COMBINED MANAGEMENT REPORT

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1 OVERVIEW OF FINANCIAL YEAR 2018/19 AND OUTLOOK

As a result of the sale of the majority interest in METRO China (signed on 11 October 2019), METRO China will be reported as a discontinued operation in accordance with IFRS 5 as of 30 September 2019; previous year's income statement, cash flow statement and segment reporting figures have been adjusted accordingly.

Unless expressly stated otherwise, all presentations in the combined management report refer to continuing operations (excluding the hypermarket business and excluding METRO China).

Only the comparison of outlook with actual business developments as well as the dividend proposal refer to the outlook issued for 2018/19 which includes METRO China.

Furthermore, the results for the financial year are reported before IFRS 16 adjustments. A first indication will be published in the consolidated financial statements – notes to the group accounting principles and methods of this Annual Report 2018/19, while a complete adjustment will be made available in January 2020.

Earnings position

- Like-for-like sales increased by 2.1%; reported sales rose by 1.1% to €27.1 billion (in local currency: +2.2%)
- EBITDA excluding earnings contributions from real estate transactions was at €1,021 million (2017/18: €1,088 million); reported EBITDA reached €1,359 million (2017/18: €1,216 million)
- Profit or loss for the period (from continuing operations) amounted to €411 million (2017/18: €359 million)
- Earnings per share (continuing operations): 1.12 € (2017/18: 0.98 €)
- For continuing and discontinued operations, profit or loss for the period amounted to €−115 million (2017/18: €337 million) and earnings per share to €−0.35 (2017/18: €0.92)

Financial and asset position

- Net debt decreased to €2.9 billion in adjusted year-on-year comparison (30/9/2018: €3.1 billion)
- Investments totalled €0.5 billion (2017/18: €0.6 billion)
- Cash flow from operating activities reached €0.8 billion (2017/18: €0.8 billion)
- Total assets (continuing and discontinued operations) amounted to €14.5 billion (30/9/2018: €15.2 billion)
- Equity (continuing and discontinued operations): €2.7 billion (30/9/2018: €3.1 billion)
- Long-term rating: BBB- (Standard & Poor's)

Future development of METRO

METRO continues its long-term strategy of focusing on wholesale and, in particular, on HoReCa and Traders customers. Against this background, we will continue to put emphasis on simplifying and streamlining our portfolio in the coming year. This includes in particular the closing of the sale of a majority stake in METRO China and the sale of our Real hypermarket business. METRO expects to generate a net cash inflow of more than €1 billion upon completion of the sale of METRO China (expected in the first half of 2020, subject to regulatory approvals). The remaining minority stake in METRO China will be reported as at-equity investment in the Asia segment. For the hypermarket business, METRO expects a successful closing of the transaction shortly. Neither METRO China nor the hypermarket business is included in the outlook either before or after completion of the transactions.

As announced in November 2019, we are also planning to implement a number of efficiency measures in the coming financial year 2019/20. These measures concern in particular the simplification of administrative structures, processes and business activities. The measures will be associated with estimated one-time costs of €60 million to €80 million in 2019/20 and estimated sustainable savings in the mid-double-digit million euro range through an increase in operating performance. The associated costs from efficiency measures will be reported separately as transformation costs. The outlook is made before such transformation costs. Expected pro rata savings in 2019/20 in the low-double-digit million euro range are reflected in the outlook.

METRO's strategy further includes strengthening and expanding its core business, wholesale, in become a '360-degree supplier' – the Wholesale 360 approach. This includes further localisation of the business, expansion of our delivery business, development of new channels and customers (for example via the online marketplace METRO MARKETS) as well as an increase in customer loyalty and an associated enhanced exploitation of customer potential, for example through digital solutions. In addition, we plan to selectively expand our business activities through acquisitions. The mergers and acquisitions activities should thereby focus on companies that increase our presence in a market (densification) and thus contribute to market consolidation. The outlook does not include such potential mergers and acquisitions transactions.

We also continue to implement our sustainability goals defined on the basis of the UN Sustainable Development Goals. The focus is on reducing food waste, making our range of products and services more sustainable and promoting more conscious consumption.

The outlook is based on the current segment structure. Unlike in the previous year, METRO China has been reported as a discontinued operation since 30 September 2019, so that the composition of the Asia segment has changed in this respect. In addition, changes in key figures resulting from the first-time application of IFRS 16 (see also the respective specifications in the notes to the group accounting principles and methods ▸ page 170) are initially not taken into account in the outlook. METRO will finalise the retrospective adjustments as planned in the first quarter of 2019/20. Based on that, METRO will publish a reconciliation of the relevant key figures, which shows both the old and the new standard, prior to our next quarterly statement and update the outlook accordingly.

Outlook of METRO

The outlook is based on the assumption of stable exchange rates and no further adjustments to the portfolio and only covers METRO's continuing operations. The main opportunities and risks that could influence our outlook are explained in the opportunity and risk report. The achievement of our sales and earnings outlook is further based on our assumptions for 2019/20 regarding macroeconomic developments.

Sales

Due to the advancing and successful focus on the HoReCa and Traders customer groups, the Management Board expects total sales and like-for-like sales to grow by 1.5% to 3% in financial year 2019/20 (2018/19: 2.2% growth to total sales and 2.1% growth of like-for-like sales). As a consequence of this focus, a further trend improvement is expected in Russia. Germany is expected to show a flat sales development, while the Western Europe (excluding Germany), Eastern Europe (excluding Russia) and Asia segments are expected to grow at the previous year's level. Across all segments, the Management Board sees the delivery business in particular and the synergetic interaction of the various channels as well as the focus on HoReCa and Traders customers as growth drivers.

Earnings

An important focus of METRO is on increasing operating performance and portfolio simplification. Against this background, the Management Board announced to adopt efficiency measures on 19 November 2019. In financial year 2019/20, the Management Board expects this to result in one-time transformation costs of €60 million to €80 million. Before transformation costs for these efficiency measures, the Management Board expects EBITDA excluding earnings contributions from real estate transactions to be roughly at the level of the past financial year (2018/19: € 1,021 million). Earnings in Russia are expected to decline by between €20 million and €30 million as a result of the ongoing repositioning. Earnings growth in Germany and Western Europe (excluding Germany) is expected to compensate for this. For the remaining segments, EBITDA is expected to remain roughly at the previous years level.

	2018/19	Outlook 2019/20[1]
Sales trend (like-for-like)	**2.1%**	1.5%–3% growth
METRO Germany	**0.3%**	Stable sales development
METRO Western Europe (excl. Germany)	**1.3%**	Previous year's level
METRO Russia	**−4.3%**	Trend improvement
METRO Eastern Europe (excl. Russia)	**6.3%**	Previous year's level
METRO Asia	**5.3%**	Previous year's level
Sales trend in local currency	**2.2%**	1.5%–3% growth
METRO Germany	**−0.6%**	Stable sales development
METRO Western Europe (excl. Germany)	**1.3%**	Previous year's level
METRO Russia	**−3.3%**	Trend improvement
METRO Eastern Europe (excl. Russia)	**6.4%**	Previous year's level
METRO Asia	**7.3%**	Previous year's level
EBITDA excluding earnings contributions from real estate transactions in € million	**1,021**	Previous year's level
METRO Germany	**95**	Earnings growth
METRO Western Europe (excl. Germany)	**499**	Earnings growth
METRO Russia	**220**	Decline between €20 million and €30 million
METRO Eastern Europe (excl. Russia)	**344**	Previous year's level
METRO Asia	**11**	Previous year's level
Others	**−148**	Previous year's level

[1] At constant exchange rates, excluding further portfolio adjustments and transformation costs.

2 PRINCIPLES OF THE GROUP

2.1 Group business model

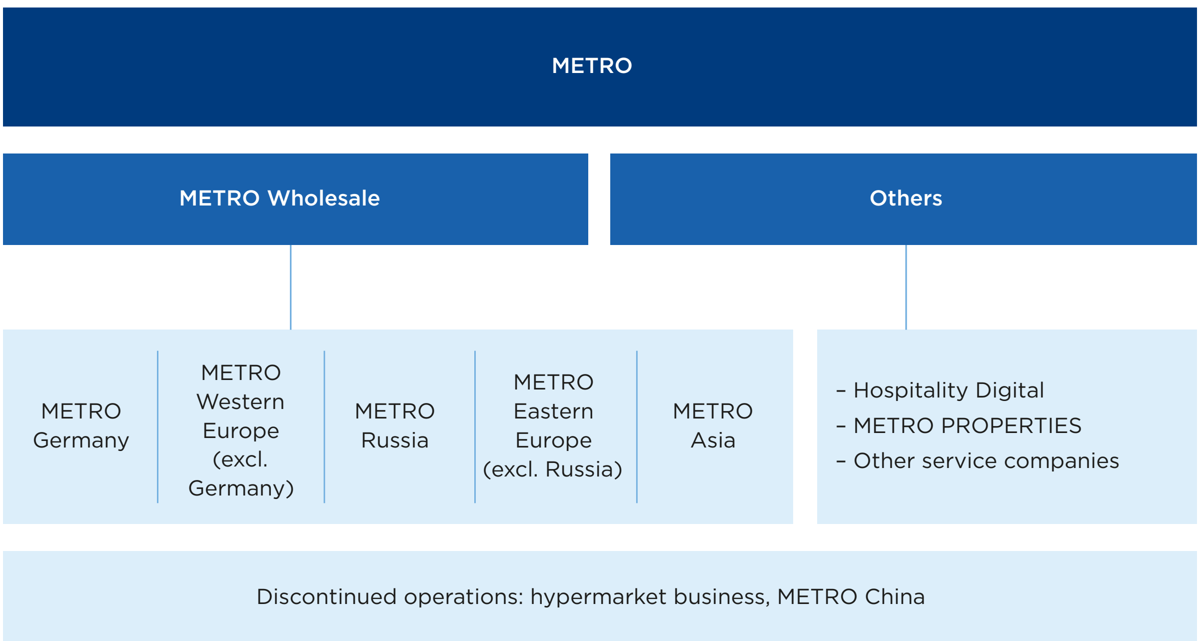
METRO is a leading international specialist in food wholesale. The group is headed by METRO AG, which acts as the central management holding company. It performs group management functions, particularly in the areas of finance, controlling, legal and compliance. Central management and administrative functions for METRO Wholesale are anchored within METRO AG.

In its core wholesale business, METRO Wholesale is globally represented with 678 stores in 24 countries. In addition, METRO Wholesale is active with the delivery business (Food Service Distribution, FSD) in another 10 countries. The delivery business includes the METRO delivery service as well as the delivery specialists Classic Fine Foods, Pro à Pro and Rungis Express. So far, the retail company Real constituted the 2nd sales line of the group with 276 hypermarkets across Germany. Real forms the principal element of the discontinued business segment due to the decision of the Management Board of METRO AG to dispose of the hypermarket business.

The group's digitalisation activities are bundled under Others. These initiatives primarily refer to the activities of the Hospitality Digital business unit, which was established in 2015. The unit develops digital solutions for customers from the hospitality industry and creates interfaces for the digital products conventionally used by wholesale traders.

The Others segment also includes the service companies METRO PROPERTIES, METRO LOGISTICS, METRO-NOM, METRO ADVERTISING and METRO SOURCING. These companies provide real estate, logistics, IT, advertising and procurement services within the group.

OVERVIEW OF METRO



METRO Wholesale

As an omnichannel operator, **METRO Wholesale** combines a wide network of modern wholesale stores with a wide-ranging delivery service (FSD). It is an internationally leading player in this field. With its segments METRO Wholesale Germany, METRO Western Europe (excluding Germany), METRO Russia, METRO Eastern Europe (excluding Russia) and METRO Asia, METRO is active in 34 countries. The sales line METRO Wholesale operates 678 wholesale stores in Europe and Asia under its brands **METRO** and **MAKRO**. Its more than 16 million commercial customers worldwide are mainly hotels, restaurants, catering companies, independent retailers, as well as service providers and authorities, to which METRO Wholesale offers a portfolio of products and solutions that has been tailored to their specific requirements. In the area of **Food Service Distribution (FSD)**, METRO Wholesale maintains a strong presence with its **METRO Delivery Service** and the delivery companies **Classic Fine Foods, Pro à Pro** and **Rungis Express.** Classic Fine Foods is an Asian delivery company for a wide range of deli food. The company's customers include premium customers such as 5-star hotels and upmarket restaurants in Asia and the Middle East. Pro à Pro delivers products to commercial customers across France, in particular in the fields of corporate catering, canteens and system catering. Rungis Express is an important upmarket food delivery company in Germany that mainly caters to HoReCa customers.

Others

The **Others** segment includes the **Hospitality Digital** business unit and the **METRO PROPERTIES** service company among others. Hospitality Digital pools the group's digitalisation activities for customers from the hospitality sector. These activities include the development of digital solutions, which are created to meet the needs of the HoReCa customers, and the promotion of innovative, progressive food solutions. With its real estate expertise, METRO PROPERTIES has established itself on the market as a reputable real estate company. It develops, operates and markets an international portfolio. METRO benefits from opportunities for adjacent businesses, such as sub-licensing of its comprehensive market expertise and the reputation of METRO PROPERTIES. The real estate segment makes a long-term and significant contribution to the overall business success of METRO.

STORE NETWORK BY COUNTRY AND SEGMENTS

as of the closing date of 30/9

	METRO[1] 2018	New store openings	Closures	**METRO 2019**
METRO Germany	**103**	**0**	**0**	**103**
Austria	12	0	0	**12**
Belgium	17	0	0	**17**
France	98	0	0	**98**
Italy	49	0	0	**49**
Netherlands	17	0	0	**17**
Portugal	10	0	0	**10**
Spain	37	0	0	**37**
METRO Western Europe (excl. Germany)	**240**	**0**	**0**	**240**
METRO Russia	**93**	**1**	**0**	**94**
Bulgaria	11	0	0	**11**
Croatia	9	1	0	**10**
Czech Republic	13	0	0	**13**
Hungary	13	0	0	**13**
Kazakhstan	6	0	0	**6**
Moldova	3	0	0	**3**
Poland	29	0	0	**29**
Romania	30	0	0	**30**
Serbia	9	0	0	**9**
Slovakia	6	0	0	**6**
Turkey	33	1	0	**34**
Ukraine	31	0	0	**31**
METRO Eastern Europe (excl. Russia)	**193**	**2**	**0**	**195**
India	27	0	0	**27**
Japan	10	0	0	**10**
Pakistan	9	0	0	**9**
METRO Asia	**46**	**0**	**0**	**46**
Total	**675**	**3**	**0**	**678**

[1] The locations and countries of Classic Fine Foods and those of Pro à Pro and Rungis Express are not shown in the table as they relate to distribution centres and warehouses whereas this table only covers sales locations.

2.2 Management system

METRO's strategic focus on creating additional customer value for the wholesale business and the objective of sustainably increasing the value of our company are also reflected in our internal management system. We use the key performance indicators described in the following for the planning, management and control of our business activities. Selected key performance indicators of our management system (like-for-like sales growth, EBITDA and

Return on Capital Employed) form the basis for the Management Board's variable remuneration component.

The focus of the group's operational management is on those value drivers that have a direct effect on the medium- and long-term corporate objectives and are directly related to the strategy.

The first important key performance indicators for METRO are exchange rate-adjusted sales growth (as a total figure and a like-for-like figure) and the EBITDA excluding earnings contributions from real estate transactions. Our management system also makes use of other significant performance indicators, which are explained in the following.

MANAGEMENT SYSTEM

Key performance indicators describing the earnings position

The first of our most important key performance indicators for our operational business is the exchange rate-adjusted **sales growth** (respectively as a total figure and a like-for-like figure). The like-for-like sales growth represents the sales growth measured in local currency generated on a comparable selling space or in relation to a comparable panel of locations or merchandising concepts, such as online shopping and delivery. The figure only includes sales of locations with a comparable history of at least 1 year. It follows that revenues generated by locations that were affected by openings, closures, significant redevelopment works or other conceptual changes in the reporting year or the comparison year are excluded from the analysis.

The second of our most important key performance indicators, in addition to sales growth was introduced in financial year 2017/18 and is the **EBITDA excluding earnings contributions from real estate transactions.** This key performance indicator gives transparent account of METRO's operational performance. The development of real estate assets and the proceeds from divestments nevertheless remain core components of the group's real estate strategy.

In light of the strategic portfolio streamlining and the corresponding focus on the wholesale business, METRO is implementing the following changes: starting with financial year 2019/20, METRO will present the business result and the situation of the group without accounting for transformation costs that will result from certain one-time expenses in connection with the efficiency measures.

Other important key performance indicators of METRO are the **profit or loss for the period and the earnings per share**. These key performance indicators ensure that the tax and net financial result are given consideration in addition to the operational result and thereby allow for a holistic assessment of METRO's earnings position from the perspective of the shareholders.

– **For more information about these key performance indicators, see chapter 3 economic report – 3.2 asset, financial and earnings position – earnings position ▸ page 93.**

Key performance indicators relating to the financial and asset position

The management of METRO's financial and asset position aims at sustainably assuring liquidity and arranging cost-effective sources for the financing requirements of our subsidiaries.

– **For more information about the financial and asset position, see chapter 3 economic report – 3.2 asset, financial and earnings position – financial and asset position ▸ page 87.**

The key performance indicators used in this area also include the investments, which are planned, reported and audited both in aggregate for the group as well as separately for the segments. Investments are defined as additions to non-current assets (excluding financial instruments and deferred tax assets).

Another focal point in the area of the financial and asset position are regular analyses of the **net working capital**, which are carried out for the purpose of managing the operational business and capital deployment. Developments in net working capital over time result from changes in stock inventories, trade receivables and trade liabilities. Receivables due from suppliers are recognised in the items other miscellaneous financial assets and non-financial assets.

The **net debt** and the **cash flow before financing activities** are also used as key performance indicators to manage METRO's liquidity and capital structure. The net debt results from the balance of financial liabilities (including finance leases), cash or cash equivalents and short-term financial investments.

METRO also analyses the **free cash flow conversion** to measure the group's success in transforming the generated income into cash inflows. The free cash flow conversion results from the ratio between the simplified free cash flow and the reported EBITDA. To determine the free cash flow conversion, the free cash flow results from the reported EBITDA less cash-effective investments (excluding finance leases and mergers and acquisitions) +/- changes in net working capital.

Value-oriented key performance indicators

The key performance indicator **Return on Capital Employed (RoCE)** is still used to assess the operational business. This key figure measures the Return on Capital Employed (RoCE = EBIT / average capital employed) in a certain period under review and also allows for an assessment of the performance of the group's individual segments.

The resulting RoCE is then benchmarked against the respective segment-specific cost of capital before taxes, which represents a minimum yield on the employed capital at market rates and is based on capital market models.

METRO also frequently uses value-oriented key performance indicators to assess both prospective and past investments. METRO uses the discounted cash flow method, the key figure economic value added (EVA) and other liquidity-oriented key performance indicators such as the amortisation period to form its investment-related decisions.

As of financial year 2019/20, METRO AG will apply the accounting standard IFRS 16 (Leases), which will be introduced retrospective in its entirety.

In the future, this accounting standard will affect various key performance indicators, such as ‘earnings before deduction of interest, taxes, depreciation and amortisation (EBITDA)’, ‘net debt’, ‘cash flow before financing activities’ and ‘Return on Capital Employed (RoCE)’. A complete overview of the adaptation of the earnings in financial year 2018/19 in accordance with IFRS 16 will be provided in January 2020.

2.3 Innovation management

METRO takes pride in driving innovation. Innovations are essential for new solutions, which METRO develops for its operational business and also for its customers. With Hospitality Digital and METRO-NOM, we are pursuing the goal of developing these types of solutions and making workflows more efficient.

Hospitality Digital: supporting the digitalisation of our business customers

In October 2018, METRO launched the DISH (dish.co) platform to further accelerate the digitalisation of the hospitality industry. The platform enables restaurateurs to quickly access digital products, such as tools to create an internet presence operated by Hospitality Digital or an online reservation tool. The digital solutions offered by DISH were developed by Hospitality Digital and external providers. Membership on DISH is free and accessible to all restaurateurs, even if they are not yet METRO customers. Restaurateurs are encouraged to connect via the platform and find out about current gastronomic trends and events. DISH is already available in 14 countries with more than 170,000 restaurateurs using the solutions on the platform. Since April 2019, METRO has also been offering the DISH app, which provides users mobile access to all digital DISH tools without having to log in for each individual product. Moreover, the app features a free personnel management tool, which allows restaurateurs to easily control their entire personnel management online.

In addition, Hospitality Digital is conducting various pilot projects aimed at increasing the revenue of the participating hospitality businesses. One example is a loyalty programme that allows consumers to collect loyalty points in restaurants in Berlin. The goal is to increase both the attractiveness and the sales of the participating restaurants.

Another project is the cooperation with Google, which began in 2018 with the support of Hospitality Digital regarding the verification of ‘Google My Business’ accounts. In 2019, the cooperation continued by connecting the online reservation tool to ‘Reserve with Google’. This link allows the consumer to reserve a table using the online reservation tool within the Google search function. This has led to a 20% increase in reservations via the online reservation tool at participating restaurants.

In addition to the already established accelerator programmes in the hospitality and retail sectors, METRO launched the ‘METRO Target Retail Accelerator, Certified by Techstars’ in May 2019. International start-ups have participated in the programme, which took place at the METRO Accelerator in Berlin and at Target, the American retail company based in Minneapolis.

Furthermore, Hospitality Digital invests in promising technology companies through the LeadX Capital Partners brand. It often collaborates with other external investors.

METRO-NOM: innovative solutions for the operational business

METRO is also forging ahead with the digitalisation of its operating business in order to better meet individual customer needs, deploy resources profitably and utilise data for its operations. Digital solutions also support METRO’s sustainability initiatives by making processes more efficient and, for example, minimising the use of paper. In line with this initiative, METRO-NOM develops innovative approaches for the 24 national subsidiaries in which METRO Wholesale is represented with wholesale stores.

By standardising processes, synergy effects are used in the introduction of central IT solutions. At the same time, METRO-NOM accounts for the special requirements of the individual business models in the individual countries. In Romania, METRO-NOM cooperates with the IT service provider Spryker in setting up a tailor-made online shop for Trader customers. This online shop will now also be transferred to Russia, where Traders customers represent the key target group. In addition, the digital ordering process via M-Shop is currently available to – or in the process of being activated for – professional customers in 17 countries. In financial year 2018/19, around 5.3 million orders were recorded via M-Shop.

The METRO Companion app was developed to improve the shopping experience for customers. Customers can use the app to search for products, check their in-store availability and create individual shopping lists. The app also serves as a digital customer card and includes digital coupons that replace a plastic card or paper receipts.

As part of a test project, METRO-NOM is testing blockchain technology for secure archiving of irrevocably decentralised stored data. The solution enables storing and comprehensively analysing raw data, such as POS data. This analysis helps predict shopping behaviour of customers to adjust product inventories in advance.

In addition, METRO-NOM is testing in France whether using robotics to analyse stock levels in the stores generates added value. They expect the robot to detect inventory gaps faster and more accurately than conventional methods. If this pilot project proves to be successful, the concept will be implemented across the board.

NX-Food: The innovation hub for promotion of start-ups

Another important task for METRO is the promotion of young companies in the food industry. The innovation hub NX-Food was founded in March 2018 to develop innovative and sustainable food concepts in the retail and hospitality sectors. Via NX-Food, METRO offers start-ups a platform to market their innovative food products. More than 600 start-up companies have already submitted their applications to METRO Germany and METRO Austria to have their products featured in the product range for a 3-month test phase. More importantly, they hope to stay on the shelves permanently, if the test phase is successful. NX-Food also cooperates with the airline Eurowings and with Retail in Motion. From August 2018 to October 2019, products from up to 4 start-ups have been featured in Eurowings' magazine 'Wings Bistro' for one quarter.

NX-Food is also very engaged in community and partnership programmes. Amongst other things, NX-Food has hosted more than 30 events bringing together over 2,000 industry experts, start-up entrepreneurs, restaurateurs and people with a passion for innovative food.

To reinforce this commitment, NX-Food decided in 2019 to partner with Europe's leading food innovation initiative, the European Institute of Innovation & Technology (EIT) Food. NX-Food advises the start-ups of the RisingFoodStars Association and supports them with extensive market expertise.

NX-Food and METRO are also founding members of the new Association for Alternative Protein Sources (BALPro). The association brings together more than 60 representatives from trade, industry, science and research to provide transparent and traceable information on animal and plant protein sources.

2.4 Combined non-financial statement of METRO AG

With this chapter, METRO AG fulfils its duty to produce a non-financial statement (NFS) for the holding company, pursuant to §§ 289b–e of the German Commercial Code, and a non-financial group statement, pursuant to §§ 315b–c together with §§ 289c–e of the German Commercial Code, in the form of a consolidated non-financial statement. As a separate chapter, this declaration constitutes a part of the combined management report. Unless stated otherwise, the concepts described here apply to the entire group as well as the holding company. Unless expressly stated otherwise, all presentations in the combined management report refer to continuing operations (excluding the hypermarket business and excluding METRO China). The Management Board of METRO AG is fully involved in all topics presented here and is regularly updated about their progress.

The NFS is integrated in the combined management report. It was produced in consideration of the GRI standards for Corporate Responsibility Reporting and the UN Global Compact. The contents are not subject to statutory audits of the annual and consolidated financial statements, but are part of the limited assurance business audit according to ISAE 3000 by KPMG AG Wirtschaftsprüfungsgesellschaft. The assurance statement of the independent auditor is available at www.metroag.de/cr-report-2018-19/assurance

Business model

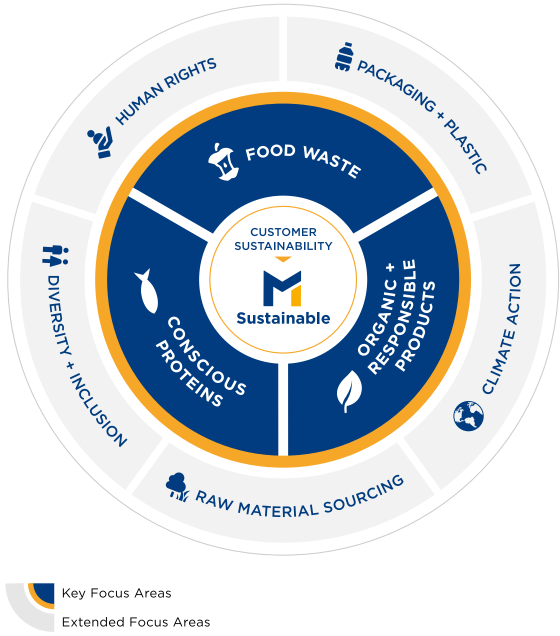
- **For more information about METRO's business model, see chapter 2 principles of the group – 2.1. group business model ▸ page 49**

METRO SUSTAINABLE

Our society is more exposed than ever to economic, environmental, social and cultural challenges. Similarly, we experience every day that sustainability is the key to transforming these challenges into opportunities.

It is our vision to make wholesale more sustainable along the value chain in our work with small and medium-sized independent suppliers and customers in contact with consumers. By reconciling our business imperative and goals with the needs of nature, people and future generations, we can act responsibly, remain successful in the long term and overcome the conventional limits of growth. Through information, inspiration, motivation and support from our employees, customers and partners, this visionary approach has the potential to reach millions of people.
As a partner for independent businesses along the entire value chain, we thus do more for business-passionate people – in a responsible way. This reflects the core of our business and means that, for our sustainability approach, we not only practice METRO SUSTAINABLE in our own business, but also support our customers in making their businesses more sustainable through sustainable value creation. We strengthen local communities and call for more conscious nutrition. As an innovation driver for sustainable solutions, we contribute to a sustainability movement. For example, by using the digital solution of Too Good To Go in our stores as well as offering it to our customers, we reduce food waste on different levels in our value chain. This is how we achieve our goal of becoming part of an ecosystem analogous to nature through METRO SUSTAINABLE and making an impact for increased sustainability.

METRO SUSTAINABLE – OUR CONTRIBUTION TO SUSTAINABLE DEVELOPMENT



To ensure that our sustainability approach addresses the aspects and issues that most affect our business and that we can leverage through our business activities, we conducted a materiality analysis in the course of financial year 2017/18 in accordance with the requirements of the CSR Directive Implementation Act. Assessment of the facts was based on the legally required materiality definition. The aspects and issues identified in the analysis are the content of this NFS and comply with the requirements of the CSR Directive Implementation Act for the reporting of non-financial content. The results of this materiality analysis were confirmed in financial year 2018/19 by our customer survey conducted in 23 countries with a focus on sustainability and in a 1-day sustainability strategy workshop with the participation of the Management Board of METRO AG, other senior management positions and other expert functions of the entire METRO group. With our focus on the food sector, we emphasise on 3 main topics:

1. We want to make our range of products and services more sustainable by positively influencing the availability, quality and wholesomeness as well as the social and environmental safety of food.
2. We promote more conscious consumption, including the use of a diverse range of proteins.
3. By pooling our partnership strengths, we are fighting against food waste.

For us, this means improving our 'foodprint' while minimising our ecological and social footprint by treating people and resources responsibly and creating positive effects for society as a whole. Not only through the discourse with internal and external stakeholders such as employees, customers, suppliers and business partners, local communities, NGOs, political representatives, investors, competitors and committees do we know that further material issues, such as the protection of human rights, the use of more sustainable packaging and less conventional plastic, our actions to improve climate protection and responsible procurement as well as the pursuit of diversity and inclusion naturally remain within our responsibility.

- **More information about METRO SUSTAINABLE is available online at www.metroag.de/cr-report-2018-19/approach.**

The guiding principles for us are the United Nations Sustainable Development Goals (SDGs). These goals also form the global action framework of our corporate strategy, which is shaped by the principle of sustainability. Along our areas of responsibility (Empower) People, (Secure) Planet, (Unfold) Prosperity and (Enhance) Partnerships, we support the SDGs, in particular the goals in which we are most directly involved: 2 (Zero Hunger), 8 (Decent Work and Economic Growth), 12 (Responsible Consumption and Production), 13 (Climate action) and 17 (Partnerships for the goals). Through the diversity of our activities and the interdependence between these projects and the SDGs, we contribute to the 17 goals of the global agenda with our commitment to sustainability. As a member of the UN Global Compact, we also incorporate the 10 principles of the UNGC into our work, strategy and corporate culture.

By taking these international initiatives into account, we highlight our actions as a responsible, global and locally active company. We consider ourselves to be a value-creating part of society and we contribute to achieving sustainable economic, social and environmental development.

Actively managing sustainability

The sustainability management serves the purpose of systematically and organisationally anchoring the notion of sustainability in our core business operations and to consider the interdependencies between economic, environmental and social aspects in an efficient, solution-oriented manner. Via the formalised reporting and evaluation of sustainability-related opportunities and risks, which have been evaluated in the materiality analysis, it is closely linked to our overall opportunity and risk management. This enables the Management Board to systematically identify, evaluate and control deviations from the sustainability goals and the ensuing opportunities and risks. No risks subject to mandatory disclosure pursuant to § 289c Section 3 Nos. 3 and 4 of the German Commercial Code (HGB) were identified. The sustainability risk that was reported in the opportunity and risk report does not fulfil the criterion of double materiality. However, a carbon price or increased energy prices in general could negatively affect the financial situation of METRO in the short and long term. The existing, company-own climate target will further help in managing this risk. Since 2019 this target has additionally included the supply chain as the highest environmental impact accumulates here.

The Sustainability Committee sets the strategic framework, facilitates the exchange of information on sustainability issues at the highest level (also with external input) and defines group-wide objectives. To adequately respond to the specific market and customer requirements, the METRO companies manage the operational implementation of sustainability within this framework. They are responsible for working on the relevant sustainability issues, for defining specific targets and measures and for monitoring their success. They report on current developments and achieved progress to the Sustainability Committee.

The committee is chaired by 2 representatives from the top management, who are frequently regularly rotated. Other members of the committee are:

- People in charge of corporate responsibility at METRO AG
- Representatives of the core functions purchasing, own brands, communication as well as investments and technical solutions
- Representatives of the METRO Wholesale national subsidiaries

Ad hoc expert groups prepare specific issues on the operational level and then present them to the Sustainability Committee for decision. Depending on the issue, participants include experts from the METRO Wholesale national subsidiaries and the head office.

Additional interfaces between the strategic and operational levels of sustainability are periodic telephone calls of the sustainability experts and 1-to-1 responsibilities of the sustainability colleagues of METRO AG for all METRO Wholesale national subsidiaries through individual country support. Much like the ad hoc expert groups, the activities promote exchange and support to implement decisions made by the Sustainability Committee.

In addition, we integrate sustainability aspects into relevant business processes and decision making processes, among other things via guidelines such as the new policy on the procurement of sustainable soy. We also involve our employees via our quarterly employee survey, various sustainability activities such as our Sustainability Day as well as via our social network platform. We strive to enable our employees to understand the significance of sustainability with respect to both themselves and their professional environment, and to conduct themselves accordingly. For example, to support this goal we have our principles, self-commitments and positions that provide directional guidance and include compliance with laws as well as meeting additional requirements. Employee development programmes that integrate sustainability issues are an important aspect. For example our ambassador programme METRO Sustainable Leadership Programme, which enriches management development with a focus on sustainability. While METRO may be able to drive the issue in a top-down approach, each one of the more than 100,000 employees is our ambassador and can effectively contribute to our impact on sustainability.

Our stakeholders evaluate the sustainability measures implemented by us, for example, through ratings. These evaluations by independent third parties are an important motivator to us and serve as a management tool, because they demonstrate the progress and potential to improve our activities. An example of this is the linking of the remuneration of the Management Board and the global senior management to the valuation of METRO's sustainability performance in the rating of the Dow Jones Sustainability Index (DJSI).

Oekom Research (now called ISS-oekom) awarded the prime status C+ (on a scale from D- to A+) to METRO in August 2018. Having been ranked as the best in the industry for 4 consecutive years by the internationally significant Dow Jones Sustainability World index, we attained second place in financial year 2018/2019 in the Food & Staples Retailing Group. In the Dow Jones Sustainability Index Europe however, we were ranked best in the industry for the fifth consecutive year. METRO is also listed in the FTSE4Good index. METRO has been issuing public statements on climate protection and water for many years through CDP. For the 2 topics, METRO achieved a rating of A- and B- respectively (scale F to A) in 2018 and is thus well above the industry average. METRO participated in CDP Forest for the first time. The results for 2019 were not yet available on the publication date.

Environmental matters

A responsible consumption of energy and other natural resources is crucial for all of us. The use of resources has a direct effect on our operating costs and may entail undesirable environmental impact, such as the emission of climate-damaging greenhouse gases. Our approach is to significantly reduce the climate-relevant emissions caused by our business operations and resulting from our supply chain as well as to decrease our consumption of natural resources[1]. We do this by focusing on behavioural change (Energy Awareness Programme) and investment aimed at increasing our energy efficiency (Energy Saving Programme). We also operate a global energy management system to identify potential savings in our stores and monitor our overall savings targets. At METRO Wholesale, we reduced electricity consumption in our stores by 3.4% in year-on-year comparison in the past financial year and thus clearly exceeded our target of 2.2%. Wherever possible, we are also converting our cooling systems to natural refrigerants (F-Gas Exit Programmes). This reduces our energy requirements as well as our costs. In financial year 2018/19, among other things, we invested €14.9 million in METRO Energy Saving Programme, which saves us approximately €5.3 million in energy costs each year. Examples of measures in the reporting year are:

- Commissioning of other transcritical ejector refrigeration plants, including in Germany, France, Italy, Bulgaria, Romania, Croatia and Russia
- Initiated roll-out of LED store lighting in Russia with an investment volume of €7.6 million, but also numerous diverse lighting optimisations in Germany, France, Romania, Poland, the Netherlands, Portugal, Ukraine and Moldova
- Installation of additional photovoltaic systems and expansion of the total capacity to more than 11,500 kWp in Germany, France, Pakistan and Japan.

[1] Due to the company size and alignment (management), the aspect of environmental concerns is not significant for the holding company, METRO AG.

- Heat recovery measures in connection with the installation of new refrigeration plants, including in Bulgaria, Croatia and Russia
- Improvement of building management system by installing a lighting control system in Spain
- Construction of charging stations for electric vehicles for METRO customers, especially in Germany, Poland and Austria At the Düsseldorf Campus, we commissioned a total of 80 electric chargers for customer, employee and company vehicles
- METRO uses an internal carbon price that was originally set at €25 and increased to €50 in 2019 due to general market expectations. We use the carbon price to approve energy-efficient projects with lower financial savings.

This is METRO's response to risks identified in initial scenario analyses (as recommended by Task Force on Climate-related Financial Disclosures TCFD) in our business operations as well as in our supply chain:

- Physical risks resulting from extreme weather events and water damage (scarcity or flooding)
- Business disruptions due to extreme weather events and declining economic power pose a risk to our customers' businesses and thus to our sales.
- Transition risks such as rising prices for CO_2 emissions (with short-term impact on costs and product prices)
- Shortage of resources (rising prices for agricultural products over the next 5 to 10 years)
- Investments in new technologies (carbon-neutral cooling units planned worldwide until 2030) and in the generation of renewable energies (extensive installation of solar systems planned until 2030)

We consider these risks in our medium-term risk management and assess risks for revenues and costs based on rising prices and decreasing availability of resources. No risks subject to mandatory disclosure pursuant to § 289c Section 3 Nos. 3 and 4 of the German Commercial Code (HGB) were identified. The climate-change-related risk listed under sustainability risk in the opportunity and risk report does not meet the requirement of double materiality. Furthermore, we assess potential approaches to perform a comprehensive climate change scenario analysis for METRO.

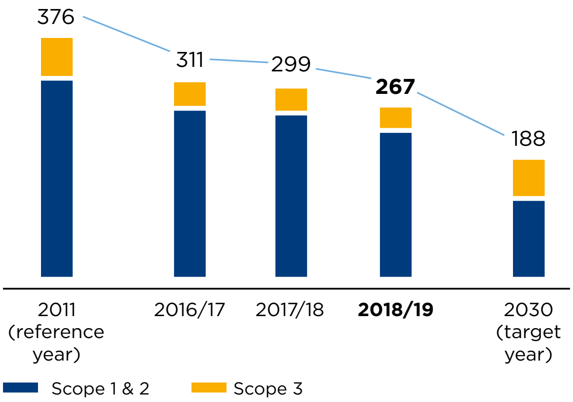
Further key focal issues in relation to sustainable business operations are the prevention of waste, the reuse of resources and their recovery by means of recycling. The reduction of food waste is an issue of particular importance to the operations of METRO. Every food product that is rejected or discarded instead of being eaten represents wasted economic, social and environmental resources. METRO has therefore committed itself to the Resolution on Food Waste by the Consumer Goods Forum (CGF) and thus to eliminate 50% of wasted food in our own operations by the year 2025 compared to 2016. Therefore for example, the 'Food Loss and Waste Protocol' was successfully implemented in Turkey in financial year 2017/18, and other countries are currently being discussed. In 22 countries we cooperate with food service organisations and social institutions in order to avoid food waste in the stores, including our restaurants and warehouses. In addition, 6 of these countries cooperate with Too Good To Go.

In connection with the METRO Water Initiative, the goal was set to save 5% of water by 2025 compared to the base year 2016/17. In 2019, we were able to reduce the consumption in our METRO wholesale stores by 6% calculated per square metre of net operating area compared to the previous year. Since the greatest impact for water is also in the supply chain, we use the CDP Supply Chain Programme to recognise potential opportunities and risks with our suppliers at an early stage.

Status of climate protection target
From October 2018 to September 2019, METRO generated 267 kg of CO_2-equivalents per square metre of selling and delivery space. This figure is down from 299 kg in the previous year's period. In financial year 2018/19, we retroactively switched to a different emission factor set for energy. We also report figures excluding discontinued operations. Our goal is to reduce these emissions by 50% to 188 kg by 2030 compared with 2011, and with 29% we are on the right track in the reporting period. In particular, we focus on the aforementioned programmes. In financial year 2018/19, METRO expanded the climate target to the supply chain and as the first German retailer set a recognised science-based target for itself. METRO AG undertakes to reduce its Scope 1 and Scope 2 CO_2 emissions by 60% per square metre selling and delivery area by 2030 compared to 2011. Our goal is thus in line with the reductions required to keep global warming well below 2 °C. A reduction of 26% has been achieved in this area since 2011. Furthermore, METRO AG is committed to reducing absolute Scope-3-CO_2 emissions (supply chain) by 15% by 2030 compared to 2018.

CLIMATE PROTECTION TARGET STATUS

Greenhouse gas emissions in kg CO_2 (CO_2 equivalent) per m^2 of selling and delivery space



Employment matters

With regard to the legally required content in relation to the aspect of employee matters, we refer to the chapter employees of the combined management report.

– **Further information can be found in the combined management report – 2 principles of the group – 2.5 employees ▶ page 70.**

Social matters

Compliance with social matters within our own company, especially within the supply chain, is a complex challenge that may affect internal and external perception as well as the performance of our supply chain, and thus of our own company, both positively and negatively. With the procurement of the products that we offer our customers in terms of availability, quality and sustainability, especially with regard to social matters, we are dependent on this very efficiency of the supply chain. Simultaneously, we have influence on it through direct contact with our suppliers as producers and manufacturers. We have been committed to accepting this responsibility for many years.

- **With regard to the description of risks associated with non-compliance of standards by our suppliers, we refer to the section on 'supplier and product risks – quality risks' in chapter 5 opportunity and risk report** **page 108****. We did not identify any significant risks.**

Respect for human rights

Respect for human rights is one of the fundamental values of METRO, as formalised in our Policy for Human Rights. We pledge to respect all human rights, as set out in the United Nations' Universal Declaration of Human Rights, the International Bill of Human Rights, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization (ILO). This obligation applies to our own employees (see chapter 2.5 employees – human rights and employer-employee relationships page 78) and to our business partners within our value chain[2].

Since we expect our business partners to adopt and honour similar values, the METRO Code of Conduct for Business Partners is an integral part of every business relationship. This code of conduct includes compliance with human rights according to the International Bill of Human Rights, the OECD Guidelines for Multinational Enterprises, UN and ILO standards, occupational and social matters based on the principles of the International Labour Organization's 4 core labour standards, environmental protection and corporate ethics, in particular anti-corruption and anti-bribery, antitrust and competition laws as well as data protection. Furthermore, all of our own-brand contracts contain a social standards clause that gives us legal means to enforce our requirements.

In case of violations of our basic human rights principles, our employees can contact their supervisors or the company's compliance officers. Using a tool that is publicly accessible via the METRO compliance page, every internal and external individual, including stakeholders of our suppliers, can report situations that do not comply with the values and guidelines of METRO or with statutory provisions. We also expect our suppliers to establish a grievance channel and to convey the same expectation to their own suppliers. The reported incidents will be promptly investigated and processed by our experts to take appropriate action, if necessary. We are also committed to working with our suppliers to remedy impacts and not obstructing access to other legal remedies. We believe that collaborating with other initiatives and stakeholders to deal with reported incidents is more successful than working alone.

[2] For the METRO AG holding company, the aspect of human rights in the supply chain is not essential because of its business orientation, but rather only in relation to its own employees.

Global labour and social standards in the supply chain and supplier development

We aim to contribute to ensuring socially acceptable working conditions within our sourcing channels. Therefore, in addition to a contractual manifestation of our requirements, the application of social standards systems is an integral part of the listing process as well as an important tool. Social standards systems enable us to take effective action against any potential violations. Irresponsible practices within the supply chain can damage the confidence in our conduct and, consequently, also our business. We will therefore require our producers to be audited in accordance with the supply chain management standard set out by the Amfori Business Social Compliance Initiative (Amfori BSCI), the Sedex audit according to SMETA or an equivalent social standards system. This applies to all producers in defined risk countries (based on the Amfori BSCI assessment) in which METRO SOURCING and METRO Food Sourcing have imported goods manufactured. It also applies to all other producers who manufacture own brands or imports for our sales lines. For many years now, a corresponding process has been worked on for our non-food producers[3]. With effect from 1 June 2019, these requirements were established analogously for all food and near-food producers in the own-brand sector. To this end, all national subsidiaries are requested to develop country-specific development plans in the coming financial year, if possible, so that METRO can reach the goal of ensuring social compliance for all own-brand suppliers by 2030.

As of 30 September 2019, 1,077 non-food producers were audited, with 99% (1,071 producers) passing the audit. Effective 1 January 2019, non-food producers who fail the audit cannot be commissioned until they achieve an acceptable audit result. In other words, they have to receive an A, B or C for the Amfori BSCI assessment or an audit that is acknowledged as equivalent.[4]

The verification of compliance with our requirements is performed via an internal IT-based process management database, which is synchronised with the audit results in the Amfori BSCI database. By working with our database, the responsible employees of our METRO national subsidiaries carry out the portfolio management of the affected suppliers and the associated producers and strive to integrate the procedures for compliance with social standards and human rights into their daily work routines. On the other hand, the process management is automated, for example, to warn our suppliers of expiring audits and to initiate the individual review of Amfori BSCI D or Amfori BSCI E audits or equivalent audits by METRO and to effect improvements. The database is also used as a contract compliance mechanism during initial negotiations or suspension of ongoing business, since the required documents are uploaded and reviewed before conclusion of the contract or suspension of the supplier is triggered in case of misconduct by deal-breakers specified by METRO. This includes findings in the areas of child labour, forced labour, occupational safety hazards with regard to fire safety and ethical behaviour. If there is a misconduct discovered at suppliers and their producers concerning one of these areas, they are required by METRO to develop short-term and long-term solutions. New orders or follow-up orders are suspended until the findings in the deal-breaker process have been resolved.

[3] This includes merchandise producers (non-food own-brand products and own non-food imports) in high-risk countries that carry out the final value-creating production step, for example produce the final item of clothing.

[4] 2 METRO Wholesale companies were granted the exception until the end of the financial year to continue using individual producers with D audit results. These producers were trained by special training units in order to arrive at an acceptable audit result.

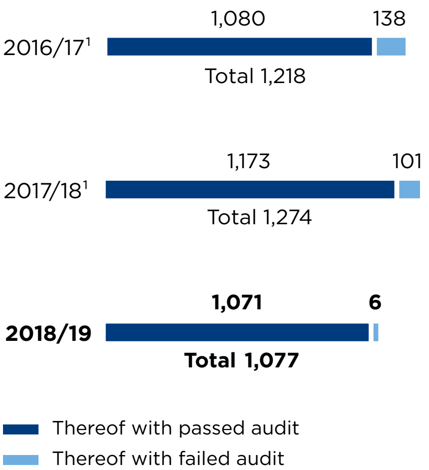
Supplier development was also identified as a material topic for the business activities of our operational business. By training small and medium-sized suppliers on aspects of food safety, hygiene, processing and implementation of fair working conditions, we enable them to meet relevant standards and thus help them merchandise their goods. This increases their revenue and simultaneously secures our product range.[5]

In order to not only ensure the social requirements of our suppliers, but also contribute to improving them and thereby further increasing the proportion of valid social audits, METRO SOURCING works with our local non-food producers and supports them through training courses designed to understand and comply with social standards. In financial year 2017/18, METRO Turkey and METRO Pakistan piloted a 1-day training course for employees in key positions, which was then completed at METRO Ukraine and METRO Bulgaria in the reporting year. The intention is to reintroduce the importance of the topic into our organisation and to empower our employees to identify, process and prevent potential and/or actual forced labour incidents in the supply chain. The development and execution of the training is carried out in collaboration with the Amfori Business Social Compliance Initiative (BSCI). By 30 September 2020, all METRO Wholesale national subsidiaries are expected to have completed this training.

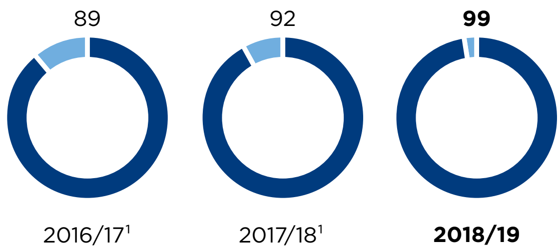
SOCIAL AUDITS RELATING TO OWN IMPORTS BY METRO SOURCING AND NON-FOOD OWN-BRAND PRODUCTS OF THE METRO SALES LINES

As of the closing date of 30/9

Producers with a valid audit (number)



Thereof with passed audit (in %)



Producers that have passed the audit can prove the successful implementation of the Amfori BSCI system of social standards or an equivalent system by providing a certificate issued by an independent third party.

[1] Figures presented here include Real and METRO China.

Combating corruption and bribery

The Management Board of METRO AG is committed to complying with applicable laws, rules and regulations. METRO employs a group-wide compliance management system (CMS) to ensure compliance with laws and a self-imposed code of conduct, including key risks such as combating corruption and bribery and the prevention of antitrust law violations. The aim of the CMS is to systematically and sustainably prevent, detect and sanction regulatory infringements within the company.

[5] Due to the company alignment, the aspect of supplier development is not significant for the holding company, METRO AG.

The METRO Business Principles are at the heart of our compliance initiatives and are firmly anchored throughout the group particularly by ongoing training measures. The CMS is based on the METRO Business Principles. Business Principle no. 2, for example, explicitly prohibits corruption and bribery in dealing with business partners and authorities. To set up the CMS, METRO was guided by the basic elements of such a system described in the IDW PS 980 audit standard. It operationalises the 7 CMS elements on a risk basis applying a wealth of organisational, structural, procedural and individual measures for all major group companies.

The Management Board of METRO AG and the General Management of the relevant METRO group companies demonstrate proper conduct and lead by example. In addition to informal role model behaviour, frequent 'tone from the top' messages are foreseen in the organisations. New members of management committees and other executives undergo compliance onboarding at the beginning of their job. Indications of compliance incidents are investigated in a clearly defined and objective process involving all relevant functions including compliance, legal, auditing and HR.

The defined goal of the CMS is additionally implemented in the organisation via human resources management tools. As part of the regular performance reviews, compliance aspects are included in the evaluation as part of the METRO Guiding Principles.

Generally, the CMS compliance risks control is risk-based. As part of regular risk audits, for example in the form of workshops with relevant stakeholders in the respective units, the compliance risks are continuously checked for completeness and relevance. In addition, each relevant group unit is classified in 1 of 3 risk classes. External and internal indicators are used for this purpose, such as Transparency International's indices, employee turnover rates and compliance maturity in past periods.

A compliance programme with different intensities is defined for each risk class. It is based on the guidelines developed for each significant compliance risk and adopted by the Management Board. When it comes to combating corruption and bribery, this is one guideline for dealing with business partners, including a business partner assessment, and dealing with public officials.

The CMS is implemented by the compliance organisation. A compliance officer has been appointed to each relevant METRO group company for this purpose, who reports directly to the METRO AG Corporate Compliance department as part of Corporate Legal Affairs & Compliance. The overall responsibility lies with the Chief Compliance Officer of METRO AG, who reports directly to the Chairman of the Management Board of METRO AG. The compliance organisation is centrally managed by Corporate Compliance. Corporate Compliance keeps the CMS conceptually on a risk-appropriate level and provides the concepts and tools for implementation in the METRO group companies of each CMS element. The disciplinary and technical leadership of the compliance officers takes place via institutionalised reporting dates as well as target agreements. The compliance officers regularly report directly to the local management in their units. Moreover, identified key compliance risks are recognised within the GRC subsystems Internal Control Operations and Internal Control Finance and integrated into the systems there.

An IT-based whistle-blower system provides employees and external third parties with an opportunity to provide information (under the protection of anonymity, if preferred) on regulatory infringements within the company. All reported regulatory infringements, irrespective of whether the measures for ensuring compliance with these rules fall within the area of responsibility of the compliance organisation, are investigated and sanctioned systematically by the compliance management system, which relies on the compliance incident handling system operated by the compliance organisation. The respective departments are responsible for regulatory compliance measures that fall outside of the area of responsibility of the compliance organisation, with the exception of compliance incident handling.

Compliance topics and measures are systematically communicated to the workforce through a variety of channels in the company in a targeted manner. A core tool is compulsory compliance training, which is either carried out in person or through e-training. In financial year 2018/19, compliance training was executed in all relevant METRO group companies. The selection of relevant employee groups is risk-based with practical training content. A variety of other communication formats are used in addition to training, such as compliance talks, posters, flyers, intranet, department visits, function and leadership conferences as well as personnel development events.

The METRO companies cooperate with a large number of third-party business partners. Before entering into specific contractual relationships, a risk-based examination is performed to determine whether there are reasons from a compliance perspective not to engage a third party. Certain groups of business partners, such as consultants with contact to public officials as part of the order fulfilment, require an in-depth audit that is appropriate for the risk. To this end, the existing process has been digitalised and an IT tool is currently being rolled out throughout the group for auditing purposes. The audit approach is risk-based in various degrees of intensity, for example in the form of self-disclosure, but also by examining external databases with relevant risk information.

Proper implementation of the defined risk-based measures for the implementation of the CMS is ensured through frequent KPI reporting for each relevant METRO group company. Through KPI reporting, a compliance maturity level is determined annually, which in turn is incorporated into risk classification and definition of measures. The efficacy of our internal compliance controls is regularly assessed by our Internal Audit unit. As part of METRO's GRC approach, the Group Audit department evaluates the effectiveness of the group-wide CMS every year. This assessment is presented to the Management Board and the Supervisory Board as part of the regular reporting on compliance issues. Besides internal reviews and audits, the need for further development of the compliance management system is ascertained from the results of regular employee surveys.

Overall, the mentioned control and monitoring measures demonstrate an appropriate level of compliance maturity.

Customers

Customer satisfaction and innovation management

METRO is a leading international food wholesaler and global market leader in the cash-and-carry format. METRO's strategy as a fully-fledged wholesale group is aimed at long-term, consistent growth of (like-for-like) sales and earnings. METRO focuses on identifying and addressing customers' current and future challenges at an early stage in a constantly changing environment. It is thereby elevating the customer relationship from a transactional merchandise trade to a sustainable and holistic partnership.

Customer focus and customer satisfaction are central elements of our strategy. In order to continuously measure and consistently improve customer satisfaction at METRO Wholesale, we have implemented the Net Promoter Score across the board, in other words in all 24 METRO Wholesale countries in which METRO is represented with wholesale stores. Since its introduction, METRO has received about 2.2 million customer feedbacks. Besides the purely quantitative measurement of the current satisfaction values, suggestions from customers can be systematically recorded and evaluated. They can be used to identify further potential to improve the shopping and delivery experience, which is reflected in the design of our stores, product ranges and delivery services, etc.

Moreover, METRO aims to increase our operating efficiency in order to reduce our cost base. To this end, on the one hand, the group-wide synergy potential is to be exploited. On the other hand, cost advantages are to be realised through strategic cooperation projects with international retail and wholesale companies, for example by reducing procurement costs through international purchasing alliances.

We also value our customers and their opinions in the area of sustainability. Therefore, from February to June 2019, we conducted a customer survey in 23 countries in which METRO is active, which showed us the importance of sustainability for our customers across all customer groups. This enabled us to verify the findings of the materiality analysis conducted in 2018. Out of almost 50,000 interested customers, almost 7,500 responded and confirmed the importance of our activities to improve our impact on the environment and society. Today, our professional customers and their customers attach great importance to acting responsibly.

In order to exploit the opportunities derived from digitalisation and to realise synergies, we are bundling our digitalisation initiatives with the business units Hospitality Digital and METRO-NOM. To this end, METRO is expanding the range of professional services and digital solutions that support professional customers in the successful execution of their business activities and strengthen their competitiveness.

Hospitality Digital develops customer- and user-oriented solutions, for example for the calculation of menus, a free online reservation tool or other digital solutions specifically designed for the gastronomy sector. In addition, innovative start-up companies are supported through initiatives such as the various METRO accelerator programmes.

Since October 2018, restaurateurs have had access to relevant digital solutions such as the free online reservation tool via the new DISH online platform. The solutions were developed by Hospitality Digital as well as third-party providers. In addition, restaurateurs can find out about new gastronomic trends and events on DISH. Since April 2019, DISH has been available as an app, which includes a free personnel planning tool, making it easier for the restaurateur to manage his or her business on the move.

With our METRO-NOM business unit, we continue to digitalise our core business. METRO-NOM supports, develops and optimises all digital solutions used by our customers, such as the online shop of METRO Wholesale or the METRO Companion app, as well as by our colleagues. The internally used solutions cover the entire value chain.

Protection of personal data

The protection of personal data of customers, employees and business partners is extremely important to METRO. This is particularly true considering the fact that corporate processes are increasingly being digitalised, requiring data collection, processing and storage. However, this can only work efficiently if the data-processing subjects can trust that their data will be handled with care and that their personal rights will be respected.

METRO therefore always undertakes to comply with the respective data protection laws of the countries in which METRO is active. In addition, METRO has created a group-wide privacy policy that contains uniform standards for the handling of personal data and is binding for all group companies. The requirements of the internal privacy policy and national laws apply to all METRO employees.

For companies operating in Europe, the European Union has already established Europe-wide uniform regulations on the handling of personal data by passing the General Data Protection Regulation (GDPR), which has been in force since 25 May 2018, which leads to more transparency in the processing of personal data. Within the scope of 2 projects, all data protection processes of all respective METRO companies throughout the group were reviewed with regard to the new requirements of the General Data Protection Regulation (GDPR). Company solutions were adapted to the requirements of the GDPR where necessary (among other things declarations of consent, data protection regulations, IT systems, privacy default settings).

METRO has also created a group-wide data protection organisation, consisting of local data protection officers and data privacy managers responsible for corporate data protection. It facilitates the pursuit of overarching and national data protection and digitalisation developments in order to continue to meet the statutory data protection requirements across the group.

2.5 Employees

Sustainable human resource strategy

With focus on METRO Wholesale, METRO is targeting long-term, consistent growth of sales and earnings. In addition to expanding our core business, we intend to use our Wholesale 360 approach to further strengthen the competitiveness of our customers in order to build long-term customer retention and establish ourselves as a partner for our key customers. We are therefore aligning our human resources strategy with our corporate strategy and continuously developing our employees. As a foundation for sustainable employee development, we have been investing in our leadership culture and management development for years.

Our engagement levels, which have been rising since 2011 and are well above the industry average, are proof that our employees are doing their best every day to achieve the goals of the group. With our efforts in human resources, we are contributing to reinforce this motivation, to encourage teamwork and to promote entrepreneurial thinking, open-mindedness and taking responsibility in the company. Our focus is on the following areas:

- Development of our talent management and investments in our employer brand in order to fill positions in our company with the most talented employees.
- Evolution to an adaptive, learning organisation that responds quickly to market and customer needs and participates in shaping trends. Therefore we make significant investments to accomplish this.
- Creating an appealing, open-minded and inspiring work environment for our employees. We firmly believe: only satisfied employees who are treated in accordance with their capabilities and engagement can offer a first-class customer experience.
- Increasing efficiency through conscious use of our resources and continuous improvement of our processes.

Our underlying holistic approach to human resources with customised initiatives and programmes spans the entire career of an employee – from recruitment through various career and life stages to retirement models. Involvement of the Management Board or country boards or management of the service companies respectively often already takes place during the development phase of the personnel concepts and thus ensures proper balance between adaptation to local conditions and standardisation throughout the group. One example is METRO-NOM's new M-Trails career model. It was developed in collaboration with members of the management team, human resources managers and the works council. It is a role-based model that emphasises self-responsibility, reduces hierarchies, focuses on employee expertise and aims to improve fairness, transparency and collaboration. M-Trails thus creates a framework for the modified organisational structures and principles of METRO-NOM. It reflects agile operating principles in order to be able to act more efficiently and flexibly and to respond to changes.

Recruiting employees

In the competition to hire the best specialists and executives, our goal is to position METRO as an attractive employer and to attract qualified, talented people to our company. By training junior employees for the wholesale sector, we are able to develop leaders from our own ranks. At the same time, METRO is constantly exploring the market for motivated specialists in order to strengthen its own workforce and to make the best possible progress in the business.

Initial training at METRO

We assign great importance to the comprehensive, sustainable training of our employees in all national METRO subsidiaries and service companies. It allows us to make an important social contribution while our customers benefit from competent contact partners throughout the company. Prioritising needs-based vocational training allows us to hire a large portion of graduates at the end of the programme. In Germany, the company management and the Group Works Council have thus agreed that apprentices who complete the initial apprenticeship programme with a positive aptitude assessment will generally be offered permanent, full-time positions. The individual METRO companies in Germany have defined their own specific requirements and possible exceptions. The organisation and implementation of the initial apprenticeship programmes and the specification of their curricula are the responsibility of the companies. They offer various projects and programmes for their junior employees. For example, on 1 August 2019, 8 apprentices started at the METRO Campus in Düsseldorf, 6 of them at METRO-NOM and 1 apprentice each at METRO ADVERTISING and METRO Campus Services. In addition to the apprenticeship programme, it is also possible to complete a dual study programme that includes practical modules.

Talent development

In order to systematically develop our future executives from our own ranks, our initiatives and programmes are focused on our junior employees. Since 2014, METRO Wholesale has been offering the METRO Potentials Programme in all countries in which the sales line operates. The programme targets the best university graduates and young professionals worldwide with 2 to 3 years of work experience. During the 2-year trainee programme, the participants have an opportunity to expand their knowledge of our core business by participating in various hands-on projects. The trainees complete various stations in their own country and abroad as well as at the company’s headquarters in Düsseldorf. They are also mentored by a member of the respective country board who supports them as contact person and coach during that time. After completion of the programme and depending on availability and qualification, they can assume a management position, for example as store manager. But the career prospects go far beyond that, up to a position on the Management Board of the respective country. 11 trainees completed the programme in financial year 2018/19.

Employer brand and human resources marketing

In financial year 2018/19, we implemented various measures to position the METRO employer brand in a targeted manner. METRO offers interested applicants various opportunities to obtain information and establish contact via trade fairs, for example by attending the ”Absolventenkongress” in Cologne, as well as via social networks and in-house events. Moreover, this was the first time METRO contributed to the World Business Dialogue, the world’s largest voluntary student business conference. Interested students had the opportunity to interact with METRO in a 'Creation Lab' lasting several days, while working on the development of an integrated business plan for a 'green restaurant'.

In addition to that 7 national subsidiaries, and for the first time METRO AG and METRO-NOM received the 'Top Employer' award in the reporting period. The Top Employers Institute certifies outstanding employee environments worldwide. At METRO AG, the wide range of offers and services for all employees was particularly rated positively: It ranges from an extensive training catalogue and development programmes such as MyRevolution or Invest-In-Me to kindergartens, the METRO Activity Centre and the home office agreement.

Succession planning and remuneration models

Our systematic succession planning enables our skilled employees and managers to develop attractive careers within our company. Our remuneration models also provide incentives for employees to perform and to align their work practices with our guiding principles.

Executive development

The systematic development of executives is a core responsibility of all general management teams of the respective METRO group companies. By taking this approach, we ensure that the skills and abilities of our managers are consistently aligned with the requirements and strategic objectives of our company. At the same time, we establish specific international career paths for our executives in collaboration with the METRO country organisations, subsidiaries and METRO AG. Our career-planning processes also allow us to identify and support internal candidates for key positions in the company. This way, vacant positions can be filled from our own ranks. In financial year 2018/19, the internal succession rate for the country boards of METRO Wholesale was 70.8%.

To bolster our management capabilities and to achieve sustainable growth, we launched the Lead & Win programme at METRO in financial year 2016/17. The integrated learning concept is used to develop approximately 11,500 executives and is divided into 3 to 4 modules for different management levels. The participants learn about group-specific topics. The objective is for all executives to have completed the programme by the end of 2022. 5,003 executives started the programme in financial year 2018/19. In the coming years, the focus will increasingly be on levels 3 and 4 in the stores, namely the business, operations and department managers.

Furthermore, our young talents and top executives – employees who have highly complex tasks with special significance to the success of our company – are asked to define their own individual development plan based on a structured self-assessment of their personality focused on the management competencies relevant to the position.

For further support, we introduced the METRO competencies in financial year 2018/19 and defined 5 leadership dimensions as the basis for management training and talent programmes at METRO. The 43 METRO competencies are allocated to the following 5 dimensions of leadership:

- Lead Self
- Guide
- Develop Culture
- Build Momentum
- Deliver Results

This highlights that all employees are responsible for their own development and also business success.

In another major initiative, the METRO Sustainable Leadership Programme (MSLP) supports approximately 30 international executives each year over a period of 1.5 years to improve their self-management and proactive change management and to implement an individual sustainability project. The projects address environmental and social matters such as e-mobility, waste reduction and sustainability in the supply chain.

Individual job performance reviews

As part of our Results & Growth process, we conduct individual performance reviews for the entire group once a year. This allows us to better assess progress and skills and establish a strong feedback and development culture. We define the corresponding priorities at the beginning of each financial year, which are then examined and adjusted as necessary through mid-year reviews. The final performance review is then conducted at the end of each financial year in a feedback session, in which compliance with the group-wide guiding principles is also addressed.

Systematic succession planning

With the Leadership Talent Review, we have established a long-term process to identify and support talented employees at an early stage with the goal to fill top positions. Once a year, we use this review to discuss succession planning for key positions with the various METRO national subsidiaries. The competencies, skills and experience of each candidate are assessed and compared with the updated job specifications of the corresponding positions. These interviews form the basis for filling all top positions. In financial year 2018/19, we focused in particular on identifying young talent and we managed to find the top 500 junior managers worldwide. We now take specific measures and set up programmes to promote the development of young employees.

Performance-based remuneration for executives (with the exception of members of the Management Board)[6]

Our remuneration system 'Perform & Reward' comprises a monthly fixed salary as well as 1-year and multi-year variable remuneration components whose payment amounts are essentially linked to our company's business performance. Additionally, the 1-year variable remuneration considers our executives' individual achievements, generation of additional value for customers as well as their implementation of our guiding principles in their daily work. The multi-year variable compensation components include a sustainability component and allow executives to participate in METRO's share price development.

[6] See chapter 6 remuneration report

Remuneration principles

The remuneration model for top executives is based on the following 4 principles:

- Fair and internally consistent remuneration
- Performance-based pay
- Market-driven and appropriate salaries
- Encouragement of role model behaviour

With the 1-year and multi-year variable remuneration, top executives participate directly in the success of their respective units.

The 1-year variable remuneration is based on sales, profit (EBITDA) and cash flow. In addition, customer satisfaction is a relevant key performance indicator.

As part of the multi-year variable remuneration (long-term incentive, LTI), a specific plan has been created for top executives of the group with focus on the increase in value of METRO. The LTI is based on the relative total shareholder return (TSR) of the METRO AG share compared to a benchmark (MDAX and a group of selected benchmark companies[7]). The economic success of each company during the performance period of the plan is another indicator. Furthermore, sustainability is measured by the rank METRO achieves in the Dow Jones Sustainability Index.

Additionally, a mid-term incentive (MTI) was set up for top executives to support the transformation at METRO over a period of 2 years. The plan allows participants to join in on METRO's success and rewards the achievement of important internal transformation goals, such as customer satisfaction and the quality of our master data.

Top executive remuneration is complemented by benefits, such as an attractive pension model, promotion of health care and a mobility budget that can be used for a vehicle or train rides as part of METRO's 'Green Car Policy'.

Continued development of employees

Our in-house corporate academy House of Learning has been awarded the internationally renowned CLIP certification from the European Foundation for Management Development (EFMD) for the learning and development programmes offered by METRO. The foundation was particularly impressed with the consistent employee development and proximity to the business. The House of Learning division offers customised personnel development measures, learning solutions and services that target the corporate strategy of METRO as well as the special features of the wholesale business.

House of Learning focuses on learning and development programmes about customer orientation, leadership, transformation, sales, field service, supply, purchasing, finance and human resources. The focus is on employees and managers of METRO AG as well as the national subsidiaries.

[7] BidCorp; Bizim Toptan; Marr; Eurocash Group; Performance Food Group; US Foods Sysco; Sligro

TRAINING COURSES AT METRO

	E-Learning modules, webinars and online courses	Seminars, on-the-job training	Total
Number	285,518	9,913	295,431
Participants	286,964	134,278	421,242
Participant hours	171,483	862,420	1,033,903

TRAINING COURSES AT METRO AG

	E-Learning modules, webinars and online courses	Seminars, on-the-job training	Total
Number	1,774	242	2,016
Participants	1,891	886	2,777
Participant hours	1,055	11,590	12,645

In financial year 2018/19, we enhanced our learning opportunities. Moreover, we designed and launched internal master programmes for the first time in order to prepare high-potential employees in the company for the challenges of future management tasks in the wholesale business and to ensure long-term succession planning. One example of programme is the ‘Master in Store Operations’ course. It was launched in June 2019 after a balanced nomination process by the employees, the management of the respective country and a committee in the corporate headquarters with store managers from 15 different METRO countries. This intensive, multi-month study course will run until February 2020 and will be supported by numerous sponsors from the Management Board and Operating Board. Comparable academic concepts with master programmes are currently being developed in other areas as well (for example, Purchasing and HR).

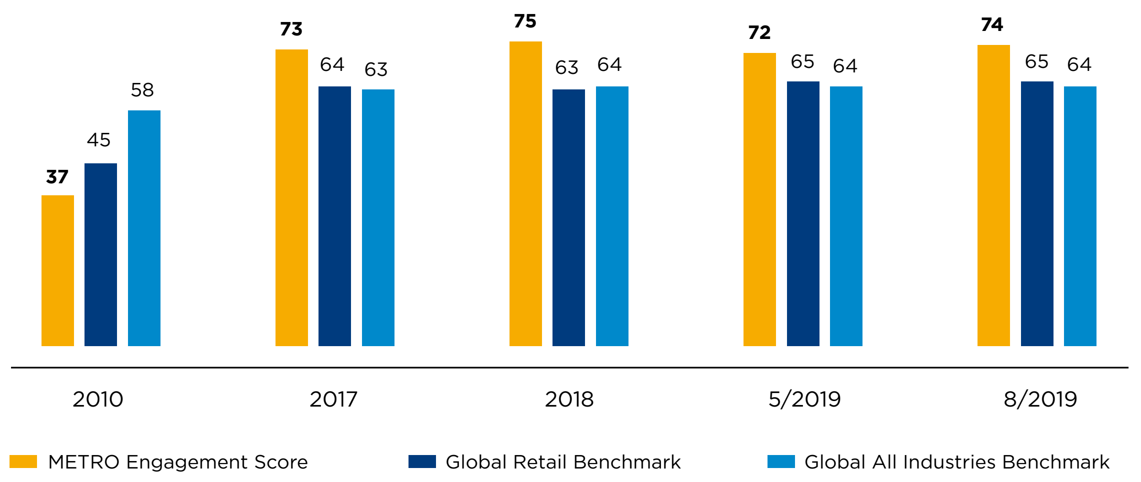
Employee engagement

Our global employee survey METRO ‘Voice it!’ is an important tool used to determine the engagement of the workforce and their loyalty to the company. We conduct it in the national subsidiaries and service companies and at METRO AG. Since 2019, the employee survey takes place quarterly and will therefore reflect the mood in the company at fairly short intervals. Another objective of the new concept is to promote constant communication within the teams and thus contribute to continuous improvement of the work environment. Under the motto ‘Our start for a continuous dialogue’, more than 80,000 employees were invited to participate in the survey in May and August 2019. 81% of employees at the surveyed business units took part in the survey in May. In August, 74% of employees took part in the survey despite the summer holiday season.

The level of engagement, which indicates the level of solidarity, loyalty to the company and willingness to perform, increased from 72% in May to 74% in August in financial year 2018/19. This is still well above the Global Retail Benchmark of the consulting firm Kincentric (65%).

DEVELOPMENT OF THE ENGAGEMENT SCORE

in %



Occupational safety and health management

The demographic evolution of society, profound changes in the work environment and increasing competition for a good workforce require sustainable and forward-looking concepts for occupational safety as well as viable health management. In order to identify areas with high accident rates or particularly vulnerable groups, to evaluate the causes of accidents and to define targeted countermeasures, METRO has implemented an appropriate reporting system that records employee accidents at 74% of METRO companies worldwide. Due to different definitions and legal requirements in the countries in which METRO is active, we are continuing to work on a central solution that meets local requirements and simultaneously facilitates uniform and comparable data collection throughout the company.

In financial year 2018/19, 94% of the employees in the German METRO companies were recorded via accident reporting. These companies have been able to reduce the number of accidents compared to the equivalent period in financial year 2017/18.

The Lost Time Injury Frequency Rate (LTIFR) for German METRO companies in financial year 2018/19 was 20 (2017/18: 27.4[8]). This system records the number of accidents that cause a downtime of at least 1 day (without the day of the accident) per 1 million working hours. Deaths and long-term incapacity or disability are included, but commuting accidents are not.

In order to increase awareness among our employees that occupational safety is also the responsibility of each individual employee, we conduct numerous programmes and events in our sales lines and service companies as well as METRO AG on topics like nutrition, sports, medical screening and mental health. Furthermore, in our national subsidiaries, the employees responsible for occupational safety and health management are increasingly collaborating in an international network to discuss and improve occupational health and safety measures and to achieve positive results for employees in a timely manner.

[8] Prior-year adjustment due to discontinued operations

Diversity management

We strongly believe that diversity and inclusion lead to better business results. In order to establish a diverse and inclusive corporate culture and to gain better access to more talent, METRO has developed a company-wide diversity approach. Our goal is to create an open work environment in which individual differences are respected, valued and promoted. We strive to build a workforce in which each individual can develop and use their unique potential and strengths.

Equal opportunities at work

We promote equal opportunities at work for men and women. METRO aims to further increase the proportion of women in executive positions. We have made progress towards this goal again during the past financial year. The objective is for 20% of employees on the 1st management level below the Management Board and 35% of employees on the second management level below the Management Board of METRO AG to be women by June 2022. At the end of financial year 2018/19, a share of 11.6% of women were employed in the first management level below the Management Board and 34.1% in the second management level below the Management Board. Additionally, the Supervisory Board has stipulated the objective of having at least one female member appointed to the Management Board of METRO AG by June 2022. As of 1 November 2019, Andrea Euenheim was appointed to the Management Board of METRO AG as the new labour director. She is succeeding Heiko Hutmacher, who is leaving the company as of 31 December 2019 at his own request. METRO AG will achieve the target set by the Supervisory Board already in 2019.

Furthermore, METRO has set a voluntary target for the share of women in executive positions at METRO Wholesale. By June 2022, 25% of managerial positions on levels 1–3 (including store managers) of METRO Wholesale locations worldwide will be filled by women. At the end of the financial year, the proportion of women in management positions in levels 1 to 3 (including store managers) at METRO Wholesale was 24.2%. We will incorporate these goals in our succession planning and recruitment activities.

In 2017, METRO established a Diversity and Inclusion Committee, which created a long-term strategy and is pursuing to promote diversity within the organisation and harness it to benefit the business. As part of this strategy, the committee agreed on individual goals for the group companies with the Management Board of METRO AG, which are monitored using specific key performance indicators. Another task of the aforementioned committee is to support the METRO companies in achieving their goals with best practice sharing and newly developed initiatives. In 2019, METRO AG held its first Diversity & Inclusion Days at the Düsseldorf Campus in order to make diversity and inclusion in the corporate environment more tangible for employees. With a total number of 350 participants events on 5 dimensions (sexual orientation, disability, gender, ethnicity, age), the event was very successful and will be repeated in 2020 at the METRO Campus in Düsseldorf.

METRO is actively participating in various initiatives, such as the Diversity Charter, the LEAD Network and Prout at Work. Beyond that, various employee networks have been established. In 2018, METRO launched the Women Leadership Programme (WLP). Following the successful completion of a pilot programme in June 2018, the Women Leadership Programme was rolled out at METRO AG, METRO Wholesale and the service companies in 2019.

Life phase-oriented programmes

We offer various opportunities for part-time employment and support our employees in caring for relatives. In addition, the head office in Düsseldorf operates 3 kindergartens with spaces for children from the age of 4 months. The staff speak German and English to the children.

Human rights and employer-employee relationships

Our guiding principles on fair working conditions and social partnership are a crucial component in shaping our employer-employee relations. These principles are based on the UN Guiding Principles on Business and Human Rights, the core labour standards of the International Labour Organization (ILO) as well as the 3 main principles of the Resolution on Forced Labour by the Consumer Goods Forum. Accordingly, our guiding principles contain the right to free unionisation and collective agreements, structured working hours and wages, occupational safety and health management as well as the prohibition of forced labour, child labour and discrimination.

We ensure that our sales lines and their national subsidiaries comply with the principles of fair working conditions by auditing our regional headquarters, stores and logistics centres. In order to improve the working conditions in the national subsidiaries, corrective action plans are defined with the local colleagues, in which substantive measures with clear responsibilities and timetables are defined and executed. Since financial year 2016/17, extensive audits on compliance with the METRO principles were performed in 15 national subsidiaries (Pakistan, Bulgaria, Japan, Hungary, Italy, Serbia, India, Slovakia, Moldova, Spain, Russia, Croatia, Kazakhstan, Portugal and France). Many areas returned satisfactory results, while others showed potential for improvement, in particular in the area of occupational safety. The on-site audits were followed by comprehensive training on the METRO principles on fair working conditions. Additional audits of the METRO Wholesale companies are planned for financial year 2019/20 with the objective of auditing all METRO companies and continuously working on improvement measures.

In cooperation with the Amfori Business Social Compliance Initiative (Amfori BSCI), a special course on forced labour was piloted at the national subsidiaries in Turkey and Pakistan in financial year 2017/18 and continued in Ukraine and Bulgaria in financial year 2018/19. The objective is to train METRO employees to recognise forced labour within the supply chain and to support the appropriate ability to act. The training will be introduced in all METRO countries by 2020.

On a national and international level, METRO maintains constant communication with works councils and unions and encourages management to engage in constructive and mutually informative dialogue with our employees and their representatives. This dialogue resulted in several collective employment agreements at the level of business units, countries or individual stores – depending on local laws and customary practices. Based on a survey at METRO Wholesale as well as a few service companies in the previous 2 financial years, 73% of METRO employees were globally represented by works councils, employee representatives and trade unions or covered by collective agreements.

Development of employee numbers

During the reporting period, METRO employed an average workforce of 93,133 full-time equivalents (2017/18: 96,344). This is a decrease of 3.3% from the same period of the previous year. The majority of our employees work outside of our home market Germany. Internationally, we had 75,943 full-time equivalents, 3.7% fewer than during the same period of the previous year. In Germany, the workforce by full-time equivalents decreased slightly to 17,190 (2017/18: 17,508). During the reporting period, METRO Wholesale employed an average of 85,261 full-time equivalents. This represents a decrease of 3.6% over the same period of the previous year. The workforce by full-time equivalents at METRO AG declined by 2.7% to 855 while the number of full-time equivalents in the Others segment decreased by 0.4% to 7,017.

DEVELOPMENT OF EMPLOYEE NUMBERS BY SEGMENTS

By headcount[1] as of closing date of 30/9

	2018	**2019**
METRO	**92,603**	**89,574**
METRO Germany	13,711	**13,606**
METRO Western Europe (excl. Germany)	27,207	**27,227**
METRO Russia	13,960	**12,357**
METRO Eastern Europe (excl. Russia)	29,060	**28,375**
METRO Asia	8,665	**8,009**
Others	**7,008**	**7,152**
METRO AG	**909**	**880**
Total	**100,520**	**97,606**

[1] Excluding METRO China.

DEVELOPMENT OF EMPLOYEE NUMBERS BY SEGMENTS

Full-time equivalents[1] as of the closing date of 30/9

	2018	**2019**
METRO	**86,239**	**82,979**
METRO Germany	11,816	**11,760**
METRO Western Europe (excl. Germany)	24,073	**24,044**
METRO Russia	13,884	**12,288**
METRO Eastern Europe (excl. Russia)	28,264	**27,589**
METRO Asia	8,202	**7,298**
Others	**6,916**	**7,067**
METRO AG	**863**	**837**
Total	**94,018**	**90,883**

[1] Excluding METRO China.

2.6 Characteristics of the accounting-related internal control and risk management system and explanatory report of the Management Board

METRO's accounting-related internal control and risk management system employs coordinated instruments and measures for the prevention, early detection, assessment and management of risks. The Corporate Accounting department of METRO AG is responsible for the group-wide implementation of these instruments and measures.

Overarching responsibility for all processes related to the preparation of the consolidated and individual annual financial statements as well as the combined management report of METRO AG rests with the Board department headed by the Chief Financial Officer of METRO AG, Mr Christian Baier. The actual preparation of the financial statements as well as the combined management report, however, is the legal responsibility of the Management Board of METRO AG. The consolidated and individual annual financial statements as well as the combined management report are audited and approved by the auditor during and after their preparation. They are then discussed and reviewed by the Supervisory Board of METRO AG. The auditor attends this Supervisory Board meeting. The auditor reports on the key findings of his audit and is available for additional questions. Provided that the Supervisory Board has no objections, it approves the annual financial statements and the combined management report. The annual financial statements of METRO AG are adopted once the Supervisory Board has issued its approval.

Group-wide framework

Building on the 'Internal Control – Integrated Framework' concept of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Group Governance department within the Corporate Accounting department of METRO AG has defined group-wide minimum requirements regarding the design of the accounting-related internal control system of METRO AG, the sales lines and the major service companies. With these requirements, the company particularly wants to ensure adherence to the relevant accounting standards and the respective internal guidelines (for example the IFRS accounting guideline).

Among others, these requirements cover the design and implementation of controls, monitoring the effectiveness of controls and reporting on effectiveness analyses.

- **Design of controls:** Taking a top-down approach, the company has identified the risk of material errors relating to the financial reporting for significant financial and accounting-related processes. In addition, the Corporate Accounting department has stipulated binding group-wide control objectives which the group companies must meet by employing company-specific control activities.
- **Implementation of controls:** The group companies must keep records of the implementation of these controls.
- **Effectiveness of controls:** The major group companies are obligated to evaluate the effectiveness of controls at the end of each financial year (self-evaluation). In the process, they must apply the uniform, group-wide method stipulated by the Corporate Accounting department. In addition, the effectiveness of controls is reviewed as part of the risk-oriented, independent audits conducted by the Group Internal Audit department.

- **Reporting:** The results of the self-evaluations must be reported to the Corporate Accounting department using a standardised reporting format. The companies' individual reports are validated by the Corporate Accounting department and compiled in an overall report on METRO's accounting-related internal control system. This is reported to the Governance, Risk and Compliance Committee (GRCC) as well as the Management Board of METRO AG.

The key requirements (for example the IFRS accounting guideline), accounting processes, individual controls and independent review by the Group Internal Audit department and the auditor are described in detail below.

IFRS accounting guideline

The interim consolidated financial statements and the consolidated financial statements of METRO AG are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. A group-wide IFRS accounting guideline that is compulsory for all companies included in the consolidated financial statements ensures the uniform METRO group-wide application of accounting procedures in accordance with IFRS. To monitor compliance with the IFRS accounting guideline, the management of each major group company is obligated to confirm compliance by means of a letter of representation. The IFRS accounting guideline covers all IFRS relevant to METRO AG. Amendments to IFRS are continually updated in the IFRS accounting guideline and communicated to all companies included in the consolidated financial statements.

Accounting processes of companies included in the consolidated financial statements

The preparation of the individual financial statements of consolidated companies according to IFRS for consolidation purposes is principally carried out in SAP-based accounting systems (SAP FI). The organisational separation of central and subledger accounting, such as fixed asset, receivables and payables accounting, provides for clear assignments of individual tasks related to the preparation of the financial statements. It also provides for a functional separation that ensures the efficacy of control processes, such as the 4-eye principle. Many group companies prepare their individual financial statements in these accounting systems on the basis of a centrally managed table of accounts using uniform accounting rules.

Aside from failure to comply with accounting rules, risks can also arise from failure to observe formal deadlines. An online planning tool was introduced to help avoid these risks and document the obligatory processes required as part of the preparation of individual and consolidated financial statements under IFRS, their chronological order and the responsible persons. The online planning tool can be used to monitor the workflows for preparing individual and consolidated financial statements in accordance with IFRS in terms of content and time. The planning tool divides the process of preparing the individual financial statements into key milestones, which in turn are divided into individual activities. In terms of content, these milestones and activities are geared towards METRO's IFRS accounting guideline and thus reflect its implemented state. The scheduling and monitoring of the milestones and activities required to achieve these group milestones in the preparation of individual financial statements are part of the responsibilities of the respective company's management.

The consolidation of accounting-related data for the purpose of group reporting is performed by a centralised consolidation system (CCH Tagetik). Without exception, all consolidated METRO companies must work within this system. It provides a uniform accounts table to be used by all consolidated companies in accordance with the IFRS accounting guideline. Once they have been transmitted from the separate financial statements to the consolidation system, the financial data are subjected to an automated plausibility review in relation to accounting-specific contexts and dependencies. Any errors or warning messages generated by the system during this validation process must be addressed by the person responsible for the individual financial statements before the data are transmitted to the consolidation facility.

An additional control instrument is the report comparing the most significant balance sheet and income statement positions against the previous period's figures. This report must be submitted to METRO AG by all major group companies at the time of preparing their individual financial statements and must also provide comments on any considerable deviations.

To warrant the security of the group's information technology systems (IT), access to the accounting-related IT systems (SAP FI) is regulated. Each company included in the consolidated financial statements is subject to the regulations concerning IT security. These regulations are summarised in an IT security guideline, with group-wide compliance being monitored by the Group Internal Audit department of METRO AG. This ensures that users only have access to the information and systems needed to fulfil their specific tasks.

Accounting processes for consolidation purposes

The processes and controls in connection with preparation of the consolidated financial statements comprise all activities related to the preparation of the consolidated financial statements. This includes the completeness check of the consolidation group, verification of punctual, complete and correct data submission, avoidance of undesirable data changes, a complete and error-free execution of typical consolidation steps such as the elimination of interim results, the elimination of sales, expenses, income and liabilities, as well as capital consolidation.

The group also relies on external service providers to handle support activities related to the preparation of the consolidated financial statements. These services essentially relate to the valuation of real estate assets, pension obligations and share-based remuneration.

The consolidation measures required for the preparation of the consolidated financial statements are subject to various systematic and manual controls. The automated plausibility reviews (validations) used in separate financial statements data also apply to the consolidation measures. A 2-signature principle supported by the consolidation system was implemented for manual postings. In the end, reviews are carried out to ensure that the information in the annual report is complete and error-free.

The control measures are documented in a central documentation system.

Using the central consolidation system, compliance with deadlines and milestones that are centrally provided for the purpose of structuring and coordinating the preparation of the consolidated financial statements is monitored by METRO AG's Corporate Accounting department. Additional monitoring mechanisms at group level include target-performance comparisons as well as analyses dealing with the composition and movements of individual items in the balance sheet and the income statement. An annual self-assessment is used to verify whether internal controls for the preparation and booking process are adhered to during the preparation of the consolidated financial statements.

Access regulations for the consolidation system are implemented to ensure adherence to IT security regulations (write/read authorisations). Access authorisations to use the consolidation system are centrally managed and are subject to customary approval mechanisms. They are reviewed annually by Corporate Accounting to ensure that users only have access to the data they need to perform their tasks.

Independent audit/validation

The Group Internal Audit department of METRO AG provides independent and objective auditing and consulting services within METRO and supports the Management Board of METRO AG and the management of the group companies in reaching their goals by subjecting the key management and business processes to a potential-oriented evaluation. In coordination with the Management Board and the group companies, Group Internal Audit develops a risk-oriented audit and project plan every 3 years, which is updated annually as needed.

Based on the described principles, the Group Internal Audit department carries out independent audits of the controls monitoring the process of preparing the consolidated financial statements, the implementation of the IFRS accounting guideline and group accounting processes within METRO. For this purpose, focal topics are defined as part of risk-oriented planning for the annual audit.

3 ECONOMIC REPORT

3.1 Macroeconomic and sector-specific parameters

Global economy

The growth of the global economy was clearly positive in financial year 2018/19, even if it was noticeably lower than in the same period of the previous year. While the Eastern European and Asian regions continued to show stable growth, albeit below the previous year’s level, the Western European countries in particular recorded lower growth rates. In the economic sectors, the service sector contributed to stabilising growth. Barriers to economic development continued to result from the uncertainties in international trade, which, among other things, can be attributed to trade policy conflicts and protectionism, primarily triggered by the USA.

Germany

In financial year 2018/19, the German economy grew across all industries, albeit at a significantly slower pace than in the previous year. This development particularly affected the 2019 calendar year. The economic development was supported by domestic demand and the continued positive consumer behaviour. The latter was boosted by a low unemployment rate and higher wages. The service sector also contributed to economic growth, which somewhat cushioned the decline in the industrial sector. Inflation remained at a low level. Direct trade conflicts with the USA and the dispute between the USA and China remain risk factors – as does Brexit.

Western Europe

In Western Europe, the economic trend deteriorated increasingly compared to the previous year as well as over the course of financial year 2018/19. However, the weaker development in private spending of the export sector was partially offset by stable growth in the service sector.

Despite lower growth compared to the previous year, domestic demand was boosted by private consumption and by the continued good situation of the labour market. Price inflation was low in most countries during the reporting period, particularly in Italy and Portugal. The impact of Brexit has not yet been directly felt in the rest of Western Europe.

Russia

The Russian economy grew in financial year 2018/19, albeit at a much slower pace than in the previous year. Exports in particular collapsed and the rouble remained weak despite a slight appreciation against the euro, partly as a result of US trade restrictions. In addition, inflation rose considerably. Domestic demand and private consumption grew more slowly than in the same period of the previous year. The labour market, on the other hand, continued to develop positively. Other negative influencing factors included the increase in value added tax and pension cuts.

Eastern Europe

In the other Eastern European countries, growth was noticeably stronger than in Western Europe, albeit slightly lower than in the same period of the previous year. The downturn was particularly affected by Turkey, which was in the middle of a recession. Growth in the region was also reflected in private consumption, which, with the exception of Turkey, was supported by very good labour market development, for example in Poland, Hungary and Romania.

The inflation rate and the exchange rate against the euro developed differently in the countries, but overall at a stable, moderate level. Turkey, however, was excluded from this development.

Asia

Economic growth in Asia remained at a high level, albeit slightly below previous year's level. China in particular remained on a steady growth course despite the trade conflict with the USA. India and Malaysia also exhibited strong development. Growth in private consumption was quite stable and the labour market situation remained positive.

DEVELOPMENT OF GROSS DOMESTIC PRODUCT IN IMPORTANT WORLD REGIONS AND GERMANY

Year-on-year change in %

	2018[1]	**2019[2]**
World	3.6	**2.9**
Germany	1.5	**0.6**
Western Europe (excl. Germany)	1.9	**1.3**
Russia	2.3	**1.1**
Eastern Europe (excl. Russia)	4.1	**3.6**
Asia	5.6	**4.9**

Real GDP growth corrected for purchasing power. Source: Oxford Economics

[1] The previous year's figures may slightly deviate from the Annual Report 2017/18, since retrospective corrections are being made by the data provider.

[2] Outlook.

Wholesale sector development

On a global scale, self-service wholesale trade sales were at a similar level to the previous year; however, the development varied across the countries in which METRO operates. The sectors of our core customer groups HoReCa and Traders developed positively again compared to the same period of the previous year. Strong growth in out of home consumption across all METRO regions played a major role in this trend.

In Germany, self-service wholesale trade growth stagnated in financial year 2018/19. By contrast, the delivery sales business continued to grow strongly. Compared to financial year 2017/18, sales growth in the HoReCa and Traders sectors increased to a good level. This was driven by a particularly strong increase in out of home consumption and an increase in overnight accommodation services.

In Western Europe, self-service wholesale trade recorded stable growth slightly below previous year's level, with Austria and Spain growing particularly strongly. Self-service wholesale trade also continued to develop steadily in France, albeit below previous year's level. Growth in the HoReCa and Traders sectors accelerated as a result of the increased trend of out of home consumption.

After a downturn in the previous year, self-service wholesale trade in Russia recorded growth again in financial year 2018/19. The sales of our customer groups HoReCa and Traders also developed positively.

Across Eastern Europe, self-service wholesale trade as well as the HoReCa and Traders sectors the development varied. Turkish self-service wholesale trade stagnated despite high inflation, while the HoReCa and Traders sectors continued to grow. Romania and the Ukraine experienced high growth in all areas. In Poland, the cash & carry market grew, with both the HoReCa and Traders sectors showing growth.

The Asian markets in which METRO operates outperformed financial year 2017/18. Growth in cash & carry and the HoReCa and Traders sectors in India accelerated particularly strongly. In Pakistan, the HoReCa and Traders sectors also grew significantly faster than in the previous year. In Japan, the HoReCa and Traders sectors recovered compared to the previous year and showed slight growth.

3.2 Asset, financial and earnings position

Overall statement by the Management Board of METRO AG on the business development and situation of METRO

In financial year 2018/19, the growth of the global economy was noticeably slower than in the same period of the previous year, but was still clearly positive overall. From a regional perspective, Western European countries in particular recorded lower growth rates, while the Eastern European and Asian regions continued to show steady growth despite falling short of the previous year's level.

However, the Management Board can look back on a successful financial year in which great progress was made in implementing the transformation strategy and sales growth was accelerated. In the outlook view, in particular Eastern Europe (excluding Russia), Western Europe (excluding Germany) and Asia contributed to the good development. Growth was also shaped by expansion of the core business, wholesale. The consistent focus on the 2 core customer groups HoReCa (hotels, restaurants and catering companies) and Traders (independent retailer) also made a noticeable contribution to the good sales trend.

EBITDA developed in line with expectations. Accordingly, the Management Board is satisfied with the development of the business as a whole, especially with the good earnings performance in Western Europe and Asia. Earnings per share for continuing operations including METRO China increased from €1.22 to €1.44. Accordingly, an attractive dividend will also be proposed to shareholders for financial year 2018/19.

In October 2019, METRO signed an agreement to sell a majority stake in METRO China to Wumei. As a result of the sale, METRO China is reported as a discontinued operation as of 30 September 2019 in accordance with IFRS 5.

Unless expressly stated otherwise, all presentations in the combined management report refer to continuing operations (excluding the hypermarket business and excluding METRO China).

Only the comparison of the outlook with actual business developments as well as the dividend proposal refer to the outlook issued for 2018/19 which includes METRO China.

Financial and asset position

Financial management

Principles and objectives of financial activities

The financial management ensures the long-term liquidity of METRO reduces financial risks where economically feasible and grants loans to group companies. METRO AG centrally performs and controls these activities for all group companies. The objective is to ensure that group companies can cover their funding requirements in a cost-efficient manner and, where possible, via the international capital markets. This objective will be pursued with regard to operating business as well as investment activities. The selection of financial products is based in principle on the maturities and terms of the underlying transactions.

Intra-group cash pooling allows the surplus liquidity of individual group companies to be used for providing internal finance to other group companies. This reduces the group's amount of debt and thus its interest expenses. The financial activities are based on a financial budget for the group, which covers all relevant companies.

METRO's current long-term investment grade rating of BBB- and short-term rating of A-3 by Standard & Poor's both ensure access to international financial and capital markets. We are utilising this access within the scope of our Commercial Paper Programme as well as our ongoing capital market programme as required. Frequent dialogue with credit investors and analysts always takes place.

The following principles apply to all group-wide financial activities:

- External presentation of METRO as a single financial unit
- Protection of our financial scope of action by limiting the volume of transactions with individual banks
- Centralised financial risk management
- Centralised risk monitoring
- Approval process for collaboration with contractual partners in the field of financial instruments
- Implemented functional separation

— **For more information about the risks stemming from financial instruments and hedging relationships, see the notes to the consolidated financial statements in no. 44 – management of financial risks ▶ page 274.**

Rating

METRO AG has instructed Standard & Poor's to assess and monitor its credit rating. Standard & Poor's current assessment of METRO's credit rating is as follows:

Category	2019
Long-term	BBB–
Short-term	A-3
Outlook	stable[1]

[1] The outlook was temporarily lowered by Standard & Poor to 'CreditWatch negative', particularly in light of the EP Global Commerce takeover bid. On 25 October 2019, the outlook was confirmed as stable again.

Financing measures

The company's medium-term and long-term financing needs are covered by an ongoing capital market bond programme with a maximum volume of €5 billion. On 1 March 2019, a due bond of €500 million was repaid with a coupon of 3.375%. As of 30 September 2019, the utilised bond issuance programme amounted to a total of €1,901 million.

Short-term financing requirements are covered through the Euro Commercial Paper Programme with a maximum volume of €2 billion. On average, the programme was used at €785 million during the reporting period. As of 30 September 2019, the utilisation amounted to €387 million (30/9/2018: €497 million).

Bilateral credit facilities totalling €359 million were used as of 30 September 2019. As a cash reserve, 2 syndicated credit facilities worth €1,750 million and additional multi-year bilateral credit facilities worth €250 million were concluded. At no point during the reporting period were the syndicated credit facilities used.

– **For more information about financing programmes and credit facilities, see the notes to the consolidated financial statements – in no. 36 – financial liabilities ▶ page 249.**

UNDRAWN CREDIT FACILITIES BY METRO

	30/9/2018			**30/9/2019**		
		Remaining term			**Remaining term**	
€ million	Total	up to 1 year	over 1 year	**Total**	**up to 1 year**	**over 1 year**
Bilateral credit facilities	633	318	315	**609**	**279**	**330**
Utilisation	−383	−318	−65	**−359**	**−279**	**−80**
Undrawn bilateral credit facilities	**250**	**0**	**250**	**250**	**0**	**250**
Syndicated credit facilities	1,750	0	1,750	**1,750**	**0**	**1,750**
Utilisation	0	0	0	**0**	**0**	**0**
Undrawn syndicated credit facilities	**1,750**	**0**	**1,750**	**1,750**	**0**	**1,750**
Total credit facilities	**2,383**	**318**	**2,065**	**2,359**	**279**	**2,080**
Total utilisation	−383	−318	−65	**−359**	**−279**	**−80**
Total undrawn credit facilities	**2,000**	**0**	**2,000**	**2,000**	**0**	**2,000**

Investments / Divestments

In financial year 2018/19, METRO invested €499 million, considerably less than the investment amount in the previous year. The decline in investments is mainly due to a more selective expansion activity. With 3 new store openings in financial year 2018/19, it declined compared to the previous year (2017/18: 9 new store openings), which is attributable in particular to the development in Russia. 1 new METRO store was opened in the current financial year, compared to 4 stores in the previous year. The 2 additional new openings are a smaller and more cost-effective store format in Turkey and Croatia. There were no closures in financial year 2018/19.

In addition, the decrease in investments resulted, among other things, from special projects in financial year 2017/18, such as the expansion of the logistics network as well as project developments in Germany. These special projects were not offset by projects of a comparable magnitude in the reporting period. Further progress was also made in improving capital efficiency in the areas of concept conversions and delivery sales.

The investment focus in financial year 2018/19 included IT and digitalisation. Investments in these areas increased compared to the previous year. In addition to investments in the newly established online marketplace METRO MARKETS, above all digital services for wholesale customers and IT solutions for the delivery sales were further expanded.

Furthermore, an increase in lease extensions and investments in maintenance was recorded for the reporting year.

Proceeds of €505 million (2017/18: €271 million) were received from divestments (including disposals of subsidiaries, but excluding cash investments), resulting mainly from the disposal of properties.

— **For more information about divestments, see the cash flow statement in the consolidated financial statements as well as the notes to the consolidated financial statements in** no. 41 – notes to the cash flow statement page 263.

METRO INVESTMENTS

€ million	2017/18	2018/19	Change absolute	Change %
Germany	65	**69**	4	5.7
Western Europe (excl. Germany)	127	**128**	1	0.9
Russia	83	**35**	−48	−57.8
Eastern Europe (excl. Russia)	69	**63**	−6	−8.4
Asia	28	**26**	−2	−7.1
Others	195	**180**	−15	−7.5
Consolidation	−2	**−2**	0	−29.4
METRO	**565**	**499**	**−66**	**−11.7**

Liquidity (cash flow statement)

Cash inflow from operating activities from continuing operations amounted to €796 million in financial year 2018/19 (2017/18: cash inflow of €766 million). Investing activities led to cash inflow of €46 million (2017/18: cash outflow of €292 million). Compared with the previous year's period, this represents an increase in cash flow before financing activities of €368 million to €842 million. Cash outflow from financing activities exhibited a cash outflow of €1,122 million (2017/18: cash outflow of €587 million). Total cash flow from investing activities of discontinued operations amounts to €−88 million (2017/18: €−24 million).

- **For more information, see the cash flow statement in the consolidated financial statements as well as the notes to the consolidated financial statements in** **no. 41 – notes to the cash flow statement ▸ page 263****.**

CASH FLOW STATEMENT[1]

€ million	2017/18	2018/19
Cash flow from operating activities of continuing operations	766	**796**
Cash flow from operating activities of discontinued operations	139	**157**
Cash flow from operating activities	**905**	**953**
Cash flow from investing activities of continuing operations	−292	**46**
Cash flow from investing activities of discontinued operations	−89	**−136**
Cash flow from investing activities	**−381**	**−90**
Cash flow before financing activities of continuing operations	474	**842**
Cash flow before financing activities of discontinued operations	50	**21**
Cash flow before financing activities	**524**	**863**
Cash flow from financing activities of continuing operations	−587	**−1,122**
Cash flow from financing activities of discontinued operations	−74	**−109**
Cash flow from financing activities	**−661**	**−1,231**
Total cash flows	**−137**	**−368**
Currency effects on cash and cash equivalents	−30	**17**
Total change in cash and cash equivalents	**−167**	**−351**

[1] Abridged version. The complete version is shown in the consolidated financial statements.

Capital structure

As of 30 September 2019, the METRO group balance sheet reports equity attributable to continuing and discontinued operations in the amount of €2.7 billion (30/9/2018: €3.1 billion). The profit or loss for the period from continuing operations leads to an increase in reserves retained from earnings. The profit or loss for the period from discontinued operations as well as dividend payments for financial year 2017/18 have an opposite effect. The equity ratio stands at 18.9% (30/9/2018: 20.2%).

Negative reserves retained from earnings are not due to a history of loss but to a reclassification of the equity item 'net assets attributable to the former METRO GROUP', recognised in the combined financial statements of the MWFS GROUP as of 1 October 2016, to the legally defined equity items.

€ million	Note no.	30/9/2018	30/9/2019
Equity	31	**3,074**	**2,735**
Share capital		363	**363**
Capital reserve		6,118	**6,118**
Reserves retained from earnings[1]		−3,449	**−3,778**
Non-controlling interests		41	**32**

[1] Adjustment of previous year according to explanation in notes.

— **For more information about our equity, see the notes to the consolidated financial statements in the number listed in the table.**

Net debt related to continuing operations decreased by €0.2 billion in the adjusted year-on-year comparison, amounting to €2.9 billion as of 30 September 2019 (30/9/2018: €3.1 billion after adjustment). Cash and cash equivalents decreased by €0.4 billion as of 30 September 2019 to €0.5 billion (30/9/2018: €0.9 billion after adjustment). By contrast, financial liabilities decreased by €0.6 billion to €3.4 billion (30/9/2018: €4.0 billion after adjustment).

€ million	30/9/2018	30/9/2018 adjusted[1]	30/9/2019
Cash and cash equivalents	1,298	906	**500**
Short-term financial investments[2]	2	2	**11**
Financial liabilities (incl. finance leases)	4,010	4,010	**3,369**
Net debt	**2,710**	**3,102**	**2,858**

[1] Adjusted for effects of the discontinued business segment.
[2] Shown in the balance sheet under other financial assets (current).

As of 30 September 2019, non-current liabilities of the continuing operations amounted to €3.4 billion (30/9/2018: € 3.4 billion). While pension provisions increased by €76 million in year-on-year comparison, mainly due to the decrease in the applicable interest rate, financial liabilities decreased by €92 million.

As of 30 September 2019, METRO's current liabilities amounted to €8.2 billion (30/9/2018: €8.3 billion). The decrease of €0.4 billion compared to the adjusted previous year's figure is mainly due to the repayment of a bond in the amount of €0.5 billion. The other balance sheet items showed a stable development; only trade payables increased by €69 million, mainly due to currency effects.

Compared to 30 September 2018, the debt ratio increased from 79.8% by 11.3 percentage points to 81.1%. It should be noted here that current liabilities of €2.6 billion (30/9/2018: €2.4 billion) include liabilities related to assets held for sale.

— **For more information about the maturity, currency and interest rate structure of financial liabilities as well as the credit facilities, see the notes to the consolidated financial statements in** **no. 36 – financial liabilities ▸page 249.**

€ million	Note no.	30/9/2018[1]	30/9/2018 adjusted[2]	30/9/2019
Non-current liabilities		**3,427**	**3,426**	**3,419**
Provisions for post-employment benefits plans and similar obligations	32	468	468	**543**
Other provisions	33	126	126	**132**
Financial liabilities	34, 36	2,590	2,590	**2,498**
Other financial and other non-financial liabilities	34, 37	123	123	**127**
Deferred tax liabilities	25	120	119	**119**
Current liabilities		**8,705**	**8,706**	**8,343**
Trade liabilities	34, 35	3,993	3,503	**3,572**
Provisions	33	274	203	**168**
Financial liabilities	34, 36	1,420	1,420	**871**
Other financial and other non-financial liabilities	34, 37	1,136	954	**962**
Income tax liabilities	34	191	188	**169**
Liabilities related to assets held for sale	43	1,691	2,438	**2,601**

[1] Adjustment of previous year according to explanation in notes.
[2] Adjusted for effects of the discontinued business segment.

— **For more information about the development of liabilities, see the notes to the consolidated financial statements in the numbers listed in the table. Information about contingent liabilities and other financial liabilities can be found in the notes to the consolidated financial statements in no. 45 – contingent liabilities** **page 281** **and no. 46 – other financial commitments** **page 281****.**

Asset position

In financial year 2018/19, total assets of continuing and discontinued operations decreased by €709 million to €14.5 billion (30/9/2018: €15.2 billion).

In financial year 2018/19, non-current assets from continuing operations decreased by €141 million to €6.7 billion (30/9/2018: €6.9 billion), primarily relating to property, plant and equipment. In addition to cost-efficient investment activities, this was mainly due to individual property sales, while currency effects increased the carrying amount.

€ million	Note no.	30/9/2018[1]	30/9/2018 adjusted[2]	30/9/2019
Non-current assets		**7,503**	**6,877**	**6,736**
Goodwill	19	797	778	**785**
Other intangible assets	20	499	496	**562**
Property, plant and equipment	21	5,314	4,892	**4,760**
Investment properties	22	97	97	**82**
Financial assets	23	88	88	**97**
Investments accounted for using the equity method	23	178	178	**179**
Other financial and other non-financial assets	24	202	86	**80**
Deferred tax assets	25	329	262	**191**

[1] Adjustment of previous year according to explanation in notes.
[2] Adjusted for effects of the discontinued business segment.

— **For more information about the development of non-current assets, see the notes to the consolidated financial statements in the numbers listed in the table.**

Current assets of continuing operations decreased by €569 million compared to the previous year's figures to €7.8 billion (30/9/2018: €8.3 billion). Cash and cash equivalents in particular contributed to this development with a decrease of €407 million to €0.5 billion (30/9/2018: €0.9 billion).

€ million	Note no.	30/9/2018	30/9/2018 adjusted[1]	**30/9/2019**
Current assets		**7,703**	**8,329**	**7,761**
Inventories	26	2,108	1,905	**1,946**
Trade receivables	27	571	496	**482**
Financial assets		1	1	**4**
Other financial and other non-financial assets	24	913	796	**881**
Entitlements to income tax refunds		206	202	**190**
Cash and cash equivalents	29	1,298	906	**500**
Assets held for sale	30, 43	2,605	4,024	**3,758**

[1] Adjusted for effects of the discontinued business segment.

— **For more information about the development of current assets, see the notes to the consolidated financial statements in the numbers listed in the table.**

Discontinued operations

The assets held for sale amount to €3.8 billion (30/9/2018: €2.6 billion as reported). The liabilities recognised in this connection amount to €2.6 billion (30/9/2018: €1.7 billion as reported).

Of the resulting net assets, €0.5 billion (30/9/2018: €0.9 billion) relate to the hypermarket business. In particular, write-downs on the carrying amounts of the disposal group led to a reduction in the net assets carried in the balance sheet.

METRO China was reported as a disposal group for the first time as of 30 September 2019 which accounts for €0.7 billion in net assets.

— **For more information, see the notes to the consolidated financial statements in no. 43 discontinued business sectors ▸ page 266.**

Earnings position

Overview of group business development

In financial year 2018/19, METRO's like-for-like sales rose by 2.1%. The growth was particularly pronounced in Eastern Europe (excluding Russia), Western Europe (excluding Germany) and Asia. Sales in local currency grew by 2.2%. Due to adverse exchange rate developments in Eastern Europe, Russia and Asia, reported sales increased by only 1.1% to €27.1 billion.

The earnings before depreciation and amortisation (EBITDA) excluding earnings contributions from real estate transactions of METRO totalled €1,021 million in financial year 2018/19 (2017/18: €1,088 million). The exchange rate developments of primarily the Turkish and Russian currencies had a negative impact on earnings. Adjusted for currency effects, the decrease was €−49 million less than in the previous year. As expected, the ongoing repositioning of the Russian business and increased costs for digitalisation/IT had a negative impact on earnings. The positive earnings development in Western Europe (excluding Germany), Germany and Asia had a compensating effect. Earnings contributions from real estate transactions totalled €338 million (2017/18: €128 million). EBITDA reached €1,359 million (2017/18: €1,216 million).

€ million	2017/18[1]	**2018/19**	Change
Sales	26,792	**27,082**	1.1%
EBITDA excluding earnings contributions from real estate transactions	1,088	**1,021**	−6.1%
Earnings contributions from real estate transactions	128	**338**	–
EBITDA	1,216	**1,359**	11.8%
EBIT	713	**828**	16.1%
Investments	565	**499**	−11.7%
Stores	675	**678**	0.4%
Selling space (1,000 m²)	4,665	**4,728**	1.3%

[1] Adjusted for effects of the discontinued operations.

The reconciliation from sales to like-for-like sales in local currency is shown in the following:

	Continuing operations		
€ million	2017/18	**2018/19**	Change
Total sales	**26,792**	**27,082**	**1.1%**
Total sales in local currency[1]	26,504	**27,082**	2.2%
Sales of stores that were not part of the like-for-like panel in 2018/19[2]	197	**224**	-
Like-for-like sales in local currency	**26,307**	**26,858**	**2.1%**

[1] Sales in local currency of the previous year were calculated by converting reported sales of the previous year at the average exchange rate of the current financial year.

[2] Not included in the like-for-like panel are, among others, new openings, stores in start-up phase, closures, service companies and major refurbishments.

Comparison of outlook with actual business developments

The comparison of the actual business development with the outlook for financial year 2018/19 relates to the continuing operations of METRO including METRO China. The contract for the sale of the majority share in METRO China was signed on 11 October 2019.

The outlook was based on the assumption of stable exchange rates without adjustments to the portfolio. Our reporting also assumed a continuously complex geopolitical situation.

Despite the persistently challenging economic environment particularly in Russia, METRO expected to see an increase in overall sales in the range of 1% to 3% for financial year 2018/19, to which Eastern Europe (excluding Russia) and Asia in particular were supposed to contribute. With total revenue growth of 2.5% in local currency, METRO met this target. The expected measurable trend improvement in Russia was also achieved.

METRO equally expected an increase in like-for-like sales in the range of 1% to 3% in financial year 2018/19, which was also supposed to be driven by Eastern Europe (excluding Russia) and Asia. With like-for-like sales growth of 2.4%, this target was met as well. The expected measurable trend improvement in Russia could be realised as well. For both sales figures, the segment outlook was also achieved in each case except for the sales trend in the Germany segment, which remained slightly below expectations.

The Management Board of METRO AG expected a slight decline in EBITDA (adjusted for currency effects and excluding earnings contributions from real estate transactions) of around 2% to 6% compared to financial year 2017/18 (€1,242 million). In particular, a decline in the double-digit percentage range was expected in the Others segment (2017/18: €−129 million) and a decline in the mid to high single-digit percentage range in the Russia segment. For all other segments, an EBITDA around previous year's level was expected. This outlook for the Russia segment was adjusted in the third quarter and a decrease of approximately 15% was expected. The slightly weaker result in Russia should be positively compensated by slightly better results in Western Europe (excluding Germany) and Asia.

Adjusted for negative currency effects of €17 million, METRO's EBITDA excluding earnings contributions from real estate transactions was €−52 million or −4.2% below the previous year's figures. With this decrease METRO is in the expected range of the outlook of 2% to 6%. This also applies to the outlook at segment level except for the EBITDA development of the Eastern Europe segment (excluding Russia), which remained slightly below expectations. The Russia segment developed in line with the adjusted expectations.

METRO has thus achieved its sales and earnings targets outlook in the previous year for financial year 2018/19.

	2017/18	Outlook 2018/19[1]	**2018/19**
Sales trend (like-for-like)	1.3%	1%–3% growth	**2.4%**
METRO Germany	0.9%		**0.3%**
METRO Western Europe (excl. Germany)	−0.4%		**1.3%**
METRO Russia	−7.0%	Noticeable trend improvement	**−4.3%**
METRO Eastern Europe (excl. Russia)	6.1%	Special article	**6.3%**
METRO Asia	4.0%	Special article	**5.1%**
Sales trend in local currency	1.5%	1%–3% growth	**2.5%**
METRO Germany	0.3%		**−0.6%**
METRO Western Europe (excl. Germany)	1.7%		**1.3%**
METRO Russia	−8.0%	Noticeable trend improvement	**−3.3%**
METRO Eastern Europe (excl. Russia)	5.6%	Special article	**6.4%**
METRO Asia	4.4%	Special article	**6.3%**
EBITDA excluding earnings contributions from real estate transactions in € million[1]	1,242	2%–6% decline	**−4.2%**
METRO Germany	91	Previous year's level	**4.1%**
METRO Western Europe (excl. Germany)	491	Previous year's level	**1.6%**
METRO Russia	266	Decline in mid to high single-digit percentage range[2]	**−15.5%**
METRO Eastern Europe (excl. Russia)	363	Previous year's level	**−3.0%**
METRO Asia	162	Previous year's level	**8.8%**
Others	−129	Decline in double-digit percentage range	**−22.6%**

[1] At constant exchange rates, without further portfolio adjustments and excluding transformation costs.

[2] The outlook for the METRO Russia segment was adjusted in the 3rd quarter and a decline of approximately 15 % was expected. The slightly weaker result in Russia should be positively compensated by slightly better results in Western Europe (excl. Germany) and Asia.

Sales and earnings development of the segments

Like-for-like **sales** of METRO increased by 2.1% in financial year 2018/19. The growth was particularly pronounced in Eastern Europe (excluding Russia), Western Europe (excluding Germany) and Asia. Sales in local currency grew by 2.2%. Due to adverse exchange rate developments in Eastern Europe (excluding Russia), Russia and Asia, reported sales increased by only 1.1% to €27.1 billion.

In **Germany**, like-for-like sales in financial year 2018/19 rose by 0.3%, while reported declined sales by −0.5%, significantly impacted by the first-time application of IFRS 15.

Like-for-like sales in **Western Europe (excluding Germany)** rose by 1.3% in financial year 2018/19 after a negative development in the previous year. Reported sales increased by 1.3% to €10.8 billion. France, delivery company Pro à Pro, Spain and Portugal particularly contributed to this.

In **Russia,** the trend improved compared to the previous year, but the market environment remains challenging. Like-for-like sales in financial year 2018/19 declined by −4.3%. In local currency, revenues decreased by −3.3%. As a result of negative currency effects, the reported sales decreased by −5.4%.

In **Eastern Europe (excluding Russia)**, like-for-like sales in financial year 2018/19 were clearly positive with an increase of 6.3%. This is predominantly attributable to the performance in Turkey, Romania and Ukraine. In local currency, sales grew by 6.4%. Due to negative currency effects, especially in Turkey, reported sales increased by 3.4% only.

Like-for-like sales in **Asia** increased by 5.3% in financial year 2018/19. All countries in this segment (India, Japan, Pakistan) and Classic Fine Foods contributed to this result. Sales in local currency grew by 7.3%. Due to negative currency effects, reported sales increased by only 5.2%.

METRO's **delivery sales** developed very dynamically. In financial year 2018/19, sales rose by 9.2% to €4.6 billion (2017/18: €4.2 billion). As a result, delivery business now accounts for 17% (2017/18: 16%) ofsales.

As of 30 September 2019, the **store network** spans 678 individual stores (30/9/2018: 675 stores). In financial year 2018/19, 3 stores were opened (1 store each in Croatia, Russia and Turkey). In addition, METRO strengthened its reach by further expanding the supply infrastructure.

METRO KEY SALES FIGURES 2018/19

In year-on-year comparison

	Sales (€ million)		Change in % compared with the previous year's period			
	2017/18	**2018/19**	in group currency (€)	Currency effects in percentage points	in local currency	Like-for-like (local currency)
METRO	**26,792**	**27,082**	**1.1%**	**−1.1%**	**2.2%**	**2.1%**
Germany	4,761	**4,735**	−0.5%	0.0%	−0.6%	0.3%
Western Europe (excl. Germany)	10,609	**10,752**	1.3%	0.0%	1.3%	1.3%
Russia	2,815	**2,662**	−5.4%	−2.1%	−3.3%	−4.3%
Eastern Europe (excl. Russia)	6,952	**7,191**	3.4%	−3.0%	6.4%	6.3%
Asia	1,612	**1,696**	5.2%	−2.1%	7.3%	5.3%
Others	43	**46**	7.4%	0.0%	7.4%	–

The **EBITDA excluding earnings contributions from real estate transactions** reached a total of €1,021 million in financial year 2018/19 (2017/18: €1,088 million). The exchange rate developments of primarily the Turkish and Russian currencies had a negative impact on earnings. Adjusted for currency effects, the decrease was €−49 million less than in the previous year. As expected, the ongoing repositioning of the Russian business and increased costs for digitalisation/IT had a negative impact on earnings. The positive earnings development in Germany, Western Europe (excluding Germany), and Asia, had a compensating effect.

Earnings contributions from real estate transactions totalled €338 million (2017/18: €128 million). The increase of €210 million is essentially attributable to the postponement of a transaction in India from financial year 2017/18 to financial year 2018/19 as well as the earlier-than-expected conclusion of a transaction in China. The property in China is not part of the disposal group, so the income remains in continuing operations. Overall, EBITDA rose to €1,359 million (2017/18: €1,216 million).

In **Germany**, EBITDA excluding earnings contributions from real estate transactions reached €95 million in financial year 2018/19 (2017/18: €91 million).

In **Western Europe (excluding Germany)** EBITDA excluding earnings contributions from real estate transactions reached a total of €499 million in financial year 2018/19 (2017/18: €491 million). Earnings contributions from real estate transactions totalled €29 million (2017/18: €39 million), resulting especially from a real estate transaction in Spain.

The EBITDA excluding earnings contributions from real estate transactions in **Russia** amounted to €220 million in financial year 2018/19 (2017/18: €266 million). Adjusted for currency effects, the decline amounts to €−40 million and is mainly sales and margin related.

In **Eastern Europe (excluding Russia)** EBITDA excluding earnings contributions from real estate transactions reached a total of €344 million in financial year 2018/19 (2017/18: €363 million). Among other things, this decline is due, to the negative currency development in Turkey. Adjusted for currency effects, EBITDA excluding earnings contributions from real estate transactions in Eastern Europe (excluding Russia) fell by €−11 million. The decline in earnings in the Czech Republic was partially offset by the good development in Turkey, Poland and Ukraine. Earnings contributions from real estate transactions in Poland, the Czech Republic and Hungary amounted to €181 million (2017/18: €12 million).

EBITDA excluding earnings contributions from real estate transactions in **Asia** reached a total of €11 million in financial year 2018/19 (2017/18: €9 million). Earnings contributions from real estate transactions in China and India amounted to €107 million (2017/18: €8 million).

EBITDA excluding earnings contributions from real estate transactions in the **Others segment (including consolidation)** amounted to €−148 million in financial year 2018/19 (2017/18: €−132 million). While the cost of digitalisation/IT rose as expected, this profit or loss also includes revenues from damages in the low double-digit millions, which were focused in the Others segment. This was offset by consulting costs of around €20 million in connection with the voluntary takeover bid by EPGC. Earnings contributions from real estate transactions amounted to €21 million (2017/18: €69 million) essentially from the sale of a speciality centre in Germany.

METRO KEY PERFORMANCE INDICATORS FOR 2018/19

€ million	EBITDA excluding earnings contributions from real estate transactions			Earnings contributions from real estate transactions		EBITDA		EBIT		Investments	
	2017/18	**2018/19**	Change (€)	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**
METRO	**1,088**	**1,021**	**−67**	**128**	**338**	**1,216**	**1,359**	**713**	**828**	**565**	**499**
Germany	91	**95**	4	0	**0**	91	**95**	15	**14**	65	**69**
Western Europe (excl. Germany)	491	**499**	8	39	**29**	530	**529**	388	**390**	127	**128**
Russia	266	**220**	−46	0	**0**	266	**220**	214	**164**	83	**35**
Eastern Europe (excl. Russia)	363	**344**	−19	12	**181**	375	**524**	278	**426**	69	**63**
Asia	9	**11**	3	8	**107**	17	**119**	−5	**94**	28	**26**
Others/consolidation	−132	**−148**	−16	69	**21**	−63	**−127**	−177	**−260**	193	**178**

Discontinued operations

Like-for-like **sales** of discontinued operations increased by 1.0% in financial year 2018/19. Like-for-like sales in China rose by 5.0%, while the hypermarket business developed negatively (−0.6%). In local currency, total sales of the discontinued operations rose by 0.4%. Reported sales grew by 0.5% to €9.8 billion.

The online business through Real.de continued to develop dynamically. GMV (gross merchandise value) grew by 51% to €579 million in financial year 2018/19 compared to financial year 2017/18.

The **EBITDA excluding earnings contributions from real estate transactions of discontinued operations reached a total of** €−2 million in financial year 2018/19 (2017/18: €308 million). While METRO China recorded earnings at the previous year's level, Real developed negatively. The decrease is mainly attributable to the negative effect on earnings resulting from the termination of the future collective agreement, expenses for future store closures as well as store-related risks and the sales and margin development.

Earnings contributions from real estate transactions amounted to €50 million (2017/18: €1 million) from a real estate transaction in China.

As a result of disclosure as discontinued operations and according to IFRS 5, depreciation for the hypermarket business and amortisation on fixed assets of €180 million have been suspended in financial year 2018/19. In financial year 2018/19, an impairment of the hypermarket business in the amount of €401 million was recognised through profit or loss.

As of 30 September 2019, the store network comprised 97 locations in China (2017/18: 94 locations) and 276 locations for Real (2017/18: 279 locations).

METRO KEY SALES FIGURES – DISCONTINUED OPERATIONS 2018/19

In year-on-year comparison

	Sales (€ million)		Change in % compared with the previous year's period			
	2017/18	**2018/19**	in group currency (€)	Currency effects in percentage points	in local currency	Like-for-like (local currency)
METRO	**9,742**	**9,788**	**0.5%**	**0.1%**	**0.4%**	**1.0%**
thereof METRO China	2,684	**2,846**	6.0%	0.3%	5.7%	5.0%
thereof hypermarkets	7,058	**6,942**	−1.6%	0.0%	−1.6%	−0.6%

METRO KEY PERFORMANCE INDICATORS – DISCONTINUED OPERATIONS 2018/19

	EBITDA excluding earnings contributions from real estate transactions			Earnings contributions from real estate transactions		EBITDA		EBIT		Investitionen	
€ million	2017/18	**2018/19**	Change (€)	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**
METRO	**308**	**−2**	**−310**	**1**	**50**	**309**	**49**	**27**	**−398**	**246**	**215**
thereof METRO China	154	**152**	−2	0	**50**	154	**202**	110	**157**	35	**26**
thereof hypermarkets	154	**−154**	−308	1	**0**	155	**−154**	−83	**−555**	210	**189**

Net financial result and taxes

€ million	2017/18[1]	**2018/19**
Earnings before interest and taxes EBIT	**713**	**828**
Earnings share of non-operating companies recognised at equity	0	**0**
Other investment result	0	**−1**
Interest income/expenses (interest result)	−136	**−119**
Other financial result	−2	**1**
Net financial result	**−137**	**−119**
Earnings before taxes EBT	**576**	**709**
Income taxes	−216	**−298**
Profit or loss for the period from continuing operations	**359**	**411**
Profit or loss for the period from discontinued operations after taxes	−22	**−526**
Profit or loss for the period	**337**	**−115**

[1] Adjustment of previous year according to explanation in notes.

Net financial result

The net financial result from continuing operations primarily comprises the interest result of €−119 million (2017/18: €−136 million) and the other financial result of €1 million (2017/18: €−2 million). Net interest result improved significantly as a result of more favourable refinancing terms.

– **For more information about the net financial result, see the notes to the consolidated financial statements in no. 7 – earnings share of operating/non-operating companies recognised at equity ▶ page 202, no. 8 – other investment result ▶ page 203, no. 9 – net interest income/interest expenses ▶ page 203 and no. 10 – other financial result ▶ page 204.**

Taxes

At €298 million (2017/18: €216 million), recognised income tax expenses are €81 million higher than the previous year's figures.

During the reporting period, the group tax rate for the continuing segment is 42.0% (2017/18: 37.6%). The group tax rate represents the relationship between recognised income tax expenses and earnings before taxes. The increase in the ratio in the current financial year is mainly attributable to impairments on deferred taxes on loss carry-forwards in Germany. The comparatively low ratio in the previous year includes positive one-off tax effects such as tax rate changes abroad and the reduction for risk provisions.

– **For more information about income taxes, see the notes to the consolidated financial statements in no. 12 – income taxes ▶ page 206.**

€ million	2017/18[1]	**2018/19**
Actual taxes	173	**215**
thereof Germany	(14)	**(9)**
thereof international	(159)	**(206)**
thereof tax expenses/income for the current period	(194)	**(221)**
thereof tax expenses/income of previous periods	(−21)	**(−6)**
Deferred taxes	43	**83**
thereof Germany	(39)	**(104)**
thereof international	(4)	**(−21)**
	216	**298**

[1] Adjustment of previous year according to explanation in notes.

Profit or loss for the period and earnings per share

The profit or loss for the period from continuing operations in financial year 2018/19 was € 411 million, €52 million higher than the profit or loss for the period of the previous year (2017/18: €359 million).

The profit or loss for the period from continuing and discontinued METRO operations was €−115 million in financial year 2018/19, and was thus €−453million below the net result for the period for the previous year's period (2017/18: €337 million). This decrease was mainly due to an impairment of €401 million in the hypermarket business.

Net of earning shares of non-controlling interests, profit for the period attributable to the shareholders of METRO AG from continuing and discontinued operations amounts to €−126 million (2017/18: €333 million). This represents a decrease of €459 million. An improvement of €49 million resulted from continuing operations.

On this basis, METRO achieved a result of €−0.35 per share from its continuing and discontinued operations in financial year 2018/19 (2017/18: €0.92), of which €1.12 came from continuing operations (2017/18: €0.98). The calculation for the reporting period was based on a weighted number of 363,097,253 shares. Profit or loss for the period attributable to shareholders of METRO AG was distributed according to this number of shares. There was no dilution from so-called potential shares in financial year 2018/19 or in the previous year.

The profit or loss for the period from an outlook perspective (continuing operations including METRO China) reached €523 million in financial year 2018/19 and was thus €80 million above the net income for the period of the previous year (2017/18: €443 million). For a tax expense of €341 million, this corresponds to a tax rate of 39.0%. In financial year 2018/19, METRO recorded earnings per share from continuing operations including METRO China of €1.44 (2017/18: €1.22).

This result forms the basis for the dividend recommendation.

				Change	
		2017/18	**2018/19**	absolute	%
Profit or loss for the period from continuing operations	€ million	359	**411**	52	14.4
Profit or loss for the period from discontinued operations after taxes	€ million	−22	**−526**	−504	–
thereof impairment of the hypermarket business	€ million	(0)	**(−401)**	(−401)	–
Profit or loss for the period	€ million	337	**−115**	−453	–
Profit or loss for the period attributable to non-controlling interests	€ million	4	**11**	7	–
thereof from continuing operations	€ million	(3)	**(6)**	(3)	94.4
thereof from discontinued operations	€ million	(1)	**(5)**	(4)	–
Profit or loss for the period attributable to the shareholders of METRO AG	€ million	333	**−126**	−459	–
thereof from continuing operations	€ million	(357)	**(405)**	(49)	13.7
thereof from discontinued operations	€ million	(−23)	**(−532)**	(−508)	–
Earnings per share (basic = diluted)	€	0.92	**−0.35**	−1.27	–
thereof from continuing operations	€	(0.98)	**(1.12)**	(0.13)	13.7
thereof from discontinued operations	€	(−0.06)	**(−1.46)**	(−1.40)	–

4 REPORT ON EVENTS AFTER THE CLOSING DATE AND OUTLOOK

REPORT ON EVENTS AFTER THE CLOSING DATE

Events after the closing date

METRO AG sells majority share in METRO China to Wumei Technology Group
On 11 October 2019, METRO AG ('METRO') entered into an agreement with Wumei Technology Group, Inc. ('Wumei'), a leading Chinese retailer, to form a strategic partnership for the Chinese operations of METRO ('METRO China'). This partnership includes the sale of METRO's entire indirect investment in METRO China (excluding a real estate company sold separately in September 2019) to a subsidiary of Wumei (the buyer) for a company value (enterprise value, 100%) of approximately €1.9 billion. The consideration includes an estimated net cash inflow of more than €1.0 billion as well as a 20% investment of METRO in METRO China.

The closing of this transaction is subject to the approval of the regulatory authorities.

EP Global Commerce GmbH increases its share of voting rights in METRO AG
EP Global Commerce GmbH increased its voting rights in METRO AG from 17.52% to 29.99% as of 6 November 2019 based on the notifications of voting rights submitted to the company. They and possibly other affiliated companies and related parties will thus become related companies and parties of METRO AG as of this date. Franz Haniel & Cie. GmbH and its subsidiaries are no longer related parties due to the reduction of their voting rights.

OUTLOOK

The outlook prepared by METRO considers relevant facts and events that were known at the time of preparing the consolidated financial statements and that may impact the future development of our business. The outlook on economic parameters is based on an analysis of primary data used to derive outlook. Oxford Economics is the main source of the data used to forecast anticipated business conditions. The following conclusions reflect a mid-range scenario of expectations.

Macroeconomic parameters

Global economy
For financial year 2019/20, we expect global economic growth to develop at a similar level as in reporting year 2018/19. Consumption remains a positive growth driver, while industrial production in Europe remains at a similar level as in financial year 2018/19. The development of trade conflicts will potentially have a major impact on the global economy. The US trade dispute with China and the EU, as well as Brexit, must be mentioned explicitly in this context. Overall, we expect inflation-adjusted global economic growth of approximately 3.1% for 2020.

Germany

With real economic growth of +0.7%, the outlook for the development of the German economy in financial year 2019/20 is similar to that of the reporting year. Only slight growth is expected for exports and industrial production. According to the outlook, private consumption will grow just above the continued low inflation rate and thus acts as a growth driver. The situation in the labour market is expected to remain positive despite possible short-time work measures in some industrial companies. However, the development will depend on the outcome of the negotiations regarding Britain's withdrawal from the EU, which is currently expected to take place at the beginning of 2020.

Western Europe

For financial year 2019/20, growth is expected to be similar (1.2%) to that of the past financial year. Overall, a virtually unchanged low development is forecast. In Italy, the economy is stagnating and the fiscal deficit is also expected to expand under the new government. In France and Spain, economic development remains relatively stable at a low level. The monetary policy of the European Central Bank (ECB) is expected to be similar to that of the previous year, that is, interest rates are expected to rise only very slightly or even be negative in the short term. The effects of Brexit on individual countries and an escalating trade conflict with the USA remain unclear. Both developments pose great risks for exports, which are a growth driver for Europe.

Russia

For Russia, economic growth is expected to improve slightly compared to financial year 2018/19, but still to be low overall, at approximately 1.49%. This is accompanied by a slight decline in private consumption, which will also be affected by a VAT increase and pension reforms. By contrast, inflation is expected to be below the previous year's rate at a total of 3.3%. A stabilised level for the currency is forecast. Nevertheless, sanctions continue to contribute to the drain on the economy.

Eastern Europe

For the economy in Eastern Europe, we again expect growth to be slightly lower than in the previous year, but still clearly positive. This trend can be seen in almost all countries in this region. The economic situation in Turkey is slowly recovering and growth is therefore expected to be stronger than in the previous year. Private consumption in many countries is growing less strongly than in the previous year, but remains at a positive level overall and continues to drive economic growth. The outlook for inflation vary from country to country. In Poland, the rate is rising more strongly than in the previous year; in Turkey and the Ukraine the rates are falling, but remain at a high level overall. In the Eastern European countries, the labour market situation remains very good or is developing positively, for example in Serbia and Turkey. The currencies remain relatively stable against the euro.

Asia

The Asian economy continues to grow steadily at a similar level as in financial year 2018/19. The labour market and private consumption continue to develop very positively, even as the inflation rate continues to rise slightly. For China, economic growth is forecast to turn out below the level of the previous year, carrying the risk that the trade conflict with the USA will intensify again. The Indian economy continues to grow strongly according to forcasts, driven by private consumption, rising exports and low unemployment.

METRO Wholesale: development in the self-service wholesale trade sector

The global development of the self-service wholesale trade sector in financial year 2019/20 will remain positive, contrary to the general economic trend. Again, the contribution of the individual regions will vary. This also applies to the regions in which METRO operates. Growth will be stronger in Europe than in Asia.

In comparison to the reporting period, we expect financial year 2019/20 to exhibit stronger growth in sales for cash and carry companies operating in Germany. Further sales growth is forecast for the hospitality industry sector, which represents an important customer group for METRO.

The self-service wholesale trade sector in Western Europe will increase in nominal terms in the forecast year after only slight growth in financial year 2018/19, especially in the METRO countries France, Austria and Portugal. The hospitality industry sector is also likely to develop positively, especially in Portugal and Spain.

In Russia, we expect strong decline in the self-service wholesale trade sector. However, we expect sales growth for our core customer groups HoReCa and Traders.

In Central and Eastern European countries, the self-service wholesale trade sector will likely grow again in financial year 2019/20, especially in countries such as Turkey and Hungary. Despite the difficult economic environment, we believe that the HoReCa industry sector will grow in Turkey, supported by the fact that tourism is picking up again. We expect the HoReCa and Traders sectors to continue their strong growth momentum, particularly in Romania and Poland.

The cash & carry markets in Asia, particularly in Japan and India, are forecast to deliver stable economic growth in financial year 2019/20.

Earnings position outlook: outlook for METRO

METRO continues its long-term strategy of focusing on wholesale and, in particular, on HoReCa and Traders customers. Against this background, we will continue to put emphasis on simplifying and streamlining our portfolio in the coming year. This includes in particular the closing of the sale of a majority stake in METRO China and the sale of our Real hypermarket business. METRO expects to generate a net cash inflow of more than €1 billion upon completion of the sale of METRO China (expected in the first half of 2020, subject to regulatory approvals). The remaining minority stake in METRO China will be reported as at-equity investment in the Asia segment. For the hypermarket business, METRO expects a successful closing of the transaction shortly. Neither METRO China nor the hypermarket business is included in the outlook either before or after completion of the transactions.

As announced in November 2019, we are also planning to implement a number of efficiency measures in the coming financial year 2019/20. These measures concern in particular the simplification of administrative structures, processes and business activities. The measures will be associated with estimated one-time costs of €60 million to €80 million in 2019/20 and estimated sustainable savings in the mid-double-digit million euro range through an increase in operating performance. The associated costs from efficiency measures will be reported separately as transformation costs. The outlook is made before such transformation costs. Expected pro rata savings in 2019/20 in the low-double-digit million euro range are reflected in the outlook.

METRO’s strategy further includes strengthening and expanding its core business, wholesale, in become a ‘360-degree supplier’ – the Wholesale 360 approach. This includes further localisation of the business, expansion of our delivery business, development of new channels and customers (for example via the online marketplace METRO MARKETS) as well as an increase in customer loyalty and an associated enhanced exploitation of customer potential, for example through digital solutions. In addition, we plan to selectively expand our business activities through acquisitions. The mergers and acquisitions activities should thereby focus on companies that increase our presence in a market (densification) and thus contribute to market consolidation. The outlook does not include such potential mergers and acquisitions transactions.

We also continue to implement our sustainability goals defined on the basis of the UN Sustainable Development Goals. The focus is on reducing food waste, making our range of products and services more sustainable and promoting more conscious consumption.

The outlook is based on the current segment structure. Unlike in the previous year, METRO China has been reported as a discontinued operation since 30 September 2019, so that the composition of the Asia segment has changed in this respect. In addition, changes in key figures resulting from the first-time application of IFRS 16 (see also the respective specifications in the notes to the group accounting principles and methods ▸ page 170) are initially not taken into account in the outlook. METRO will finalise the retrospective adjustments as planned in the first quarter of 2019/20. Based on that, METRO will publish a reconciliation of the relevant key figures, which shows both the old and the new standard, prior to our next quarterly statement and update the outlook accordingly.

Outlook of METRO

The outlook is based on the assumption of stable exchange rates and no further adjustments to the portfolio and only covers METRO's continuing operations. The main opportunities and risks that could influence our outlook are explained in the opportunity and risk report. The achievement of our sales and earnings outlook is further based on our assumptions for 2019/20 regarding macroeconomic developments.

Sales

Due to the advancing and successful focus on the HoReCa and Traders customer groups, the Management Board expects total sales and like-for-like sales to grow by 1.5% to 3% in financial year 2019/20 (2018/19: 2.2% growth of total sales and 2.1% growth of like-for-like sales). As a consequence of this focus, a further trend improvement is expected in Russia. Germany is expected to show a flat sales development, while the Western Europe (excluding Germany), Eastern Europe (excluding Russia) and Asia segments are expected to grow at the previous year's level. Across all segments, the Management Board sees the delivery business in particular and the synergetic interaction of the various channels as well as the focus on HoReCa and Traders customers as growth drivers.

Earnings

An important focus of METRO is on increasing operating performance and portfolio simplification. Against this background, the Management Board announced to adopt various measures on 19 November 2019. In financial year 2019/20, the Management Board expects this to result in one-time transformation costs of €60 million to €80 million. Before transformation costs for these efficiency measures, the Management Board expects EBITDA excluding earnings contributions from real estate transactions to be roughly at the level of the past financial year (2018/19: €1.021 million). Earnings in Russia are expected to decline by between €20 million and €30 million as a result of the ongoing repositioning. Earnings growth in Germany and Western Europe (excluding Germany) is expected to compensate for this. For the remaining segments, EBITDA is expected to remain roughly at the previous year's level.

	2018/19	Outlook 2019/20[1]
Sales trend (like-for-like)	**2.1%**	1.5%–3% growth
METRO Germany	**0.3%**	Stable sales development
METRO Western Europe (excl. Germany)	**1.3%**	Previous year's level
METRO Russia	**−4.3%**	Trend improvement
METRO Eastern Europe (excl. Russia)	**6.3%**	Previous year's level
METRO Asia	**5.3%**	Previous year's level
Sales trend in local currency	**2.2%**	1.5%–3% growth
METRO Germany	**−0.6%**	Stable sales development
METRO Western Europe (excl. Germany)	**1.3%**	Previous year's level
METRO Russia	**−3.3%**	Trend improvement
METRO Eastern Europe (excl. Russia)	**6.4%**	Previous year's level
METRO Asia	**7.3%**	Previous year's level
EBITDA excluding earnings contributions from real estate transactions in € million	**1,021**	Previous year's level
METRO Germany	**95**	Earnings growth
METRO Western Europe (excl. Germany)	**499**	Earnings growth
METRO Russia	**220**	Decline between €20 million and €30 million
METRO Eastern Europe (excl. Russia)	**344**	Previous year's level
METRO Asia	**11**	Previous year's level
Others	**−148**	Previous year's level

[1] At constant exchange rates, excluding further portfolio adjustments and transformation costs.

5 OPPORTUNITIES AND RISK REPORT

Opportunity and risk management system

In a dynamic market environment, the early identification and systematic exploitation of opportunities is our entrepreneurial task. This is an essential prerequisite for our company's long-term success. We define opportunities as possible achievements that extend beyond the defined objectives and can thus facilitate and drive our business development. However, our company is also exposed to risks that can impede the realisation of our short-term and medium-term objectives as well as the implementation of long-term strategies. We define risks as any potential future negative deviations from corporate objectives that may result from internal or external events. We consider opportunities and risks as inextricably linked. Risks can arise from missed or underutilised opportunities. In some cases, we must also consciously take manageable risks to be able to exploit opportunities in a targeted manner. Conversely, exploiting opportunities in dynamic growth markets or in new business areas always entails risks.

In this sense, we see our opportunity and risk management as an instrument for achieving our corporate goals. A systematic process that encompasses the entire group helps the company's management to identify, classify and control opportunities and risks early on. Opportunity and risk management thus form a single unit. Our risk management identifies developments and events that could potentially prevent us from reaching our business targets at an early stage and makes it possible to analyse their implications. This allows us to put the necessary countermeasures into place in a timely manner. At the same time, this forecasting process enables us to assess and seize opportunities.

Centralised management and efficient organisation

Group-wide opportunity and risk management tasks and responsibilities are clearly defined and reflect our corporate structure. We combine centralised business management by the management holding company METRO AG with the decentralised responsibility of the sales companies for the operating business and the service companies that support the operating business.

It is the responsibility and a legal obligation of the Management Board of METRO AG to organise a governance management system for METRO. We regard the risk management system, the internal control system, the compliance management system as well as internal auditing to be components of the governance, risk and compliance system (GRC system). This organisational structure is based on the governance elements identified in § 107 Section 3 of the German Stock Corporation Act (AktG) as well as the German Corporate Governance Code. The fundamental principles of the GRC system are defined and documented in our governance, risk and compliance guideline. Structures and processes are made transparent and the subsystems are harmonised in terms of their organisational processes. On this basis, we work on increasing the efficiency and effectiveness of the GRC system.

The group's Governance, Risk and Compliance Committee (GRCC) is chaired by the Chief Financial Officer of METRO AG and regularly discusses methods and new developments of the GRC subsystems. The committee also conducts regular reviews of the current opportunity and risk situation. Permanent members include representatives of Corporate Accounting (including Risk Management, Internal Control Finance and Internal Control Operations), Corporate Controlling & Finance, Corporate Treasury, Corporate Legal Affairs & Compliance, Corporate Public Policy, Group Strategy, METRO Insurance Broker and Group Internal Audit. In addition, representatives of the Investor Relations and Corporate Communications divisions participate in selected meetings. Experts are included as needed.

Opportunity management

Systematically identifying and communicating opportunities is an integral part of METRO's corporate management.

We conduct macroeconomic analyses, study relevant trends and evaluate market, competition and locality analyses. We also analyse the critical success factors of our business models and the relevant cost drivers of our company. The Management Board of METRO AG specifies the derived market and business opportunities as well as efficiency enhancement potential in the context of strategic as well as short-term and medium-term planning. It does so by engaging in a regular dialogue with the management of the group companies and units at the central holding company. As a company, we pursue market- and customer-driven business approaches in this process and continually review our strategy to ensure long-term sustainable growth.

Risk management

The Management Board of METRO AG assumes overall responsibility for the effectiveness of the risk management system as part of the GRC system. The group companies are responsible for identifying, assessing and managing risks. Our Corporate Risk Management unit is responsible for managing and developing our risk management system. This unit is part of the Group Governance department of METRO AG. It determines the company's risk management approaches, methods and standards in consultation with the GRCC. The Corporate Risk Management unit coordinates the underlying process, ensures information is shared within the company and supports the further development of risk management across all group companies and central business units. In this context, the GRCC keeps the Management Board of METRO AG continuously updated on the essential developments concerning risk management.

The risk management system is organised as a closed-loop system to ensure the design's effectiveness with respect to the defined risk management rules. This also allows us to guarantee effective implementation and continuous improvement of the system based on results and experiences. The internal control system supports the group companies in fulfilling their responsibility to manage process risks.

– **For more information, see chapter 2 principles of the group – 2.6 characteristics of the accounting-related internal control and risk management system and explanatory report of the Management Board ▸ page 80.**

Key elements of internal monitoring include effectiveness checks in the form of internal audits as well as self-assessments by the management teams.

The Supervisory Board of METRO AG also oversees the effectiveness of the group's risk management. In compliance with the provisions of the German Corporate Sector Supervision and Transparency Act (KonTraG), the external auditor subjects the company's early warning system as part of the risk management system to a periodic audit. The results of this audit are presented to the Management Board and Supervisory Board.

Reporting

The objective of opportunity and risk communication is to deal with opportunities and risks in a structured and continuous manner in accordance with legal and regulatory requirements.

Once a year we perform an IT-supported risk inventory, by systematically mapping, describing and assessing all significant group-wide risks based on quantitative and qualitative indicators and uniform criteria relating to the loss potential and the probability of occurrence. The results of the risk inventory and the risk portfolio derived from it are updated on a regular basis.

In financial year 2018/19, the risk inventory was carried out by means of a uniform risk catalogue. It significantly improved the comparability and thus the validation of risks.

The risk coordinators functionally responsible for particular operational areas, for example Procurement, Supply Chain Management, Quality Assurance (QA) or administrative functions, validate the results reported by the group companies and central business units at group level and summarise them in a functional risk profile. The bottom-up view of the companies is supplemented by the top-down view of the departments. Information such as medium-term planning by the Corporate Controlling department or analyses of the strengths, weaknesses, opportunities and threats (SWOT analysis) of the Global Strategy department are included. Key issues are subsequently validated by the GRC Committee to derive specific action measures.

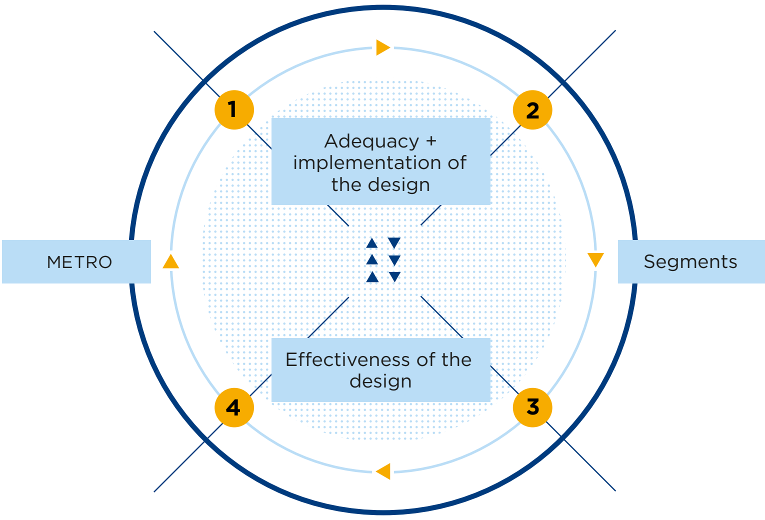
We also consider the results of the internal control system, the compliance management system, the Internal Audit unit as well as the issues management system. The Corporate Public Policy department's Issues Management system continuously monitors and identifies topics of special interest and media issues of relevance to the group. This enables us to address the public debate with swift, clear and uniform statements. The group's issues management and risk management systems are closely interconnected.

The opportunity and risk portfolio for METRO, which is ultimately derived from all findings, enables us to take an overall look at the opportunity and risk situation of our Company. The GRC report includes:

- the assessment of the management of METRO AG regarding the effectiveness of the governance management subsystems,
- the opportunity and risk profile of METRO, and
- Recommendations on risk management measures and the optimisation of the governance approach.

The Management Board regularly informs the Supervisory Board and the Audit Committee about issues relating to the management of opportunities and risks. Twice a year, the Supervisory Board is provided with a written report on the organisation and direction of our opportunity and risk management as well as the current opportunity and risk situation.

RISK MANAGEMENT AS A CLOSED-LOOP SYSTEM



1 Defining rules
- Definition of principles and strategic approach
- Derivation of risk areas from target and control system
- Definition of processes and organisation
- Provision of training materials
- Group reporting

2 Introduction and implementation
- Introduction of a risk management system
- Implementation of processes
- Preparation of risk reports by the units and functions
- Organisation of training measures and knowledge transfer

3 Monitoring/audit (decentralised)
- Self-assessment of risk management effectiveness
- Internal risk management controls
- Confirmation by management

4 Monitoring/audit (centralised)
- Validation of the risk inventory
- Effectiveness assessment by the Internal Audit unit
- Internal risk management system controls

We use an emergency notification system in the case of unexpected serious risks arising for our asset, financial and earnings position. The Management Board of METRO AG will in this case be provided with the necessary information directly and without delay.

Strict principles for dealing with risks

METRO will only assume commercial risks if they are considered to be manageable and if the associated opportunities promise a reasonable increase in our value.

We bear the risks incurred in conjunction with the core wholesaling and retailing processes ourselves. These core processes include the development and implementation of business models, decisions about store locations and the procurement and sale of merchandise and services. Risks from support processes are mitigated within the group or, to the extent expedient, transferred to third parties. We generally do not assume risks that are not related to core processes or support processes. Risks that are likely to materialise are included in our business plans.

Risk management details clearly defined

The coordinated use of measures within risk management is ensured by the fact that all relevant specifications for the structural and procedural organisation are compiled in sets of rules. These include the Articles of Association and Code of Procedure of group companies, internal group guidelines and our group-wide risk management guideline, which defines

- the risk management framework (terms, basic structure, strategy, principles),
- the risk management organisation (roles and responsibilities, risk units),
- processes (risk identification, assessment and management),
- risk reporting as well as
- monitoring and control of the effectiveness of risk management.

Based on the internationally recognised COSO II standard, the risk management framework addresses the 3 levels of risk management: corporate objectives, processes and organisation. The update to the COSO II standard published in 2018 is taken into account.

The first level of risk management relates to the clustering of corporate objectives. METRO has defined the following clusters:

- Strategic objectives related to safeguarding the company's future economic viability (strategy cluster)
- Operational objectives related to the attainment of set key performance metrics (operations cluster)
- Corporate management objectives related to compliance with laws, regulations, internal guidelines and specified procedures (governance cluster)
- Objectives related to appropriate preparations to mitigate event risks such as breakdowns, business interruptions and other crisis events (events cluster)

At the 2nd level of risk management, the process level, we use a catalogue of standard risks that must be assessed by the risk units in a binding manner. This ensures that all typical operational risks that apply to our business operations are validated. Additionally, companies supplement their company-specific risks.

On the 3rd risk management level, clusters are delineated in terms of functional categories based on the group's organisational structures, such as procurement, sales, human resources or real estate as well as an assignment to group companies.

Risk classification

All identified risks are classified based on uniform standards and quantitative and qualitative indicators with regard to loss potential (detrimental effects on our corporate objectives, the key performance indicator is EBIT) and probability of occurrence. We break risks down into the following 4 risk categories:

Loss potential	
Material	> €300 million
Significant	> €100–300 million
Moderate	> €50–100 million
Minor	≤ €50 million
Probability of occurrence	
Likely	> 50%
Possible	> 25–50%
Low	≥ 10–25%
Unlikely	< 10%

All risks are assessed on the basis of their potential impact at the time of the risk analysis and before potential risk-minimising measures (presentation of gross risks). We generally assess risks over a prospective 1-year period; strategic risks cover at least the medium-term planning horizon of 3 years. METRO monitors and assesses longer-term opportunities and risks, for example related to climate change or political risks, using its issues management system.

Risk units

On the organisational level, we determine the corporate units responsible for setting objectives in a clearly defined area as well as for identifying, classifying and controlling risks. METRO's risk management defines these areas in line with the corporate organisation using independent risk units – generally companies – as well as in terms of function using categories that are responsible for a certain operational function or administrative task. The risk units cover all essential companies of the consolidation group included in the consolidated financial statements.

Description of the opportunity and risk situation

METRO has numerous opportunities to ensure a sustainable positive development of its business. On the other hand, there are risks that could impact us in reaching our goals. We have allocated the METRO opportunity and risk portfolio to various subject groups. The Management Board of METRO AG identified and assessed the following risks which are considered to be particularly relevant for METRO. They are listed in the following overview:

Subject group		No.	Particularly relevant risks 2018/19	Loss potential	Probability of occurrence
Risks related to the business environment		#1	Macroeconomic and political risks	Moderate	Possible
		#2	Interruption of business activities	Significant	Low
Environmental risks		#3	Sustainability risks (new)	Minor	Likely
Sector-specific risks	Risks related to the retail business	#4	Challenges in the business model	Material	Possible
	Real estate risks	#5	Real estate risks (renamed, previous year: inadequate construction processes)	Moderate	Possible
Risks related to business performance	Supplier and product risks	#6	Quality risks	Significant	Low
Financial risks		#7	Planning reliability	Significant	Possible
Other risks	Transaction risks	#8	Risks from completed transactions (renamed, previous year: risks in connection with company split)	Significant	Unlikely
		#9	Risks in connection with the disposal of Real (new)	Material	Likely
	Legal and tax risks	#10	Trade regulations	Moderate	Likely
		#11	More stringent regulation pertaining to deferred remuneration	Moderate	Possible
		#12	Tax risks	Moderate	Possible

The risk ‘Employee development and attractiveness as an employer’ reported in the previous year has decreased from METRO's point of view and was no longer listed for reasons of materiality. Risk no. 3 ‘sustainability risks’ was newly included. Risk no. 9 ‘risks in connection with the disposal of Real’ was reported together with risk no. 8 in the previous year and will be listed individually this year.

Opportunities and risks related to the business environment

Opportunities from the development of business and political conditions
An improvement in the economic and political environment worldwide or in countries where METRO is present, as well as improvements in free trade, could have a positive impact on sales, costs and earnings. METRO operates in a large number of markets where we could potentially benefit from this development. Opportunities could arise from a sustained positive geopolitical and macroeconomic development, among others in Southern Europe and Turkey – for example, in the form of a recovery of foreign exchange rates.

Macroeconomic and political risks (#1)
As a company with global operations, METRO depends on the political and economic situations in the countries in which it operates. The fundamental business environment can change rapidly. Changes in political leadership, civil unrest, terrorist attacks or economic imbalances can jeopardise METRO's business. At the country level, the political and/or economic situations in Russia, Ukraine and Turkey are particularly noteworthy for the reporting period. In contrast to the previous year, the political situation in individual markets has stabilised. For this reason, the assessment of the potential extent of damage was adjusted from 'significant' in the previous year to 'moderate'. The potential risks include the loss of property and real estate assets, changes in the exchange rate, product restrictions, capital controls, regulatory restrictions and unexpected weakening of demand. The global economy is increasingly marked by tense trade relations between the US, Europe and China, as can be clearly seen in the expansion of the imposed punitive tariffs, as well as the planned withdrawal of the United Kingdom from the European Union (Brexit). We see both issues as a risk. In this case, we consider the materialisation of risks in connection with tense trade relationships to be more probable than in the previous year and assess the probability of occurrence as 'possible' rather than 'low'. A continuous monitoring of the economic and political developments and a review of our strategic objectives allow us nonetheless to respond to these challenges in a timely and appropriate fashion. Our international presence comes with the advantage of being able to balance the economic, legal and political risks as well as fluctuations in demand between the countries.

– **For more information about our assessment of the development of the economic environment, see chapter 4 report on events after the closing date and outlook ▶ page 103.**

Interruption of business activities (#2)
Our business operations could, for example, be interrupted by a failure of IT systems, natural disasters or pandemics. Important business processes such as purchasing/product ordering, marketing and sales rely on IT systems. Systems for online retailing must be continuously available, as these systems are a prerequisite for unlimited access outside normal store opening times. As a result, the continuous availability of the infrastructure is a critical factor in the development and implementation of our IT solutions. Systems that are essential for business operations in the stores, especially checkouts, are largely self-contained and can continue to be used for some time even during events such as network failures or the failure of central systems. In case of partial network failures, they can automatically reroute data or switch to redundant routes.

Modern technologies such as remote server management and cloud computing allow us to use our hardware efficiently. In addition, our centralised IT systems can be quickly restored in the event of one or several servers failing. We operate several central IT centres, which enables us to compensate for major business interruptions or limit their duration to the absolute minimum. We also have a disaster recovery plan to restore IT centres in Germany after extended outages (for example outages caused by fire, natural disasters or criminal actions).

We also prepare ourselves for the risk of an interruption of our business activities by employing a comprehensive business continuity management system. A professional crisis management allows for a rapid crisis response and thereby ensures the protection of our employees and customers. This includes evacuation plans, training measures and specific instructions. We insure ourselves against the loss of tangible assets and any impending loss of revenues or profits resultant from business interruptions wherever it is possible and reasonable.

Environmental opportunities and risks

Opportunities from competitive advantage

Our company is more exposed than ever to economic, environmental, social and cultural challenges. Similarly, we experience that sustainability is the key to transforming these challenges into opportunities. METRO operates an active sustainability management system in order to enshrine sustainability systematically and organisationally in its core business. Our stakeholders evaluate the measures implemented by us, for example, through ratings. In financial year 2018/19, METRO dropped to second place in the Food & Staples Retailing group in the internationally important Dow Jones Sustainability Index World after 4 consecutive years as the best in the industry. In the Dow Jones Sustainability Index Europe, we were ranked best in the industry for the 5th consecutive year.

Sustainability risks (#3, NEW)

The consumption of energy and other natural resources affects our operating costs and may have a negative impact on the environment, for example through the emission of climate-damaging greenhouse gases. This risk was included for the first time in comparison with the previous year, as the risks from increased energy prices following a possible CO_2 pricing are assessed as probable for the first time. The climate target previously defined by METRO, which was expanded by the supply chain in 2019, will help to minimise this risk.

- **For more information about our social responsibility and environmental protection activities, see chapter 2 principles of the group – 2.4 combined non-financial statement of METRO AG ▸ page 56.**

Sector-specific opportunities and risks

Retail business

Opportunities from innovations and digitalisation
METRO is focused on identifying and addressing current and future challenges of its customers at an early stage in a constantly changing environment. In this case, innovations and digitalisation are areas with excellent potentials for realising increases in value. We are convinced that the consistent implementation of innovative ideas relating to the progressing digitalisation will increasingly shape the future of the wholesale and retail industry. This may give rise to new business models, which in turn may present a variety of opportunities.

In order to exploit the opportunities derived from digitalisation and to realise synergies, we are bundling our digitalisation initiatives with the business units Hospitality Digital and METRO-NOM. The focus on the core customer groups HoReCa and Traders is a key component of our digitalisation strategy, which we use to provide our customers with digital solutions such as the DISH (Digital Innovations and Solutions for Hospitality) platform. By establishing the Hospitality Digital business unit, we have prepared ourselves to take advantage of significant opportunities that may arise when the digitalisation of the HoReCa and Traders sectors and other business areas advance faster than expected. With our METRO-NOM business unit, we continue to digitalise our core business. METRO-NOM supports, develops and optimises all digital solutions used by our customers. Our METRO Accelerator powered by Techstars programme is a cooperation project with the US-based company Techstars and allows us to monitor global consumer trends and to promote digital solutions for the hospitality and retail segments offered by innovative start-up companies.

Opportunities from customer focus
Customer focus and customer satisfaction are central elements of our strategy. In order to continuously measure and consistently improve customer satisfaction, we have implemented the Net Promoter Score across the board in all 24 national subsidiaries in which METRO is represented with wholesale stores. Besides the purely quantitative measurement of the current satisfaction values, suggestions from customers can be systematically recorded and evaluated. This will allow further potential for improving the shopping experience and supply as well as general consumer trends to be identified. In line with our omnichannel strategy, we are expanding our delivery sales and fortifying our online activities. With Wholesale 360, our goal is to become the partner of choice for our customers by offering METRO solutions that cover all aspects of their business. We are also intensifying our competitive analyses. Our various strategic projects aim at further improving our purchasing and sales processes and at creating additional value for our customers. The goal is to ensure the impairment of assets and thereby mastering the challenges faced by our business model. As a wholesale specialist, we want to further increase our customer focus, accelerate our growth, simplify our structures and increase the implementation speed. We are thus striving to increase our overall operating performance.

Challenges in the business model (#4)
Particularly, the retail and wholesale trade in the markets in which we operate is characterised by rapid changes and fierce competition. A fundamental risk is consumers' fluctuating propensity to consume. Changes in consumer behaviour and customer expectations pose additional risks, among others, in the face of demographic change, rising competition and increasing digitalisation. If we fail to adequately address our customers' needs and price developments or if we miss trends with regard to our assortments or appropriate sales formats and new sales channels, this could potentially impede the development of our sales and income and also jeopardise our objectives in terms of growth and profitability. We address these risks by developing country-specific customer-focused value creation plans. The operating partners and international working groups (federations) monitor and support the implementation and achievement of objectives.

Real estate

Opportunities from increase in value
We see potential for value increases in possible development projects for our existing real estate assets and other properties as well as in improved facility management.

Real estate risks (#5)
Loss of rental income caused by insolvencies of third-party tenants and the risk of vacant and unused selling space entail the risk of a deficient rental cover or an impairment of the underlying asset. We counter these risks with our strategic and operational real estate management and anticipatory investment planning. Delayed repair and maintenance work could lead to infringements and quality losses as well as reputational damage. The safety and health of customers, suppliers and employees could be endangered by deficiencies in the properties. We take decisive actions to prevent potential accidents and damage to health, thus ensuring a safe and healthy environment. Accordingly, we establish clear rules and procedures to identify, minimise and ultimately prevent risks. We support implementation through frequent training sessions and internal inspections.

Opportunities and risks relating to business performance

Suppliers and products

Opportunities from responsible trading
Not only for us, but also for more and more customers the environmental and social sustainability of the products we offer and their production process play an increasingly important role, in addition to quality and safety. We aim to ensure socially acceptable working conditions within our sourcing channels. For this purpose, METRO adopted a group-wide purchasing policy for a sustainable supply chain and procurement management that applies to all products.

– **For more information about our social responsibility and environmental protection activities, see chapter 2 principles of the group – 2.4 combined non-financial statement of METRO AG ▸ page 56.**

Quality risks (#6)

As a retail company, METRO depends on external producers and service providers. Defective or unsafe products, exploitation of the natural environment, inhumane working conditions or infringements against our compliance standards could potentially cause major damage to the reputation of METRO and pose a lasting threat to the company's success. We therefore continuously audit our own-brand suppliers to assess their adherence to METRO's stringent procurement and compliance standards. These include the food safety and quality standards recognised by the Global Food Safety Initiative (GFSI), such as the International Food Safety Standard and the GLOBALG.A.P. certification for agricultural products. They contribute to the safety of foods on all cultivation, production and sales levels. Own-brand suppliers without a recognised and valid audit certificate may qualify for preliminary inclusion in METRO's supplier base by undergoing and passing a special assessment (METRO Assessment Solution) conducted by an accredited certification body. Violations of conditions can lead to exclusion from our supplier network or, in the case of unacceptable production methods, to a product being blacklisted. If suppliers do not provide a corresponding certificate, it jeopardises the due diligence of METRO towards the customer. Potentially of placing non-safe products on the market which are unsuitable for human consumption or use or even health-hazardous represents a very high reputation risk and comprises the threat of lasting damage to customer relationships. Should a quality incident occur despite these measures, the process steps for resolving interruptions and incidents described in our manual will set out the procedure to react to the incident in the interest of our customers. We also continuously evaluate potential improvements to our quality assurance systems.

Financial opportunities and risks

Planning reliability (#7)

Unexpected deviations from the budget or the outlook could potentially result in METRO missing its budget targets and making wrong business decisions. This could lead to unexpected negative financial consequences. We therefore place high priority on measures designed to mitigate these risks. In order to minimise risks, we are consistently implementing strategic measures that are directed at improving our income position. We support the operational units in their pro-active implementation of the strategy by providing them with value creation plans. We also mitigate risks by conducting effective internal controls, a closer interlocking of strategic planning and the budgeting process as well as greater involvement of the supervisory bodies. The fact that our financial year differs from the calendar year allows us a high degree of planning certainty at an early stage, with the profitable Christmas quarter being the first quarter of our financial year. The outlook report offers insights into our expectations for the development of our business in the coming financial year.

- **For more information about financial risks and their management, please see the notes to the consolidated financial statements in** **no. 44 – management of financial risks ▸ page 274****.**

Other opportunities and risks

Opportunities from portfolio simplification and efficiency improvements
The focus on the wholesale business made further progress in financial year 2018/19 with the decision to sell the hypermarket business and to sell 80% of the majority interest in METRO China. In doing so, METRO is focusing its attention on investments aimed at strengthening its wholesale businesses in order to secure increased market shares in the rapidly growing HoReCa environment. The focus on wholesale could be translated faster than expected into improved workflows along the value chain and could have a positive effect on our business development through an increase in operating efficiency.

In addition to focusing on the wholesale business, joint ventures such as the one between METRO and Wumei in China as well as expansion of additional cooperations can lead to further innovations or operational cost savings.

Opportunities from company acquisitions
Great potential for increases in value may arise from the acquisition of selected companies, particularly in business segments of strategic importance. We see opportunities in the further development of our delivery business and in reinforcing our B2B e-commerce activities. The existing minority interests held by METRO offer the opportunity for additional increases in value if, for example, start-up companies were to develop faster and better than expected. We also want to solidify and expand the leading position our company has already attained in numerous markets. Weaker market players in countries where the macroeconomic situation has deteriorated are retreating from the market. Our goal there is to gain market share and, where appropriate, to take over individual locations and thus further advance market consolidation.

Risks from completed transactions (#8)
The demerger of the former METRO GROUP was concluded on 13 July 2017 with the initial listing of METRO AG shares on the stock exchange. The former METRO GROUP has split into a wholesale specialist (the new METRO AG) and a company focused on consumer electronics and services (CECONOMY AG, formerly METRO AG). The demerger may be subject to additional legal risks, adding to the tax risks inherent in the implementation; in detail, these risks are:

- Prospectus liability, for example claims by shareholders from share trading due to inadequate information
- Continuing liability for all liabilities of CECONOMY AG existing as of the effective date of the demerger/spin-off for a period of 5 years
- Liability risks stemming from legal claims by shareholders of the former METRO AG in relation to the demerger, for which METRO AG has agreed to absorb the costs under the demerger agreement.

We are preparing for any potential complaints by way of legal defence strategies. Potential claims resulting from prospectus liability are covered by a prospectus insurance policy. We are continuously monitoring the financial position of CECONOMY AG.

In order to increase transparency, we now present this risk and risk no. 9 ‘risks in connection with the disposal of Real’ separately.

Risks associated with the disposal of Real (#9, NEW)
In connection with the sale of the hypermarket business, the risks mainly relate to remnant costs which will continue to be incurred after the sale of Real but which will not be fully reflected in the operating performance of the continuing operations. An example of residual costs is the temporary underutilisation of METRO LOGISTICS. Furthermore, there is the risk of potentially lower-than-expected sales proceeds, which would necessitate further write-downs on the hypermarket business. In the consolidated financial statements as of 30 September 2019, impairment losses of €401 million on the hypermarket business disposal group were already recognised; this was taken into account accordingly in the risk assessment. To limit risks, METRO uses professional support from investment banks and external consultants in the marketing process.

Information technology

Opportunities from master data
A reliable basis with regard to data quality leads to an improved understanding of customer needs and thus offers great potential for opportunities. Among other things, digital solutions from Hospitality Digital (online reservation tool, internet presence) generate master data that contribute to the data basis. To seize these opportunities, METRO is developing an end-to-end master data management system to ensure data reliability. This system is supposed to be established in the sales channels in the future.

Legal and tax risks

Trade regulations (#10)
The European Union and national governments are increasingly adopting or amending regulations that regulate trade and unfair trading practices that could affect our business. The EU directive on unfair trading practices went into force in April 2019 and must be adopted into national law by April 2021. Further restrictions of local law are expected in EU countries in this context. Compared to the previous year, the risks from this are assessed as ‘probable’ instead of ‘possible’. Among other things, the European Parliament is discussing the proposal to ban procurement partnerships. In the Corporate Public Policy department, we collect, discuss and analyse important social, regulatory and political issues in order to represent our interests at the political level through responsible lobbying.

More stringent regulation pertaining to deferred compensation (#11)
In addition to purchase price agreements, we enter into agreements on so-called subsequent compensation with the suppliers. These agreements are concerned with purchasing terms and conditions, such as product-specific deferred rebates, reimbursement of expenses or remuneration for services, such as advertising or other marketing-related services.

For the last few years, we have observed that agreements on subsequent compensation between buyers and suppliers have been subjected to increased regulatory restrictions. This is mainly the case in the Eastern European countries, but has also been observed in other METRO countries, for example in the European Union. Russia, in particular, is affected by a decline in subsequent compensation. Some restrictions sometimes prohibit individual conditions. At the same time, antitrust law is used to regulate conditions to the detriment of retailers, as it is presumed that they have market power.

We continuously and systematically monitor the risks arising from increasing regulation regarding subsequent compensation. We address these regulation trends in a preventative approach by permanently adjusting our contractual relationships with suppliers in the concerned jurisdictions and/or in relation to certain product categories. This allows us to ensure that any subsequent benefit arrangement complies with the applicable laws at all times. We also take care to appropriately provide for the respective limitation periods under civil law. We analyse the historical structures of supplier terms and conditions in the context of a transformation programme spanning over a number of years and modernise the terms as required. Without active management, there would be a risk that added value in the form of subsequent compensation in selected product groups and/or countries could no longer or only partially be collected as a result of changes to the regulatory framework. This would have a corresponding impact on the total comprehensive income of our company.

— **For more information about legal issues, see the notes to the consolidated financial statements in no. 47 – remaining legal issues ▸ page 281.**

Tax risks (#12)

Tax risks can primarily arise in relation to the assessment of financial matters by the tax authorities (including transfer price issues). Additional risks may result from differing interpretations of sales tax (VAT) regulations. In addition, possible impairments on deferred tax assets in METRO AG may have a negative impact on the group tax rate.

In order to identify and minimise tax risks at an early stage, METRO AG has issued a group tax guideline, which is continuously monitored by the Corporate Group Tax department to ensure that it is up to date and properly implemented. These risks are regularly and systematically examined. The resultant risk mitigation measures are then coordinated between all persons involved. Moreover, an internal control system for the sales tax process was established and already implemented for German companies, which is supposed to be expanded to other national companies.

Management's overall assessment of the opportunity and risk situation

The Management Board and the Supervisory Board of METRO AG are regularly informed about the company's situation in terms of opportunities and risks. To evaluate the present risk situation, we did not examine opportunities and risks in isolation. Instead we analysed and rated the interdependencies between risks according to probability and impact. Our assessment indicates that the overall risks can be borne or are at least manageable. The identified individual and cumulative risks do not present risks that could possibly compromise the continuity of the company due to illiquidity or excessive indebtedness within a period of at least one year. We are confident that METRO's earnings performance offers a solid foundation for the sustainable positive development of our business and the utilisation of numerous opportunities. The Management Board of METRO AG currently does not expect any fundamental change in the opportunities and risk situation.

6 REMUNERATION REPORT

The remuneration report describes the remuneration system for the Management Board and the Supervisory Board in accordance with the statutory provisions of the German Commercial Code and the recommendations of the German Corporate Governance Code and depicts the remuneration amount of the members of the Management Board and the Supervisory Board in individualised form and according to remuneration components. The report also complies with the applicable accounting standards according to GAS and IFRS as applied to capital market-oriented companies.

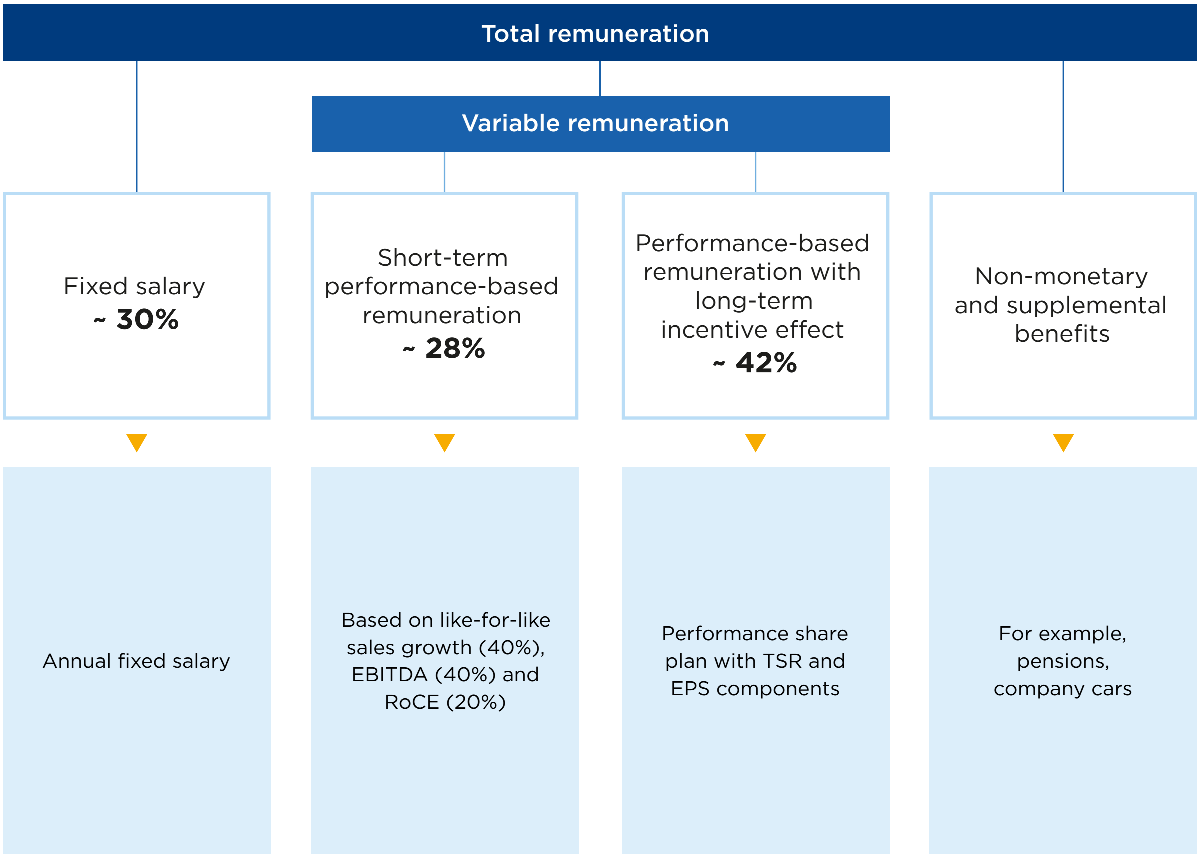
The Supervisory Board of METRO AG decides on the remuneration system for the Management Board and reviews it on a regular basis. The Presidential Committee, chaired by the Chairman of the Supervisory Board, prepares the proposed resolutions for the full Supervisory Board. The remuneration system based on financial year 2018/19 was approved by the Supervisory Board on 2 March 2017, confirmed on 31 August 2017 and adjusted on 14 November 2017 with regard to the financial performance targets for the short-term incentive from financial year 2017/18. The Annual General Meeting on 16 February 2018 approved the existing remuneration system with 83.18% of the cast votes.

The remuneration system for members of the Management Board

The agreed remuneration of the members of the Management Board is made up of

- a fixed salary,
- a short-term performance-based compensation,
- a performance-based remuneration with long-term incentive effect,
- a post-employment benefits plan as well as
- other non-monetary and supplemental benefits.

THE REMUNERATION SYSTEM FOR MEMBERS OF THE MANAGEMENT BOARD



Schematic diagram – percentage of the target values of fixed and variable remuneration.
The percentage distribution may occasionally be subject to slight differences.

Total remuneration and the individual remuneration components are geared appropriately to the responsibilities of each individual member of the Management Board, his or her personal performance and the company's economic situation and fulfil legal stipulations regarding customary remuneration. The performance-based variable remuneration serves as an incentive for the Management Board to increase the company's value and is designed to generate sustainable, long-term corporate development.

According to the recommendation of the German Corporate Governance Code, the remuneration for each member of the Management Board is limited in individual amounts; in each case with regard to the individual remuneration components and also in the aggregate (total disbursement cap). The upper threshold of remuneration for the financial year amounts to €8,034,800 for Mr Koch, €4,048,600 for Mr Baier, €6,043,600 for Mr Hutmacher and €4,228,600 for Mr Palazzi.

Insofar as a member of the Management Board negligently or intentionally violates his duties and the company incurs damage as a result of it, the Supervisory Board has the right to withhold payment of the remuneration of this member of the Management Board in full or in part. A so-called clawback clause (repayment agreement), which in the event of a negative development provides for the recovery of payments made in the past from variable remuneration components, was not agreed with the members of the Management Board, since payments from the short-term performance-based remuneration and the performance-based remuneration with a long-term incentive effect only take place after fulfilment of the performance targets and termination of the performance period. Without prejudice to this, a reduction of future payments to be paid in the event of a deterioration of the company's position according to § 87 Section 2 of the German Stock Corporation Act (AktG) remains.

Fixed salary

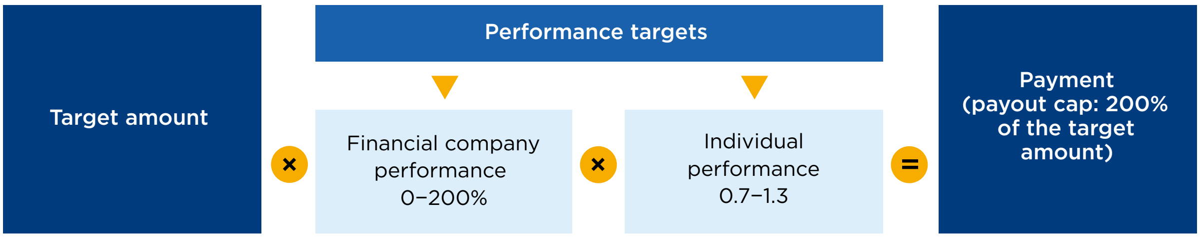
The fixed salary is contractually set and is paid in monthly instalments.

Short-term performance-based remuneration (short-term incentive, STI)

The short-term incentive remunerates the company's operating performance on the basis of financial performance targets pertaining to that specific financial year.

A target value in euros is set for each member of the Management Board. The payout amount is calculated by multiplying the target value by the factor of overall target achievement. This, in turn, is calculated by determining the target achievement factors for each of the financial performance targets. The weighted arithmetic mean of the individual factors results in the overall target achievement factor. The overall target achievement is limited to a factor of 2.0.

SHORT-TERM INCENTIVE



Schematic diagram.

The short-term incentive for financial year 2018/19 is based on the following parameters of the group:

- like-for-like sales development (sales growth in local currency related to a comparable area or a comparable portfolio of stores or distribution concepts such as delivery and online business) at 40%,
- exchange rate-adjusted earnings before deduction of interest expenses, taxes, depreciation/amortisation (EBITDA) at 40%,
- exchange rate-adjusted Return on Capital Employed (RoCE) at 20%,

in each case based on the target amount.

— **Further information on the key performance indicators can be found in chapter 2 group basics – 2.2 management system ▸ page 51.**

In general, performance targets are set by the Supervisory Board for each of the 3 parameters before the beginning of the financial year. The basis for determining the targets is the budget plan, which requires the approval of the Supervisory Board. To determine whether a target has been achieved, the Supervisory Board defines a lower threshold/entry hurdle for each performance target and a target value for 100% target achievement. A factor is allocated to the specific degree of target achievement for each performance target:

- If the degree of target achievement is 100%, the factor is 1.0.
- If the degree of target achievement is lower or equal to the entry hurdle, then the factor is 0.0.
- In the case of intermediate values and values over 100%, the factor for target achievement is calculated using linear interpolation and/or extrapolation.

To determine whether the EBITDA target has been achieved, the Supervisory Board is authorised to adjust the EBITDA for any possible impairment losses on company value.

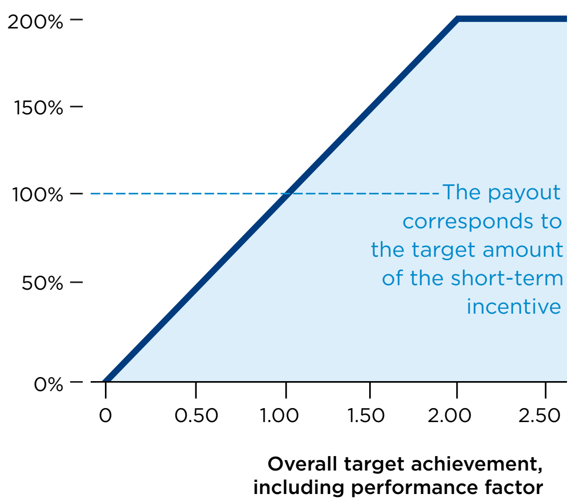
To ensure the individual performance orientation of Management Board remuneration, the Supervisory Board reserves the general right to reduce or increase the weight of the individual short-term incentive by up to 30%. The basis for this are targets that were agreed individually with the respective members of the Management Board as well as overlapping strategic targets for all members of the Management Board, such as customer satisfaction, employee satisfaction and sustainability in the context of the group's overall strategy.

The payout amount of the short-term incentive is limited to a maximum of 200% of the individually determined target value (payout cap).

In addition, the Supervisory Board may grant special bonuses to members of the Management Board for exceptional performance. In the reporting year, no special bonuses were granted to the members of the Management Board.

The short-term incentive of the members of the Management Board is generally payable 4 months after the end of the financial year, but not before approval of the annual and consolidated financial statements by the Supervisory Board for the incentivised financial year.

SHORT-TERM INCENTIVE – DISBURSEMENT CALCULATION



Performance-based remuneration with long-term incentive effect (long-term incentive, LTI)

The performance-based remuneration with long-term incentive effect incentivises the company's long-term and sustainable corporate development, taking into account the internal and external value development as well as the concerns of the shareholders and the other stakeholders associated with the company.

Performance share plan (since financial year 2016/17)

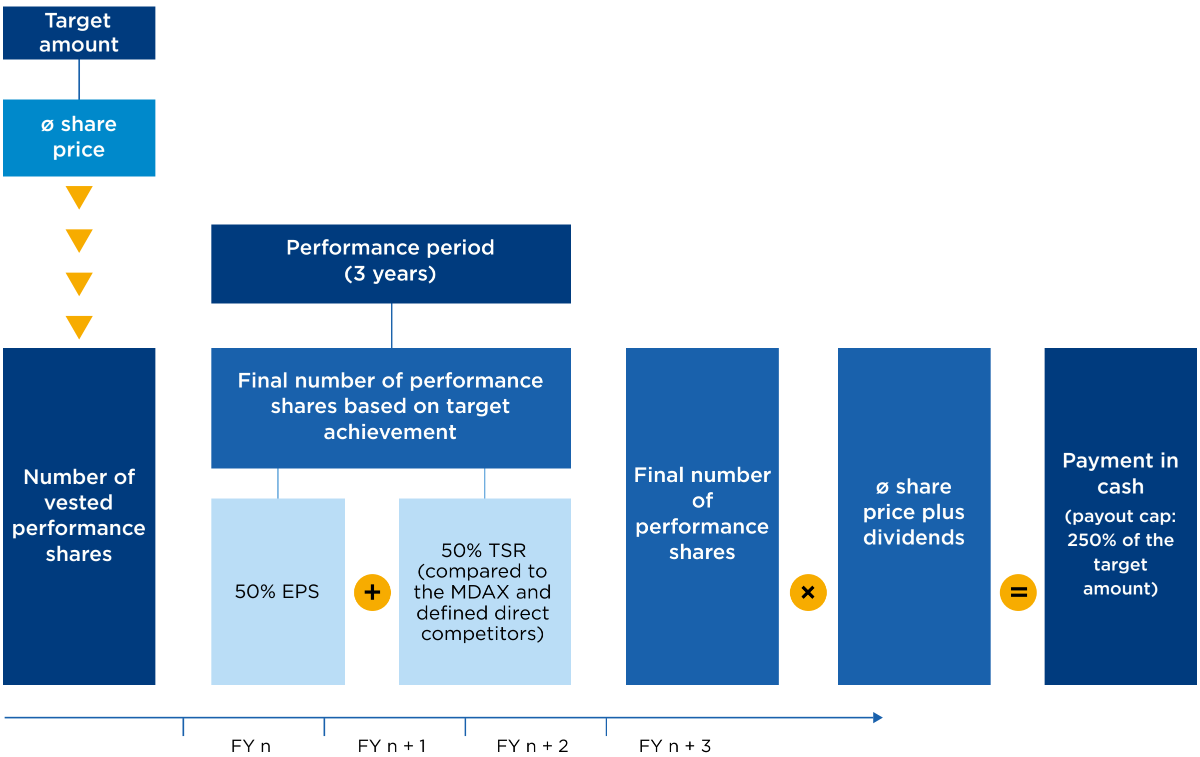
The annual tranches of the so-called performance share plan and their associated performance targets are generally based on a multi-year assessment. The performance period is usually 3 years. The payout amount is limited to a maximum of 250% of the individually determined target value (payout cap). In case of employment termination of a member of the Management Board before the end of a performance period, separate rules for the payout of the tranches have been agreed upon.

Each member of the Management Board is initially allocated conditional performance shares, the amount of which corresponds to the quotient of the individual target amount and the arithmetic mean of the share price of the company's ordinary share upon allocation. The decisive factor here are the average Xetra closing prices of the company's ordinary share over a period of 40 consecutive stock exchange trading days immediately after the Annual General Meeting of the company in the year of the allocation. An exception to this is the granted 2016/17 tranche of the performance share plan, which is based on the average closing prices of 40 consecutive stock exchange trading days beginning on 13 July 2017, the initial listing date of the share.

The performance period ends after the 40th stock exchange trading day following the ordinary Annual General Meeting in the 3rd financial year following the issuance of the tranche. After the performance period of a tranche, the final number of performance shares is determined, which depends on the achievement of 2 performance targets, which are weighted equally in the target amount of the performance share plan:

- reported earnings per share (EPS),
- total shareholder return (TSR).

LONG-TERM INCENTIVE

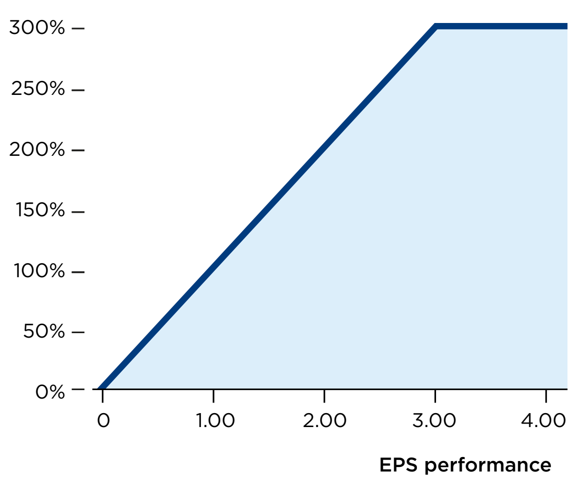


Schematic diagram.

For the EPS component, the Supervisory Board generally decides at the beginning of the financial year in which the tranche of the performance share plan is allocated on a lower threshold/entry hurdle for target achievement and an EPS target value for 100% target performance for the 3rd financial year of the performance period. A factor is allocated to the specific degree of target achievement:

- If the degree of target achievement at the end of the performance period is 100%, the factor is 1.0.
- If the degree of target achievement is lower or equal to the entry hurdle, then the factor is 0.0.
- In the case of intermediate values and values over 100% up to a maximum of 300%, the factor for target achievement is calculated using linear interpolation and/or extrapolation.

DETERMINING THE TARGET ACHIEVEMENT OF THE EPS COMPONENT



The target achievement factor of the TSR component is measured by the development of the total shareholder return of the company's ordinary share in the performance period relative to a defined benchmark index and to a defined comparison group at half the rate compared to the development of the MDAX TSR and the development of the average TSR of a defined comparison group of direct competitors over the same period as the TSR of the company. The TSR value of the comparison group of the direct competitors is determined individually for the members of the comparison group and then the arithmetic mean is established. The peer group of direct competitors, which is in line with the Wholesale 360 approach, is composed of the following companies: Bidcorp, Bizim Toptan, Marr, Eurocash Group, Performance Food Group, US Foods, Sysco and Sligro. Only companies that are listed for the entire performance period are included in this group. If TSR values are available for fewer than 6 companies in this comparison group, then the METRO TSR will be exclusively compared with the MDAX TSR – and the comparison with the group of direct competitors will not apply.

For the TSR component, the Supervisory Board also usually establishes a lower threshold/ entry hurdle and a TSR target value for the 100% target achievement at the beginning of the financial year in which the tranche of the performance share plan is granted.

To determine the target achievement, the Xetra closing prices of the company's ordinary share are determined over a period of 40 consecutive stock exchange trading days immediately after the Annual General Meeting of the company in the year of the allocation of the tranche. This is used to establish the arithmetic mean, which is known as the starting share price. The performance period for the respective tranche will begin on the 41st trading day following the Annual General Meeting, or for the tranche granted in financial year 2016/17 on the 41st stock exchange trading day following the initial listing of the ordinary share of the company. 3 years after the starting share price has been determined and the tranche has been issued, the Xetra closing prices of the ordinary share of the company will be determined over a period of 40 consecutive stock exchange trading days immediately following the Annual General Meeting. This is used again to establish the arithmetic mean, which is known as the ending share price. The TSR is determined as a percentage on the basis of the change in the company's ordinary share price and the total amount of hypothetically reinvested dividends throughout the performance period in relation to the starting share price.

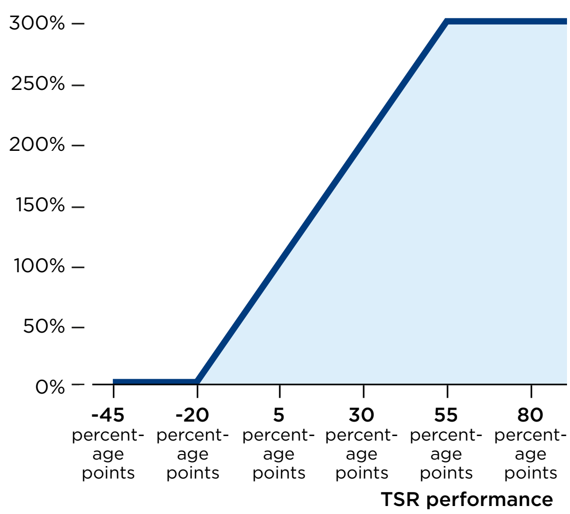
The resulting TSR of the company is compared to the equally determined TSR of the 2 comparison groups in the performance period. A factor is allocated to the specific degree of target achievement:

- If the degree of target achievement at the end of the performance period is 100%, the factor is 1.0. This requires an outperformance of 5 percentage points versus the comparison group.
- If the degree of target achievement is lower or equal to the entry hurdle, then the factor is 0.0.
- In the case of intermediate values and values over 100% up to a maximum of 300%, the factor for target achievement is calculated using linear interpolation and/or extrapolation.

The target achievement factors of the EPS and TSR components are used to form the arithmetic mean that establishes the overall target achievement factor. This is used to determine the target number of performance shares, which results in a cash payment in euros at the end of the performance period of the tranche:

- If the total target achievement factor for both components is 1.0, then the target number of performance shares equals the number of conditionally allocated performance shares.
- If the total target achievement factor is 0.0, then the number of performance shares decreases to 0.
- For all other target achievements, the target number of performance shares is determined by means of linear interpolation or extrapolation.

DETERMINING THE TARGET ACHIEVEMENT OF THE TSR COMPONENT



The target number of performance shares is limited to a maximum of 300% of the conditionally allocated number of performance shares.

The payout amount is calculated per performance share as follows: 3 years after the starting share price has been determined and the tranche has been issued, the Xetra closing prices of the ordinary share of the company will be determined over a period of 40 consecutive stock exchange trading days immediately following the Annual General Meeting. This is used to form the arithmetic mean and all the dividends paid during the performance period for the ordinary share of the company are added to it. This so-called share factor is multiplied by the number of calculated performance shares and establishes the gross payment amount.

The payout amount is limited to a maximum of 250% of the individually determined target amount (payout cap).

The tranches of the performance share plan will be paid no later than 4 months after the Annual General Meeting that decides on the appropriation of the balance sheet profit of the last financial year of the performance period, but not before the approval of all annual and consolidated financial statements for the financial years of the performance period by the Supervisory Board.

Share ownership guidelines

Along with the performance share plan, share ownership guidelines were introduced. As a prerequisite for the cash payment of performance shares, the members of the Management Board are obligated for each tranche to build up a self-financed investment in ordinary shares of the company by the end of February in the 3rd year of the performance period. The amount to be invested per tranche for the Chairman of the Management Board is two thirds of his gross annual fixed salary and for an ordinary member of the Management Board 50% of his or her gross annual fixed salary. The plan aims to ensure that, after no more than 5 years of service, the Chairman of the Management Board has invested 200% and an ordinary member of the Management Board 150% of his or her gross fixed salary in ordinary shares of the company, based on the calculated purchase price for the respective shares. The key factor for calculating the purchase price and thus the number of ordinary shares to be acquired is the average price of the Xetra closing prices of the company’s ordinary share over the 40 consecutive stock exchange trading days immediately after the annual press conference, which takes place before February in the 3rd year of the performance period. The acquisition price corresponds to the quotient of the amount to be invested, which results from the gross annual fixed salary and the determined average price. If the personal investment to be made in ordinary shares of the company is not, or not fully, met on the relevant closing date, the payout amount will initially be paid out in cash, but with the obligation to invest it in ordinary shares of the company until the share ownership guidelines are met.

Long-term incentive with performance target EPS

In financial year 2016/17, a one-time additional long-term incentive was granted in connection with the spin-off of METRO AG from CECONOMY AG. This performance period ended with the end of the 40th trading day after the company’s Annual General Meeting in 2019. Achieving this long-term incentive target was linked to the earnings per share (EPS) parameter for financial year 2017/18. No payout resulted from this long-term incentive.

Post-employment benefits plans

As members of the Management Board, Mr Koch, Mr Baier and Mr Hutmacher receive post-employment benefits plans in the form of direct commitments. The financing is provided jointly by the Management Board and the company. This is based on an apportionment of '7 +14'. When a member of the Management Board makes a contribution of 7% of his or her defined basis for assessment, the company will contribute twice the amount. The assessment is based on the amount of the fixed salary and the target amount of the short-term incentive. When a member of the Management Board leaves the company before retirement age, the contributions retain the level they have reached. This component of post-employment benefits plans is congruently reinsured by Hamburger Pensionsrückdeckungskasse VVaG (HPR). The interest rate for the contributions is paid in accordance with the Articles of Association of the HPR with regard to profit participation, with a guarantee applying to the paid-in contribution.

Entitlement to pension plans exists

- if the employment ends with or after reaching the statutory retirement age in the German statutory pension insurance,
- as premature post-employment benefit if the employment ends after the age of 60 or after the age of 62 for pension commitments granted after 31 December 2011 and before reaching the regular retirement age,
- in the event of disability or death, provided that the relevant conditions of eligibility are met.

Payment can be made in the form of a one-time capital payment, instalments or a life-long pension. A minimum benefit is granted in the case of invalidity or death. In such instances, the total amount of contributions that would have been credited to the member of the Management Board for every calendar year up to a credit period of 10 years, but limited to the point when the individual turns 60, will be added to the benefits balance. This component of post-employment benefits plans is not reinsured and will be provided directly by the company when the benefit case occurs.

Mr Palazzi receives the corporate contribution in the form of an earmarked one-off payment at the end of a financial year for setting up a pension plan at his discretion, without the need for a personal contribution.

Furthermore, members of the Management Board have been offered the option of converting future compensation components in the fixed salary as well as in the variable remuneration into post-employment benefits plans with Hamburger Pensionsrückdeckungskasse VVaG as part of a tax-privileged compensation conversion scheme.

The members of the Management Board have no further pension commitments beyond the described retirement benefits. In particular, no retirement payments will be granted.

Further benefits in case of an end to employment

Severance payments in cases of premature terminations of management roles without good cause are limited to 2 annual remunerations (severance cap) and must not exceed the remuneration that would be paid for the remaining term of the employment contract. The recommendation by the German Corporate Governance Code is observed.

In the event of a change of control, the members of the Management Board may exercise their right to resign from their office, within 6 months after the change of control, for good cause at the end of each month by giving 3 months' prior notice and to terminate their employment contract with effect to this date (extraordinary termination right).

The contractual provisions assume a change of control if either a single shareholder or a number of jointly acting shareholders have acquired a controlling interest in the meaning of § 29 of the German Securities Acquisition and Takeover Act (WpÜG) by way of holding at least 30% of the voting rights and the change of control significantly interferes with the responsibilities of a member of the Management Board.

If the extraordinary termination right is exercised, or if the employment contract is terminated on the basis of an amicable agreement within 6 months from the change of control, the respective member of the Management Board shall be entitled to a lump sum compensation for his or her contractual entitlements during the remaining term of the member's employment contract. The recommendation by the German Corporate Governance Code is observed with the amount of the severance payment being limited to 150% of the severance payment cap. The entitlement to a severance payment lapses if the employment was terminated by the company for good cause pursuant to §626 of the German Civil Code (BGB).

In addition, the employment contracts of the members of the Management Board generally provide for a post-contractual restraint on competition. They are prohibited from providing services to or for a competitor for a period of 12 months after termination of the employment contract. For this purpose, compensation for non-competition has been agreed which corresponds to the target remuneration consisting of the fixed salary, short-term incentive and long-term incentive for the duration of the post-contractual restraint on competitionand is paid in monthly instalments. These payments will be credited with remuneration earned by the other use of the employment. The company has the option of waiving the post-restraint on competition prior to or upon termination of the employment contract, while observing notice periods.

In the event of the death of a member of the Management Board during active service, his or her surviving dependants will be paid the fixed salary for the month in which the death occurred as well as for an additional 6 months.

Other non-monetary and supplemental benefits

The supplemental benefits granted to members of the Management Board include non-cash benefits and expense allowances, such as company cars.

Remuneration of the Management Board in financial year 2018/19

The remuneration of the members of the Management Board in financial year 2018/19 according to the German Commercial Code as well as the tables provided by the German Corporate Governance Code is as follows:

REMUNERATION OF THE MANAGEMENT BOARD IN FINANCIAL YEAR 2018/19[1]

					Performance-based remuneration with long-term incentive effect			
€1,000	Financial year	Fixed salary	Supple-mental benefits	Short-term performance-based remuneration	Value of the granted tranches[4]	(Payout from tranches granted in the past)	Total[5]	(Effective salary[6])
Olaf Koch	2017/18	1,200	20	177	1,214	(884)	2,611	(2,281)
	2018/19	**1,200**	**16**	**757**	**1,453**	**(0)**	**3,426**	**(1,973)**
Christian Baier	2017/18	700	18	88	585	(91)	1,391	(897)
	2018/19	**700**	**13**	**372**	**701**	**(0)**	**1,786**	**(1,085)**
Heiko Hutmacher	2017/18	900	17	134	910	(663)	1,961	(1,714)
	2018/19	**900**	**17**	**546**	**1,090**	**(0)**	**2,553**	**(1,463)**
Philippe Palazzi[2]	2017/18	280	126	34	–	–	440	(440)
	2018/19	**700**	**270**	**372**	**701**	**(0)**	**2,043**	**(1,342)**
Gesamt[3]	2017/18	**3,080**	**181**	**433**	**2,709**	**(1,638)**	**6,403**	**(5,332)**
	2018/19	**3,500**	**316**	**2,047**	**3,945**	**(0)**	**9,808**	**(5,863)**

1 Disclosures pursuant to § 285 Sentence 1 No. 9a and § 314 Section 1 No. 6a of the German Commercial Code (HGB) (excluding provisions for post-employment benefits plans).

2 Service contract with the company since 7 May 2018. The annual earmarked one-off payment for setting up a pension plan does not constitute a pension expenditure as per IAS 19 and is therefore recognised as a supplemental benefit.

3 Reported figures for financial year 2017/18 relate to active members of the Management Board in financial year 2018/19.

4 Shown here is the fair value at the time of granting the tranche of the performance share plan.

5 Total of the columns fixed salary, supplemental benefits, short-term performance-based remuneration and value of the granted tranche of the long-term incentive.

6 Total of the columns fixed salary, supplemental benefits, short-term performance-based remuneration and payout from tranches granted in the past of the long-term incentive.

BENEFITS GRANTED

	Olaf Koch				Christian Baier			
	Chairman of the Management Board Member of the Management Board since 2/3/2017				Chief Financial Officer Member of the Management Board since 11/11/2016			
	2017/18	**2018/19**	**2018/19**	**2018/19**	2017/18	**2018/19**	**2018/19**	**2018/19**
€1,000			**Minimum value**	**Maximum value**			**Minimum value**	**Maximum value**
Fixed salary	1,200	**1,200**	**1,200**	**1,200**	700	**700**	**700**	**700**
Supplemental benefits	20	**16**	**16**	**70**	18	**13**	**13**	**70**
Total	**1,220**	**1,216**	**1,216**	**1,270**	**718**	**713**	**713**	**770**
1-year variable remuneration	1,120	**1,120**	**0**	**2,240**	540	**540**	**0**	**1,080**
Multi-year variable remuneration								
Performance share plan tranche 2017/18[2]	1,214	**–**	**–**	**–**	585	**–**	**–**	**–**
Performance share plan tranche 2018/19[3]	–	**1,453**	**0**	**4,200**	–	**701**	**0**	**2,025**
Total	**3,554**	**3,789**	**1,216**	**7,710**	**1,843**	**1,954**	**713**	**3,875**
Pension expenditure	325	**325**	**325**	**325**	174	**174**	**174**	**174**
Total remuneration	**3,879**	**4,114**	**1,541**	**8,035**	**2,017**	**2,128**	**887**	**4,049**

[1] Service contract with the company since 7 May 2018. The annual earmarked one-off payment for setting up a pension plan does not constitute a pension expenditure as per IAS 19 and is therefore recognised as a supplemental benefit and included in the maximum value.

[2] Shown here is the fair value at the time of granting the tranche. (Allocation 18/4/2018, end of performance period after the fortieth trading day following the Annual General Meeting 3 years after the issuance of the tranche)

[3] Shown here is the fair value at the time of granting the tranche. (Allocation 15/4/2019, end of performance period after the fortieth trading day following the Annual General Meeting 3 years after the issuance of the tranche)

	Heiko Hutmacher				Philippe Palazzi[1]			
	Chief Human Resources Officer/ Labour Director Member of the Management Board since 2/3/2017				Chief Operating Officer Member of the Management Board since 7/5/2018			
	2017/18	**2018/19**	**2018/19**	**2018/19**	2017/18	**2018/19**	**2018/19**	**2018/19**
€1,000			**Minimum value**	**Maximum value**			**Minimum value**	**Maximum value**
Fixed salary	900	**900**	**900**	**900**	280	**700**	**700**	**700**
Supplemental benefits	17	**17**	**17**	**70**	126	**270**	**270**	**424**
Total	**917**	**917**	**917**	**970**	**406**	**970**	**970**	**1,124**
1-year variable remuneration	840	**840**	**0**	**1,680**	216	**540**	**0**	**1,080**
Multi-year variable remuneration								
Performance share plan tranche 2017/18[2]	910	**–**	**–**	**–**	–	**–**	**–**	**–**
Performance share plan tranche 2018/19[3]	–	**1,090**	**0**	**3,150**	–	**701**	**0**	**2,025**
Total	**2,667**	**2,847**	**917**	**5,800**	**622**	**2,211**	**970**	**4,229**
Pension expenditure	244	**244**	**244**	**244**	–	**–**	**–**	**–**
Total remuneration	**2,911**	**3,091**	**1,161**	**6,044**	**622**	**2,211**	**970**	**4,229**

[1] Service contract with the company since 7 May 2018. The annual earmarked one-off payment for setting up a pension plan does not constitute a pension expenditure as per IAS 19 and is therefore recognised as a supplemental benefit and included in the maximum value.

[2] Shown here is the fair value at the time of granting the tranche. (Allocation 18/4/2018, end of performance period after the fortieth trading day following the Annual General Meeting 3 years after the issuance of the tranche)

[3] Shown here is the fair value at the time of granting the tranche. (Allocation 15/4/2019, end of performance period after the fortieth trading day following the Annual General Meeting 3 years after the issuance of the tranche)

ACCRUALS

	Olaf Koch		Christian Baier		Heiko Hutmacher		Philippe Palazzi[1]	
	Chairman of the Management Board Member of the Management Board since 2/3/2017		Chief Financial Officer Member of the Management Board since 11/11/2016		Chief Human Resources Officer/ Labour Director Member of the Management Board since 2/3/2017		Chief Operating Officer Member of the Management Board since 7/5/2018	
€1,000	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Fixed salary	**1,200**	1,200	**700**	700	**900**	900	**700**	280
Supplemental benefits	**16**	20	**13**	18	**17**	17	**270**	126
Total	**1,216**	**1,220**	**713**	**718**	**917**	**917**	**970**	**406**
1-year variable remuneration	**757**	177	**372**	88	**546**	134	**372**	34
Multi-year variable remuneration	**0**	884	**0**	91	**0**	663	**0**	0
Other	**0**	0	**0**	0	**0**	0	**0**	0
Total	**1,973**	**2,281**	**1,085**	**897**	**1,463**	**1,714**	**1,342**	**440**
Pension expenditure	**325**	325	**174**	174	**244**	244	**–**	–
Total remuneration	**2,298**	**2,606**	**1,259**	**1,071**	**1,707**	**1,958**	**1,342**	**440**

[1] Service contract with the company since 7 May 2018. The annual earmarked one-off payment for setting up a pension plan does not constitute a pension expenditure as per IAS 19 and is therefore recognised as a supplemental benefit.

Long-term incentive (performance share plan) in financial year 2018/19

For the tranche of the performance share plan granted in financial year 2018/19, the target amount for Mr Koch is €1.68 million, for Mr Baier and Mr Palazzi each €0.81 million and for Mr Hutmacher €1.26 million.

The number of at first contingently allocated performance shares amounts to 114,755 for Mr Koch, 55,328 for Mr Baier and Mr Palazzi each and 86,066 for Mr Hutmacher.

The value of the tranche distributed in financial year 2018/19 as part of the performance share plan was calculated at the time of granting by external experts using recognised financial-mathematical methods.

PERFORMANCE SHARE PLAN

Tranche	End of the performance period	Starting price for the TSR component	Target amount Management Board as of 30/9/2019
2016/17	after the 40th trading day following the Annual General Meeting 3 years after the issuance of the tranche	€17.14	€3,610,000
2017/18	after the 40th trading day following the Annual General Meeting 3 years after the issuance of the tranche	€15.10	€3,750,000
2018/19	**after the 40th trading day following the Annual General Meeting 3 years after the issuance of the tranche**	**€14.64**	**€4,560,000**

In addition to the tranche of the performance share plan issued in the reporting period, Mr Koch, Mr Baier and Mr Hutmacher also received payout from tranches of the performance share plan granted in the past, namely tranches 2016/17 and 2017/18.

In financial year 2018/19, value adjustments resulted from the current tranches of performance-based payment programmes with a long-term incentive effect. The company's expenses amounted to €0.781 million for Mr Koch, €0.502 million for Mr Baier, €1.226 million for Mr Hutmacher and €0.087 million for Mr Palazzi.

As of 30 September 2019, the provisions for the members of the Management Board totalled €3.464 million.

Services after the end of employment in financial year 2018/19 (including provisions for post-employment benefits plans)

In financial year 2018/19, a total of €0.74 million was used in accordance with the International Financial Reporting Standards (IFRS) and the German Commercial Code (HGB) for the remuneration of the active members of the Management Board of METRO AG for benefits to be provided after the end of their employment (2017/18: €0.91 million determined according to IFRS and €0.80 million determined according to the German Commercial Code (HGB)). Of this total, according to IFRS and the German Commercial Code (HGB), approximately €0.33 million accounted for pension plans for Mr Koch, approximately €0.17 million for Mr Baier and approximately €0.24 million for Mr Hutmacher.

Provisions according to IFRS and the German Commercial Code (HGB) amount to approximately €0.001 million for Mr Baier. There is no need to establish provisions for Mr Koch and Mr Hutmacher.

The cash value of the commitment volume according to IFRS and the German Commercial Code (HGB) amount to approximately €3.9 million for Mr Koch, approximately €1.1 million for Mr Baier and approximately €3.0 million for Mr Hutmacher. With the exception of the provision listed in the last paragraph, the cash value of the commitment volume is offset by assets. There is no commitment volume for Mr Palazzi.

Termination benefits in financial year 2018/19

An agreement was reached with Mr Hutmacher in the reporting year for the premature termination of his employment contract with effect from the end of 31 December 2019. A severance payment of €2,957,700 was agreed to settle the remaining term of his employment contract (1 January 2020 to 30 September 2020) and the short-term incentive for the period from 1 October 2019 to 31 December 2019. This settlement covers Mr Hutmacher's claims, taking into account the contractually agreed severance payment cap in accordance with the German Corporate Governance Code. The severance payment, which is due in financial year 2019/20, was fully accrued in financial year 2018/19. The tranches of the long-term incentive already granted to Mr Hutmacher will be settled in accordance with the terms of the plan.

Outlook

In financial year 2019/20, Ms Andrea Euenheim is joining the Management Board of METRO AG as Chief Human Resources Officer and Labour Director. She started on 1 November 2019 and replaced Mr Hutmacher.

Furthermore, in financial year 2019/20, the Supervisory Board of METRO AG will continue to revise the existing remuneration system for the members of the Management Board of METRO AG in order to adapt it to new legal and regulatory requirements.

Remuneration of members of the Supervisory Board

The members of the Supervisory Board receive a fixed yearly remuneration amount in accordance with § 13 of METRO AG's Articles of Association. In financial year 2018/19, this amounted to €80,000 per ordinary member. The value added tax payable to the respective remuneration is reimbursed to the members of the Supervisory Board in accordance with § 13 Section 5 of METRO AG's Articles of Association.

The individual amount of Supervisory Board remuneration takes into account the duties and responsibilities of the individual members of the Supervisory Board by considering special assignments. The remuneration of the Chairman of the Supervisory Board is 3 times higher than that of an ordinary member of the Supervisory Board; that of the Vice Chairman and the chairpersons of the committees is twice as high; and that of the other members of the committees is 1.5 times higher. The remuneration for membership or chairmanship of a committee will be paid only if at least 2 meetings or other resolutions took place during the respective financial year. A member of the Supervisory Board who holds several offices at once receives remuneration for only one office; in the case of different levels of remuneration, the member receives remuneration for the most highly paid office.

Remuneration factors	
Chairman of the Supervisory Board	●●●
Vice Chairman	●●
Committee chairpersons[1]	●●
Committee members[1]	●◖
Members of the Supervisory Board	●

[1] With a minimum of 2 meetings/resolutions.

The relevant individual amounts for financial year 2018/19 are as follows:

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD FOR FINANCIAL YEAR 2018/19 PURSUANT TO §13 OF THE ARTICLES OF ASSOCIATION[1]

€	Financial year	Multiplier	Fixed remuneration
Jürgen Steinemann, Chairman	2017/18	●●●	240,000
	2018/19	●●●	**240,000**
Werner Klockhaus, Vice Chairman	2017/18	● ●	160,000
	2018/19	● ●	**160,000**
Stefanie Blaser	2017/18	●	53,333
	2018/19	●	**80,000**
Herbert Bolliger	2017/18	●	53,333
	2018/19	●	**80,000**
Gwyn Burr	2017/18	● ◖	120,000
	2018/19	● ◖	**120,000**
Thomas Dommel	2017/18	● / ● ◖	106,666
	2018/19	● ◖	**120,000**
Prof. Dr Edgar Ernst	2017/18	● ●	160,000
	2018/19	● ●	**160,000**
Dr Florian Funck	2017/18	● ◖	120,000
	2018/19	● ◖	**120,000**
Michael Heider	2017/18	●	80,000
	2018/19	●	**80,000**
Peter Küpfer	2017/18	●	80,000
	2018/19	●	**80,000**
Susanne Meister	2017/18	●	80,000
	2018/19	●	**80,000**
Dr Angela Pilkmann	2017/18	●	80,000
	2018/19	●	**80,000**
Dr Fredy Raas	2017/18	● ◖	120,000
	2018/19	● ◖	**120,000**
Xaver Schiller	2017/18	● ◖	120,000
	2018/19	● ◖	**120,000**
Eva-Lotta Sjöstedt	2017/18	●	80,000
	2018/19	●	**80,000**
Dr Liliana Solomon	2017/18	● ◖	120,000
	2018/19	● ◖	**120,000**
Alexandra Soto	2017/18	●	80,000
	2018/19	● / ● ◖	**120,000**
Angelika Will	2017/18	●	80,000
	2018/19	●	**80,000**
Manfred Wirsch	2017/18	●	80,000
	2018/19	●	**80,000**
Silke Zimmer	2017/18	●	80,000
	2018/19	●	**80,000**
Total[2]	2017/18		**2,093,332**
	2018/19		**2,200,000**

[1] Plus applicable value added tax in accordance with § 13 Section 5 of the Articles of Association.

[2] Reported figures for financial year 2017/18 relate to active members of the Supervisory Board in financial year 2018/19.

In financial year 2018/19, individual members of the Supervisory Board of METRO AG also received remuneration from the group companies for Supervisory Board mandates at group companies.

OTHER INTRA-GROUP COMPENSATION OF MEMBERS OF THE SUPERVISORY BOARD FOR FINANCIAL YEAR 2018/19[1]

€	Financial year	
Werner Klockhaus	2017/18	6,200
	2018/19	**10,075**
Thomas Dommel	2017/18	5,250
	2018/19	**4,500**
Michael Heider	2017/18	6,000
	2018/19	**6,000**
Xavier Schiller	2017/18	9,000
	2018/19	**9,000**
Manfred Wirsch	2017/18	6,000
	2018/19	**6,000**
Total	2017/18	**32,450**
	2018/19	**35,575**

[1] Plus potentially applicable value added tax.

Beyond this, the members of the Supervisory Board were not granted any remuneration or benefits for work performed, in particular not for consulting and brokerage services, on behalf of companies of METRO in the sense of Subsection 5.4.6 of the German Corporate Governance Code.

7 TAKEOVER-RELATED DISCLOSURES

The takeover-related disclosures as of 30 September 2019 required under §§ 289a Section 1 and 315a Section 1 of the German Commercial Code (HGB) are shown below:

Composition of the subscribed capital

As of 30 September 2019, the share capital of METRO AG amounted to €363,097,253. It is divided into a total of 360,121,736 ordinary no-par-value bearer shares (pro rata value of the share capital: €360,121,736, approximately 99.18%), as well as 2,975,517 preference no-par-value bearer shares (pro rata value of the share capital: €2,975,517, approximately 0.82%). Each share in the company has a notional interest of €1.00 in the share capital.

Each ordinary share grants a single vote in the company's Annual General Meeting. The ordinary shares carry full dividend rights. In contrast to ordinary shares, preference shares do not carry voting rights but confer a preferential entitlement to profits as prescribed in § 21 of the Articles of Association of METRO AG, which state:

'(1) Holders of non-voting preference shares will receive a preliminary dividend from the annual balance sheet profit in the amount of €0.17 for each preference share.

(2) Should the balance sheet profit available for distribution not suffice in any one financial year to pay the preliminary dividend, the arrears (excluding any interest) shall be paid from the balance sheet profit of subsequent financial years in an order based on age, meaning in such manner that any older arrears are paid off prior to any more recent ones and that the preference dividends payable from the profit of a financial year are not distributed until all accrued arrears have been paid.

(3) Following distribution of the preliminary dividends, the holders of ordinary shares will be paid a dividend of €0.17 for each ordinary share. Subsequently, a non-cumulative extra dividend per share will be paid to the holders of non-voting preference shares. The extra dividend shall amount to 10% of the dividend paid to the holders of ordinary shares under observation of Section 4, provided such dividend equals or exceeds €1.02 per ordinary share.

(4) The holders of non-voting preference shares and of ordinary shares will equally share in any additional profit distribution in the proportion of their shares in the share capital."

Other rights associated with ordinary and preference shares include in particular the right to attend the Annual General Meeting (§ 118 Section 1 of the German Stock Corporation Act (AktG)), the right to information (§ 131 of the German Stock Corporation Act) and the right to file a legal challenge or a complaint for nullity (§§ 245 Nos. 1–3, 246, 249 of the German Stock Corporation Act). In addition to the previously mentioned right to receive dividends, shareholders principally have a subscription right when the share capital is increased (§ 186 Section 1 of the German Stock Corporation Act), claims to liquidation proceeds after the closure of the company (§ 271 of the German Stock Corporation Act) and to severance payment and settlements as a result of certain structural measures, particularly pursuant to §§ 304 et seqq., 320b and 327b of the German Stock Corporation Act.

Voting rights and transfer-related restrictions

To the best knowledge of the Management Board, the following agreements exist or existed during financial year 2018/19, which may be construed as restrictions in the sense of § 315a Section 1 No. 2 and § 289a Section 1 No. 2 of the German Commercial Code.

Beisheim Capital GmbH, Düsseldorf (Germany), Beisheim Holding GmbH, Baar (Switzerland), and Palatin Verwaltungsgesellschaft mbH, Essen (Germany), a subsidiary of Meridian Stiftung, Essen, have been part of a pool of voting rights since 29 July 2019. Jointly they hold approximately 20.63% of ordinary shares in accordance with the voting rights notification dated 31 July 2019. The declared objective of Meridian Stiftung and the Beisheim Group is to exercise the voting rights from the METRO shares held by them jointly. In the future they plan to act uniformly vis-à-vis METRO and its shareholders in all material matters. The existing pooling agreement between Beisheim Capital GmbH, Düsseldorf (Germany), and Beisheim Holding GmbH, Baar (Switzerland), is suspended for the duration of the new voting rights pool with Meridian Stiftung, Essen.

In connection with the demerger of the former METRO AG, CECONOMY AG (formerly operating as METRO AG) has assumed a lock-up agreement with respect to the shares held by it in accordance with the Group Separation Agreement dated 13 December 2016. According to this agreement, CECONOMY AG is obligated not to sell its approximately 1% of the shares in METRO AG, which were granted as part of the demerger within the spin-off from the group, until 1 October 2023.

In addition, legal restrictions on voting rights may apply, for example pursuant to § 136 of the German Stock Corporation Act or, if the company holds own shares, pursuant to § 71b of the German Stock Corporation Act.

Shares held in capital

As of 30 September 2019, the following direct and indirect capital interests existed and entitled their respective holders to more than 10% of the voting rights:

Name/company	Direct/indirect capital interest entitling to more than 10% of voting rights
Haniel Finance Deutschland GmbH, Duisburg, Germany	Direct
Franz Haniel & Cie. GmbH, Duisburg, Germany	Indirect
Palatin Verwaltungsgesellschaft mbH, Essen, Germany	Direct
BVG Beteiligungs- und Vermögensverwaltungs-GmbH, Essen, Germany	Indirect
Gebr. Schmidt GmbH & Co. KG, Essen, Germany	Indirect
Gebr. Schmidt Verwaltungsgesellschaft mbH, Essen, Germany	Indirect
Meridian Stiftung, Essen, Germany	Indirect
EP Global Commerce GmbH, Grünwald, Germany	Direct
EP Global Commerce a.s., Prague, Czech Republic	Indirect
Daniel Křetínský	Indirect
Patrik Tkáč[1]	Indirect

[1] Attribution of voting rights due to concerted behaviour within the meaning of § 34 (2) WpHG.

On 24 August 2018, EP Global Commerce GmbH, based in Grünwald, acquired a call option on 15.2% of the voting rights from Haniel Finance Deutschland GmbH, a 100% subsidiary of Franz Haniel & Cie. GmbH, and extended and adjusted this from time to time. On 31 October 2019, EP Global Commerce GmbH announced that it had partially exercised the call option. On 6 November 2019, approximately 12.49% of the voting rights were transferred from Haniel Finance Deutschland GmbH to EP Global Commerce GmbH on this basis.

Therefore, Daniel Křetínský and Patrik Tkáč indirectly hold 29.99% of the voting rights in METRO AG via the acquisition company EP Global Commerce GmbH at the time these consolidated financial statements were prepared and also hold financial instruments for the transfer of a further 2.71% of the voting rights.

The information above is in particular based on notifications issued under § 33 er seqq. of the German Securities Trading Act that were received and published by METRO AG.

Voting rights notifications published by METRO AG can be found on the website www.metroag.de/en in the section Media – Legal Announcements.

Holders of shares with special rights as well as type of voting right control of employee shares

The company has not issued any shares with special rights pursuant to § 315a Section 1 No. 4 and § 289a Section 1 No. 4 of the German Commercial Code. No capital interests are held by employees pursuant to § 315a Section 1 No. 5 and § 289a Section 1 No. 5 of the German Commercial Code.

Provisions governing the appointment and dismissal of members of the Management Board and changes to the Articles of Association

The appointment and dismissal of members of the Management Board of METRO AG are governed in §§ 84, 85 of the German Stock Corporation Act and §§ 30, 31, 33 of the German Co-determination Act. § 5 of the Articles of Association of METRO AG stipulates that the Management Board shall comprise at least 2 members and that the actual number of members of the Management Board is determined by the Supervisory Board.

Changes to the Articles of Association of METRO AG are determined principally in accordance with §§ 179, 181, 133, 119 Section 1 No. 5 of the German Stock Corporation Act. There are numerous other sections of the German Stock Corporation Act that could possibly govern a change to the Articles of Association and that may amend or supersede the previously mentioned regulations, for example §§ 182 et seqq. of the German Stock Corporation Act in the case of capital increases, §§ 222 et seqq. of the German Stock Corporation Act in the case of capital reductions or § 262 of the German Stock Corporation Act in the case of the public limited company (‘AG’) being dissolved. Pursuant to § 14 Section 1 of the Articles of Association of METRO AG, the Supervisory Board may resolve to change the wording of the Articles of Association without a resolution passed by the Annual General Meeting.

Authorities of the Management Board to issue or buy back shares

Authorities to issue new shares

With resolution passed by the Annual General Meeting on 16 February 2018, the Management Board was authorised to increase the share capital, subject to the consent of the Supervisory Board, by issuing new ordinary bearer shares against cash or non-cash contributions in one or several tranches for a total maximum of €181,000,000 by 28 February 2022 (authorised capital).

Existing shareholders may exercise their subscription rights. The newly issued shares may also be acquired by banks or similarly situated companies selected by the Management Board pursuant to § 186 Section 5 Sentence 1 of the German Stock Corporation Act, given these institutions agree to tender such shares to the shareholders.

However, subject to the consent of the Supervisory Board, the Management Board is authorised to exclude shareholder subscription rights in the following cases:

- to balance fractional amounts;
- if shares are issued in exchange for non-cash contributions for the purpose of business combinations, for the acquisition of companies, for the purchase of parts of companies, operations, parts of operations or shares in companies;
- to grant a so-called scrip dividend, in which the shareholders are offered the right to use their dividend entitlement (in whole or in part) as a contribution in kind in exchange for new shares from the authorised capital;
- in the event of a capital increase in exchange for cash capital contributions to the extent necessary to grant subscription rights to new ordinary shares to the holders of warrant or convertible bearer bonds issued by METRO AG and affiliates thereof in which METRO AG holds at least 90% of shares, directly or indirectly, in the extent to which they would be entitled upon exercise of the warrant or conversion rights or performance of the warrant or conversion obligations or upon exercise of METRO AG’s right to substitute as shareholder;
- in the event of capital increases in exchange for cash capital contributions if the aggregate par value of such capital increases does not exceed 10% of the company’s share capital and the issue price of the new ordinary shares is not substantially lower than the listed stock exchange price of existing ordinary shares of the same class. The limit of 10% of the company’s share capital is diminished by the proportion of the share capital represented by the company’s own shares which are (i) used as own shares or sold during the term of authorised capital while excluding subscription rights of the shareholders in corresponding application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act or (ii) issued from contingent capital to service warrant or convertible bearer bonds which, in turn, have been or are issued while excluding subscription rights in corresponding application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act. The proportional share capital attributable to shares issued under this authority and under exclusion of the shareholders’ subscription rights in exchange for cash or non-cash capital contributions must not exceed 20% of the company’s share capital.

The Management Board is authorised to define further details of the capital increases, subject to the consent of the Supervisory Board. To date, the authorised capital has not been fully utilised.

Authorities to issue warrant bonds and/or convertible bearer bonds

With resolution passed by the Annual General Meeting on 16 February 2018, the Management Board was authorised to issue, in each case with the consent of the Supervisory Board, warrant or convertible bearer bonds (in aggregate, 'bonds') with an aggregate par value of €1,500,000,000 prior to 15 February 2023, on one or several occasions, and to grant the holders of warrant or convertible bearer bonds warrant or conversion rights or impose warrant or conversion obligations upon them for ordinary bearer shares in METRO AG representing up to €50,000,000 of the share capital in accordance with the terms of the warrant or convertible bearer bonds. This authority results in contingent capital of up to €50,000,000 pursuant to § 4 Section 8 of the METRO AG Articles of Association.

The bonds may also be issued by a METRO AG subsidiary in the meaning of § 18 of the German Stock Corporation Act in which METRO AG holds a direct or indirect interest of at least 90%. In that case, the Management Board is authorised to assume, in each case with the consent of the Supervisory Board, a guarantee for those bonds on behalf of METRO AG and grant their holders warrant or conversion rights to ordinary bearer shares in METRO AG or impose warrant or conversion obligations upon them.

Shareholders will be granted their statutory subscription rights by way of the bonds being acquired by a bank or syndicate of banks with an undertaking to offer such bonds to the shareholders. If bonds are issued by a METRO AG subsidiary in accordance with § 18 of the German Stock Corporation Act in which METRO AG holds a direct or indirect interest of at least 90%, METRO AG must ensure that statutory subscription rights are granted to the shareholders of METRO AG in accordance with the preceding sentence.

Subject to the consent of the Supervisory Board, the Management Board is however authorised to exclude shareholder subscription rights for fractional amounts arising from proportional subscriptions to the extent necessary to grant or impose warrant or conversion rights or obligations with respect to the holders of existing warrant or conversion rights or obligations in the amount to which they would be entitled to as shareholders after exercising the warrant or conversion right or performance of the warrant or conversion obligation.

Subject to the consent of the Supervisory Board, the Management Board is also authorised to entirely exclude shareholder subscription rights to bonds issued in exchange for cash payment carrying warrant or conversion rights or warrant or conversion obligations, insofar as the Management Board concludes, after careful review, that the issue price of the bonds is not substantially lower than the hypothetical market value ascertained using recognised financial mathematical methods. This authorisation to exclude subscription rights applies to bonds issued with warrant or conversion rights or warrant or conversion obligations to pro rata ordinary shares comprising no more than 10% of the share capital at the time the authority takes effect or, if this figure is lower, at the time the authorisation is exercised. The limit of 10% of the share capital is reduced by the pro rata amount of share capital represented by any shares issued (i) during the effective period of this authority under exclusion of subscription rights according to § 186 Section 3 Sentence 4 of the German Stock Corporation Act, or (ii) to service warrant or convertible bearer bonds providing for warrant or conversion rights or obligations, insofar as such bonds were issued during the effective period of this authorisation under exclusion of subscription rights by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis.

If bonds carrying warrant or conversion rights or warrant or conversion obligations are issued, the warrant or conversion price is determined pursuant to the rules in § 4 Section 8 of the Articles of Association of METRO AG.

In the case of bonds carrying warrant or conversion rights or warrant or conversion obligations, the warrant or conversion price may be adjusted after closer determination in order to preserve the value of such warrant or conversion rights or warrant or conversion obligations in the event their economic value is diluted, to the extent that such an adjustment is not already provided for by law. The bonds' terms may also provide for an adjustment of warrant or conversion rights or warrant or conversion obligations in case of a capital reduction or other extraordinary measures or events (for example unusually high dividends, third parties gaining a controlling interest). In the case of a third party gaining a controlling interest, the bonds' terms may provide for adjustment of the warrant or conversion price to reflect market conditions. Furthermore, the terms of the bonds may provide for a variable conversion ratio and/or variable warrant and conversion price, where the warrant or conversion price is determined within a range to be determined on the basis of the share price development during the term. The minimum issue price based on the stipulations of § 4 Section 8 of METRO AG's Articles of Association may not be undercut.

The bonds' terms may grant METRO AG the right, in lieu of providing ordinary shares upon the exercise of warrant or conversion rights, to make a cash payment corresponding to the volume-weighted average price of METRO AG ordinary shares on the Xetra trading system (or a functionally comparable successor system replacing the Xetra system) of the Frankfurt Stock Exchange during a period of several days before or after the exercise of warrant or conversion rights is announced for the number of ordinary shares that would otherwise be delivered. This period is to be determined by the Management Board. The bonds' terms may, at METRO AG's discretion, also provide for the warrant or convertible bearer bonds to be converted into existing ordinary shares in METRO AG or shares in another listed company in lieu of converting them into new ordinary shares from contingent capital and that warrant rights or obligations can be performed by the delivery of such shares.

The bonds' terms may also provide for a warrant or conversion obligation at the end of the term (or at any other time), or authorise METRO AG to grant bondholders ordinary shares in METRO AG or shares in another listed company upon maturity of bonds carrying warrant or conversion rights (including bonds which mature due to termination), in whole or in part, in lieu of a maturity payment in cash. The percentage of share capital represented by the ordinary shares in METRO AG issued upon the exercise of warrant or conversion rights must not exceed the par value of the bonds. §§ 9 Section 1, 199 Section 2 of the German Stock Corporation Act apply.

The Management Board is authorised to determine, in each case with the consent of the Supervisory Board, the further details pertaining to the issuance and terms of the bonds, particularly the coupon, issue price, term, division into shares, rules for the protection against dilution and the warrant or conversion period, or to define such details in consultation with the corporate bodies of the affiliate of METRO AG which issues the warrant or convertible bonds in accordance with § 18 of the German Stock Corporation Act.

To date, the authority to issue warrant and/or convertible bearer bonds has not been exercised.

Authorities to repurchase own shares

The company is authorised to buy back its own shares in accordance with § 71 of the German Stock Corporation Act. Pursuant to § 71 Section 1 No. 8 of the German Stock Corporation Act, the Annual General Meeting authorised the company by resolution on 11 April 2017 to acquire its own shares of any class until 28 February 2022. The authority is limited to the repurchase of shares collectively representing a maximum of 10% of the share capital issued as of the date the Annual General Meeting resolution is passed or – if this figure is lower – at the time the authority is exercised. The shares transferred under this authority, together with any own shares acquired for other reasons and held by the company or attributable to it pursuant to §§ 71a et seqq. of the German Stock Corporation Act, shall collectively not exceed a pro rata proportion of 10% in the share capital at any time.

Shares may be acquired on the stock exchange or by way of a tender offer aimed at all shareholders. In the process, the authorisation includes specifications regarding the purchase price and procedures to be followed in case a public offering is oversubscribed.

The Management Board is authorised to use the shares in the company acquired based on the above authorisation for the following purposes in particular:

- disposal of shares in the company on the stock exchange or by means of a purchase offer expressed to all shareholders;
- listing of shares in the company on foreign stock exchanges where they were not hitherto admitted for trading, where the authorisation includes stipulations regarding the initial listing price;
- transfer of shares in the company to third parties for non-cash consideration in connection with business combinations or the acquisition of other companies, divisions of other companies, businesses or interests in other companies or other assets;
- disposal of shares in the company outside of the stock exchange or via a purchase offer expressed to all shareholders, provided that the disposal is for cash payment and at a price not substantially lower than the stock exchange price in effect for listed shares of the company with the same terms on the date of the disposal. This authority is limited to the disposal of shares collectively representing a maximum of 10% of the share capital at the time the authority takes effect or – if this figure is lower – at the time the authority is exercised. The maximum limit of 10% of the share capital is reduced by the pro rata amount of share capital represented by any shares issued (i) during the effective period of this authority under exclusion of subscription rights according to § 186 Section 3 Sentence 4 of the German Stock Corporation Act, or (ii) to service warrant or convertible bearer bonds providing for warrant or conversion rights or obligations, insofar as such bonds were issued during the effective period of this authority under exclusion of subscription rights by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis;

- delivery of shares to holders of warrant or convertible bearer bonds of the company or its affiliates, in accordance with § 18 of the German Stock Corporation Act under the terms and conditions applicable to such warrant or convertible bonds; this also applies to the delivery of shares based upon the exercise of subscription rights, which in the event of a disposal of company shares through an offer to all shareholders or in the event of a capital increase with subscription rights may be granted to holders of warrant or convertible bonds of the company or any of its affiliates in accordance with § 18 of the German Stock Corporation Act to the same extent that holders of such warrant or convertible bonds would have subscription rights for shares of the company after exercising the warrant or conversion rights or performing the warrant or conversion obligations. The shares transferred under this authority shall collectively not exceed a pro rata proportion of 10% of the share capital at the time the authority takes effect or – if this figure is lower – at the time the authorisation is exercised, insofar as such shares were issued to service warrant or conversion rights or warrant or conversion obligations granted or imposed in application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis. The maximum limit of 10% of the share capital is reduced by the pro rata amount of share capital represented by any shares issued or sold during the effective period of this authority by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis;
- distribution of a stock dividend (scrip dividend), where company shares are used (also partially and selectively) to service dividend rights of shareholders;
- redemption of shares in the company, without the need for any further resolution by the Annual General Meeting. Such redemption may also be accomplished without a capital reduction by increasing the proportional value of the remaining no-par-value shares in the share capital of the company. In this case, the Management Board is authorised to adjust the number of no-par-value shares stipulated in the Articles of Association.

The above authorisations to acquire and use the company's own shares based on the above or previous authorisations may be exercised in whole or in part, on one or several occasions, individually or collectively by the company or its group companies in accordance with § 18 of the German Stock Corporation Act or by third parties acting for their account or for the account of the company. The above authorities may be exercised for the acquisition and use of ordinary shares as well as preference shares or only for the acquisition and use of ordinary shares or for preference shares only.

Using own shares in accordance with the above authorisations other than selling acquired company shares on the stock exchange or by offer to all shareholders requires consent of the Supervisory Board.

The subscription rights of shareholders are excluded if own shares are used for any of the purposes authorised above, with the exception of the authority to sell the company's shares by making a purchase offer to all shareholders, the authority to distribute dividends in the form of a scrip dividend and the authority to redeem shares without the need for any further resolution by the Annual General Meeting.

The Management Board is authorised to exclude shareholder subscription rights for residual amounts if own shares are used in accordance with the authority to sell the company's shares by making a purchase offer to all shareholders in compliance with the principle of equal treatment stipulated in § 53a of the German Stock Corporation Act. The Management Board is further authorised to exclude shareholder subscription rights if own shares are used to distribute dividends in the form of a scrip dividend.

To date, the authorisation to repurchase the company's own shares has not been exercised.

Fundamental agreements related to the conditions of a change of control

METRO AG is currently a borrower under 2 syndicated loan agreements, which the lender may cancel in the case of a change of control, provided that, additionally and as a result of the change of control, the credit rating of METRO AG deteriorates to a certain degree as defined in respective agreements. By the definition included in the syndicated loan agreements, 'change of control' refers to the loss and acquisition of control as per § 29 of the German Securities Acquisition and Takeover Act (WpÜG). The first requirements of such a change of control are, first, that the shareholders who controlled METRO AG at the time at which each contract was signed lose control over METRO AG. The second condition is the assumption of control over METRO AG by one or a number of parties. The lending banks may only cancel the contract and demand the return of the loans if the change of control and a resulting drop in the credit rating occur cumulatively. The arrangements described are common market practice and serve the purpose of protecting creditors. None of these loans was drawn in financial year 2018/19.

Compensation agreements in the event of a takeover bid

The company has entered into compensation agreements with the members of the Management Board to provide for the case of a takeover bid. In the event of a change of control, the members of the Management Board may exercise their right to resign from their office, within 6 months after the change of control, for good cause at the end of each month by giving 3 months' prior notice. They may also terminate their management contract with effect on the same date (extraordinary termination right).

Based on the contractual provisions a change of control can be assumed if either a single shareholder or a number of jointly acting shareholders have acquired a controlling interest in the meaning of § 29 of the German Securities Acquisition and Takeover Act (WpÜG) by way of holding at least 30% of the voting rights and the change of control significantly interferes with the responsibilities of a member of the Management Board.

If the extraordinary termination right is exercised, or if the service contract is terminated on the basis of an amicable agreement within 6 months from the change of control, the respective member of the Management Board shall be entitled to a lump sum compensation for his or her contractual entitlements during the remaining term of the member's management contract. The recommendation by the German Corporate Governance Code is observed with the amount of the severance payment being limited to 150% of the severance payment cap. The entitlement to a severance payment lapses if the employment was terminated by the company for good cause pursuant to § 626 of the German Civil Code (BGB).

However, no compensation agreements with employees have been concluded in the event of a takeover bid.

8 SUPPLEMENTARY NOTES FOR METRO AG (PURSUANT TO THE GERMAN COMMERCIAL CODE)

Overview of financial year 2018/19 and outlook of METRO AG

As the management holding company of the METRO group, METRO AG is highly dependent on the development of METRO in terms of its own business development, position and potential development with its key opportunities and risks.

In light of the holding structure, the most important key performance indicator for METRO AG in terms of GAS 20 is commercial net profit or loss – contrary to the case for the group as a whole.

Business development of METRO AG

The business development of METRO AG is primarily characterised by the development and dividend distributions of its investments. The METRO AG Annual Financial Statements prepared under German commercial law serve as the basis for dividend distribution. The income statement and balance sheet of METRO AG prepared in accordance with the regulations stipulated by the German Commercial Code (HGB) are outlined below.

Earnings position of METRO AG and profit appropriation

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 OCTOBER 2018 TO 30 SEPTEMBER 2019 IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE

€ million	2017/18	**2018/19**
Sales revenues	434	**393**
Other operating income	315	**387**
Cost of services purchased	−53	**−51**
Personnel expenses	−126	**−139**
Depreciation/amortisation/impairment losses on intangible and tangible assets	−55	**−66**
Other operating expenses	−427	**−571**
Investment result	202	**293**
Net financial result	−51	**−5**
Income taxes	−6	**−2**
Earnings after taxes	**233**	**239**
Other taxes	3	**−2**
Net profit or loss	**236**	**237**
Retained earnings from the previous year	47	**29**
Income from capital reduction	0	**0**
Balance sheet profit	**283**	**266**

Under the transfer pricing system, METRO AG essentially serves as a licensor and service provider for the operational METRO wholesale national subsidiaries.

The key services provided in this context include various operational services (consulting services), holding company services as well as services related to the development and operation of various in-house IT solutions. In order to be able to render these services, the company purchases IT services from subcontractors within the group as well as from third-party providers, in particular, which leads to higher costs for services purchased, other operating expenses and depreciation/amortisation. METRO AG acts as a centralised licensor for its subsidiaries with respect to its METRO and MAKRO brands as well as its own-brand products.

Services are billed at arm's-length prices. Under the transfer pricing model, the national and international companies of METRO Wholesale were billed approximately €550 million in licensing and service fees in financial year 2018/19.

€393 million in settlement amounts received by METRO AG were recognised as sales in the reporting period. They are broken down into €299 million concerning settlement amounts received in the form of licensing fees for the METRO and MAKRO brands as well as €94 million relating to IT and business services rendered to the wholesale subsidiaries. The reason for the decline in sales revenues of approx. €40 million is the earnings development in Russia as well as Eastern Europe, since the licensing fees for the use of the METRO and MAKRO brands are based on earnings. These effects could not be fully offset by the positive earnings development in Western Europe.

The item other operating income consists mainly of settlement amounts from subsidiaries that are not classified as sales revenues.

This item also includes exchange rate gains of €60 million. The offsetting expenses resulting from exchange rate losses incurred as part of natural hedging at group level were incurred by one subsidiary and are thus included in the profit transfers at METRO AG. To perform its function as a central management holding company, METRO AG has subcontracted service performances which predominantly relate to costs of marketing and IT services, to subsidiaries as well as third-party companies. To the extent such expenses are related to settlement payments recognised in the item sales revenues, the corresponding amounts have been recognised in the item cost of services purchased.

On average during the 4 quarters of financial year 2018/19, METRO AG employed 855 people. Part-time employees and temporary workers were converted into full-time equivalents. Despite a lower number of employees, personnel expenses were higher than in the previous year due to higher performance-based remuneration components.

Depreciation expenses in the amount of €40 million resulted predominantly from scheduled depreciation on the usufructuary rights to the METRO and MAKRO brands.

Other operating expenses consist of expenses incurred by METRO AG in exercising its function as a management holding and concern costs for services subcontracted to companies both within and outside of the group.

For financial year 2018/19, METRO AG posted an investment income of €293 million. Profit and loss transfer agreements with other group companies accounted for revenues in the amount of €1,160 million. It includes the release of reserves received from an indirectly held subsidiary. Losses were absorbed in the amount of €472 million. These losses predominantly result from the segment Real. The income from investments without profit and loss transfer agreements amounted to €89 million in financial year 2018/19 and was predominantly attributable to the group's real estate companies and the foreign wholesale subsidiaries.

In the reporting period impairment losses of €484 million were made on investments in affiliated companies.

The net financial result amounted to €−5 million.

The net profit or loss for the year comes in at €237 million. Including retained earnings from the previous year in the amount of €29 million, the company's balance sheet profit amounted to €266 million.

Regarding the appropriation of the balance sheet profit for 2018/19, the Management Board of METRO AG will propose to the Annual General Meeting to distribute from the reported balance sheet profit of €266 million a dividend in the amount of €0.70 per ordinary share and €0.70 per preference share – that is, a total of €254 million – and to carry forward the remaining amount to the new account.

Financial position of METRO AG

Cash flows

As of the closing date, cash on hand amounted to €44 million. This item essentially includes bank deposits through cash pool income from the sales lines towards the end of the reporting period.

Capital structure

EQUITY AND LIABILITIES

€ million	30/9/2018	**30/9/2019**
Equity		
Share capital	363	**363**
Capital reserve	6,118	**6,118**
Balance sheet profit	283	**266**
	6,764	**6,747**
Provisions	**371**	**451**
Liabilities		
Bonds	2,898	**2,288**
Liabilities to banks	259	**262**
Liabilities to affiliated companies	7,007	**8,380**
Miscellaneous liabilities	71	**81**
	10,235	**11,011**
Deferred income	**19**	**12**
	17,389	**18,221**

Liabilities consist of equity in the amount of €6,747 million and provisions, liabilities and deferred income in the amount of €11,474 million. The equity ratio as of the closing date was 37.0%. Provisions as of the closing date totalled €451 million. Liabilities consist of €2,288 million in bonds and €262 million in liabilities to banks. The balance sheet also reports liabilities to affiliated companies in the amount of €8,380 million. In addition to short-term financial investments made by METRO companies, they predominantly concerned liabilities from structuring measures under corporate law.

Asset position of METRO AG

ASSETS

€ million	30/9/2018	**30/9/2019**
Non-current assets		
Intangible assets	1,001	**939**
Tangible assets	2	**3**
Financial assets	9.157	**9,005**
	10.160	**9,947**
Current assets		
Receivables and other assets	6,882	**8,218**
Cash on hand, bank deposits and cheques	335	**44**
	7,217	**8,262**
Deferred income	**12**	**12**
	17,389	**18,221**

As of the closing date, METRO had total assets of €18,221 million, which are predominantly comprised of financial assets in the amount of €9,005 million, receivables from affiliated companies at €8,214 million and the usufructuary rights to the METRO and MAKRO brands which were recognised as an intangible asset (€883 million). Cash on hand, bank deposits and cheques amounted to €44 million. The financial assets predominantly consist of shares held in affiliated companies in the amount of €8,964 million which are essentially comprised of shares in the holding for wholesale companies (€6,693 million), in real estate companies (€1,278 million), in service providers (€470 million) and in other companies (€523 million). The financial assets account for 49.4% of the total assets. Receivables from affiliated companies amount to €8,214 million. This corresponds to 45.1% of the total assets. This position contains €6,117 million in receivables from a group-internal transfer of shares in affiliated companies at their carrying values and predominantly reflects the short-term financing requirements of the group companies as of the closing date.

Risk situation of METRO AG

As METRO AG is closely engaged with the companies of the METRO group through financing and guarantee commitments as well as direct and indirect investments, among other things, the risk situation of METRO AG is highly dependent on the risk situation of the METRO group. This is why the summary of the risk situation of METRO AG issued by the company's management also reflects the risk situation of the METRO group.

Outlook of METRO AG

The business development of METRO AG as the management holding company essentially depends on the development and dividend distributions of its investments. We assume that possible one-off charges from the announced efficiency program can be offset by ongoing cost savings as well as changes in investment results. Accordingly, we expect that net profit or loss for the coming financial year 2019/20 will return to a level comparable to that of 2018/19 (€237 million).

Planned investments of METRO AG

In the context of METRO's investment activities, METRO AG will support group companies with increases in shareholdings or loans, where necessary. In addition, investments in shareholdings in affiliated companies may result from intra-group share transfers.

Declaration on corporate management

The declaration on corporate management, summarised in the corporate governance report, pursuant to § 289f of the German Commercial Code (HGB) and § 315d of the German Commercial Code (HGB) is permanently and publicly available on the company's website (www.metroag.de/en) in the section Company – Corporate Governance.