earnings before tax (EBT)	829.7	673.3	156.4	23.2
Income taxes	(327.8)	(224.3)	-103.5	-46.1
Consolidated net income	501.9	449.0	52.9	11.8
Earnings per share	1.36 €	1.23 €	0.13 €	10.4

Earnings development of the sales divisions

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

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

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

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

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

Kaufhof Warenhaus AG generated an EBIT of € 131.4 million in 2002 which constituted a drop of € 55.6 million compared to 2001. This development reflects the general restrained spending on the part of consumers and the associated fall in sales experienced by the Kaufhof department stores. Sales losses were only partly offset by the reduction of business costs during the process implemented to achieve an even more efficient organization of work processes.

Risk report

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

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

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

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

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

Clear responsibility for risk identification, analysis and control. In order to facilitate a coordinated deployment of measures the METRO Group has defined clear responsibilities and a framework for action. Responsibility for risk management is laid down in several sets of rules, for example in the articles of association and bye-laws of the group companies and in internal group guidelines. The METRO AG Risk Management Manual contains information on the function of the risk management system, offers a comprehensive overview of possible risk areas as well as the responsibility for their monitoring and handling. So as to make certain that relevant business risks are not overlooked a "bottom-up approach" is followed in the personnel hierarchy when it comes to identifying risks throughout the group. Within the framework of an early warning system business risks are assessed in terms of their potential repercussions for a planning horizon of three years. To achieve this, the so-called "net principle" is applied which describes the residual risk that exists after all possible risk reduction measures have been implemented.

Central role of Group Reporting in internal risk communication. The Group Reporting System is the main vehicle for the internal communication of opportunities and risks. Annual risk audits, monthly projections and risk statements as well as regular contacts between the operating units and their controlling companies ensure a continuous and timely exchange of information. The ongoing monitoring of risk areas is achieved with the help of specific indicators. If and when certain threshold values are exceeded the risk reporting system will alert the management in charge to the developments in question. Risks occurring suddenly are communicated to the specified decision-making bodies by an express communication system set up especially for this purpose.

Consistent risk monitoring. Monitoring the implementation and the effectiveness of risk management measures is part of the brief of every member of the executive staff. In addition, special risk management officers guarantee the smooth functioning of the risk management system as a whole. A self-audit checklist helps the operating companies to ensure that their risk management systems are complete and up-to-date.

All the centralized and decentralized risk management measures are checked for feasibility, topicality, completeness, reliability and effectiveness by the Group Audit Department of METRO AG which reports directly to the Chief Executive Officer. In addition, audits are performed at group company level by the appropriate Internal Audit Departments. In accordance with the provisions of KonTraG (Law on Control and Transparency in the Corporate World) our risk management system is assessed by external auditors on a periodic basis and the Management and Supervisory Boards are informed of the findings of this assessment.

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

Business risks. Fierce competition in the international wholesale and retail businesses and the rivalry between different merchandizing concepts, product offerings and service qualities are characteristic features of trading. Risks are also inherent in the typical dependence of the trade on the consumer's readiness to spend money. Admittedly, the increasing internationalization of the METRO Group business reduces its dependence on the economic and legal framework conditions in Germany, yet at the same time the group has to face additional economic, legal and political risks in other countries, not least the emerging markets. These risks are systematically reduced by comprehensive feasibility studies, for example, in which framework conditions and opportunities for a business involvement in the country concerned are analyzed in great detail, as well as by taking appropriately constructive action. An example of a risk emanating from the legal environment is the current implementation of the new packaging regulation in Germany involving a mandatory deposit on disposable packaging ("Einwegpfand").

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

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

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

Personnel risks. For the implementation of its strategic objectives the METRO Group depends on its highly qualified functional and management staff. It is a permanent challenge to recruit and retain these employees in the group in an environment of intense competition. In the expansion-oriented countries in particular there is a considerable need for qualified staff. This requires appropriate efforts in the area of in-house skills improvement measures. At all levels of the METRO Group further education and training activities for employees are vigorously promoted to give staff the indispensable edge in functional competency.
Personnel management along with training and HR development measures ensure that staff at all levels of the company develop an entrepreneurial mode of thinking and acting. This is additionally supported by the introduction of variable pay components related to business performance on at least three management levels. Direct participation in corporate success (EVA) boosts staff identification with the METRO Group and sharpens their awareness for opportunities and risks in all entrepreneurial decisions.

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

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

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

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

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

Summary of the risk situation in the METRO Group
On the whole, the examination of the current risk situation has shown that there are no risks endangering the continued existence of the company and that no such risks are currently discernible for the future.

Financial management of METRO AG

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

Group financing

By centralizing the financial management function, METRO AG has committed to ensure that sufficient and cost-effective coverage for the financial requirements of the companies within the METRO Group for operating activities or investments is available at all times by means of group financing. The information required for this is provided by a regularly updated rolling group budget prepared by all the companies involved.

Funding requirements are covered by money market and capital market instruments (including commercial papers and bonds offered within continuous issue programs), as well as bilateral and syndicated bank loans. The METRO Group has access to an adequate liquidity reserve at all times so the group will not have its financial flexibility impaired even in the event of unexpected occurrences with negative financial consequences.

The financial management function of METRO AG is also responsible for arranging and providing loans as well offering financial assistance to group companies in the form of guaranties and letters of comfort.

Communication with the financial markets and ratings

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

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

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

Interest rate and currency risk management

The aim of the METRO Group's interest rate and currency risk management function is not to take advantage of current or anticipated market situations in order to optimize results. On the contrary, the METRO Group has laid down its risk containment policy in its treasury guidelines: Every hedging transaction must be concluded in accordance with pre-defined limits and may on no account lead to an increase in risk exposure.

Only marketable derivative financial instruments may be used as hedging transactions, those which may be accurately represented and evaluated in the treasury systems both for financial and accounting purposes.

These instruments are as a rule reported in the balance sheet together with the underlying business transactions ("hedge accounting").

Cash pooling and intra-group clearing

Intra-group cash pooling reduces the level of borrowed capital and optimizes the METRO Group's investments on the money and capital markets which has a positive impact on the net interest result. Cash pooling allows the surplus liquidity of individual group companies to be used to fund other group companies internally.

Offsetting trade payables and receivables between the group companies via internal accounts lessens the number of bank transactions which in turn considerably reduces banking charges.

Supporting the group companies

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

Important post-year-end developments

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

Outlook

In 2003 the METRO Group will continue to pursue its path of profitability-oriented growth and international expansion. The successful merchandizing concepts will be further improved and adapted to the prevailing market conditions. The successful corporate strategy and the strong position of the METRO Group in the foreign markets and in Germany provide the company with the ideal prerequisites to make sure that the METRO Group will again perform better than comparable competitors in 2003.
The METRO Group's business success in recent years has been based on its consistent process of international expansion. The company will keep up this successful strategy of organic growth and, in the process, will particularly drive forward the internationalization of the high sales, high profitability sales divisions Metro Cash & Carry and Media Markt/Saturn. The METRO Group will expand its existing outlet chain further and open up new markets, especially in Eastern Europe and Asia. Entry into the Indian and Ukrainian markets is planned for 2003. After this, the METRO Group will have operations in 28 countries.
Promoting the image of the sales divisions as distinctive retail brands will remain a priority within the METRO Group during the current fiscal year. To this end, the company's business policy will focus even more on the needs and wishes of the customers. The divisions will also more rigorously highlight their price and assortment competency. In addition, the company will exploit more vigorously than before the economically exciting opportunities of customer retention offered by attractive customer loyalty programs. Over and above this, the business processes in the entire METRO Group will continue to be consistently optimized so as to increase the competitive edge through cost leadership.
In 2003 the group will strive to achieve profitable growth, a further improvement in earnings per share and an increase in Economic Value Added. Capital expenditure of around € 2 billion is earmarked for this. Concentration of the international expansion activities on the largely self-financing sales divisions Metro Cash & Carry and Media Markt/Saturn will also further improve the ratios that are relevant for the ratings.

Report pursuant to § 312 AktG (German stock corporation act)

METRO AG is controlled through Metro Vermögensverwaltung GmbH & Co. KG and further companies held by majority stockholders Beisheim, Haniel and Schmidt-Ruthenbeck. Consequently, the Management Board of METRO AG has prepared a dependency report on group affiliations in accordance with § 312 AktG (German stock corporation act).

This report for the year 2002 received the unqualified auditor's opinion of Fasselt & Partner Wirtschaftsprüfungsgesellschaft, Duisburg, and was submitted to the Supervisory Board. At the end of the report the Management Board made the following statement:

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

Balance sheet as at 31 December 2002

Assets

€ million	Note no.	As at 31 Dec 2002	As at 31 Dec 2001
Fixed assets	2		
Intangible assets	3	2.211	910
Tangible assets	4	6.940	7.680
Financial assets	5	6,177.189	6,356.754
		6,186.340	6,365.344
Current assets			
Receivables and sundry assets	6	3,677.607	3,380.754
Short-term securities		–	13
Checks, cash on hand and in bank	7	362.849	326.859
		4,040.456	3,707.626
Prepaid expenses and deferred charges	8	7.094	6.975
		10,233.890	10,079.945

Liabilities

€ million	Note no.	As at 31 Dec 2002	As at 31 Dec 2001
Stockholders' equity			
Capital stock	9	835.419	835.419
Additional paid-in capital	10	2,557.964	2,557.964
Reserves retained from earnings		583.977	583.977
Net earnings/balance sheet profit	22	341.871	333.596
		4,319.231	4,310.956
Accruals	11	653.555	476.908
Liabilities	12	5,260.370	5,291.112
Deferred income		734	969
		10,233.890	10,079.945

Income statement for the fiscal year from 1 January to 31 December 2002

Figures in € million	Note no.	2002	2001
Income from investments	16	1,168.479	834.942
Net financial result	17	(94.182)	(93.466)
Other operating income	18	130.262	119.350
		1,204.559	860.826
Personnel expenses	19	(125.642)	(58.793)
Amortization of intangible and depreciation of tangible assets		(2.165)	(3.115)
Other operating expenses	20	(725.924)	(455.607)
		(853.731)	(517.515)
Result from ordinary operations		350.828	343.311
Income taxes	21	(6.794)	(10.032)
Other taxes		(2.163)	317
Net earnings/Balance sheet profit	22	341.871	333.596

Notes METRO AG

1. Disclosure, accounting and valuation principles

In the financial statements (balance sheet and income statement), certain captions have been combined with a view to enhancing transparency of presentation. To underline METRO AG's holding company function, the order of income statement captions laid down in § 275 of the German Commercial Code ("HGB") has been partly modified. Any summarized captions are detailed in these Notes.
Intangible assets are stated at acquisition cost, tangible assets at purchase or production cost, both less accumulated scheduled amortization or depreciation, less unscheduled write-downs and less accelerated cost recovery (ACR) charges as applicable or required. Additions to personal property are generally depreciated by using the tax convenience of charging the full or half the rate for additions in the first or the second six-month period, respectively. Scheduled depreciations are made on a straight-line basis. Unscheduled write-downs are used whenever any impairment in the value of the asset is deemed to be of a long-term nature. So-called low-value assets are fully written off in the year of their addition.
Investments and shares in group companies are capitalized at cost or any lower current value, lower values being maintained and carried forward unless the mandatory reinstatement of original values (applicable by law as from 1999) requires a higher carrying amount to be stated (up to historical cost).

Long-term loans are capitalized at par, no- or low-interest loans being shown at their discounted present values.
Receivables and sundry assets are principally stated at par or face value. Specific allowances provide for the risks inherent in receivables (bad debts); non-interest bearing receivables are discounted. To the extent permissible, income from investments is received as earned and capitalized in the year for which the dividend is distributed.
Short-term securities are valued at the lower of cost, market or current value.
Accruals provide for foreseeable or apprehensible risks, uncertain commitments and impending losses, as deemed appropriate in accordance with sound business practice and judgment. The actuarial present value is used to provide for accrued pension obligations, on the basis of a yearly interest rate of 6 percent, all pursuant to § 6a German Income Tax Act ("EstG"). METRO AG provides for any accrued deficient cover of employee benevolent funds. Non-current accruals, such as for deficient rental cover or employment anniversary allowance commitments, are disclosed at par, i.e. they are not discounted.
Liabilities are generally stated at the amount repayable.
Financial derivatives of interest rate and currency management are used to reduce risks, their valuation being separate and item by item as well as predicated on the imparity principle (which requires unrealized losses to be accrued and prohibits unrealized profits to be recognized). In accordance with the true-and-fair-view standards of § 264 Section 2, 1 HGB and in line with international practice, derivative financial transactions that constitute economic units and whose hedging purposes are adequately documented to be objectively interrelated are valued on an offset basis, i.e. within one position valued as a unit, losses from unsettled contracts are offset against, up to the amount of, unrealized gains. Losses in excess are accrued, gains in excess remaining unrecognized.
The formation of separate valuation units is premised on factors such as individual risk compensation of offsetting deals, interest rate and currency identity, financial-standing identity, and substantially matching maturities. Non-listed financial instruments are either marked to the market, or valued by using generally accepted option pricing models or, for non-option-type derivatives, according to the present value method.
Currency-related financial transactions are, depending on their position, valued at their bid or offer price.

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

Notes to the balance sheet of METRO AG

2. Fixed assets

€ million	Cost of acquisition						
	As at 1 Jan 2002	Additions	Book transfers	Disposals	A/D/W (cumulative)	As at 31 Dec 2002	A/D/W in 2001
Intangible assets							
Rights and licences	1.358	0.719	0.071	0.205	0.774	1.169	0.460
Advance payments made	0.071	1.042	(0.071)	–	–	1.042	–
	1.429	1.761	–	0.205	0.774	2.211	0.460
Tangible assets							
Leasehold improvements	3.604	0.036	–	–	0.886	2.754	0.445
Sundry plant, business and office equipment	7.354	1.187	–	1.870	2.485	4.186	1.260
	10.958	1.223	–	1.870	3.371	6.940	1.705
Financial assets							
Shares in group companies	5,879.778	166.601	–	262.206	458.797	5,325.376	79.116
Loans to group companies	777.958	–	–	5.964	–	771.994	–
Investments	25.444	1.534	–	–	3.221	23.757	–
Other long-term loans	56.476	–	–	0.414	–	56.062	–
	6,739.656	168.135	–	268.584	462.018	6,177.189	79.116
Total	6,752.043	171.119	–	270.659	466.163	6,186.340	81.281

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

4. Tangible assets
The additions to tangible assets relate to PC equipment and motor vehicles. The disposals essentially refer to the expiry of the service life of the items concerned.

5. Financial assets
Of the additions to shares in non-consolidated companies totaling € 166.601 million an amount of € 44.460 million is accounted for by capital increases at Real Hipermarketler Zinciri A.S./Turkey and Praktiker Yapi Marketleri A.S./Turkey.
Shares in Media-Saturn-Holding GmbH were increased by 2.23 percent and shares in Praktiker Bau- und Heimwerkermärkte AG were increased by 0.31 percent.
Real Hypermarket OOO, Russia, was formed as part of the internationalization process.
The disposals of shares in group companies in the amount of € 262.206 million primarily relate to the sale of WestBTL Handel-Beteiligungsgesellschaft mbH to MGS METRO Group Services Holding GmbH.
Valuation at the lower current value for Real Hipermarketler Zinciri A.S./Turkey, Praktiker Yapi Marketleri A.S./Turkey, Metro SB-Handels AG/Switzerland, Metro International Handels AG/Switzerland and Real Sp.z o.o./Poland led to write-downs of € 79.116 million.
The disposal in the amount of € 5.964 million within loans to group companies is attributable to the scheduled redemption of the loan extended to Allkauf SB-Warenhaus GmbH & Co. KG.

Additions to investments in the amount of € 1.534 million relate to the acquisition of further shares in Loyalty Partner GmbH.

6. Receivables and sundry assets

€ million	31 Dec 2002	31 Dec 2001
Due from group companies	2,886.238	2,475.607
of which with a remaining term of more than one year	[–]	[–]
Receivables under investor/investee relations	5.991	94.693
Sundry assets	785.378	810.454
of which with a remaining term of more than one year	[11.771]	[170.859]
	3,677.607	3,380.754

Contrary to the previous year, the receivables due from Asset Immobilienbeteiligungen GmbH & Co. KG as well as from Primus-Online Handel und Dienstleistung GmbH were transferred from receivables "Due from group companies" to "Sundry assets".
Sundry assets include claims for tax refunds in the amount of € 359.045 million and also investments held for sale.

7. Checks, cash on hand and in bank

€ million	31 Dec 2002	31 Dec2001
Checks	0	0.009
Cash on hand	0.004	0
Cash in bank	362.845	326.850
	362.849	326.859

The increase in bank balances results from cash pool earnings at the end of the year, which could not be placed.

8. Prepaid expenses and deferred charges

This caption includes € 5.165 million of loan discount being the difference between the redemption amount and the loan face value of the 1998/2013 convertible bond issue.

9. Capital stock

In terms of its amount and composition, i.e. ratio of common to preferred stock, subscribed capital has not changed versus 31.12.2001 and totaled € 835,419,052.
On 4 July 2000, the annual general meeting and the special meeting of preferred shareholders of METRO AG resolved, inter alia, that all of the existing 23,001,346 non-voting preferred shares could be converted at a rate of 1:1 into bearer shares carrying voting rights subject to payment of a conversion premium of € 11.60 each. Under this conversion offer, a total of 20,323,380 preferred shares were converted into common shares, officially quoted as "common stock/challenged". As a consequence, the amount and structure of the subscribed capital is as follows:

Class: no-par bearer shares, Accounting par value € 2.56		31 Dec 2002	31 Dec 2001
Common stock	shares	324,109,563	324,109,563
	€	828,572,941	828,572,941
Preferred stock	shares	2,677,966	2,677,966
	€	6,846,111	6,846,111
Total capital stock	shares	326,787,529	326,787,529
	€	835,419,052	835,419,052

Contingent capital I and II

On 9 July 1997, a contingent increase in the capital stock by € 51,129,188 was resolved (contingent capital I). This contingent capital increase is connected with the authorization given to the Management Board to issue bonds with warrants and/or convertible bonds of up to a total of € 1,022,583,762 and to grant the holders option or conversion rights for up to 20 million new common and/or preferred shares in the company by 9 July 2002.
On 9 July 1998, METRO AG's 100 percent subsidiary Metro International Finance B.V., Amsterdam, issued zero bearer bonds with right of conversion into bearer preference stocks in METRO AG totaling € 766,937,822 (DM 1,500,000,000), guaranteed by METRO AG ("convertible DM bond").
Accordingly, every bond creditor is entitled to convert the bonds into non-voting preferred shares in METRO AG during the exercise period from 9 July 1999 to 9 June 2013 (both days included). The bond debtor is entitled to pay a cash amount in lieu of delivering the preferred stocks upon exercise of the conversion right by a bond creditor.
Hitherto, the conversion right was only exercised in 2000, causing a reduction in the contingent capital of € 86.92.
On 6 July 1999 the annual general meeting resolved a contingent increase in the capital stock by up to € 14,316,173 by issuing up to 5,600,000 common shares to be able to serve Metro's stock option plan (contingent capital II).
Due to METRO AG's stock option plan, the contingent capital II is exclusively used to grant subscription rights to members of the Management Board, members of the Management Boards of lower-tier group companies and further managerial or executive functions of METRO AG and its downstream unlisted subsidiaries.
Under METRO AG's stock option plan, stock options were granted on 3 September 1999, 18 August 2000, 23 July 2001 and 19 July 2002, of which a total of 1,760,068 were effective as at 31.12.2002. Upon satisfaction of the exercise terms and conditions, these stock options may entail the issuance of up to 1,760,068 common shares, corresponding to 0.54 percent of the capital stock.

The exercise terms and conditions stipulated by the Metro Management Board for the stock option plan provide in particular that the Company grant the qualifying SOP beneficiaries in lieu of the delivery of new common shares a cash compensation equal to the differential between the strike price and the applicable closing price of Metro shares prior to exercising the option. Whether or not this alternative will be used will be decided by the Company each time the subscription rights from the individual tranches are exercised. In respect of the first tranche in 1999, the Company resolved to grant a cash compensation equal to the differential between the strike price and the applicable closing price of Metro shares prior to exercising the option.

Authorized capital I

On 23 May 2002, the annual general meeting resolved to authorize the Management Board to increase the capital stock by issuing new common bearer stocks in exchange for cash contribution in one or several tranches for a total maximum of € 40,000,000 with the consent of the Supervisory Board by 23 May 2007 (authorized capital I).
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 shareholders' subscription rights for one or several capital increases within the scope of the authorized capital, with the prior approval of the Supervisory Board, provided that the total par value of such capital increases does not exceed 10 percent of the capital stock registered in the commercial register upon the first-time utilization of authorized capital, and further provided that the issue price of the new shares is not materially below the market price of quoted shares of the same category when the initial offering price of the new issue is finally fixed. The 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 shareholders a subscription right.
However, the Management Board has been authorized to exclude the subscription right, with the prior approval of the Supervisory Board, to the extent required to grant the holders of bonds with warrants and convertible bonds issued by METRO AG and its wholly owned direct or indirect subsidiaries a right to purchase the number of new shares they would be entitled to upon exercise of their option/conversion rights and to further exclude the subscription right to compensate for fractions of shares from rounding.

In addition, the Management Board has been authorized to exclude the shareholders' subscription rights for one or several capital increases within the scope of the authorized capital, with the prior approval of the Supervisory Board, provided that the total par value of such capital increases does not exceed 10 percent of the capital stock registered in the commercial register upon the first-time utilization of authorized capital, and further provided that the issue price of the new shares is not materially below the market price of quoted shares of the same category when the initial offering price of the new issue is finally fixed.
The Management Board has been further authorized to exclude the common shareholders' right to subscribe to preferred stock and the preferred shareholders' right to subscribe to common stocks, with the prior approval of the Supervisory Board, provided that the ratio of common and preferred stocks issued in the capital increase corresponds to the ratio of such shares in the capital stock at the date at which the capital increase was resolved, and further provided that different issue prices of the new common and preferred stocks are fixed in accordance with the stock price ratio which existed at the date at which the capital increase was resolved.

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

No acquisition of treasury stock
On 23 May 2002 the annual general meeting authorized the company to acquire treasury stock up to an equivalent of ten percent of the capital stock (cf. Item 7 of the agenda of the annual general meeting of 23 May 2002) on or before 23 November 2003.
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 of the German Stock Corporation Act).

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.

10. Additional paid-in capital
At 31 December 2002 the additional paid-in capital was unchanged at € 2,557.964 million.

11. Accruals

€ million	31 Dec 2002	31 Dec 2001
Pension accruals	216.457	160.497
Tax accruals	134.257	124.431
Other accruals	302.841	191.980
	653.555	476.908

Pension accruals of € 127.358 million provide for direct pension commitments while accruals of € 88.584 million (€ 30.885 million in the previous year) have been set aside to cover shortfalls of underfunded benevolent funds; this also includes € 70.812 million in respect of the valuation of the fund's assets at the closing rate on the balance sheet date. Due to the worldwide decline in stock prices the assets placed in special funds (stocks and bonds) have substantially dropped in value. Allocations to benevolent plans totaled € 19.307 million.
Tax accruals adequately provide for tax audit risks.

Other accruals chiefly comprise the following:

€ million	31 Dec 2002	31 Dec 2001
Risks from rental contracts and realty sold	160.799	124.518
Risks from investees	76.324	16.185
Commitments towards employees	7.580	7.419
Litigation risks	4.343	5.046
Financial transaction risks	1.159	4.931
Others	52.636	33.881
	302.841	191.980

The accruals for risks from leases and realty sold cover rental and conveyancing risks.
Risks from investees include warranties to subsidiaries and risks arising from the disposal of subsidiaries.
Other accruals essentially contain accruals for interest payments on taxes falling due after tax audits and outstanding invoices.

12. Liabilities

€ million	31 Dec 2002	31 Dec 2001
Due to banks	630.698	610.321
Trade payables	1.923	3.132
Due to group companies	4,445.541	4,394.403
Sundry liabilities	182.208	283.256
of which taxes	[120.420]	[240.581]
of which social security	[252]	[218]
	5,260.370	5,291.112

Analysis of maturities/due dates of liabilities as at 31 December 2002:

€ million	31 Dec 2002 total	within 1 year	over 5 years
Due to banks	630.698	630.698	–
Trade payables	1.923	1.923	–
Due to group companies	4,445.541	3,569.979	875.562
Sundry liabilities	182.208	145.372	29
	5,260.370	4,347.972	875.591

No liabilities have been collateralized by liens, mortgages or similar charges or encumbrances.

13. Contingent liabilities

€ million	31 Dec 2002	31 Dec 2001
Guaranty and warranty contracts	4,541.324	4,512.223
of which in favor of group companies	[3,062.133]	[2,994.677]
Sureties and guarantees	158.483	158.183
of which to group companies	[106.276]	[72.685]
	4,699.807	4,670.406

14. Other financial obligations

€ million	31 Dec 2002	31 Dec 2001
Commitments from share tender rights	103.950	102.180
Obligations from granted credits	96.375	103.691
Obligations from financial derivatives	91.818	44.409
of which to group companies	[24.021]	[4.210]
Obligations from rentals and leases (per annum)	53.576	59.250
of which to group companies	[1.851]	[2.828]
of which in favor of group companies	[9.946]	[13.148]
	345.719	309.530

15. Derivative financial instruments

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

€ million	Nominal volume	Market value
Interest-rate transactions		
OTC products:		
Interest rate swaps	1,695.852	(57.507)
Forward Rate Agreements	150.000	(0.086)
	1,845.852	(57.593)
Currency transactions		
OTC products:		
Futures	201.909	0.846
Interest rate/currency swaps	480.675	0.870
	682.584	1.716
Total	2,528.436	(55.877)

The nominal volumes of the currency futures transactions are calculated from the net positions based on the underlying purchase/selling prices and those of the interest swaps, interest rate/currency swaps and forward rate agreements are reported in gross figures. The market value is the marked-to-market balance of unrealized gains and losses netted within any one class of financial derivatives. No direct relationship exists with the accruals for financial transaction risks (Note 11) as derivatives in valuation units with primary financial transactions do not require the creation of reserves. Netting of market values within certain derivative classes is not identical with the accounting for separately valued or netted derivative or primary financial transactions.
For details of the accounting and valuation procedures used for financial derivatives, see Note 1.
The currency futures transactions always fall due within one year.

Notes to the income statement of METRO AG

16. Net investment income

€ million	2002	2001
Income from P+L transfer agreements	1,080.760	800.456
Income from investments	176.911	356.554
of which from group companies	[83.804]	[281.387]
Expenses from loss absorption	(10.076)	(2.613)
Write-down of financial assets	(79.116)	(319.455)
	1,168.479	834.942

Expenses arising from loss absorption relate primarily to MRE METRO Group Real Estate Management GmbH.
Write-downs on financial assets were effected concerning the shares of group companies Real Hipermarketler Zinciri A.S./Turkey, Praktiker Yapi Marketleri A.S./Turkey, Metro SB-Handels AG/Switzerland, Metro International Handels AG/Switzerland and Real Sp.z o.o./Poland.

17. Financial result

€ million	2002	2001
Other interest and related income	89.292	113.628
of which from group companies	[55.748]	[73.657]
Income from long-term loans	42.240	44.012
of which from group companies	[38.341]	[39.518]
Other financial income	11.610	21.476
of which from group companies	[0.059]	[1.302]
Interest and related expenses	(232.613)	(255.546)
of which to group companies	[(106.546)]	[(96.993)]
Other financial expenses	(4.711)	(17.036)
	(94.182)	(93.466)

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

18. Other operating income

€ million	2002	2001
Rents (realty and personalty)	57.651	61.444
Income from capital redemption	46.486	24.973
Administrative services for subsidiaries	19.022	4.897
Income from the write-back of accruals	3.652	6.902
Book gains from the disposal of assets	0.698	1.773
Write-ups on financial assets	–	14.316
Sundry income	2.753	5.045
	130.262	119.350

Rents primarily reflect transitory realty rents posted in suspense accounts as well as income from personalty leasing.
Capital redemption was obtained from Real Sp.z o.o./Poland.
For the first time, the administrative services for subsidiaries related to services rendered by METRO AG for the cross-divisional service companies and sales divisions of the METRO Group.

19. Personnel expenses

€ million	2002	2001
Wages and salaries	33.790	31.160
Social security contributions, expenses for pensions and related benefits	91.852	27.633
of which for pensions	[89.552]	[25.492]
	125.642	58.793

In 2002 the stock option program (SOP) launched in 1999 as a long-term incentive program was continued. Eighteen senior executives (including the members of the Management Board) of METRO AG were granted a total of 238,243 options in the year under review. Hedges in the form of a call option were contracted for the entire stock option program. The expenses for these transactions will be prorated on a straight-line basis over the life of the option and these amounted to € 1.282 million in fiscal year 2002.
Wages and salaries include severance and year-end payments totaling € 13.797 million.
The increase in social security contributions and expenses for pensions and related benefits is attributed to the additions to accruals for underfunded company benevolent schemes in the amount of € 77.006 million (€ 11.861 million the previous year). This also includes an expense of € 70.812 million resulting from the valuation of the fund's assets at the closing rate applicable on the balance sheet date.

20. Other operating expenses

€ million	2002	2001
Purchase price reduction Extra Verbrauchermärkte GmbH	185.653	–
Expenditure on investment of Divaco group	181.700	150.814
Rents (realty and personalty)	60.959	64.209
Leasing and conveyancing risks	102.610	6.738
Allowance for loan and option money	42.059	5.312
Write-down/waiver of receivables from Extra Verbrauchermärkte GmbH	35.000	51.385
Roll-out costs customer loyalty systems	28.615	57.587
General administrative overheads	21.421	17.830
Legal and other consulting fees	17.151	15.138
Service fees charged by subsidiaries to METRO AG	14.834	13.774
Allocation of positive synergy effects to sales divisions	13.051	12.404
Provision for accrued inter-company lease obligations	3.153	13.695
Losses from the disposal of fixed assets	0.041	31.839
Income grants-in-aid	–	3.834
Sundry	19.677	11.048
	725.924	455.607

The purchase price reduction is a subsequent correction relating to the sale of Extra Verbrauchermärkte GmbH to Extra Holding GmbH.
The leasing and conveyancing risks relate to former realty property and three tenancies of the sales division Real.
After the launch of the customer loyalty system in 2000 prorated expenses were again reimbursed to Real and Kaufhof groups this year.

21. Income taxes
This caption shows tax expenses netted against tax refunds.

22. Appropriation of net earnings
The Supervisory Board and the Management Board of METRO AG propose that the reported balance sheet profit of € 341.871 million be used to pay a dividend of € 333.596 million and that the remaining € 8.275 million be carried forward.

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

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

Additional disclosures

23. Employees
METRO AG's workforce averaged 232 in fiscal year 2002, calculated from the four quarterly mean headcounts; 2 and 230 being blue and white collar employees respectively. Part-time and temporary employees have been converted to full-time equivalents (FTE).

24. Stock ownership
The statement of stock ownership of the METRO Group will be deposited with the commercial register of the local court (Amtsgericht) of Düsseldorf (HRB 39473). It can also be obtained directly from METRO AG.

25. Group affiliation
The annual financial statements of METRO AG are included in the consolidated financial statements of the METRO Group. These are prepared in accordance with the International Financial Reporting Standards (IFRS).

26. Disclosures under § 160 Section 1 German Stock Corporation Act
O.B. Betriebs-GmbH, Helene-Wessel-Bogen 39, 80939 München, and BVG Beteiligungs- und Vermögensverwaltungs-GmbH, Huyssenallee 44, 45128 Essen, communicated on 21 February 2002 that the voting rights in METRO AG exceeded the threshold of 5 percent each since 14 February 2002, now totaling 55.70 percent each. These voting rights are attributable to both companies pursuant to § 22 Section 2 WpHG (German securities trading act). Pursuant to § 25 Section 1 WpHG this disclosure was published in the "Börsenzeitung" (stock exchange journal) of 27 February 2002.

The notice published pursuant to § 41 Section 3 WpHG in the stock exchange journal of 19 April 2002 covering the disclosure made pursuant to § 41 Section 2, 1 WpHG reads as follows:

"Publication pursuant to § 41 Section 3 WpHG

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

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

In total 55.70 percent of the voting rights are exercised by mutual agreement pursuant to § 22 Section 2 of WpHG.

Düsseldorf, April 2002

The Management Board"

27. Supervisory Board and Management Board

Total emoluments paid to the Supervisory Board amounted to € 0.978 million. Besides the reimbursement of cash expenses, the Supervisory Board members received a fixed fee and a success-related fee geared to the dividend. No other emoluments or benefits were paid to the Supervisory Board members by other companies in the METRO Group.

Total emoluments paid to the Management Board in fiscal year 2002 amounted to € 7.852 million. The fixed remuneration accounted for € 3.946 million thereof and € 3.906 million was attributable to the variable, success-related remuneration. Economic Value Added (EVA) was the main benchmark used to measure the success-related remuneration.

The following stock options issued in 2002 were allocated to the Management Board members: Dr. Hans-Joachim Körber 41,500 options, Dr. A. Stefan Kirsten 34,350 options, Zygmunt Mierdorf 34,350 options, Joachim Suhr 34,350 options and Thomas Unger 14,313 options. The prorated time value of the stock options granted into 2002 and the previous years amounted to € 1.255 million. Whether this value will ever be disbursed to the members of the Management Board depends on the conditions for the exercise of the stock options will be met after the expiring of the exercise periods, especially in the event of the exercise hurdle rate being exceeded.

A total of € 6.506 million was paid to former Management Board members (and their surviving dependants) of METRO AG and companies merged into METRO AG. Accruals of € 42.211 million for the pensions of this group have been provided for in the accounts of METRO AG.

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

Members of the Supervisory and Management Boards who buy and sell shares in the company and its group companies, including options and other derivatives, are to disclose these purchases and sales to the company immediately upon conclusion of the transaction. The company publishes these disclosures on the home page of METRO AG and this information is accessible at all times.

As of 31 December 2002, the ownership of shares, including options and other derivatives, of the individual Supervisory and Management Board members neither directly nor indirectly exceeded one percent of the shares issued by the company. The total share ownership of all the Supervisory and Management Board members also amounted to less than one percent at the balance sheet date.

29. Declaration of compliance with the German Corporate Governance Code

METRO AG delivered its declaration of compliance on 19 December 2002 and published it on its Internet home page (www.metrogroup.de).

Members of the Supervisory Board

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

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

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

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

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

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

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

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

Hanns-Jürgen Hengst
Department Head
Kaufhof Warenhaus AG

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

Cilli Holzer
Commercial Clerk
Kaufhof Warenhaus AG

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

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

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

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

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

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

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

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

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

Christian Strenger
Member and/or Chairman of several
German and foreign corporate management
and supervisory boards
a) BASF Coatings AG
DWS Investment GmbH
Fraport AG
MLP Marschollek, Lautenschläger und
Partner AG until 5 April 2002
Zürich Investmentgesellschaft mbH
until 7 October 2002
b) The Germany Funds Inc., New York
(Chairman)
Incepta plc., London

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

a) Membership in other statutory supervisory boards of
German companies
b) Membership in comparable German and foreign corporate
boards of business enterprises

Committees of the Supervisory Board and their members

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

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

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

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

Members of the Management Board

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

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

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

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

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

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

Düsseldorf, 26 February 2003

THE MANAGEMENT BOARD

Dr. Körber

Feuerstein Mierdorf Unger

Auditor's opinion

We duly audited the annual financial statements including the accounts and the management report of METRO AG for the fiscal year from 1 January 2002 to 31 December 2002. The accounting as well as the preparation of the annual financial statements and the management report in accordance with German GAAP (HGB) and any supplementary provisions contained in the company's articles of association are the responsibility of the legal representatives of the company. Our task, based on the audit performed by us, is to express an opinion on the annual financial statements including the accounting and the management report.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and with due regard to the generally accepted standards on the auditing of financial statements as established by the IDW, the institute of auditors and certified public accountants in Germany.

These standards require the audit to be planned and executed in such a way that reasonable assurance is obtained on whether the annual financial statements are free of any material misstatements that might affect the presentation of the asset, finance and earnings situation of the company as portrayed by the annual financial statements and the management report prepared in line with pertinent principles of proper accounting. In determining the precise audit procedure knowledge about the business activities and 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 annual financial statements. Furthermore, it involves the assessment of the accounting principles used and the major assumptions made by the legal representatives as well as an appreciation of the overall presentation of the annual financial statements. We believe that our audit provides a reasonably reliable basis for our opinion.

Our audit did not result in any objections.

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

Duisburg, 27 February 2003

FASSELT & PARTNER
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT

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

Report of the Supervisory Board

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

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

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

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

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

The consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS).

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

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

"After our due audit and assessment we confirm that

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

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

Appointments and Departures

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

Düsseldorf, in March 2003

THE SUPERVISORY BOARD

Jan v. Haeften

Jan von Haeften
Chairman

Supplementary Information

Financial schedule

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

Codes

Metro Stock	
Reuters codes	
Common stock	MEOG.F
Common stock/challenged	MEOGa.F
Preferred stock	MEOG_p.F
Bloomberg codes	
Common stock	MEO GR
Common stock/challenged	MEO2 GR
Preferred stock	MEO3 GR
ISIN codes	
Common stock	DE 000 725 750 3
Common stock/challenged	DE 000 725 752 9
Preferred stock	DE 000 725 753 7
Codes numbers	
Common stock	725 750
Common stock/challenged	725 752
Preferred stock	725 753
Stock markets	Frankfurt, Düsseldorf, Xetra
Metro convertible bond	
Reuters code	DE248 600=F
Bloomberg code	ID248600
Code number	248 600
Stock exchange	Frankfurt

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