

INDEPENDENT AUDITOR'S REPORT

TO METRO AG

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

Opinion

We have audited the consolidated financial statements of METRO AG and its subsidiaries ('the Group' or 'METRO') – which comprise the balance sheet as at 30 September 2017, the income statement, the reconciliation from profit or loss to total comprehensive income, the statement of changes in equity and the cash flow statement for the financial year from 1 October 2016 to 30 September 2017, as well as the notes to the consolidated financial statements, including a summary of significant accounting policies. We have also audited the combined management report of METRO for the financial year from 1 October 2016 to 30 September 2017.

In our opinion, based on our audit findings,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB (superseded version) and give a true and fair view of the net assets and financial position of the Group as at 30 September, 2017, and of its results of operations for the financial year from 1 October 2016 to 30 September 2017, in accordance with these requirements, and
- the accompanying combined management report as a whole provides a suitable view the Group's position. In all material respects, the combined management report is consistent with the consolidated financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we state that our audit has not led to any reservations with respect to compliance of the consolidated financial statements and the combined management report.

Basis for opinion

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014; hereinafter referred to as 'EU Audit Regulation') and the generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Our responsibilities under those regulations and guidelines are further described in the 'Auditor's responsibilities for the audit of the consolidated financial statements and combined management report' section of our report. We are independent of the Group companies in accordance with the requirements of European Union law as well as German commercial law and the rules of professional conduct, and we have fulfilled our other ethical responsibilities under German professional law in accordance with these requirements. In addition, pursuant to Article 10 (2)(f) EU Audit Regulation, we hereby declare that we did not provide any of the prohibited non-audit services referred to in Article 5 (1) EU Audit Regulation. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinion on the consolidated financial statements and the combined management report.

Key Audit Matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 October 2016 to 30 September 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

— Impairment testing and reallocation of goodwill in the METRO Wholesale segment

For the accounting policies applied, we refer to the disclosures in the notes in the section 'Basis of preparation of the consolidated financial statements'. Information on the development of goodwill as well as impairment testing can be found in Note 18 to the consolidated financial statements.

FINANCIAL STATEMENT RISK

Goodwill in the amount of EUR 875 million was reported in the consolidated financial statements of METRO AG as at 30 September 2017. Goodwill is allocated pursuant to IAS 36 to groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. These units are the organisational sales line units per country for the METRO Wholesale and Real segments. It was necessary to reallocate goodwill at the METRO Wholesale segment in the 2016/17 financial year, as the reporting structure was reorganised due to the demerger in a manner that changed the composition of the groups of cash-generating units with goodwill. Until that adjustment, the customer group clusters Horeca (focus on hotels, restaurants, caterers), Trader (focus on independent retailers) and Multispecialists (focus on Horeca, Traders and Service Companies and Offices) were relevant for the reporting and monitoring goodwill by the Management Board. Since the reporting structure was changed and reorganised, goodwill for the cash-generating units of the METRO Wholesale Cash & Carry sales line is being monitored per country. Goodwill was reallocated in accordance with IAS 36.87 using the relative fair values less costs to sell as at the date of reorganisation.

Goodwill is tested for impairment annually and as required. Since the change in the reporting structure provides an indication of impairment losses, it was necessary, in addition to annual impairment testing, to carry out an impairment test prior to reallocating goodwill. The starting point for identifying any impairment losses is the recoverable amount, which at METRO generally corresponds to fair value less the costs to sell and is compared to the respective carrying amount of the group of cash-generating units. In doing so, fair value is measured according to the discounted cash flow method.

Impairment testing and reallocation of goodwill are based on cash flow planning, the starting point of which is the three-year plan prepared by METRO.

The three-year plan consists of a detailed budget for the first 2017/18 budget year and a less detailed 'Mid Term Plan' for the second 2018/19 budget year and the third 2019/20 budget year. In individual cases, the detailed planning phase is expanded by up to two additional budget years for units undergoing a significant transformation process in order to reflect conclusion of the transformation phase in the valuation model and use sustainable earnings for measurement of fair value. Future cash flows are discounted using the weighted average cost of capital of the respective cash-generating unit.

The Supervisory Board of METRO approved the budget for the first budget year and took note of the 'Mid Term Plan' for the second 2018/19 and third 2019/20 budget years at its meeting at the end of September 2017.

This measurement is highly dependent upon estimates of future cash flows as well as the cost of capital used and therefore fraught with considerable uncertainty. There is a risk for the financial statements that impairment losses are recognised too late or not at all. In terms of reallocating goodwill due to the change in internal reporting structure, there is the risk for the financial statements that goodwill is not allocated correctly to the countries involved.

In addition, IAS 36 requires extensive disclosures in the notes to the financial statements, particularly also in terms of METRO's consideration of the potential sensitivity of material measurement assumptions and parameters. There is the risk that the disclosures in the notes are not complete or adequate.

OUR AUDIT APPROACH

Our audit, which we carried out with the involvement of our own valuation experts, included, among others, assessing the appropriateness of the valuation model underlying impairment testing, particularly in terms of the valuation standards used as well as formal and computational accuracy.

We confirmed the appropriateness of the future cash flows used in the calculation, among others, by comparing this information to the current budget figures in the three-year plan prepared by METRO as well as through comparison with general and industry-specific market expectations. In this regard, we confirmed the appropriateness of METRO's budget process by assessing the approach used to prepare bottom-up planning by the group companies as well as the adjustment of budgets at group level. In this regard, we used the external valuation reports prepared in accordance with IDW S1 as part of the demerger. Furthermore, we assessed the appropriateness of the long-term growth rates assumed. In addition, we critically analysed previous adherence to the budget on the basis of past target/actual deviations prepared by METRO. The explanations from management of the respective entities on the expected impact of measures initiated as part of the transformation process were assessed in terms of verifiability and consistency with the planning assumption.

In view of the very high sensitivity of the calculated fair values to changes in the cost of capital, we rigorously examined – by taking into account country-specific particulars – the underlying assumptions and parameters for the cost of capital, especially the risk-free rate, market risk premium and beta coefficient, and assessed the calculation formula for computational and formal accuracy. Based on the sensitivity analyses carried out by METRO, we examined to what extent a reasonably possible change to the assumptions underlying the calculation could require recognising an impairment loss.

These findings were used in assessing the reallocation of goodwill. In doing so, we examined whether goodwill was properly reallocated according to the relative fair values less costs to sell.

We also audited the completeness and adequacy of the disclosures in the notes to the consolidated financial statements pursuant to IAS 36.

OUR CONCLUSIONS

The valuation model used for impairment testing is appropriate and in line with applicable IFRS accounting policies. Moreover, the measurement assumptions and parameters used by METRO are within an appropriate range and are reasonable. The reallocation of goodwill due to reorganisation of the reporting structure is appropriate and consistent with the applicable IFRS regulations. The disclosures made in the notes are complete and adequate.

— Impairment of property, plant and equipment

For the accounting policies applied, we refer to the disclosures in the notes in the section

'Notes on the principles and methods underlying the consolidated financial statements'.

Information on movements in property, plant and equipment is provided in Note 20.

We also refer to Note 14 on depreciation of property, plant and equipment.

FINANCIAL STATEMENT RISK

As at 30 September 2017, METRO's property, plant and equipment included in particular land and buildings at a carrying amount of EUR 4,932 million as well as other equipment, operating and office equipment at a carrying amount of EUR 1,705 million. EUR 46 million in impairment losses was recognised in the reporting period.

In accordance with IAS 36, real estate, other equipment, operating and office equipment as well as leasehold improvements on rented property have to be impairment tested if there are any indications of potential impairment. Indications of potential impairment especially include portfolio or restructuring measures and the performance of operations and the real estate market.

Pursuant to IAS 36, the carrying amount of the affected cash-generating unit (the respective wholesale or retail market) must be compared to its recoverable amount for impairment testing purposes. The recoverable amount of a cash-generating unit is the higher of its fair value less costs to sell and its value in use. METRO regularly carries out impairment tests based on fair value less costs to sell. The basis for measurement is the present value of the future cash flows of the cash-generating unit, which is determined using the discounted cash flow method. Impairment testing is based on cash flows from operating activities planned for the cash-generating unit, the starting point for which was the three-year plan. In respect of the three-year plan, please refer to our comments on 'Impairment testing and reallocation of goodwill in the METRO Wholesale segment'.

In addition, fair value is calculated using internal real estate valuations or – if necessary – external expert opinions. In doing so, fair value is generally measured according to the discounted cash flow method, in individual cases the replacement cost and market comparable approach is applied. The most significant inputs are sustainable market rent as well as the discount and capitalisation rate.

This measurement is highly dependent upon the estimates of future cash flows and sustainable market rents as well as the interest rates used and therefore fraught with considerable uncertainty. There is the risk that necessary impairment losses are recognised too late or not at all.

OUR AUDIT APPROACH

The starting point for our audit were the indications of impairment of property, plant and equipment identified by METRO. We initially assessed which items of property, plant and equipment indicated impairment using information obtained in the course of our audit.

Our audit, which we carried out with the involvement of our own valuation experts, included, among others, assessing the appropriateness of the valuation models underlying impairment testing, particularly in terms of the valuation standards used as well as formal and computational accuracy. We confirmed the appropriateness of the future cash flows and market rents used in the calculation, among others, by comparing this information with the current budget figures as well as through comparison with general and use-specific market data. In addition, we addressed the cost of capital as well as real-estate-specific discount and capitalisation rates. In addition, we critically analysed previous adherence to the budget on the basis of past target/actual deviations prepared by METRO.

OUR CONCLUSIONS

Indications of impairment of property, plant and equipment were appropriately identified. The valuation models used for impairment testing are appropriate and in line with the applicable IFRS accounting policies. Moreover, the measurement assumptions and parameters use are appropriate and reasonable.

— Recoverability of deferred tax assets

For the accounting policies applied, we refer to the disclosures in the notes in the section

'Explanatory notes to the basis of preparation of the consolidated financial statements'.

Please see Note 24 for information on deferred tax assets and liabilities.

FINANCIAL STATEMENT RISK

EUR 439 million in deferred tax assets after netting are recognised in METRO's consolidated financial statements as at 30 September 2017; EUR 160 million is attributable to loss carryforwards before netting.

For the measurement of deferred tax assets, METRO has to assess to what extent it is probable that current deferred tax assets can be utilised in subsequent reporting periods. Utilising these deferred tax assets requires that sufficient taxable income is generated in future periods. If, on the other hand, there is reasonable doubt about the future usability of the deferred tax assets determined, these are not recognised or if deferred tax assets have already been recognised, they are written down. The recognition of deferred tax assets and liabilities greatly depends on estimates and assumptions about the operating performance of country units and the Group's tax planning and, thus, is subject to significant uncertainties. Moreover, realisation depends on the respective tax environment. The risk for the consolidated financial statements is that deferred tax assets are recognised that then cannot be realised in the future due to insufficient taxable income.

OUR AUDIT APPROACH

We involved our own tax specialists in the audit to assess tax matters. In the process, we tested the deferred tax assets for impairment on the basis of internal forecasts prepared by METRO on the future tax income situation, and critically reviewed the underlying assumptions. In this regard, we especially compared the planned future taxable income to the three-year plan prepared by the METRO and checked it for consistency. In respect of the three-year plan, please refer to our comments on 'Impairment testing and reallocation of goodwill in the METRO Wholesale segment'.

In addition, we incorporated our findings from the critical analysis of previous adherence to the budget on the basis of past target/actual deviations prepared by METRO as well as our assessment of further substantial supporting documents to achieve the budgeted taxable income (e.g. the transfer pricing model introduced in the prior year). Furthermore, we critically examined the temporary differences between the carrying amounts for IFRS financial statement and tax purposes.

OUR CONCLUSIONS

The assumptions for the measurement of deferred tax assets and liabilities are reasonable overall.

— **Impairment of inventories**

For the accounting policies applied, we refer to the disclosures in the notes in the section 'Explanatory notes to the basis of preparation of the consolidated financial statements' under Statement of financial position. In addition, we refer to Note 25 on the impairment of inventories.

FINANCIAL STATEMENT RISK

The balance sheet as at 30 September 2017 reports inventories in the amount of EUR 3,046 million, of which EUR 102 million refers to impairment losses.

Inventories initially measured at cost (taking into account incidental acquisition costs and reductions in the cost of acquisition due to subsequent compensation) must be reduced in value if the inventories are damaged, fully or partially obsolete or if their expected net realisable value no longer covers cost. The determination of net realisable values as an upper limit is subject to judgement. Net realisable value requires in part forward-looking estimates with regard to the amounts that are expected to be realised when selling the inventories. There is the risk for the consolidated financial statements that inventories are overvalued due to unidentified impairment losses.

OUR AUDIT APPROACH

Based on our understanding of the process used to test inventories for impairment, we assessed the establishment, design and functionality of the identified internal controls, especially in terms of the calculation of expected net realisable values.

We verified the computational accuracy of the calculations to determine net realisable value and impairment losses for inventory items selected according to risk and size. We assessed the appropriateness of the expected net realisable values and impairment rates applied for inventory obsolescence, damage and turnover using METRO's historical and empirical values, among others.

OUR CONCLUSIONS

The assumptions underlying the net realisable values as well as judgements exercised are appropriate and reasonable.

— **Recognising compensation from suppliers**

For the accounting policies applied, we refer to the disclosures in the notes in the section 'Explanatory notes to the basis of preparation of the consolidated financial statements'. In addition, we refer to Note 23 on 'Miscellaneous financial and other assets'.

FINANCIAL STATEMENT RISK

The Group's balance sheet at 30 September 2017 presents receivables from suppliers in the amount of EUR 504 million under 'Miscellaneous financial and other assets'.

The companies of METRO conclude agreements with suppliers on purchasing terms and conditions. These include, among others, agreements on subsequent discounts, rebates and other compensation from suppliers to METRO. Presentation of these agreements in the balance sheet and income statement requires some judgements and assumptions such as on achieving calendar year targets, which have a direct influence on the recognition of receivables from suppliers under the aforementioned agreements. There is the risk for the consolidated financial statements that the level of compensation realised from suppliers was estimated inaccurately so that the amount recognised for receivables from suppliers is too high.

OUR AUDIT APPROACH

We examined the process for recognising and documenting supplier agreements and the establishment and design of the identified internal controls and assessed the effectiveness of the relevant internal controls in terms of the amount and accuracy of supplier compensation.

We confirmed the underlying supplier agreements for a selection of receivables from suppliers based on size and risk, and assessed the recognition of supplier compensation in the statement of financial position and income statement by evaluating the contractual arrangements. To that end, we scrutinised, among others, the underlying assumptions and data used to recognise the receivables from suppliers for realised but not yet invoiced compensation taking into account past experience.

OUR CONCLUSIONS

The recognition of the realised compensation from suppliers is consistent with the underlying supplier terms and conditions/agreements with the suppliers.

On the whole, the assumptions used to assess the level of realisation of the uninvoiced compensation from suppliers are appropriate.

— Recognition and measurement of restructuring provisions

For the accounting policies applied, we refer to the note in the section 'Explanatory notes to the basis of preparation of the consolidated financial statements'. Disclosures on the restructuring measures can be found under notes 3, 4, 16, 33 and 42. A description of the restructuring expenses is included in the Group management report under net assets, financial position, and results of operations.

FINANCIAL STATEMENT RISK

Restructuring provisions equalled EUR 200 million in the consolidated financial statements of METRO as at 30 September 2017.

For restructuring measures, corresponding provisions are to be recognised if the general and specific recognition criteria of the relevant requirements are in place. The measurement of the restructuring expenses that are significant in terms of amount is heavily dependent on the estimates and assumption of management, particularly with regard to the arrangement of social plans, severance payment amounts, release of staff as well as costs involved with closing stores. The risk for the consolidated financial statements is that the restructuring provisions are not complete, the recognition criteria are not in place and/or the measurement is inaccurate.

OUR AUDIT APPROACH

Based on the knowledge gained from our review of Management and Supervisory Board minutes and interviews, we confirmed that the restructuring measures are fully presented in the consolidated financial statements. In the course of our audit, we also assessed the significant restructuring measures in terms of amount, among other things, in respect of whether each of the recognition criteria had been met. In this regard, we particularly assessed whether, in each case, a detailed formal restructuring plan was in place and the key components of the restructuring measures had been communicated to the staff concerned or the implementation of restructuring measures had commenced.

Furthermore we assessed the consistency of the assumptions underlying the measurement of provisions for restructuring costs with the detailed restructuring plans and the restructuring plans implemented in the past as well as critically evaluating the agreements and arrangements already concluded as at the reporting date.

OUR CONCLUSIONS

The criteria for the recognition of provisions for restructuring costs are in place. The provisions for restructuring costs reflect the restructuring plans according to the relevant requirements. The assumptions and estimates used for valuation are appropriate.

Responsibilities of the Management and Supervisory Boards for the consolidated financial statements and the combined management report

The Management is responsible for the preparation of the consolidated financial statements, which in all material respects, comply with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB (superseded version), and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the Management is responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management is responsible for assessing the Group's ability to continue as a going concern. Furthermore, the Management is responsible for disclosing, as applicable, matters related to going concern. In addition, the Management is responsible for using the going concern basis of accounting unless the intention is liquidation or to cease operations, or there is no realistic alternative to do so.

Moreover, the Management is responsible for preparing the combined management report, which as a whole provides a suitable view of the Group's position, as well as, in all material respects, is consistent with the consolidated financial statements, complies with German statutory requirements and suitably presents the opportunities and risks of future development. Furthermore, the Management is responsible for such arrangements and measures (systems) as they determine are necessary to enable the preparation of the management report in compliance with the applicable requirements of German commercial law and for providing sufficient and appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for monitoring the Group's financial reporting process for preparing the consolidated financial statements and the combined management report.

Auditor's responsibilities for the audit of the consolidated financial statements and the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the combined management report as a whole provides a suitable view of the Group's position, as well as, in all material respects, is consistent with the consolidated financial statements and our audit findings, complies with German statutory requirements, and suitably presents the opportunities and risks of future development, and to issue an auditor's report that includes our opinion on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation, as well as in compliance with the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW], will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

As part of our audit we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements, and of the arrangements and measures relevant to the audit of the combined management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or the combined management report or, if such disclosures are inadequate, to modify our particular opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position, and results of operations of the Group in accordance with IFRS, as adopted by the EU, and the supplementary requirements of German commercial law pursuant to Section 315a (1) HGB (superseded version).
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Evaluate consistency of the combined management report with the consolidated financial statements, its legal compliance and presentation of the Group's position.
- Perform audit procedures on the prospective information presented by the Management in the combined management report. Based on sufficient and appropriate audit evidence, we hereby in particular trace the significant assumptions used by the Management as a basis for the prospective information and assess the appropriate derivation of the prospective information from these assumptions. We are not issuing a separate audit opinion on the prospective information as well as the underlying assumptions. There is a significant, unavoidable risk that future events will deviate significantly from the prospective information.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other disclosures pursuant to Article 10 of the EU Audit Regulation

We were appointed as group auditors at the shareholders' meeting held on 30 May 2017 and appointed by the Supervisory Board on the same date. We have audited the listed company METRO AG (operating under the name METRO Wholesale & Food Specialist AG until 18 August 2017) since the 2016/17 financial year.

We declare that the audit opinion in this auditor's report is consistent with the additional report to the audit committee referred to in Article 11 of the EU Audit Regulation (audit report).

Statutory auditor responsible for the engagement

The auditor responsible for the engagement is Gereon Lurweg.

Cologne, 30 November 2017

KPMG AG

Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

LURWEG

Wirtschaftsprüfer
[German
Public Auditor]

KOLL

Wirtschaftsprüferin
[German
Public Auditor]