INDEPENDENT AUDITOR'S REPORT

TO METRO AG

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

Opinions

We have audited the consolidated financial statements of METRO AG and its subsidiaries ('the Group' or 'METRO') – which comprise the consolidated balance sheet as at 30 September 2018, the consolidated income statement, the reconciliation of profit or loss for the period to total comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the financial year from 1 October 2017 to 30 September 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of METRO for the financial year from 1 October 2017 to 30 September 2018. In accordance with the German legal requirements we have not audited the content of the non-financial statement, which is included in the 'combined non-financial statement of METRO AG' section of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,
- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 30 September 2018, and of its financial performance for the financial year from 1 October 2017 to 30 September 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the non-financial statement mentioned above.

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

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on 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 2017 to 30 September 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

— **The measurement and recognition of the hypermarket operations pursuant to IFRS 5**

For the accounting policies applied, we refer to the disclosures in the notes in the section 'Explanatory notes to the group accounting principles and methods'. Disclosures on the discontinued operation of the SB Warenhaus (hypermarket) operation and the corresponding disposal group can be found in the notes to consolidated financial statements under Note 12 and 31.

THE FINANCIAL STATEMENT RISK

In an ad hoc announcement pursuant to Article 17 (1) of the EU Market Abuse Regulation [MAR] on 13 September 2018 the Management Board of METRO AG announced that it was starting the process of selling the Real retail business including the associated business activities. METRO assumes that the sale can most likely be executed in the 2018/19 financial year and has thus classified the hypermarket operations as a discontinued operation pursuant to IFRS 5.

The assets held for sale amount to EUR 2,580 million as at the reporting date. The liabilities associated with the assets held for sale amount to EUR 1,691 million as at the reporting date. For the 2017/18 financial year METRO recognised a post-tax loss from discontinued operations in the amount of EUR -110 million.

To be classified as a discontinued operation, the operations must be available for sale in their current state, the sale must be highly probable and be expected within one year of classification. If these three conditions are met, then the special presentation and measurement rules of IFRS 5 apply.

The classification of the hypermarket operations as discontinued operations and the measurement of the corresponding disposal group pursuant to IFRS 5 are complex and require judgement.

There is the risk for the consolidated financial statements that the sale of the discontinued operation is not highly probable in the 2018/19 financial year and thus that the classification and presentation as a discontinued operation and the corresponding disposal group pursuant to IFRS 5 are not appropriate. Furthermore, there is also the risk that the fair value less costs to sell is lower than the carrying amount of the assets held for sale less the liabilities associated with the assets held for sale. There is the risk that the disclosures in the notes to the consolidated financial statements regarding the discontinued operation are not appropriate.

OUR AUDIT APPROACH

We initially evaluated whether the classification and presentation of the hypermarket operations as discontinued operations and the corresponding disposal group pursuant to IFRS 5 are appropriate. In this assessment we questioned the Management Board and specialist departments charged with project responsibility regarding the status of the sale process and assessed internal and external reporting.

We assessed the appropriateness and the key assumptions made to determine the fair value less costs to sell of the assets and liabilities held for sale. In addition, we discussed the selling price expected by METRO AG with the Management Board and the responsible employees in the specialist departments. We also carried out plausibility assessments using other internally available valuations from external consultants, who are supporting METRO AG with the selling process. In doing so we also evaluated the competence, professional skills and impartiality of the external consultants.

Furthermore, we also evaluated whether the explanations in the notes to the consolidated financial statements on the discontinued operation are appropriate.

OUR OBSERVATIONS

The classification and presentation of the hypermarket operations as discontinued operations and the corresponding disposal group pursuant to IFRS 5 are appropriate. The judgements exercised in relation to the measurement are within an acceptable range and are balanced on the whole. The explanations in the notes to the consolidated financial statements on the discontinued operation are appropriate.

— Impairment testing of goodwill

For the accounting policies applied, we refer to the disclosures in the notes in the section ‘Explanatory notes to the group accounting principles and methods’. Disclosures on the development of goodwill as well as impairment testing can be found in Note 19 to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK
Goodwill in the amount of EUR 797 million was reported in the consolidated financial statements of METRO AG as at 30 September 2018. 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.

Goodwill is tested for impairment annually and as required. The starting point for identifying any impairment loss is the recoverable amount, which at METRO generally corresponds to fair value less the costs to sell and is compared with 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. The reporting date for impairment testing is 30 June 2018.

Impairment testing is based on cash flow planning, the starting point of which is the multi-year plan prepared by METRO. Future cash flows are discounted using the weighted average cost of capital of the groups of respective cash-generating units.

The result of this impairment testing is highly dependent upon estimates of future cash flows as well as the cost of capital used and therefore subject to considerable uncertainty. There is a risk for the financial statements that impairment losses are recognised too late or not at all.

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 and 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 accounting policies 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 multi-year plan prepared by METRO as well as through comparison with general and industry-specific market expectations. In this regard, we also confirmed the appropriateness of METRO’s budget process. 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. We also discussed the multi-year plan with those responsible for the budget, paying particular regard to improvements in operating profitability in the detailed planning period.

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.

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

OUR OBSERVATIONS
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 disclosures in the notes are accurate.

— Impairment testing of land and buildings

For the accounting policies applied, we refer to the disclosures in the notes in the section ‘Explanatory notes to the group accounting principles and methods’. Disclosures on movements in property, plant and equipment is provided under Note 21 in the notes. We also refer to Note 15 in the notes on depreciation of property, plant and equipment.

THE FINANCIAL STATEMENT RISK

Land and buildings with a carrying amount of EUR 3,763 million were reported in the consolidated financial statements of METRO AG as at 30 September 2018. In the year under review, impairment losses of EUR 22 million were recognised.

In accordance with IAS 36, real estate must be tested for impairment if there are any indications of potential impairment. Indications of potential impairment especially include the performance of operations and the real estate market. Pursuant to IAS 36, the carrying amount of the affected cash-generating unit must be compared with 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 the cash flow planning of the cash-generating unit.

This measurement is highly dependent upon the estimates of future cash flows as well as the interest rates used and therefore subject to 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 land and buildings identified by METRO We initially assessed which land and buildings 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 accounting policies 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 OBSERVATIONS

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

— Impairment testing of deferred tax assets

For the accounting policies applied, we refer to the disclosures in the notes in the section ‘Explanatory notes to the group accounting principles and methods’. Please see Note 25 in the notes for disclosures on deferred tax assets and liabilities.

THE FINANCIAL STATEMENT RISK

EUR 365 million in deferred tax assets after netting is recognised in METRO’s consolidated financial statements as at 30 September 2018; EUR 136 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 uncertainty. Moreover, utilising deferred tax assets also 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. We initially critically examined the temporary differences between the IFRS carrying amounts and the respective tax base. We also reconciled the tax losses carried forward for the German reporting entity with the tax assessment notices and the tax calculations for the current financial year and assessed off-balance sheet corrections. 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 assessed the underlying assumptions.

Furthermore, we compared the planned future taxable income with the multi-year plan prepared by the METRO and checked it for consistency.

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.

OUR OBSERVATIONS

The assumptions for the measurement of deferred tax assets are appropriate.

— Recoverability of inventories

For the accounting policies applied, we refer to the disclosures in the notes in the section 'Explanatory notes to the group accounting principles and methods'. In addition, we refer to Note 26 in the notes on the recoverability of inventories.

THE FINANCIAL STATEMENT RISK

The balance sheet as at 30 September 2018 reports inventories in the amount of EUR 2,108 million, of which EUR 70 million refers to write-downs.

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 values no longer cover 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 write-down requirements.

OUR AUDIT APPROACH

Based on our understanding of the process used to test the recoverability of inventories, 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 the write-down requirement for inventory items deliberately selected according to risk and size. We assessed the appropriateness of the expected net realisable values and write-down rates applied for inventory obsolescence, damage and range of coverage using METRO's historical and empirical values, among others.

OUR OBSERVATIONS

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 group accounting principles and methods' under 'Other notes'. In addition, we refer to Note 24 in the notes on other financial assets.

THE FINANCIAL STATEMENT RISK

The Group's balance sheet as at 30 September 2018 presents receivables from suppliers in the amount of EUR 328 million under 'Other financial 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 the 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 deliberate selection of receivables from suppliers based on size and risk, and assessed the recognition of supplier compensation in the balance sheet 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 OBSERVATIONS

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 suppliers' compensation not yet invoiced are appropriate.

Other Information

Management is responsible for the other information. The other information comprises:

- the non-financial statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Management Board and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The Management Board is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Management Board is responsible for such internal control as they have determined 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 Board is responsible for assessing the Group's ability to continue as a going concern, Furthermore, the Management Board is responsible for disclosing, as applicable, matters related to going concern. In addition, the Management Board is responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Moreover, the Management Board is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Management Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable requirements of German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of 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 an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on 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 and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (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.

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 of 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 opinions. 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 controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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.
- Evaluate the appropriateness of accounting policies used by the Management Board and the reasonableness of estimates made by the Management Board and related disclosures.
- Conclude on the appropriateness of the Management Board'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 the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. 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 be able 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 present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the Management Board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Management Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance 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 the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the 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.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on 16 February 2018 and engaged by the Supervisory Board on the same date. We have been the group auditor of METRO AG without interruption since the 2016/17 financial year.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Gereon Lurweg.

Cologne, 22 November 2018

KPMG AG

Wirtschaftsprüfungsgesellschaft

LURWEG	**DR HAIN**
Auditor	Auditor