IFRS 16 RESTATEMENT 2018/19
(CONTINUING OPERATIONS)

03 February 2020

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KEY PRINCIPLES AND MAIN IMPACTS (1/2)

Background and Key Principles

Why? Conceptual framework perspective

- IFRS 16 was introduced by IASB in January 2016 in order to provide more transparency on companies' lease assets and liabilities and to improve comparability between companies that lease and those that borrow to buy
- It is effective for most companies that report under IFRS since 1 January 2019 and replaced IAS 17 (the earlier leasing standard)

How? METRO specific application

- IFRS 16 was applied from 1 October 2019 onwards, using the fully retrospective method (for group and segments); previous year financials (Q1, Q2, Q3, Q4 & FY 2018/19) were restated correspondingly
- METRO has exercised the option of not applying the right-of-use approach to low-value assets and short-term leases. Rental expenses for these assets will therefore continue to be recognised directly in the income statement
- The option to separate lease and non-lease components (e.g. service) is not exercised and the non-lease components are included in the right-of-use assets to be recognised

KEY PRINCIPLES AND MAIN IMPACTS (2/2)

Main Impacts

- Previously, lease contracts where either classified as operating or finance lease. With IFRS 16, operating leases are accounted for as finance lease (with selected exceptions)
  - Operating leases capitalised on the balance sheet, assets depreciated over time
  - Lease expense hence "becomes" interest expense and amortization
- Different components of income statement, balance sheet, and cash flow statement are affected
  - EBITDA strongly increases (due to lower lease expense), EBIT increases (due to lower lease expense only partially compensated by higher depreciation) and net financial result decreases (due to additional interest expense)
  - However, as the sum of depreciation and interest is roughly on the same level as the replaced rent, the restated earnings before taxes (EBT), profit for the period and earnings per share (EPS) only increase slightly
- Total assets and liabilities increase significantly, equity decreases
- No impact on total cash flow, whereas operating cash flow will increase at the expense of financial cash flow

No economic impact on the business, our strategy or capital allocation policy

IFRS 16 IMPACT ON KPIS (1/3)

Group Performance 2018/19

€ million[1]	18/19 before IFRS 16	Effect of IFRS 16	18/19 Restated
Sales (net)	**27,082**	**-**	**27,082**
EBITDA excl. RE gains	**1,021**	**371**	**1,392**
Real estate gains	338	1	339
Total EBITDA	**1,359**	**372**	**1,731**
D&A	-532	-243	-774
EBIT	**828**	**130**	**957**
Net financial result	-119	-111	-230
EBT	**709**	**19**	**728**
Net income	411	16	427
Earnings per share (in €)	**1.12**	**0.04**	**1.16**

Comments

- Group **Sales completely unaffected**
- As operating lease expenses are being replaced by depreciation and interest expenses **EBITDA excl. RE gains increases** by 371m€
- This equals an **increase in EBITDA margin by 1.4%-points** to 5.1%
- **Additional depreciation** (-243m€) leaves an EBIT increase of 130m€
- Additional interest expenses **lower net financial result** (-111m€), which also faces **higher FX volatility** due to some lease contracts in foreign currency
- Earnings before Tax and net income increases by 19m€ and 16m€ respectively resulting in an **EPS uplift of 0.04€**

[1] IFRS 16 restatement figures unaudited

IFRS 16 IMPACT ON KPIS (2/3)

Balance Sheet (as per Sep 30, 2019)

€ million[1]	18/19 before IFRS 16	Effect of IFRS 16	18/19 Restated
Assets	14,497	3,345	17,842
Equity	2,735	-377	2,357
Liabilities	11,762	3,723	15,485
Net Debt	2,858	2,561	5,419
Net Debt/EBITDA (reported information, not rating adjusted)	2.8x	6.9x	3.9x

Discontinued operations reported as IFRS 5 still part of balance sheet and therefore impacting asset, equity and liabilities | Net Debt includes only continuing operations

Comments

- IFRS 16 results in a **significant balance sheet extension of 3.3bn€** driven mainly by non-current assets / liabilities
- **Equity decreases** by 377m€ mainly linked to an opening balance sheet adjustment (net difference of right-of-use assets and lease liabilities)
- **Net debt increases** due to higher non-current and current financial liabilities
- That increase is driven by initial lease terms (2.2bn€) and extension options respectively (0,35bn€)

Significant balance sheet extension and increase in net debt due to recognition of lease liabilities

[1] IFRS 16 restatement figures unaudited

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IFRS 16 IMPACT ON KPIS (3/3)

Cash Flow Statement 2018/19

€ million[1]	18/19 before IFRS 16	Effect of IFRS 16	18/19 Restated
Operating CF	796	397	1,193
Investing CF	46	-	46
Financing CF	-1,122	-397	-1,519

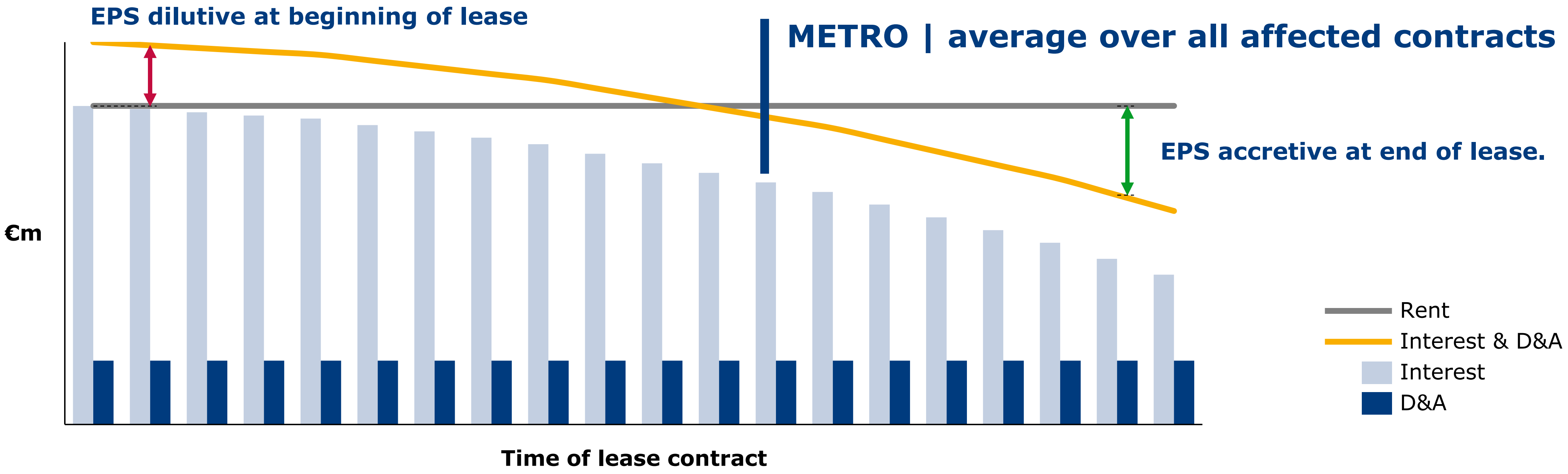
Comments

- Cash flow statement mainly affected by shift effects resulting in an…
  - **Increased cash flow from operating activities** (+397m€ due to rental expenses being excluded)
  - **Lower cash flow from financing activities** (increase in redemption of borrowings and interests paid)
- **Total cash flow unchanged**, underlining the nature of the standard which addresses how leases are accounted for, but not change the cash outflow related to the respective leases

IFRS 16 does not affect total cash flow, but results in shift effects

[1] IFRS 16 restatement figures unaudited

IFRS 16 IMPACT ON EPS



- At the beginning of the lease P/L expenses are higher than cash payments. This effect does get compensated at the end of the lease when P/L expenses are lower than cash payments („**front-loading effect**")
- The total **IFRS 16 effect on EPS depends on the weighted average lease maturity** of all lease contracts within a company's portfolio
- Slightly positive EPS effect shows that the contracts in **METRO's lease portfolio are a bit more than halfway expired** on average - Status quo differs between and within selective segments and depends on the **underlying lease portfolio**

EBITDA (MARGIN) SEGMENTS

Impact on Segment Reporting

€ million[1]	EBITDA excl. RE gains: 18/19 before IFRS 16	EBITDA excl. RE gains: Effect of IFRS 16	EBITDA excl. RE gains: 18/19 Restated	EBITDA Margin: 18/19 before IFRS 16	EBITDA Margin: Effect of IFRS 16	EBITDA Margin: 18/19 Restated
Germany	95	33	128	2.0%	0.7%	2.7%
Western Europe (excl. Germany)	499	137	636	4.6%	1.3%	5.9%
Russia	220	16	235	8.3%	0.6%	8.8%
Eastern Europe (excl. Russia)	344	41	385	4.8%	0.6%	5.4%
Asia	11	32	43	0.7%	1.9%	2.5%
Others	-148	113	-35	-	-	-
METRO	1,021	371	1,392	3.8%	1.4%	5.1%

Comments

- Impacts of IFRS 16 differ across segments, depending largely on the composition of underlying lease portfolio in terms of e.g.
  - freehold ratios
  - duration of lease contracts
  - the interest rates used for discounting
- DE with lowest ownership share in group but many already existing finance lease contracts limited the IFRS 16 impact
- WE and Asia show higher margin impacts in line with relatively low freehold ratio
- Majority of stores owned in RU and EE

EBITDA margins increase in all segments lifting Group margin by 1.4% to 5.1%

[1] IFRS 16 restatement figures unaudited

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SUMMARY VIEW

IFRS 16 implications on…

Income Statement 2018/19

- Sales completely unaffected in absolute terms and growth rates
- EBITDA excluding real estate transactions increases by €371 million to €1,392 million
- EBITDA margin increases by 1.4%-points to 5.1%
- Depreciation changes by €-243 million to €-774 million
- EBIT increases by €130 million to €957 million
- Net financial result decreases by €-111 million to €-230 million
- EPS increases slightly by €0.04 to €1.16

Other impacts

- Total cash flow unchanged
- Net debt increases by €2,6 billion to €5,4 billion
- No impact on credit rating expected
- Outlook for the financial year 2019/20 confirmed

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STORE PORTFOLIO

As of 30.09.2019	Total (# of stores)	Owned (# of stores)	Freehold ratio (%)
METRO	**678**	**355**	**52%**
METRO Germany	103	10	10%
METRO Western Europe	240	84	35%
METRO Russia	94	90	96%
METRO Eastern Europe	195	153	78%
METRO Asia	46	18	39%

