

METRO Finance B.V.

Financial Statements

As at 31 March 2017

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Report of the Board of Supervisory Directors

Pursuant to the Articles of Association we are pleased to submit the financial statements for the financial half year ended on 31 March 2017 as drawn up by the Board of Managing Directors for your adoption.

We recommend you to adopt the financial statements.

Venlo (the Netherlands), 31 May 2017

The Board of Supervisory Directors,

M. Frese

H.-D. Hinker

H. Sachs

Report of the Board of Managing Directors

The Board of Managing Directors of the company hereby presents its financial statements for the financial half year ended on 31 March 2017.

Overview

METRO Finance B.V. (“the Company”) operates as a finance company within the METRO Group. The ultimate parent company of this group is METRO AG which is incorporated in Düsseldorf, Germany and which also is the sole shareholder of the Company.

The main activities of METRO Finance B.V. focus on providing short term financial services (up to one year), in particular by granting loans to and accepting deposits from METRO Group companies as well as granting loans for mid and long-term funding of METRO Group companies and the hedging of related currency and interest rate risks out of the before mentioned transactions. Besides accepting deposits from METRO Group companies refinancing is done via the capital markets.

METRO Finance B.V.’s activities are strongly focused on the financing needs of METRO subsidiaries worldwide. The operating business of the company still developed in line with the expectations of management. Total assets of the company amounted to EUR 2,530 million as at 31 March 2017.

The net interest margin amounted to EUR 1,962 thousand leading into a net result for the financial half year ended 31 March 2017 after operating expenses and taxes of EUR 513 thousand. No dividends were paid during the first financial half year ending 31 March 2017.

In the first financial half year 2016/17 no new bonds were issued under the Debt Issuance Program. In September 2016 EUR 128.3 million of a bond with a nominal value of EUR 750 million and a coupon of 4.25% p.a. had been repaid before the final maturity in February 2017. The EUR 750 million listed bond was partially repaid in September 2016 before it matured in February 2017. The remaining nominal value at 30 September 2016 amounted to EUR 621,692 thousand. The remaining bonds with a total principal amount of EUR 750 million will mature between 2017 and 2022.

As a financial service company, METRO Finance B.V. faces financial risks. These include in particular price risks, liquidity risks, credit risks and cash flow risks. Price risks result from the impact of changes in market interest rates or exchange rates on the fair value of financial instruments. Currency and interest rate risks are substantially managed and hedged to the required risk profile, as described in the principles laid down in the internal treasury guidelines of the METRO Group. Like in previous years, foreign exchange exposure from loans receivable and payable to METRO Group companies is hedged by entering into derivative contracts with banks. Since the company is obliged to follow the financial strategic objectives of METRO AG, potential interest risk positions are covered contractually by METRO AG.

Due to guarantees of METRO AG, METRO Finance B.V. has access to sufficient liquidity reserves and therefore the Company’s liquidity risk is considered to be remote even if an unexpected event has a negative financial impact on the company’s liquidity situation. A future change in interest rates may cause cash flows from variable interest rate asset and debt items to fluctuate. The finance department of METRO AG manages interest rate risks by defining a benchmark for the relationship between variable and fixed-interest on the METRO Group level. Potential risk positions are covered through the service agreement with METRO AG where a certain interest spread is guaranteed. From the Company’s perspective, interest rate risk is therefore considered to be negligible.

METRO Finance B.V.

The Company reviews the creditworthiness of all its business partners internally as part of the Company risk management procedures. Due to activities and agreements within the METRO group, the Company's credit risk is considered to be limited.

METRO Finance B.V. employed 10 persons on average in the first financial half year. Measured in full time equivalents, the company employed 9.5 FTE on average in the first financial half year.

The Board of Managing Directors consisted of four, the Supervisory Boards of three members as of 31 March 2017. Currently there is no female representation in each of the boards. In the previous year there were no vacancies and thus no opportunity to appoint a woman for such a position. Gender diversity is and will be part of the selection process to find qualified new members of the boards which meets the required profile.

Statement of responsibility

Further to the requirements set out in Article 5:25c sub 2c of the "Wet financieel toezicht (Wft)", the members of the Board of Managing Directors of the Company hereby state that, to our best knowledge:

- the financial statements for the first financial half year ended 31 March 2017 give a true and fair view of the assets, liabilities, financial position of and the result generated by the Company;
- the report of the Board of Managing Directors gives a true and fair view of the status of the Company as per 31 March 2017 and during the financial year to which the report relates; and
- the report of the Board of Managing Directors includes a description of the substantial risks the issuer is facing.

Outlook

In March 2016, the Management Board of METRO AG announced the creation of two independent and sector focused companies through a demerger of the group: A Wholesale and Food Specialist group as well as a Consumer Electronics products and service group. The implementation of the demerger is aimed for mid 2017.

In the course of the demerger it is planned to shift the business of METRO Finance B.V. to a German Group Company. This company as well as the timing for the migration finally has to be defined. However, the management expects an overall stable development of the business. No new refinancing activities are planned for the financial year 2016/2017. The net interest margin will be primarily influenced by new credit allocation to METRO subsidiaries, alterations of the short and long term interest rates and the margins of capital market instruments.

Venlo (The Netherlands), 31 May 2017

The Board of Managing Directors,

H. Laaks

O. Kruse

A. Knijn

Balance sheet as at 31 March 2017

(Before profit appropriation)

		31 March 2017		30 September 2016	
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Non-current assets					
Property, plant and equipment	1		4		6
Financial assets loans	2		1,207,928		1,243,257
			<u>1,207,932</u>		<u>1,243,263</u>
Current assets					
Deferred tax	3		120		116
Loans and receivables	4		1,315,756		2,753,487
Other Assets	5		6,483		6,220
Cash and cash equivalents	6		0		20,267
			<u>1,322,359</u>		<u>2,780,090</u>
			<u>2,530,291</u>		<u>4,023,353</u>

The notes on page 12 to 41 are an integral part of these financial statements

Note:

The financial year runs from 1 October to 30 September.

METRO Finance B.V.

		31 March 2017		30 September 2016	
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Shareholders' equity	7				
Share capital		453		453	
Share premium		6,369		6,369	
Retained earnings		18,111		16,998	
Net result for the year		513		1,113	
			25,446		24,933
Non-current liabilities					
Bonds	8	698,600		698,153	
Loans from Metro Group companies	9	65,000		65,000	
			763,600		763,153
Current liabilities					
Deferred tax liabilities	3	-		-	
Loans from Metro Group companies	9	1,669,963		2,526,051	
Bonds	10	49,992		671,478	
Income taxes		174		504	
Other liabilities	11	16,262		37,234	
Cash and cash equivalents	6	4,854		-	
			1,741,245		3,235,267
			2,530,291		4,023,353

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Note:

The financial year runs from 1 October to 30 September.

Statement of income for the first financial half year 2017

		31 March 2017		30 September 2016	
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Financial income	<i>12</i>	45,956		109,874	
Financial expenses	<i>13</i>	43,994		106,084	
Net financial income			1,962		3,790
Other income	<i>14</i>		70		157
Operating expenses					
Amortisation and depreciation charges	<i>1</i>	2		3	
Wages and salaries	<i>15</i>	637		1,014	
Other expenses	<i>16</i>	711		1,446	
			1,350		2,463
Result before taxation			682		1,484
Income tax	<i>17</i>		(169)		(371)
Net result for the year			513		1,113

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Statement of comprehensive income for the first financial half year 2017

	31 March 2017	30 September 2016
	EUR 1,000	EUR 1,000
Net result for the first half year / year	513	1,113
Total comprehensive income for the first half year / year	513	1,113
Comprehensive income attributable to:		
- Shareholders of the company	513	1,113
- Minority interest	-	-
Total comprehensive income for the first half year / year	513	1,113

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Note:

The financial year runs from 1 October to 30 September.

Statement of changes in equity for the first financial half year 2017

	Share Capital EUR 1,000	Share premium EUR 1,000	Retained Earnings EUR 1,000	Net result for the year EUR 1,000	Total EUR 1,000
30 September 2015	453	6,369	15,363	1,635	23,820
Appropriation of the net results for the year ended 30 September 2015	–	–	1,635	(1,635)	–
Net result for the year	–	–	–	1,113	1,113
30 September 2016	453	6,369	16,998	1,113	24,933
Appropriation of the net results for the year ended 30 September 2016	–	–	1,113	(1,113)	–
Net result for the first half year	–	–	–	513	513
31 March 2017	453	6,369	18,111	513	25,446

The notes on page 12 to 41 are an integral part of these financial statements

Note:

The financial year runs from 1 October to 30 September.

Cash flow statement for the first financial half year 2017

		31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Result before taxation		682	1,484
Adjustments for depreciation	<i>1</i>	2	3
		<hr/> 684	<hr/> 1,487
- Change in other working capital		(2,663)	(7,475)
- Issuance of financial assets to Metro Group companies	<i>2</i>	(8,100)	(86,197)
- Redemption of financial assets to Metro Group companies	<i>2</i>	-	-
- Movement in current loans and balances from and to Metro Group Companies	<i>2/4/9</i>	592,684	263,559
- Issuance of financial assets to third parties	<i>2/4</i>	-	-
- Redemption of financial assets to third parties	<i>2/4</i>	158	5,133
		<hr/> 582,763	<hr/> 176,507
Cash generated from operations		582,763	176,507
Interest paid		(47,194)	(79,813)
Interest received		61,506	102,052
Corporate income tax (paid)/received		(504)	(692)
		<hr/> 596,571	<hr/> 198,054
Cash flows from operating activities		<hr/> 596,571	<hr/> 198,054
Redemption of financial liabilities		(621,692)	(178,308)
		<hr/> (621,692)	<hr/> (178,308)
Cash flows from financing activities		<hr/> (621,692)	<hr/> (178,308)
Changes in cash and cash equivalents		(25,121)	19,746
Cash and cash equivalents as of 1 October		20,267	521
		<hr/> 20,267	<hr/> 20,267
Cash and cash equivalents as of 31 March / 30 September		<hr/> (4,854)	<hr/> 20,267

The notes on page 12 to 41 are an integral part of these financial statements

Note:

The financial year runs from 1 October to 30 September.

Notes to the half year 2017 financial statements

Summary of significant accounting policies

General

METRO Finance B.V. (“the Company”), domiciled in Antoniuslaan 85b+c, 5921 KB Venlo, was incorporated on October 3, 1984 as a Dutch company with limited liability.

Group structure

METRO Finance B.V. belongs to the METRO Group. The ultimate parent company of this group is METRO AG which is incorporated in Düsseldorf, Germany which is also the sole shareholder of the company. The financial statements of METRO Finance B.V. have been included in the consolidated financial statements of METRO AG.

Activities

METRO Finance B.V. operates as a finance company within the METRO Group. Its main activities consist of attracting loans for funding of METRO Group companies, hedging of related currency and interest rate risks, as well as providing short-term financial services for METRO Group companies, such as cash management.

Accounting principles

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.

The financial statements 2016 were authorized for issue by the board of Managing Directors on 16 December 2016. The accounting principles as set out below have been applied in preparing the financial statements for the financial year ended 30 September 2016 and for the financial half year ended 31 March 2017 and the comparative information presented in these financial statements.

These financial statements have been based on the historical cost convention, except for the financial instruments that are recognised at fair value. The financial statements have been prepared in euros. All amounts are stated in thousands of euros. The accounting principles used as a basis for the financial statements have been described in the following paragraphs.

Going concern

There are no indications to doubt the continuity of the Company. Therefore the going concern assumption was applied during the preparation of these financial statements.

Currency translation

Transactions denominated in currencies other than euro (functional currency) are translated at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in currencies other than euro are translated at the rate of exchange prevailing on balance sheet date. Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into euros at the applicable exchange rates on the transaction date. The resulting exchange rate differences are credited or charged to the statement of income.

The following exchange rates were applied in the translation of the key currencies to euro:

	Average 2016/2017	Average 2015/2016	31 March 2017	30 September 2016
Czech Kroner (CZK)	27.0252	27.0414	27.03	27.021
Great Britain Pounds (GBP)	0.86456	0.78209	0.85553	0.86103
Hungarian Forint (HUF)	309.24412	312.27877	307.62	309.79
Polish Zloty (PLN)	4.35079	4.3336	4.2265	4.3192
Romanian Leu (RON)	4.51423	4.47856	4.5525	4.4537
Russian Ruble (RUB)	65.32806	75.2827	60.313	70.514

Balance sheet

Non-current assets

Tangible assets

Tangible fixed assets used in operations for a period that exceeds one year are recognised at cost less accumulated depreciations. Tangible assets are depreciated solely on a straight line basis, taking into account the following estimated useful lives:

- Computer system : 3-5 years
- Cars : 5 years
- Computer license : 6 years
- Office equipment : 5-8 years

Assets are impaired in case the recoverable amount is below the book value.

Financial Assets Loans

These financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to borrowers, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Financial Assets Investments

Investments in group companies are stated at cost less any accumulated impairment losses.

Income and deferred tax

Income taxes concern direct taxes on income.

Deferred taxes are determined in accordance with IAS 12, based on which future tax benefits and liabilities are recognised in case these are related to temporary difference between the commercial and fiscal base of recognition. Anticipated future tax savings due to compensating fiscal loss carry forwards, that are expected to be realised in the foreseeable future, are capitalised.

Deferred tax assets and liabilities are netted if these relate to an identical (group of) topics and subjects that are jointly assessed for income tax purposes by the same tax authority.

Current Assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to borrowers, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Cash and Cash equivalents

Cash and cash equivalents comprise bank deposits and monetary assets with a remaining time to maturity of 3 months or less and are measured at amortised cost, which equals nominal values unless stated otherwise.

Other assets

Other assets include derivative financial instruments with a time to maturity that does not exceed 12 months after balance sheet date. Derivative financial instruments are measured at fair value with fair value movements recognised in the statement of income.

Impairment or disposal of assets

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit and loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognized through unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss. The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Liabilities

Non- current liabilities

Non-current liabilities are either "loans and borrowings" or derivative financial instruments with a time to maturity that exceeds 12 months after balance sheet date, that are recognised in accordance with IAS 39 (Financial instruments: Recognition and Measurement).

Loans and borrowings consist of bonds and loans that are initially recognised at fair value. Subsequently "loans and borrowings" are measured at amortised cost using the effective interest method in accordance with IAS 39.

Derivative financial instruments are measured at fair value with fair value movements recognised in the statement of income.

Current liabilities

Current liabilities include (parts of the) loans and borrowings with times to maturity that do not exceed 12 months after balance sheet date, income tax liabilities and other liabilities. Loans and borrowings are initially valued at fair value, subsequently they are valued at amortised cost using the effective interest method.

Other liabilities include accrued expenses and derivative financial instruments for which the period to maturity does not exceed 12 months after balance sheet date. Derivative financial instruments are valued at fair value. Accrued expenses are valued at cost.

Contingent liabilities

Contingent liabilities are, on one hand, potential obligations arising from past events whose existence is confirmed only by occurrence or non-occurrence of uncertain future events that are not entirely under the Company's control. On the other hand, contingent liabilities represent current obligations arising from past events for which, however, an outflow of resources is not considered probable or whose size cannot be determined with reasonable certainty. According to IAS 37 (provisions, contingent liabilities and contingent assets), such liabilities are not recognised but commented upon in the notes.

Accounting for derivative financial instruments / hedge accounting

Derivative financial instruments are used exclusively to reduce risks in accordance with the respective group guidelines. Usage is limited to foreign exchange spot, forward transactions, interest rate swaps and cross currency swaps.

In accordance with IAS 39, all derivative financial instruments are recognised at fair value and presented under "current assets" or "current liabilities" or "other assets" or "other liabilities" in case the remaining period to maturity does not exceed twelve months after balance sheet date. Fair value changes are recognised directly in the statement of income. The Company does not apply cash flow hedge accounting.

In case fair value hedge accounting is applied, the hedged item is adjusted to reflect the effective part of the fair value change of the hedging instrument with an offsetting amount to be included in the statement of income. Both at the hedge inception and at each reporting date, we assess whether the derivatives used are highly effective in offsetting changes in fair values or cash flows of hedged items. When a hedging relationship is not highly effective, we discontinue hedge accounting prospectively. If this is the case, the remaining fair value adjustment on the hedged item is amortised over the remaining time to maturity using the effective interest rate at date of designation. Currently the Company does not apply fair value hedge accounting.

Use of assumptions and estimates

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value measurement

The Company measures its derivative financial instruments at fair value. Further discussion on fair value is disclosed in Note 18 under subsection fair value.

Recoverability of Receivables and impairment assessment

The Company performs a yearly analysis on objective evidence of impairment for financial assets based on information available within the Metro Group and external market data. During the year, no impairment amount was recognised.

Shareholders' equity

Financial instruments that are designated as equity instruments by virtue of the economic reality are presented under shareholders' equity. Payments to holders of these instruments are deducted from the shareholders' equity as part of the profit distribution.

Financial instruments that are designated as a financial liability by virtue of the economic reality are presented under liabilities. Interest, dividends, income and expenditure with respect to these financial instruments are recognised in the statement of income as financial income or expense.

Statement of income

Recognition of income and expense

Financial income and expense

Financial income and expense is composed of interest income and expense, fair value changes of derivative financial instruments as well as currency revaluation gains and losses on monetary assets and liabilities. Finance income and expense is recognised in the statement of income, using the effective interest rate method.

The entity has a service agreement with METRO AG for the services that METRO Finance B.V. renders for METRO AG group companies. METRO Finance B.V. receives an at arm's length fixed spread on the loan arrangements' interest relating to these services. Differences between actual gross income (before deducting operational expenses) and the arm's length fixed spread are payable to METRO AG. In the event that the actual gross income (before deducting operational expenses) falls below the arm's length spread, METRO AG shall reimburse the difference to METRO Finance B.V. This expense or reimbursement is recognised in the profit and loss account as part of the interest expenses or interest income, using the accrual method.

Other income

Other income relates to revenue from management services rendered to affiliated METRO companies for which service level agreements are in place. Revenues are recognised in the period they relate to.

Operating expenses

Operating expenses are recognised in the period they relate to.

Cash flow statement

The cash flow statement has been prepared applying the indirect method. Cash flows in foreign currencies have been translated at the weighted average exchange rates. Receipts and payments of interest and corporate income tax are included in the cash flow from operating activities.

Determination of fair value of financial assets and liabilities

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Accordingly, additional disclosures in this regard have been included in Note 20 – Financial risk management.

The estimated fair value of financial instruments as included in either or both the balance sheet and disclosure notes has been determined by the Company using acknowledged measurement methodology, using market data as money market and swap curves and foreign exchange rates presented as at balance sheet date. Specific counterparty related credit risk is assessed by using the credit default swap spreads for the parties involved.

The fair values disclosed for financial liabilities outstanding under the DIP and EMTN programmes operated via listings on (regulated) exchanges in Frankfurt and Luxembourg are based on market data.

The fair values presented are not necessarily indicative of the amounts that will ultimately be realized by the Company upon maturity or disposal. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts.

IFRS 7 specifies a fair value hierarchy that identifies the following hierarchy levels:

- Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: Fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of the financial instruments included at fair value in the Company financial statements are classified as level 2 according to the before mentioned fair value hierarchy referred to in IFRS 7.

Where applicable detailed information concerning the principles for determination of the fair values have been included in the section that specifically relates to the relevant financial asset or liability.

Segment reporting

Segment information is not separately reported because the primary activity of the Company is financing the parent company Metro AG (Germany) and Metro Group companies within continental Europe (31 March 2017: 71.6%; 30 September 2016: 76.0), Metro Group Companies within Central Eastern Europe (31 March 2017: 14.8%; 30 September 2016: 14.6 %), as well as Metro Group Companies in Asia (31 March 2017: 12.4%; 30 September 2016: 8.7%) and Africa (31 March 2017: 1.2% ; 30 September 2016: 0.7%).

The interest income relates to continental Europe (2016/2017: 29.6%; 2015/2016: 37.7%), to Central Eastern Europe (2016/2017: 55.2%; 2015/2016: 51.4%), to Asia (2016/2017: 12.7%; 2015/2016: 9.6%) and to Africa (2016/2017: 2.5% ; 2015/2016: 1.3%).

New standards, interpretations and amendments effective from 1 October 2015.

Implementation of new and revised EU-IFRS over the year ended 30 September 2016 did not have a material impact on these annual financial statements. Accordingly, the Company has not made changes to its accounting policies in the financial year 2016.

The amendment to IFRSs and the Annual Improvements to IFRSs that are effective for the first time in these annual financial statements are as follows:

1. Annual Improvements to IFRSs (2010 – 2012 Cycle)

- a. IFRS 2 – Share Based Payments
- b. IFRS 3 – Business Combinations
- c. IFRS 8 – Operating Segment
- d. IFRS 13 – Fair Value Measurement
- e. IAS 16 – Property, Plant and Equipment
- f. IAS 24 – Related Party Disclosures
- g. IAS 38 – Intangible Assets

2. Annual Improvements to IFRSs (2011 – 2013 Cycle)

- a. IFRS 1 – First-time adoption of IFRS
- b. IFRS 3 - Business Combinations
- c. IFRS 13 - Fair Value Measurement
- d. IAS 40 – Investment Property

3. Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions.

For the Company that reports in accordance with EU-endorsed IFRS, the effective date of Annual Improvements to IFRSs (2010-2012 Cycle) and Amendments to IAS 19 is the annual period beginning on or after 1 February 2015 while the effective date of Annual Improvements to IFRSs (2011-2013 Cycle) is 1 October 2015. Thus these standards apply to these financial statements of METRO Finance B.V.

New standards, interpretations and amendments not yet effective.

The following Standards and Interpretations have been issued however are not yet effective and/or have not yet been adopted by the EU and the Company. Information on standards expected to be relevant to these annual financial statements is provided below.

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the standards. New standards, interpretations and amendments neither adopted nor listed below, the Company expects those not to have a material impact on these annual financial statements. The most likely impacting standards/amendments/interpretations are:

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' was released by the IASB, representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new IFRS 9 standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a single, new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Management has started to assess the impact of IFRS 9 but is not yet in a position to provide quantified information.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and reward. A five-step process must be applied before revenue can be recognised:

1. identify contracts with customers
2. identify the separate performance obligation
3. determine the transaction price of the contract
4. allocate the transaction price to each of the separate performance obligations, and
5. recognize the revenue as each performance obligation is satisfied.

Additionally the new standard provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

The effective date of the above standard and amendments in Clarifications to IFRS 15 is annual reporting periods beginning on or after 1 January 2018. Management has started to assess the impact of IFRS 15 but is not yet in a position to provide quantified information.

IFRS 16 'Leases'

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Management has started to assess the impact of IFRS 16 but is not yet in a position to provide quantified information.

Amendments to IAS 1 'Disclosure Initiative'

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the balance sheet and the statement(s) of income and other comprehensive income (OCI) may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

Amendments to IAS 7 'Disclosure Initiative'

These amendments to IAS 7 Statement of Cash Flows require a disclosure of changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The final Standard Disclosure Initiative (Amendments to IAS 7) is effective for annual periods beginning on or after 1 January 2017.

These amendments are not expected to have a material impact on the Company. The Company expects that the effect of all other IFRSs or IFRIC interpretations and amendments not yet adopted by the EU is not material.

1 Property, plant and equipment

The movements of the property, plant and equipment can be shown as follows:

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Balance as per 1 October		
• At cost	120	119
• Accumulated depreciation	(114)	(111)
Total book value	<u>6</u>	<u>8</u>
Movements:		
• Addition	-	1
• Disposals	-	-
• Depreciation	(2)	(3)
Total movements	<u>(2)</u>	<u>(2)</u>
Balance as per 31 March / 30 September		
• At cost	120	120
• Accumulated depreciation	(116)	(114)
Total book value	<u>4</u>	<u>6</u>

Property, plant and equipment mainly relate to a car and office and computer equipment. Impairment adjustments were not deemed necessary.

2 Financial assets

	Investments	Loans to third parties	Loans to METRO Group companies	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Balance as at 1 October 2015		3,290	1,604,021	1,607,311
Additions		-	86,197	86,197
Repayments		(314)	-	(314)
Reclassification from external to internal loans	-	-	-	
Transfers to short term	-	-	(449,937)	(449,937)
	-	2,976	1,240,281	1,243,257
Balance as at 30 September 2016	-	2,976	1,240,281	1,243,257
	-	2,976	1,240,281	1,243,257
Balance as at 1 October 2016	-	2,976	1,240,281	1,243,257
Additions	-	-	8,100	8,100
Repayments	-	(158)	-	(158)
Transfers to short term	-	-	(43,271)	(43,271)
	-	2,818	1,205,110	1,207,928
Balance as at 31 March 2017	-	2,818	1,205,110	1,207,928

The interest on fixed interest rate loans varies between 0.936% and 5.533% (2016: 0.936% and 5.533%), depending on the lifetime and interest periods of the respective loans.

The expiration dates of the non-current loans are between 2018 and 2024 (2016: 2017 and 2024). Impairment adjustments were not deemed necessary.

Loans to third parties, to non-consolidated Group companies and to Group companies with possible impairment needs are secured either by one or a combination of the following collaterals:

- Corporate guarantee of METRO AG
- Mortgages
- Negative pledge clause
- Pledge of lease payments

3 Deferred tax assets and liabilities

At 31 March 2017, a net amount of EUR 120 thousand deferred tax asset exist (2016: EUR 116 thousand assets).

Deferred tax assets and liabilities relate to the difference in measurement basis for IFRS and fiscal reporting purposes with regards to derivative financial instruments. For Dutch fiscal purposes these are valued at cost or lower market value rule while under IFRS fair value accounting is applied. The measurement difference is temporary in nature.

4 Loans and receivables

	31 March 2017	30 September 2016
	EUR 1,000	EUR 1,000
Loans to Metro Group companies	1,293,245	2,699,695
Loans to third parties	-	-
Interest receivable Metro Group companies	22,511	53,792
Other receivables	-	-
Balance as at 31 March / 30 September	<u>1,315,756</u>	<u>2,753,487</u>

The loans to METRO AG and Metro Group companies, as well as to third parties will be due within one year from balance sheet date. As per 31 March 2017, loans to Metro Group companies comprise a current account position of EUR 586 million liabilities (2016: 921 million assets) with METRO AG. The interest on fixed interest rate loans varies between 2.69% and 5.169% (2016: 3.079% and 5.855%), depending on the original lifetime and interest periods of the respective loans. The interest of loans which original duration is less than one year is based on EURIBOR plus a margin of between 0.53% and 7.30%. Impairment adjustments have not been deemed necessary.

Loans to third parties, to non-consolidated Group companies and to Group companies with possible impairment needs are secured either by one or a combination of the collaterals which are included in Note 2.

5 Other assets

Other assets per 31 March 2017 reflect the fair value of forward contracts used to hedge the future foreign exchange loan redemptions and related interest cash flows.

	31 March 2017	30 September 2016
	EUR 1,000	EUR 1,000
Derivatives: Foreign exchange contracts	6,483	6,220
	6,483	6,220

The change in derivatives during the year can be specified as follows:

	31 March 2017	30 September 2016
	EUR 1,000	EUR 1,000
Opening balance as at 1 October	6,220	20,288
Change in fair value	263	(14,068)
Closing balance as at 31 March / 30 September	6,483	6,220

For the notional amount of the derivatives, reference is made to Note 18, under liquidity risk.

6 Cash and cash equivalents

Cash and cash equivalents include bank balances held with commercial banks, that are due within three months after balance sheet date and which are at the free disposal of the company.

7 Shareholder's equity

The authorised share capital of the company as at 31 March 2017 consists of 700 ordinary shares of EUR 1 thousand each (2016: 700 ordinary shares of EUR 1 thousand each). The issued and fully paid-up share capital consists of 453 shares (2016: 453 shares).

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at shareholders' meetings of the Company.

The proposal for appropriation of net results over 2016 has been adopted at the Shareholders Meeting.

The retained earnings consist of the cumulative results of operations since the date of incorporation, less any dividends paid.

Reference is made to the statement of changes in equity as included in the financial statements.

8 Bonds

	Maturity	Fixed Interest	Effective interest	Carrying amount	Principal amount	Carrying amount	Principal amount
		%	%	31 March 2017	31 March 2017	30 September 2016	30 September 2016
				EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Maturity more than 1 years:							
EMTN Notes	2018	2.25	2.40	499,177	500,000	498,815	500,000
EMTN Notes	2020	4.05	4.19	124,545	125,000	124,469	125,000
EMTN Notes	2022	4.00	4.04	74,878	75,000	74,869	75,000
Total				698,600	700,000	698,153	700,000

All instruments have been issued under the EMTN and DIP programs. The notes are denominated in EUR, and bear interest depending on the lifetime and interest periods of the respective loans.

The DIP and EMTN programmes are operated via listings on (regulated) exchanges in Frankfurt am Main and Luxembourg. For an overview of fair values reference is made to the note on financial risk management.

9 Loans from Metro group companies

	31 March 2017	30 September 2016
		EUR 1,000
Loans from Metro Group companies	810,947	1,334,090
Current account balances with regards to Metro Group companies	856,719	1,190,613
Interest payables	2,297	1,348
Balance as at 31 March	1,669,963	2,526,051

Current account balances with regards to Metro Group companies comprise a current account position of EUR 586 million liabilities (2016: 921 million assets) with METRO AG.

The interests are based on EURIBOR flat or – in special cases – plus a margin of 0.85%. The interest rates for loans which are denominated in other currencies than EURO are set after a derivative contract has been entered with regard to the non-EURO loan.

Based on the repayment term of the loans, an amount of EUR 65 million is presented as non-current liabilities. The maturity date of this loan is 30 May 2018.

10 Bonds (current part)

	31 March 2017	30 September 2016
	EUR 1,000	EUR 1,000
EMTN Notes	49,992	49,980
EMTN Notes	-	621,498
Balance as at 30 September	<u>49,992</u>	<u>671,478</u>

The interest accruals related to the Bonds are presented under other liabilities and accrued expenses. The bond expires in July 2017 (2016: July and February 2017 respectively). The nominal interest on the EUR 50 million floating unlisted bond, maturing in July 2017, is based on the 6-month EURIBOR plus a margin of 1.25%. The EUR 750 million listed bond, matured in February 2017, was partially repaid in September 2016. The remaining nominal value at 30 September 2016 amounted to EUR 621,692 thousand. This listed bond had a nominal fixed interest of nominal 4.25%.

11 Other liabilities and accrued expenses

	31 March 2017	30 September 2016
	EUR 1,000	EUR 1,000
Accrued interest bonds	13,262	27,982
Derivatives	2,609	8,303
Other liabilities	391	949
Balance as at 31 March / 30 September	<u>16,262</u>	<u>37,234</u>

A short term overdraft on bank accounts would have been represented under other liabilities.

Short term overdrafts on the bank accounts are covered by credit facilities with bank. The facilities amounting to MEUR 145 (2016: MEUR 145). These facilities were undrawn at year-end.

The change in derivatives during the year can be specified as follows:

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Balance as at 1 October	8,303	16,402
Change in fair value	(5,694)	(8,099)
Balance as at 31 March / 30 September	<u>2,609</u>	<u>8,303</u>

The derivatives per 31 March 2017 reflect the fair value of forward contracts to hedge the future foreign exchange loan redemptions and related interest cash flows.

For the notional amount of the derivatives, reference is made to Note 18, under liquidity risk.

12 Financial income

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Interest income from loans and receivable		
Thereof financial instruments of the IAS 39 measurement categories and related classes of financial instruments:		
• Loans and receivables – external counterparties	14	-
• Loans and receivables – Metro Group companies	30,211	93,871
• Interest income relating to hedge-transactions	6,119	-
Subtotal interest income	<u>36,344</u>	<u>93,871</u>
Currency translation gains		
Currency translation gains on loans and receivables	688	3,867
Fair value changes on derivatives - external counterparties	7,823	8,969
Fair value changes on derivatives - Metro Group companies	1,101	3,167
Subtotal foreign exchange income	<u>9,612</u>	<u>16,003</u>
Financial income	<u>45,956</u>	<u>109,874</u>

13 Financial expense

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Interest expense from loans and borrowings and other financial expenses		
Thereof financial instruments of the IAS 39 measurement categories and related classes of financial instruments:		
• Loans and borrowings – external counterparties	17,691	56,939
• Loans and borrowings – Metro Group companies	6,881	10,091
• Financial expense – METRO AG	8,851	11,856
• Interest expenses relating to hedge-transactions	-	3,503
	<hr/>	<hr/>
Subtotal interest expense	33,423	82,389
Currency translation losses		
Currency translation losses on loans and receivables	7,604	5,589
Fair value changes on derivatives - external counterparties	-	17,236
Fair value changes on derivatives - Metro Group companies	2,967	870
	<hr/>	<hr/>
Subtotal foreign exchange losses	10,571	23,695
	<hr/>	<hr/>
Financial expense	43,994	106,084
	<hr/>	<hr/>

Interest expenses relating to hedge-transactions reflect the interest component in foreign currency derivatives.

The financial expense METRO AG is the difference between the actual gross income (before deducting operational expenses and financial expense METRO AG) realized in the financial year and the arm's length spread as agreed in the service agreement with Metro AG.

14 Other income

The other income consists of general expenses and services fees which were cross charged by METRO Finance B.V. to METRO Group companies relating to expenses incurred and services rendered. The cross charges have been based on documented policies.

15 Wages and salaries

	31 March 2017	2015/2016
	EUR 1,000	EUR 1,000
Wages and salaries	528	1,025
Social security charges and pension contributions	109	(11)
	637	1,014

For an overview of staff members and remuneration of Board of Managing and Supervisory Directors, reference is made to Note 21 and Note 22.

16 Other expenses

Other expenses relate to general and administrative expenses.

In other expenses audit fee is included, amounting to EUR 73 thousand (2016: EUR 79), of which EUR 32 thousand (2016: EUR 33 thousand) was charged by BDO Audit & Assurance B.V. Amstelveen, and the remaining EUR 41 thousand (2016: 46 thousand) was paid to KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf (Germany).

17 Income tax

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Profit (loss) before tax	682	1,484
Expected tax expense (benefit) based on rate of 25.0% (2016: 25.0%)	170	371
Adjustment for prior year	(1)	-
Total effective income tax expense	169	371

The tax charge can be specified as follows:

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Current tax expense	174	504
Adjustment for prior year	(1)	-
Deferred tax expense	(4)	(133)
	169	371

Current tax expense recognised in profit or loss:

	31 March 2017 EUR 1,000	30 September 2016 EUR 1,000
Current year	174	504
Adjustment for prior year	(1)	-
	173	504
Movement deferred tax liability	(4)	(133)
	169	371

The nominal tax rate is 25.0% (2016: 25.0%). The tax charge in the statement of income as per 31 March 2017 amounts to an expense of EUR 170 thousand (2016: EUR 371 thousand expense) being 25.0% nominal of the result before taxes (2016: 25.0%). As adjustments for prior years were necessary, the effective income tax expense amounts to EUR 169 thousand (2016: EUR 371 thousand expense) being 24.78 % (2016: 25.0%) of the result before taxes.

No permanent differences between fiscal and commercial tax base were identified.

18 Financial risk management

The Company is exposed to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk including interest rate and currency risk.

This note presents information about the exposure of the Company to each of the above risks, the Company's objectives, policies and processes for managing and measuring these risks, and the Company's approach to capital management.

General

During the normal course of business, the company uses various financial instruments that expose the company to market, credit and liquidity risks. The company is exposed to these risks given the portfolio of interest-bearing receivables (mainly taken up in financial fixed assets and cash at bank and in hand), interest-bearing long term and current liabilities (including bonds and bank loans) as well as derivative financial instruments.

The company does not trade these financial derivatives and follows procedures and lines of conduct to limit the size of the credit risk with each counterparty and market. If counterparties fail to meet payment obligations to the company, the resulting losses in principle are limited to the fair value of the instruments in question. The contract value or principal amounts of the financial instruments serve only as an indication of the extent to which such financial instruments are used, and not of the value of the credit or market risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables. Due to activities and agreements within the METRO Group the credit risk is very limited. No receivables are past due or have been impaired at balance sheet date.

In the course of the risk management of monetary investments and financial derivatives, minimum creditworthiness requirements and maximum exposure limits have been defined for all business partners of METRO Group. This is based on a system of limits laid down in the treasury guidelines applied within the METRO Group.

The Company reviews the creditworthiness internally as part of the Company risk management procedures. This risk has not materialised and no allowance for impairment for incurred losses in respect of receivables is recognised.

Approximately 100% (2016: 100%) of the receivables of the company are held with related parties, for definition see below to related party transactions. Approximately 50% (2016: 42%) of the receivables is concentrated with METRO Cash and Carry International Holding B.V., The Netherlands. However, as all receivables from METRO group companies are guaranteed by METRO AG under the service agreement in place, the credit risk for METRO Finance B.V. is mainly concentrated with this parent company.

METRO Finance B.V.

The receivables outstanding with third parties amount to EUR 3 Million (2016: EUR 3 million). We refer to Note 2 and Note 4, for further information. These receivables are secured by the following:

- Guarantee of Metro AG;
- Mortgage agreement, and.
- Pledge to take over rental receivables.

In general management of the Company tend to assess and review credit risk for counterparties within the Group. If considered necessary receivables will be secured by adequate warranty instruments

Liquidity risk

Due to guarantees of METRO AG, METRO Finance B.V. has access to sufficient liquidity reserves so that liquidity risk is limited. Loans and receivables as well as cash flows out of derivatives due within the last 90 days result from standard business transactions, no one of these are past due. For all capitalised financial instruments which are not past due, there is no indication based on the debtor's creditworthiness that would require impairment.

The following table provides a maturity overview of contractual cash flows. The amounts disclosed in the table are the contractual undiscounted amounts. Derivatives cash flows only include the payable leg of the contract.

METRO Finance B.V.

Maturity of liabilities and cash outflows (contractual cash flows)	Less than 1 year EUR 1,000	Between 1 and 5 years EUR 1,000	Over 5 years EUR 1,000
At 30 September 2016			
Bonds	671,692	625,000	75,000
Interest on bonds	49,434	38,438	3,000
Loans and current accounts	2,524,703	65,000	-
Interest on loans and current accounts	3,793	2,386	-
Other payables	949	-	-
Derivatives	1,783,740	-	-
Total	5,034,311	730,824	78,000
Maturity of liabilities and cash outflows (contractual cash flows)			
	Less than 1 year EUR 1,000	Between 1 and 5 years EUR 1,000	Over 5 years EUR 1,000
At 31 March 2017			
Bonds	50,000	625,000	75,000
Interest on bonds	14,503	38,438	3,000
Loans and current accounts	1,667,666	65,000	-
Interest on loans and current accounts	704	2,386	-
Other payables	391	-	-
Derivatives	735,896	-	-
Total	2,469,160	730,824	78,000

Interest rate risk

The company is exposed to interest rate cash flow risk regarding floating interest rates on receivables and liabilities. In relation to fixed rate interest bearing receivables and liabilities, the company is exposed to fair value interest rate risk.

Derivative financial instruments may be used by the entity to hedge interest rate risks if deemed necessary.

Interest rate derivative financial instruments may be used to adjust the fixed or floating nature of the external loans obtained to the desired profile. The METRO Group interest rate policy aims to reduce the financing costs as much as possible. Derivative financial instruments are not used for speculative purposes.

The estimated market value indicates the amount payable or receivable in exchange for termination of the contracts as at year-end without further obligations.

Sensitivity analysis

At 31 March 2017, if EURIBOR interest rates had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been EUR 139 thousand higher/lower (2016: EUR 198 thousand lower/higher). Because of the existing service agreement with METRO AG, according to which an interest margin is agreed, the change in interest rates would have had no impact on the statement of income.

Currency risk

The company is exposed to foreign exchange risk on loan receivables and payables denominated in a currency other than the euro. Foreign currency derivative financial instruments, mainly currency forwards and swaps may be used to reduce the foreign currency risk arising on financing and funding transactions in foreign currencies. Forward exchange contracts and currency swap contracts are entered into to adjust the currency of the payables and receivables to the desired currency. The derivative financial instruments are not collateralized and are not used for speculative purposes.

The estimated market value indicates the amount payable or receivable in exchange for termination of the contracts as at year-end without further obligations.

As per 31 March 2017, a total of 83 foreign exchange forward contracts (EUR against CHF, CZK, GBP, HRK, HUF, JPY, PLN, RON, RUB, SGD, THB, TRY, USD) were outstanding to hedge the foreign exchange currency risk of the future foreign exchange interest margin relating to the foreign exchange deals with METRO Group companies and banks. The deals consist of loans and receivables with METRO Group companies. We refer to the paragraph on “interest rate risk”.

METRO Finance B.V.

The summary of the Group's main exposure to foreign currency risk is as follows:

	HUF	JPY	PLN	RON	RUB
	HUF 1,000	JPY 1,000	PLN 1,000	RON 1,000	RUB 1,000
At 31 March 2017					
<u>Financial assets</u>					
Loans to METRO Group companies	-	5,608,839	36,481	-	-
<u>Financial liabilities</u>					
Loans from METRO Group companies	(27,590,549)	(400,100)	(713,859)	(400,368)	(5,089,830)
Net statement of financial position exposure	(27,590,549)	5,208,739	(677,378)	(400,368)	(5,089,830)
Forward exchange contracts	27,590,549	(5,208,739)	677,378	400,368	5,089,830
Net exposure	0,000	0,000	0,000	0,000	0,000

Sensitivity analysis

We perform foreign currency sensitivity analysis by applying an adjustment to the spot rates prevailing at year-end. This adjustment is based on observed changes in the exchange rate in the past and management expectation for possible future movements. We then apply the expected possible volatility to revalue all monetary assets and liabilities (including derivative financial instruments) in a currency other than the functional currency of the subsidiary in its balance sheet at year-end.

At 31 March 2017, if the euro had weakened/strengthened by 10 percent against the RON with all other variables held constant, post-tax profit for the year would have been EUR 2 thousand (2016: EUR 16 thousand) lower/higher, because the RON positions are hedged.

At 31 March 2017, if the euro had weakened/strengthened by 10 percent against the PLN with all other variables held constant, post-tax profit for the year would have been EUR 19 thousand (2016: EUR 26 thousand) lower/higher, because the PLN positions are hedged.

At 31 March 2017, if the euro had weakened/strengthened by 10 percent against the RUB with all other variables held constant, post-tax profit for the year would have been EUR 14 thousand (2016: EUR 5 thousand) lower/higher, because the RUB positions are hedged.

Capital Management

For the purpose of its function as a financing company within the METRO Group, the Board of Managing Directors' policy is to maintain a sufficient capital base. An equity position of approximately EUR 20 million is regarded as sufficient. There were no changes in the approach to capital management. The Company is not subject to externally imposed capital requirements.

Fair value

The fair value of the financial instruments stated on the balance sheet can be specified as follows:

	Note	Fair value	Carrying value	Fair value	Carrying value
	Ref.	31 March 2017	31 March 2017	30 September 2016	30 September 2016
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Financial assets	2				
Loans to third parties		2,855	2,818	2,990	2,976
Loans to Metro Group companies		1,270,619	1,205,110	1,327,883	1,240,281
Loans and receivables	4				
Loans to third parties		-	-	-	-
Loans to Metro Group companies		1,321,313	1,293,245	2,748,342	2,699,695
Other assets	5	6,483	6,483	6,220	6,220
Non-current liabilities					
Bond	8	748,336	698,600	754,300	698,153
Loans from Metro Group companies	9	69,894	65,000	69,999	65,000
Current liabilities					
Loans from Metro Group companies	9	1,668,153	1,667,666	2,525,554	2,524,703
Bonds	10	50,286	49,992	698,872	671,478
Other liabilities-derivatives	11	2,609	2,609	8,303	8,303

We refer to notes mentioned to facilitate reconciliation to the face of the balance sheet. All assets, except for derivatives, are categorized as loans and receivables and valued accordingly at amortized cost. Derivatives are categorized at fair value through profit and loss and valued and accounted for accordingly. All liabilities are categorised as other financial liabilities and measured at amortised cost.

All Metro Finance B.V.'s financial instruments accounted for at fair value classify as Level 2 within the IFRS 7 fair value hierarchy. During the year, there have been neither financial instruments accounted for at fair value classifying as Level 1 or 3 nor transfers between Level 2 and other Levels.

Currency swaps and forward currency transactions (all level 2) are measured using the market-to-market method based on quoted exchange rates.

All fair values represent the theoretical value of these instruments upon dissolution of the transaction at the period. Under the premise that instruments are held until the end of their term, these are unrealised gains and losses that, by the end of the term, will be fully set off by gains and losses from the underlying transactions in the case of fully effective hedging transactions.

Hedging transactions that, according to IAS 39, are not part of a hedge are recognised at their fair value. Value changes are recognised directly in the statement of income. Even if no formal hedging relationships were created, these are hedging transactions that are closely connected to the underlying business and whose impact on earnings will be netted by the underlying transactions (natural hedge).

The measurement of the fair value of bonds are based on the market interest rate curve following the zero-coupon method in consideration of credit spreads (level 2).

The fair value of all other financial assets and liabilities that are not listed on an exchange correspond to the present value of payments underlying these balance sheet items. The calculation was based on the applicable country-specific yield curves (level 2) as of the closing date.

19 Related party transactions

Metro Finance B.V. has business relationships with Metro AG, the sole shareholder, and several Metro Group companies.

The main activities of Metro Finance B.V. focus on providing short term financial services (up to one year), in particular by granting loans to and accepting deposits from METRO Group companies as well as granting loans for mid and long-term funding of METRO Group companies as well as hedging of related currency risks. Besides accepting deposits from METRO Group companies refinancing is done via the capital markets. The pricings for transactions with affiliated companies are based on arm's length interest rates.

Metro Finance B.V. has entered into a service agreement ("Service and limitation of risk agreement") with parent company METRO AG in which a fixed arm's length spread for the Company has been agreed. Thus the risk exposure of METRO Finance B.V. is limited. The corporate recharge is disclosed under the financial expenses in Note 13.

The balance outstanding with and interest income and expenses related to parent company METRO AG are disclosed in Note 9 and 13 while the outstanding balances and interest income and expenses with METRO Group companies other than the parent company are separately disclosed in Note 4, 9, 12 and 13.

For an overview of all Metro Group companies we refer to the consolidated financial statements of METRO AG.

Business relationships with related parties are based on contractual agreements providing for at arm's length prices. During the first financial half year 2017, no (nil) dividend was paid to METRO AG (2016: nil).

The Company had no business relations with related natural persons during the financial year.

20 Contingent obligations

The company has prolonged its rent agreement with a fixed period until 31 December 2020, cancellable on the basis of a 12 month period, which means before 31 December 2019 at the earliest, for its office building, with a total obligation of EUR 195 thousand (2016: EUR 225 thousand) for the remaining contractual period. EUR 29 thousand were due in the first financial half year 2017 (2016: EUR 58 thousand). Furthermore, there are obligations out of operational leasing of two company cars. There are two contracts with BMW: one expires at 31 March 2020 with a total obligation of EUR 73 thousand (2016: EUR 84 thousand) and the other contract expires at 28 February 2018 with a total obligation of EUR 24 thousand (2016: EUR 36 thousand). No other off balance sheet liabilities, guarantees or long term financial obligations are applicable.

Metro Finance B.V. forms a fiscal unity for corporation tax purposes with her partner METRO Cash & Carry International Holding B.V. Each of the entities is jointly and severally liable for the combined total corporate income tax obligation.

21 Personnel

The company employed 10 persons (2016: 10) on average in the first financial year. Measured in full time equivalents, the company employed 9.5 FTE on average during the financial year (2016: 9.5). No employees were employed outside of The Netherlands.

22 Remuneration of the Boards of Managing Directors and Supervisory Directors

The Board of Managing Directors consisted of 4 persons during the first financial year (2016: 4) during the first financial year until 31 March 2017. The remuneration for the Managing Directors amounted to EUR 269 thousand (2016: EUR 527 thousand). The fixed based remuneration amounted to EUR 184 thousand (2016: EUR 342 thousand). The variable part amounted to EUR 85 thousand (2016: EUR 185 thousand).

The Board of Supervisory Directors consisted of 3 persons (2016: 3) during the financial year until 31 March 2017. The remuneration for the Supervisory Board for the first financial half year 2017 amounted to EUR 0 (nil) thousand (2016: EUR 8 thousand).

All remuneration of the Boards of Managing Directors and Supervisory Directors relate to short-term employee benefits.

23 Subsequent events

In March 2016 the Management Board of METRO AG announced the creation of two independent and sector focused companies through a demerger of the group: A Wholesale and Food Specialist group as well as a Consumer Electronics products and service group. The shareholders have voted in favour, which means the implementation of the demerger will take place mid 2017.

In the course of the demerger it is planned to shift the business of METRO Finance B.V. to a German Group Company. This company as well as the timing for the migration finally has to be defined.

Venlo, 31 May 2017

The Board of Managing Directors,

The Board of Supervisory Directors,

O. Kruse

H.-D. Hinker

A. Knijn

H. Sachs

H. Laaks

M.Frese

Other Information

Provisions in the Articles of Association governing the appropriation of profit

According to article 22.1 of the company's Articles of Association, the profit is at the disposal of the General Meeting of Shareholders, which can allocate the profit wholly or partly to the general or specific reserve funds.

According to article 22.2, the company can only make payments to the shareholders and other parties entitled to the distributable profit for the amount the shareholders' equity exceeds the paid-up and called-up part of the capital plus the legally required reserves.

Proposal for profit appropriation

The Board of Managing Directors proposes to add the net result of EUR 513 thousand to the retained earnings. The financial statements do not yet reflect this proposal.

Report on the financial statement

Following Directive 394.3, article 303 regarding interim financial statements, we herewith state that this financial statement was not subject to audit as mentioned in article 2:293 BW.