REWE-ZENTRALFINANZ EG, COLOGNE, AND
REWE - ZENTRAL-AKTIENGESELLSCHAFT, COLOGNE

COMBINED MANAGEMENT REPORT

FOR THE 2018 FINANCIAL YEAR

CONTENTS

Group Structure

The REWE Group is an international retail and tourism group. It consists of two independent corporate groups with the parents, REWE-ZENTRALFINANZ eG, Cologne (RZF), and REWE - Zentral-Aktiengesellschaft, Cologne (RZAG).

The combined financial statements of these two corporate groups as at 31 December 2018 have been combined on a voluntary basis into a single set of financial statements ("Combined Financial Statements"). The information provided below refers to these Combined Financial Statements. The accounting policies used are explained in the notes to the Combined Financial Statements.

As at 31 December 2018, the Combined Financial Statements included the parent companies as well as a total of 412 subsidiaries (previous year: 396).

The Management Boards of RZAG and RZF held meetings on 25 February 2019. At its meeting, the Management Board of RZAG resolved to transfer all shares with restricted transferability held by the shareholders of RZAG, with the exception of RZF's shareholders and the "KAM" shareholders, on the basis of contribution agreements or share purchase and transfer agreements, and proposed to the Annual General Meeting that it also consent to this. At its meeting, the Management Board of RZF approved the acquisition of the aforementioned shares and proposed to the Annual General Meeting that is also consent to this. The Supervisory Boards of RZAG and RZF adopted the resolutions without amendment on 20 March 2019. The final approvals still required for the effectiveness of the contribution agreements are to be given at an extraordinary general meeting of RZF and at an extraordinary general meeting of RZAG on 30 April 2019.

The contributions are to be made in the form of contributions in kind against the grant of additional shares of RZF. The shareholdings will be determined based on the ratio of fair values calculated for both groups. The fair values were determined by an external appraiser. The value ratios as at 31 December 2018 serve as the basis for the valuation.

The sales are based on the values in KPMG's expert opinion, which was prepared in accordance with the requirements of IDW S1 and is dated 27 February 2019.

Following the transfer of shares, RZF will hold a controlling interest of 99.9995 per cent in RZAG. RZF is expected to acquire the remaining eight shares from the "KAM" shareholders in 2019.

The REWE Group operates in various business segments, which are divided into divisions and segments.

Business Segments

RETAIL GERMANY

RETAIL INTERNATIONAL

DIY STORES

TRAVEL AND TOURISM

OTHER

The **Retail Germany** business segment includes the REWE, Penny Germany and Retail Germany Central Companies divisions.

In the REWE division, 1,832 supermarkets and consumer stores are operated under the REWE CITY, REWE CENTER and REWE To Go brands. There are also 2,616 REWE and REWE Dortmund partner stores, REWE Dortmund stores and nahkauf stores as well as significant large, third-party corporate customers supplied by the wholesale business. Retail Germany also has an online presence with REWE.de.

The Penny Germany division operates 2,182 discount stores under the PENNY brand.

In addition to the domestic real estate companies, the Retail Germany Central Companies division also includes the production and sale of baking items under the Glocken Bäckerei brand and the production of meat and sausage products under the Wilhelm Brandenburg brand.

The **Retail International** business segment covers the Austrian Full-Range Stores, CEE Full-Range Stores and Penny International divisions. The Austrian and CEE Full-Range Stores divisions operate supermarkets and consumer stores at a total of 2,847 locations. In Austria, the stores are operated under the BILLA, MERKUR and ADEG brands. In addition, the wholesale business supplies 378 ADEG partner stores. The Retail International stores are also represented with the BILLA supermarkets in Bulgaria, Russia, Slovakia, the Czech Republic and Ukraine. In addition, drug stores are also operated in Croatia and Austria under the BIPA brand. In Lithuania, supermarkets are operated under the IKI brand.

In the Penny International division, the PENNY MARKT and PENNY MARKET brands are operated at a total of 1,505 locations in Italy, Austria, Romania, the Czech Republic and Hungary.

The **Travel and Tourism** business segment is organised into the Central Europe, Northern Europe, Eastern Europe and Destination Areas divisions. It comprises a number of tour operators, travel sales channels (travel agency chains, franchise sales channels and online portals) as well as destination agencies and hotels under the DER Touristik umbrella brand. Travel and Tourism business segment operates in the source markets of Germany, Austria, Switzerland, Eastern Europe, as well as Scandinavia, Finland, France, the United Kingdom and the Benelux countries through the Kuoni units. Travel and Tourism mainly trades under the brands ADAC REISEN, Apollo, Club Calimera, DER.COM, DER Reisebüro, DERPART, DERTOUR, EXIM Tours, helvetic tours, ITS, Jahn Reisen, KUONI and Meier's Weltreisen. The Travel and Tourism business segment has a total of 760 physical sales locations.

The **DIY Stores** (formerly: National Specialist Stores) business segment operates 295 DIY stores in Germany under the toom Baumarkt and B1 Discount Baumarkt brands. As part of the wholesale business, 38 partner stores and franchisees are also supplied.

Central services provided by the parent companies and various subsidiaries for group companies and third parties are combined under the Other business segment. These services are essentially procurement functions (merchandise wholesale business and warehousing), central settlement, del credere assumptions, IT services, energy trading (EHA), online retail trade (ZooRoyal and Weinfreunde), e-commerce services (REWE Digital) as well as coordination of Group-wide advertising activities.

Locations as at 31/12/2018

Country	Retail Germany	Retail International	Travel and Tourism	DIY Stores	Total
Germany	4,014	--	552	295	4,861
Austria	--	2,123	--	--	2,123
Czech Republic	--	605	41	--	646
Italy	--	373	--	--	373
Hungary	--	218	8	--	226
Romania	--	236	--	--	236
Slovakia	--	151	13	--	164
Russia	--	156	--	--	156
Nordic countries*	--	--	6	--	6
Bulgaria	--	124	--	--	124
Switzerland	--	--	74	--	74
United Kingdom	--	--	48	--	48
Lithuania	--	230	--	--	230
France	--	--	16	--	16
Ukraine	--	30	--	--	30
Croatia	--	106	--	--	106
Poland	--	--	2	--	2
Total	4,014	4,352	760	295	9,421

* Denmark, Finland, Norway and Sweden.

Economic Environment

1. MACROECONOMIC DEVELOPMENT

The economy in **Germany** also recorded an upswing in 2018: GDP increased by 1.5 per cent (previous year: 2.5 per cent). However, in comparison to the previous year and the forecasts, this growth was significantly more subdued. This was due to factors including a weakening of foreign business attributable to an economic slowdown in Germany's most important sales markets, problems facing the automotive industry, which had to significantly scale down production on account of new EU inspections in connection with new vehicle registrations, and increasing production-side bottlenecks, primarily with regard to the labour force. The domestic economy in particular had a positive impact on this development. In 2018, inflation rose to 1.8 per cent (previous year: 1.7 per cent) as a result of, among other factors, rising energy prices. The economic upturn also had an impact on the labour market: at 3.2 per cent, unemployment was lower than it had been in the previous year (3.8 per cent).

GDP in **Austria** grew by 2.8 per cent (previous year: 3.0 per cent) in 2018, significantly higher than the forecast of 1.9 per cent. Despite a global economic slowdown, this was due in particular to robust domestic demand, which was bolstered by both private consumption and investments, as well as continued increasing foreign demand. The economic upturn positively influence the labour market here too, with the unemployment rate falling to 4.8 per cent (previous year: 5.5 per cent). Energy prices remained a key factor driving prices in 2018: inflation in 2018 amounted to 2.1 per cent (previous year: 2.2 per cent).

In 2018, the economy in **Italy** grew at a less pronounced rate (1.0 percent) than in the previous year (1.6 per cent). This development was underpinned by higher investments, which were offset by sluggish consumption and an increase in imports as exports stagnated. One of the reasons for this development is the political situation in the country, which is leading to a loss of confidence among consumers, companies and investors. Unemployment fell to 10.7 per cent (previous year: 11.2 per cent), due among other factors to a positive industry development. Inflation fell to 1.2 per cent (previous year: 1.3 per cent).

The economies in the **Central and Eastern European** countries in which the REWE Group is represented developed positively in 2018. Bulgaria, Croatia, Romania, Russia, Slovakia, the Czech Republic, Ukraine and Hungary all experienced an economic upturn, with Slovakia and Ukraine exceeding forecasts and prior-year growth rates. GDP growth in Bulgaria, Croatia and Hungary was at the same level as in the previous year but above what had been forecast. GDP growth in Russia increased year on year. Compared to the previous year, Romania and the Czech Republic recorded lower economic growth; nevertheless, the Czech Republic exceeded expectations. The upswing was attributable primarily to private consumption, which benefited from positive situation on the labour market and the increase in real wages, as well as investments, which increased due in part to EU funding. With the exception of Russia and Ukraine, unemployment rates fell in all countries, in some cases noticeably. Inflation in Russia, the Czech Republic and Ukraine fell, in part significantly, compared with the previous year. Inflation in the other countries increased year on year and in some cases significantly exceeded forecasts.

In **Scandinavia**, Sweden and Norway recorded higher economic growth than in the previous year. While economic growth in Denmark was less dynamic than in the previous year, it did exceed the forecasts. Inflation in Sweden and Norway remained level year on year, while price rises in Denmark were less pronounced than in the previous year. Unemployment again fell in each of the three countries.

With GDP growth of 3.0 per cent, the economy in **Switzerland** was significantly stronger than in the previous year (1.7 per cent) and exceeded expectations (1.3 per cent). However, all signs pointed to a slowdown in the second half of 2018. The ongoing upturn continued to be reflected in labour market: unemployment fell to 2.8 per cent (previous year: 3.2 per cent) and was thus below the forecast of 3.0 per cent. Inflation increased significantly to 1.1 per cent (previous year: 0.5 per cent), which was due to factors including high oil prices during the year.

In the **United Kingdom**, economic growth in 2018 was 1.4 per cent, down year on year (previous year: 1.8 per cent) and slightly below expectations (1.5 per cent). This is due to the continued uncertainty surrounding the consequences of the UK leaving the EU (Brexit), which among other things has led to businesses putting investments on hold. Despite a robust labour market (unemployment declined from 4.4 per cent in the previous year to 4.2 per cent), private consumption decreased in part due to stagnating real incomes on account of inflation, and will increasingly be financed by private debt. Inflation decreased slightly to 2.5 per cent (previous year: 2.7 per cent), which again was primarily due the devaluation of the pound since the Brexit referendum.

In 2018, the economy in **France** grew at a less pronounced rate (1.5 percent) than in the previous year (2.3 per cent). In addition to a global economic slowdown, the economic development was influenced in part by strikes and higher taxes, particularly in the first half of the year, and the social unrest that began in late November with the "yellow-vest" protests. A noticeably more subdued increase in consumption was offset by industry developments: capacity utilisation was at its highest level since 2008. Although the unemployment rate declined slightly from 9.4 per cent in the previous year to 9.1 per cent, it remained high compared to the rest of Europe. Inflation rose from 1.2 per cent to 2.1 per cent.

Changes in economic data for REWE Group countries

in %[1]	GDP			Inflation			Unemployment		
	2017	2018p*	2018p	2017	2018p*	2018p	2017	2018p*	2018p
Germany	2.5	2.3	**1.5**	1.7	1.6	**1.8**	3.8	3.3	**3.2**
Austria	3.0	1.9	**2.8**	2.2	1.8	**2.1**	5.5	5.1	**4.8**
Czech Republic	4.3	2.6	**3.1**	2.4	2.1	**2.2**	2.9	2.7	**2.2**
Italy	1.6	1.4	**1.0**	1.3	1.2	**1.2**	11.2	10.9	**10.7**
Hungary	4.0	3.4	**4.0**	2.4	2.8	**2.8**	4.2	4.0	**3.7**
Romania	6.9	4.4	**4.0**	1.1	2.5	**4.4**	4.9	5.1	**4.6**
Slovakia	3.4	3.7	**3.9**	1.4	1.7	**2.6**	8.1	7.0	**6.8**
Russia	1.5	1.7	**1.7**	3.7	3.9	**2.8**	5.2	5.5	**5.5**
Bulgaria	3.6	3.2	**3.6**	1.2	1.6	**2.4**	6.2	5.5	**5.3**
Switzerland	1.7	1.3	**3.0**	0.5	0.6	**1.1**	3.2	3.0	**2.8**
United Kingdom	1.8	1.5	**1.4**	2.7	2.5	**2.5**	4.4	4.6	**4.2**
Sweden	2.1	2.4	**2.4**	1.9	1.8	**1.9**	6.7	6.5	**6.3**
Lithuania	3.9	-	**3.5**	3.7	-	**2.7**	7.1	-	**6.1**
Norway	1.9	1.6	**2.1**	1.9	2.0	**1.9**	4.2	3.8	**3.8**
Denmark	2.3	1.8	**2.0**	1.1	1.6	**1.0**	5.7	5.6	**5.1**
France	2.3	-	**1.5**	1.2	-	**2.1**	9.4	-	**9.1**
Ukraine	2.5	3.2	**3.5**	14.4	10.0	**10.9**	9.2	9.3	**9.4**
Croatia	2.8	2.7	**2.8**	1.3	1.6	**1.6**	11.1	9.9	**9.7**

Sources: International Monetary Fund, World Economic Outlook Database October 2018, Update January 2019; Joint forecast (Autumn 2018)
p = projected; p* = projected in previous year
[1] Year-on-year GDP change in %

2. DEVELOPMENT BY SECTOR

Food Retail Sector

Industry trend: revenue

Change in %	Retail 2018 nominal	Retail 2017 nominal	Food retail 2018 nominal	Food retail 2017 nominal
Germany	2.7	5.1	1.2[1]	3.7[1]
Austria	2.6	3.4	2.5	3.4
Czech Republic	5.9	8.2	3.5	6.5
Italy	0.8	2.4	0.3	1.9
Hungary	9.3	7.7	7.0	5.7
Romania	11.3	12.2	10.5	9.3
Slovakia	6.4	8.4	4.1	7.0
Russia[2]	2.6	1.1	1.7	0.4
Bulgaria	7.5	4.6	10.2	4.7
Lithuania	9.7	--	5.4	--
Ukraine[2]	7.0	7.3	--	--
Croatia	5.7	6.4	3.1	2.3

Sources: Eurostat; [1] GfK; [2] Retail Update Russia (Biweekly News Report – Published by PMR) Last update: January 2019 – Figures for Ukraine up to 5/2018

Figures for revenue development in the **German** food retail sector declined year on year in analyses prepared by GfK (nominal: +1.2 per cent; FMCGs excl. non-food) and by Nielsen/TradeDimension (nominal: +2.5 per cent). In this context, the Retail Germany business segment performed excellently, with revenue growth at 9.9 per cent (adjusted for changes in the scope of consolidation: 5.5 per cent). Eurostat data generally confirmed the development in the German food retail sector, although we consider that data to be less meaningful than the data provided by GfK due to the collection methods used.

In 2018, the retail trade in **Austria** posted a revenue increase of 2.6 per cent in nominal terms (0.5 per cent in real terms). The food retail sector posted a revenue increase of 2.5 per cent in nominal terms (0.8 per cent in real terms). In nominal terms, growth thus slowed as against the prior year. It also represented a year-on-year decline in real terms.

Retail sales in **Italy** increased by 0.8 per cent in nominal terms in 2018 (decline of 0.4 per cent in real terms). Households recorded real losses in purchasing power as inflation exceeded wage increases. Revenue in the food retail sector increased in nominal terms by 0.3 per cent (0.9 per cent decrease in real terms).

The food retail sector in the **Eastern European** countries in which the REWE Group is represented developed positively. In 2018, Romania and Bulgaria recorded the highest increase in nominal revenue growth in the food retail sector, at 10.5 per cent and 10.2 per cent, respectively. Compared to the previous year, the development in Hungary was positive in 2018: year-on-year increases were recorded in both the retail and food retail sectors. Consumption in these countries was boosted in part by rising wages and the positive situation on the labour market. In Russia, the increase revenue in the retail sector (2.6 percent in nominal terms) and the food retail sector (1.7 per cent in nominal terms) was moderate, but nevertheless an improvement on the previous year.

Travel and Tourism

The market for tour operators saw 6.9 per cent revenue growth in 2018 to 36.0 billion euros, further building on the growth in the previous year. Cruise represented the primary growth segment, recording an increase in revenue of 7.8 per cent. The rise in revenue recorded by traditional air travel agencies was due primarily to non-European Mediterranean destinations (+51.0 per cent). Accordingly, the destinations that had been mired in crisis over the past three years (Turkey, Tunisia and Egypt) saw customers return. The growth trend in Greece also continued, amounting to +20.1 per cent. The other European Mediterranean destinations recorded stagnating growth of just 0.9 per cent, with Spain even seeing a decline. In 2018, the market for tour operators in the Mediterranean destinations was significantly weighed down by airline insolvencies (Niki, Small Planet, and Primera) as well as the repercussions of the Air Berlin insolvency. In view of the appreciation of the euro against the dollar, long-haul travel remained stable (+/- 0 per cent). Individual long-haul destinations such as the Caribbean and North America recorded significant declines in revenue of 18.7 per cent and 11.6 per cent, respectively. By contrast, destinations in the Far East (+8.7 per cent), Indian Ocean (+6.4 per cent) and in southern Africa (+10.2 per cent) posted gains. Land-based destinations recorded modest growth of 0.8 per cent. On account of the hot summer in Germany, the expected last-minute bookings did not materialise. Germans instead chose to organise their holiday trips in Germany and to its neighbouring countries themselves.

In 2018, the stationary travel agency market also increased revenue by in total 2.9 per cent to 19.0 billion euros, while online travel sales recorded significant growth of 25.5 per cent. In addition, revenue recorded by product portals (+16.3 per cent) and online direct sales of tourism service providers (+9.3 per cent) rose significantly and are increasingly competing with their own sales channels via tour operators and travel agencies. The specialised business travel organisations recorded a slight decrease of 0.5 per cent to 7.8 billion euros. Overall, the travel agency market in Germany recorded a 2.0 per cent increase to 26.9 billion euros.

DIY Stores

According to information published by the German Association of DIY and Gardening Stores in Cologne (BHB - Handelsverband Heimwerken, Bauen und Garten e. V.), the DIY retail sector posted revenue growth of 1.6 per cent to 18.75 billion euros in 2018. Based on adjusted sales area, revenue increased slightly by 1.3 per cent. While revenue decreased in the first quarter (-7.1 per cent compared to prior-year quarter) due in particular to the poor weather in March and the fewer number of sales days, the 8.3 per cent increase in revenue in the second quarter contributed significantly to the positive performance: at 6.0 billion euros, the months of April, May and June were the strongest in terms of revenue in the first nine months. After a healthy third quarter, which further reinforced the positive trend with an increase in revenue of 0.3 per cent, the fourth quarter – due in particular to a strong October – contributed to the year's positive development.

Performance

1. COMPARISON OF THE FORECAST REPORTED IN THE PREVIOUS YEAR WITH ACTUAL BUSINESS DEVELOPMENT

Revenue development of the REWE Group was in line with expectations in 2018.

Operating EBITA developed much better than forecast for 2018 in almost all business segments. This was due mainly to the developments in both the national and the international food retail sectors.

The Retail Germany business segment significantly increased its revenue year on year, essentially meeting its targets.

The Retail Germany business segment EBITA was significantly higher than forecast; REWE and Penny also recorded increases. Despite the successful integration of the Supermärkte Nord companies, these continue to weigh on earnings.

The revenue development of the Retail International business segment was above budgeted expectations. Both Penny and the Full-Range stores showed positive development. For instance, the development in Eastern Europe in particular was better than expected. In particular, the revenue in the Czech Republic developed better than forecast. The first-time consolidation of UAB Palink, Vilnius, Lithuania, significantly influenced the development of the CEE Full-Range Stores from August 2018 onward.

EBITA of the Retail International business segment was above expectations. Penny and the Full-Range stores segment exceeded their EBITA target. With regard to the Full-Range stores in Eastern Europe, only Russia and Ukraine fell short of expectations.

The development of the Travel and Tourism business segment was marked in particular by the difficult development in the German tour operator business. While the Travel and Tourism business segment increased its revenue year on year, it did not meet its revenue expectations. Due to the situation in the German tour operator business, the negative effects from the insolvencies of various airlines, and the accrual of restructuring costs, the Travel and Tourism business segment fell short of the budgeted EBITA targets.

The DIY Stores segment did not quite meet revenue expectations, although it still recorded a year-on-year increase. Due to lower cost developments, the DIY Stores segment was able to exceed the budgeted EBITA targets.

The combined Group's net debt was below the budgeted figures. This was due primarily to lower-than-planned investments. The unsuccessful sale of UAB Palink, Vilnius, Lithuania, had an offsetting effect.

2. RESULTS OF OPERATIONS

Revenue Development

in million €	2018	2017	Change in absolute figures	Change in %
Retail Germany	31,443.7	28,621.1	2,822.6	9.9
Retail International	14,242.7	13,353.5	889.2	6.7
Travel and Tourism	4,880.0	4,649.6	230.4	5.0
DIY Stores	2,151.1	2,130.8	20.3	1.0
Other	660.3	669.3	-9.0	-1.3
Total	**53,377.8**	**49,424.3**	**3,953.5**	**8.0**

Revenue increased by a total of 8.0 per cent in 2018.

The highest-volume business segment, Retail Germany, recorded a 9.9 per cent increase in revenue and was thus significantly higher than the industry trend in Germany. The positive revenue trend was supported by the development of REWE's own stores (including REWE To Go) and the Penny stores, as well as by wholesale activities. Furthermore, the first-time inclusion of REWE Dortmund SE & Co. KG, Dortmund, over the entire year contributed significantly to the increase in revenue.

The Retail International business segment, with revenue of 14.2 billion euros, is the second-largest business segment in the REWE Group. The 6.7 per cent increase in revenue (+7.1 per cent adjusted for currency translation effects) was due primarily to the Full-Range stores segment in Central and Eastern Europe. Particularly high revenue increases were generated in the Czech Republic and Slovakia, due mainly to the positive performance of the existing stores and to expansion activities. Furthermore, UAB Palink, Vilnius, Lithuania, which was fully consolidated for the first time on 1 August 2018, contributed significantly to the increase in revenue. The Austrian Full-Range Stores segment reported a continued positive revenue trend, which was attributable mainly to food retail. Penny International's revenue also made a contribution to this positive development: this was caused by the revenue trend in the Czech Republic, Romania and Hungary in particular.

The Travel and Tourism Business Segment generated consolidated revenue of 4.9 billion euros (brokered travel revenue of 6.7 billion euros), up 5.0 per cent on the previous year. The newly developed source market, France, made a particular contribution to the growth in revenue. Significant revenue increases were also recorded in Central Europe and the target destination agencies. Overall, the recovery by the destinations Egypt, Tunisia and Turkey and the high demand for travel to Greece had a positive effect on the revenue trend.

In the DIY Stores business segment, revenue increased by 1.0 per cent. The increase in revenue at DIY stores was attributable mainly to the positive performance by the retail stores. Expansion activities as well as existing stores contributed to this growth.

Stores and Sales Areas

At the end of the year, the REWE Group's retail business segments operated 9,421 retail outlets with a total sales area of 9.2 million square metres.

Number of stores	31 Dec. 2018	31 Dec. 2017	Change in absolute figures	Change in %
Retail Germany	4,014	4,078	-64	-1.6
Retail International	4,352	4,008	344	8.6
Travel and Tourism	760	750	10	1.3
DIY Stores	295	293	2	0.7
Total	**9,421**	**9,129**	**292**	**3.2**

Sales area in m² *	31 Dec. 2018	31 Dec. 2017	Change in absolute figures	Change in %
Retail Germany	4,288,551	4,387,104	-98,553	-2.2
Retail International	2,969,858	2,702,133	267,725	9.9
DIY Stores	1,951,291	1,935,235	16,056	0.8
Total	**9,209,700**	**9,024,472**	**185,228**	**2.1**

* No sales area is calculated in Travel and Tourism.

Results

in million €	2018	2017	Change in absolute figures	Change in %
Revenue	53,377.8	49,424.3	3,953.5	8.0
Cost of materials, incl. changes in inventories	-40,378.2	-36,948.6	-3,429.6	-9.3
Gross profit	**12,999.6**	**12,475.7**	**523.9**	**4.2**
Gross profit ratio	24.4%	25.2%		
EBITDA	**1,843.1**	**1,594.9**	**248.2**	**15.6**
Depreciation, amortisation and impairments/reversals of impairment losses and impairment losses (excl. goodwill)	-1,234.6	-1,103.5	-131.1	-11.9
EBITA	**608.5**	**491.4**	**117.1**	**23.8**
Goodwill impairments	-10.4	0.0	-10.4	0.0
EBIT	**598.1**	**491.4**	**106.7**	**21.7**
Financial result	-14.6	-16.6	2.0	12.0
EBT	**583.5**	**474.8**	**108.7**	**22.9**
Taxes on income	-153.7	-133.0	-20.7	-15.6
Results from continuing operations	**429.8**	**341.8**	**88.0**	**25.7**
Results from discontinued operations	0.0	-4.0	4.0	100.0
EAT/net income for the year	**429.8**	**337.8**	**92.0**	**27.2**

EBITDA increased by 248.2 million euros: The increase in gross profit by 523.9 million euros and the in other operating income (+436.2 million euros; excl. reversals of impairment losses) was offset by an increase of 346.6 million euros in other operating expenses and 365.3 million euros in personnel expenses. The sharper increase in cost of materials as compared to revenue, particularly in the Retail Germany, Travel and Tourism and DIY Stores business segments, resulted in a decrease in the gross profit margin to 24.4 per cent (previous year: 25.2 per cent).

The increase in other operating income was attributable primarily to higher income from advertising services, rental income, income from the reversal of provisions and income from additional services for goods traffic. The increase in income from advertising services is attributable to increased advertising activities in radio and television, print media, outdoor advertising and the increased use of advertising material in the Retail Germany and Retail International business segments.

Furthermore, the first-time inclusion of REWE Dortmund SE & Co. KG, Dortmund, over the entire year also had a significant effect for the Retail Germany business segment.

Rental income increased mainly in the Retail Germany business segment. This was due to the increase in the number of partner stores and the higher sales-based rents due to increased revenue. Income also increased due to the first-time inclusion of REWE Dortmund SE & Co. KG, Dortmund, over the entire year.

The increase in income from the reversal of provisions related primarily to the reversal of provisions for expected losses from onerous contracts.

Some of these items of income are closely related to the corresponding expenses. Corresponding to the increases in rental income and income from additional services for goods traffic, the related expenses also rose. Expenses for maintenance and consumables as well as for the vehicle fleet and freight also increased.

The expenses for the vehicle fleet and freight increased primarily in the Retail Germany and Retail International business segments. The increase in the Retail Germany business segment resulted among other things from the increase in the use of third-party logistics services in the context of expanding the Group's business activities.

The increase in rental and lease expenses related primarily to the Retail Germany business segment and is attributable in part to the first-time inclusion of REWE Dortmund SE & Co. KG, Dortmund, over the entire year. In addition, the increase in rental and lease expenses resulted from the increase in the number of leased properties which were sub-leased to partners. The first-time inclusion of UAB Palink, Vilnius, Lithuania, also led to a significant increase in the Retail International business segment.

The increase in expenses for maintenance and consumables related mainly to the Retail Germany business segment. This was due in part to construction work in connection with restructuring measures.

The increase in personnel expenses (5.4 per cent) was attributable to factors including the first-time inclusion of REWE Dortmund SE & Co. KG, Dortmund, over the entire year, the first-time consolidation of UAB Palink, Vilnius, Lithuania, and the pay scale increases in 2018.

EBITA was 608.5 million euros in 2018, 117.1 million euros higher than in the previous year (491.4 million euros).

The financial result improved by 2.0 million euros: the 17.6-million-euro increase in the result from companies accounted for using the equity method and the 6.8-million-euro increase in the result from the measurement of derivative financial instruments were partly offset by the 11.8-million-euro decline in the interest result and the 10.6-million-euro decrease in the other financial result. The improvement in the result from companies accounted for using the equity method was attributable primarily to the reclassification of UAB Palink, Vilnius, Lithuania, which had been classified as a held for sale in the previous year. The recognised income relates to the pro rata result up to the date of first-time consolidation from 1 August 2018. The interest result is offset by higher interest income from taxes and higher interest expenses from financing activities.

Taxes on income resulted in an expense of 153.7 million euros (previous year: 133.0 million euros). This amount consists of a current tax expense of 134.3 million euros (previous year: 136.4 million euros) as well as deferred tax expense of 19.4 million euros (previous year: income of 3.4 million euros). The current tax expense includes income of 23.1 million euros (previous year: 1.3 million euros) from taxes for previous years.

1. FINANCIAL POSITION AND NET ASSETS

Financial Position

The groups essentially have access to the following debt capital funds currently available:

Debt capital funds

in million €	31 Dec. 2018	31 Dec. 2017	Maturity
Syndicated loan	2,000.0	1,500.0	3 December 2023; max. term 3 December 2025
Promissory note loan	1,000.0	0.0	28 February 2021 to 28 February 2028
Promissory note loan	175.0	175.0	2 September 2024
Total	**3,175.0**	**1,675.0**	

Under an agreement dated 3 December 2018, REWE International Finance B.V. agreed a syndicated loan with a volume of 2,000.0 million euros, which matures in December 2023 and can be renewed twice, in each case by one year. This loan agreement replaces the existing syndicated loan of 1,500.0 million euros. As at 31 December 2018, the syndicated loan had not been drawn down (previous year: drawdown of 650.0 million euros). In addition, a promissory note loan was issued in the financial year. The total volume of the transaction amounted to 1,000.0 million euros and comprises various maturity tranches of three to ten years.

As at the balance sheet date there were three bilateral credit lines totalling 275.0 million euros (previous year: four bilateral credit lines totalling 350.0 million euros) with different maturities. 204.0 million euros of the lines of credit were drawn down by the balance sheet date (previous year: 62.6 million euros).

Internal cash pooling is aimed at reducing the amount of debt financing and at optimising cash and capital investments. Cash pooling allows the use of individual companies' excess liquidity in the groups for internal financing.

Net Debt

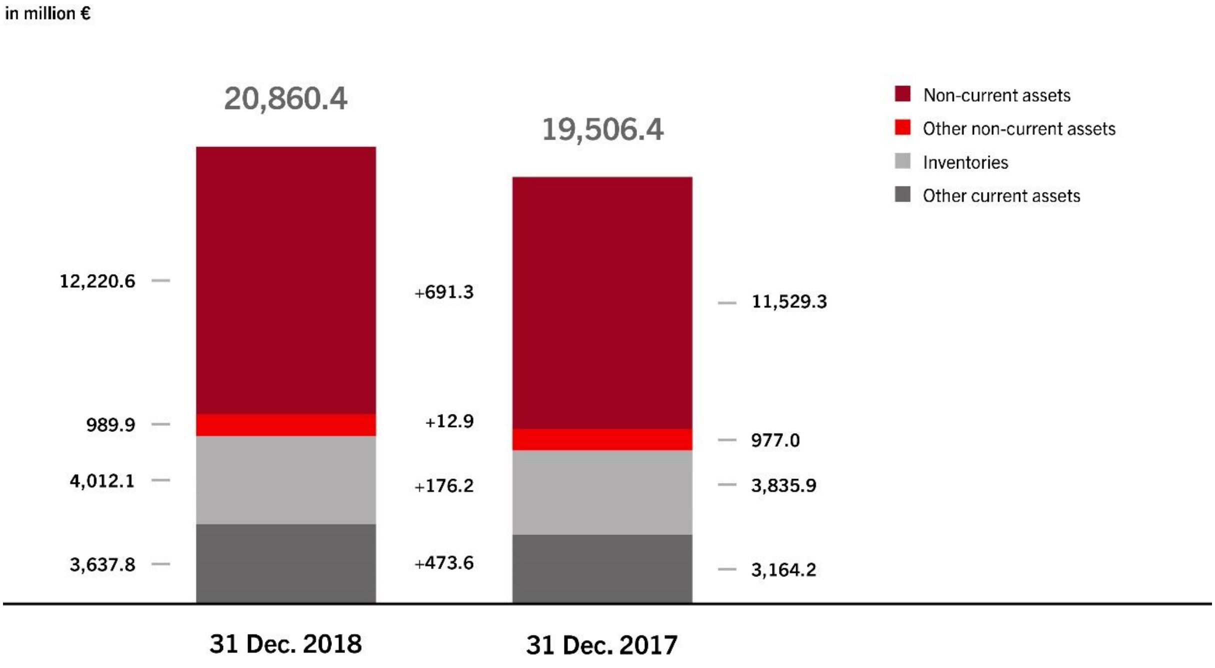
The 428.2-million-euro increase in net debt in 2018 as compared to 2017 was due primarily to an increase in liabilities to banks and liabilities from other loans, which increased in part due to raising a promissory note loan. This was offset by the repayment of the line of credit, which had been drawn down from the syndicated loan as at 31 December 2017.

in million €	31 Dec. 2018	31 Dec. 2017
Financial liabilities*	2,719.5	2,305.5
Cash and cash equivalents	-639.2	-653.4
Net Debt	**2,080.3**	**1,652.1**

* Included under other financial liabilities.

Net Assets

Assets



Total assets increased in the financial year by 1,354.0 million euros to 20,860.4 million euros.

In 2018, the REWE Group invested 1,793.7 million euros (previous year: 1,856.3 million euros) in intangible assets, property, plant and equipment and in investment property. The capital expenditures related primarily to the expansion and modernisation of the existing store network and the warehouse locations and production companies. There were also additions from acquisitions, which resulted primarily from the first-time consolidation of UAB Palink, Vilnius, Lithuania. Reductions in non-current assets were primarily caused by disposals, impairments, depreciation and amortisation.

Internally generated intangible assets in use amounting to 77.8 million euros are reported in the financial year (previous year: 89.7 million euros). There are also internally generated intangible assets still in development. The internally generated intangible assets primarily concern software products. In addition, research and development costs amounting to 64.4 million euros were incurred (previous year: 70.4 million euros) that were recognised as expenses.

The change in other non-current assets was due to the increase in other assets (73.3 million euros) and companies accounted for using the equity method (17.2 million euros), which was partly offset by the decreases in financial assets (48.7 million euros) and deferred tax assets (28.9 million euros). The change in non-current other assets was attributable primarily to a change in the presentation of shares in associates and shares in affiliated companies, which are not included in the consolidated financial statements for reasons of immateriality in connection with the application of IFRS 9 *Financial Instruments*, and which were previously reported under other financial assets. Deferred assets also increased, primarily due to construction cost subsidies.

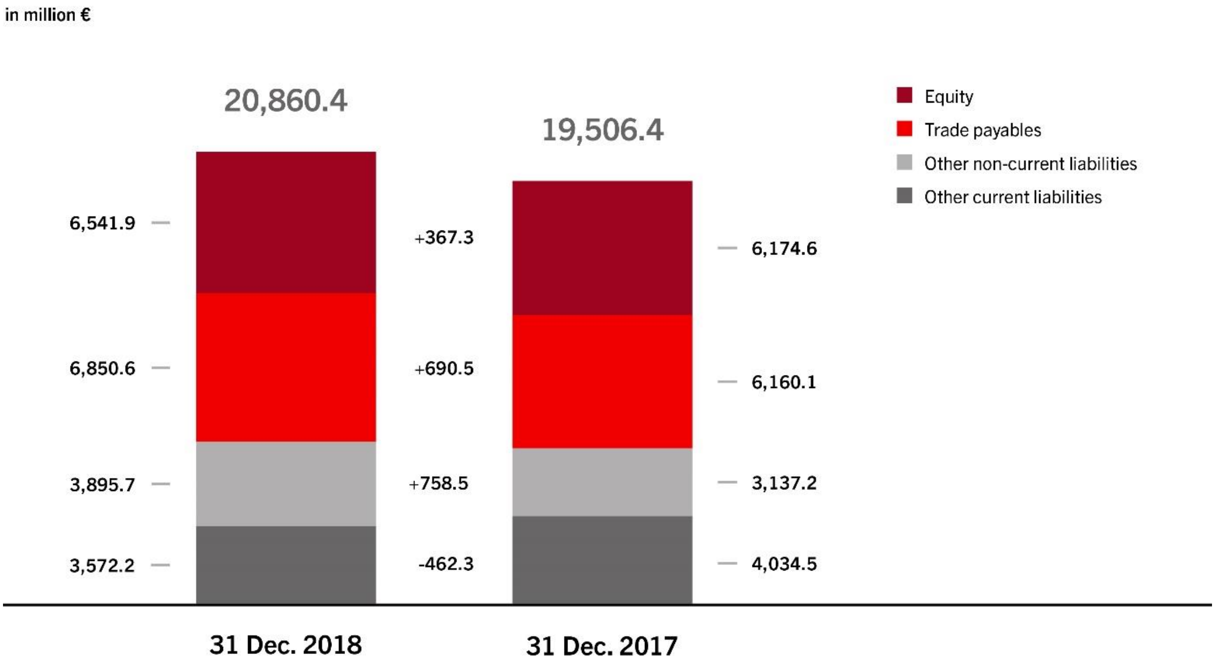
The decrease in non-current other financial assets was due mainly to the reclassification of shares in associates and shares in affiliated companies (which are not included in the consolidated financial statements for reasons of immateriality) to non-current other assets in connection with the first-time application of IFRS 9 *Financial Instruments*. This decrease was partly offset by an increase in other loans and loans to associates.

Inventories increased primarily due to an increase in finished goods and merchandise in the Retail International and Retail Germany business segments. The increase in inventory in the Retail International business segment is due in part to the first-time consolidation of UAB Palink, Vilnius, Lithuania; the increase in the Retail Germany business segment is attributable to the expansion of the warehouse locations. Prepayments also increased, primarily in the Travel and Tourism business segment: in particular in the Central Europe division, prepayments to service providers rose by 34.9 million euros, due mainly to a higher volume of bookings.

The increase in other current assets is primarily attributable to the rise in other financial assets (375.6 million euros), trade receivables (138.2 million euros) and current income tax assets (58.4 million euros). The increase in other financial assets resulted mainly from the increase in trade payables with debit balances in the Retail Germany business segment. Trade receivables from associates increased in relation to the balance sheet date, in particular in the Retail Germany business segment. This was partly offset by cash and cash equivalents (-14.2 million euros) and other current assets (-11.6 million euros). Under other current assets, the increase in deferred assets was partly offset by the decrease in receivables from other taxes. Please see note 4 "Performance indicators" with respect to the change in cash and cash equivalents.

Long-term assets held for sale also decreased (72.8 million euros) due primarily to the reclassification of UAB Palink, Vilnius, Lithuania, which had been reported as an operation held for sale as at 31 December 2017. In April 2018, shares in associates were reclassified. This was offset by the classification of real estate as assets held for sale in the Retail International business segment.

Equity and Liabilities



The balance sheet shows equity of 6,541.9 million euros as at 31 December 2018 (previous year: 6,174.6 million euros), which corresponds to an equity ratio of 31.4 per cent (previous year: 31.7 per cent). The return on equity of continuing operations was 7.0 per cent (previous year: 5.9 per cent).

Retained earnings increased by 427.2 million euros to 6,479.0 million euros. Substantial components of this increase were the net income generated for the financial year attributable to the shareholders of the parent in the amount of 429.3 million euros (previous year: 342.3 million euros). The 22.6-million-euro decrease in other reserves to -99.0 million euros resulted primarily from the change in the reserve for currency translation differences, the reserve for financial instruments measured at fair value through other comprehensive income, and the reserve for deferred taxes. This was offset by the reserves for cash flow hedges. Non-controlling interests decreased from 37.3 million euros to 110.1 million euros due in part to changes in the scope of consolidation.

The change in non-current liabilities is due primarily to the increase in non-current other financial liabilities (+895.5 million euros) and other non-current liabilities (+14.4 million euros). The increase in other non-current financial liabilities is attributable mainly to the raising of a promissory loan note amounting to 1.0 billion euros. This was offset by the change in other non-current provisions (-150.9 million euros). Under that item, provisions were recognised for contingent losses from onerous contracts in the Retail Germany business segment.

The increase in current liabilities was due primarily to the increase in current trade payables (688.3 million euros), other current liabilities (83.4 million euros) and current employee benefits (31.2 million euros). Trade payables increased in particular in the Retail Germany and Retail International business segments; this was attributable to the increase in ordinary activities, changes due to reporting date effects and in the Retail International business segment on account of the first-time consolidation of UAB Palink, Vilnius, Lithuania. Other current liabilities increased as a result of higher prepayments received on account of orders, which was due primarily to a change in the payment terms and conditions. This concerned almost exclusively the Travel and Tourism business segment. In the Retail Germany business, the increase in other current liabilities was attributable to the rise in liabilities from customer loyalty programmes, which was due mainly to the introduction of the "PAYBACK" programme at Penny Germany. Current employee benefits increased due in part to higher liabilities from employee benefits, severance payments and holiday provisions; this was partly offset by the change in liabilities from annual bonus payments.

Other current financial liabilities (-493.3 million euros), other current provisions (-69.2 million euros), current income tax liabilities (-10.9 million euros) and liabilities from the non-current assets held for sale and disposal groups (-3.5 million euros) had an offsetting effect. The decrease in other current financial liabilities is attributable primarily to the 650.0 million euros drawn down under the syndicated loan as at 31 December 2017; the line of credit had not been drawn down as at the current reporting date. Other current provisions decreased due to factors including the decline in provisions for expected losses from onerous contracts.

In addition, there were contingent liabilities of 497.2 million euros as at the balance sheet date (previous year: 225.2 million euros) which were attributable mainly to payment guarantees to financial institutions. Furthermore, other financial obligations to service providers amounting to 394.0 million euros (previous year: 686.1 million euros) were recorded in the Travel and Tourism business segment.

Significant events after the end of the reporting period are described under note 43 "Events after the Balance Sheet Date" in the notes to the Combined Financial Statements.

2. PERFORMANCE INDICATORS

Financial Performance Indicators

The most significant performance indicators of the REWE Group's operating units are revenue and EBITA. Net debt is included at the Group level. These key figures are reported under notes 2 and 3.

The cash flow statement shows changes in cash and cash equivalents less overdraft facilities during the financial year. A distinction is drawn between changes resulting from operating activities, investing activities and financing activities.

Change in cash and cash equivalents

in million €	2018	2017
Cash funds at beginning of period	**651.6**	**575.8**
Cash flows from operating activities, continuing operations	1,486.1	1,300.2
Cash flows from investing activities, continuing operations	-1,786.3	-1,903.5
Cash flows from financing activities, continuing operations	284.5	619.7
Cash flows from continuing operations	**-15.7**	**16.4**
Cash flows from discontinued operations	**0.0**	**63.5**
Change in cash funds related to changes in the scope of consolidation	0.4	0.0
Currency translation differences	-1.5	-4.1
Cash funds at end of period	**634.8**	**651.6**
Cash funds at the end of the period, discontinued operations	**0.0**	**0.0**
Cash funds at the end of the period, continuing operations	**634.8**	**651.6**
of which: cash and cash equivalents	639.2	653.4
of which: bank overdrafts	-4.4	-1.8

For additional explanations, please see note 38 "Cash Flow Statement" in the notes to the Combined Financial Statements.

Non-financial Performance Indicators

Employees

On an annual average, the REWE Group had 234,017 employees in 2018 (previous year: 224,931), of which 6,351 (previous year: 6,317) were trainees.

The increase in the number of employees is attributable primarily to the first-time inclusion of REWE Dortmund SE & Co. KG (see note 4 "Acquisitions") and UAB Palink, Vilnius, Lithuania, which was fully consolidated for the first time on 1 August 2018.

As an international trading and tourism group we rely on qualified employees. So that we continue to be considered an attractive employer in the competition for qualified employees, the REWE Group makes targeted investments in its current and future employees. The following action areas play a central role:

Values and culture

The REWE Group wants long-term commitments from its employees and offers them a motivating work environment. This includes fair work conditions, attractive social benefits and offers that are adapted to the different phases of the employee's life. Fair work environments are based on valuing diversity and a commitment to equal opportunity – these are core values for the REWE Group's corporate culture. The appreciation of employees through appropriate compensation with attractive additional benefits (such as our employee discount) is also a material component of a fair work environment.

Training and professional development

The REWE Group offers school leavers initial vocational training in sales and distribution, logistics and administration. These programmes offer them real future prospects. Apprentices who excel are guaranteed full-time, permanent positions after completion of their apprenticeship.

In order to promote the potential and individual development of employees in the best manner possible, the REWE Group continuously expands its personnel development measures and offers all its employees and executives an extensive offering of internal continuing education. As part of this effort, the Company endeavours to recruit as many as possible specialists and managers from its own ranks and to retain qualified and motivated employees long-term. In addition to numerous classroom-based courses, we also offer our employees at our headquarters and in our stores the opportunity to complete training courses online.

Health and safety

Occupational health management is an important element of the REWE Group's internal social policy. This helps to strengthen employees' responsibility for their own health. At the same time, we are making efforts to continuously improve working conditions.

Be it ergonomic work stations or accident prevention, the safety and health of our employees has the highest priority for us. We assist the responsible managers in preparing their risk assessments for the purpose of determining the physical and mental demands of the job, and provide them with advice on setting up work stations. In addition, we place great value on the prevention of violence (particularly offering training on how to react in the event of a robbery) as well as reducing musculoskeletal strain and optimising employees' workplace habits (e.g., when lifting, carrying, pushing, sitting). Following the principle "demand and promote", we offer our employees various programmes on promoting a healthy lifestyle and mitigating environmental risk factors. Moreover, we work closely with the occupational health service to address the topic of psychological health (e.g. consultations or a telephone hotline).

Work-life balance

Be it adult care for family members or childcare: we help our employees to balance their careers and families by offering family-oriented services which fit with each stage of life.

A family-friendly HR policy is important to the REWE Group in order to gain and retain employees. That is why we offer on-site kindergartens at headquarters or for our regional employees the national child and adult care services in cooperation with awo lifebalance GmbH in the regions, for example. A good work-life balance is becoming a decisive factor for many people when selecting an employer. That is why many divisions of the REWE Group have been certified by undergoing the "career and family" audit by berufundfamilie Service GmbH. Numerous models are used in the REWE Group that allow employees to organise their work individually and flexibly.

Whether employees themselves are suffering from severe illness, if they have lost a loved one, if they have a family member requiring care or are facing other private issues, personal problems can cause considerable stress and have a significant impact on an employee's working life. The REWE Group supports the "LoS!" pilot project to offer employees quick and practical assistance in critical life situations.

Sustainability

Sustainability at the REWE Group is firmly anchored in both the Company's strategy and the corporate organisation. The Chairman of the Management Board, Mr Lionel Souque, is responsible for setting the sustainability strategy of the entire REWE Group.

Four strategic pillars – "Green Products", "Energy, Climate and the Environment", "Employees" and "Social Involvement" – were introduced in 2008 to implement the sustainability strategy. Within these pillars, the Company has identified action areas that cover all of the issues relevant to the REWE Group.

In 2016, a strategic process was implemented by the food retail segment in Germany and at DER Touristik to review the organisation and focus of the REWE Group's commitment to sustainability, and to adapt this where necessary. The aim was to better integrate activities into the sales lines' existing business processes in order to anchor sustainability even more firmly in the Company. As part of the strategy process at DER Touristik, the five following pillars of sustainability were redefined: "Environment and Nature", "Customers and Products", "National Partners", "Employees" and "Society". The four pillars of sustainability for the food retail sector in Germany were confirmed and the action areas were revised.

a) Green Products

The goal of the "Green Products" pillar is to make more sustainable product ranges available and to offer these to consumers at the stores. The "Green Products" pillar's action areas therefore include "Expanding sustainable product ranges" and the demand for "Social standards in the supply chain". "Product quality and safety" and "Biodiversity" is also addressed.

The action areas for the German food retail sector were redefined as part of the sustainability strategy. These action areas are now called "Fairness", "Conservation of resources", "Animal welfare" and "Diet".

The REWE Group consistently follows its objective of increasing the share of sustainable store brands and brand-name products by using the PRO PLANET label for store brand products which, in addition to high quality, also have positive ecological and/or social characteristics, by expanding the organic product line and through its product line of regional products as well as various raw materials-related guidelines.

b) Energy, Climate and the Environment

Three action areas have been identified in the "Energy, Climate and the Environment" pillar: "Energy Efficiency", "Atmospheric Emissions" and "Conservation of Resources".

By 2022, the REWE Group aims to reduce greenhouse gas emissions per square metre of sales area by half compared to 2006 levels. The 2017 carbon footprint report shows that a reduction of 40.3 per cent has already been attained. In addition, electricity consumption per square metre of sales area will be reduced by 7.5 per cent between 2012 and 2022. The coolant-related greenhouse gas emissions per square metre of sales area will be reduced by 35 per cent between 2012 and 2022.

c) Employees

The satisfaction and performance capability of employees are a core element of the REWE Group's strategic human resources management. Accordingly, the following action areas have been identified for the "Employees" pillar: "Fair work conditions", "Human resources development", "Health management and occupational safety", "Life-phase oriented HR policy" and "Diversity and equal opportunity".

The new action areas were defined for the German food retail sector as part of the sustainability strategy as follows: "Values and culture", "Training and professional development", "Health and safety", "Work-life balance" and "Diversity and equal opportunity".

Various initiatives have been implemented in all action areas in order to increase employee satisfaction and dedication. Examples include promoting employees across all levels of the Group's hierarchy as part of our systematic career and succession planning programme, continually developing measures to achieve a work-life balance, promoting integration and inclusion, and stepping up efforts to increase the number of female executives.

d) Social Involvement

As a major corporate group and in its cooperative tradition, the REWE Group feels obligated to be engaged socially and supports numerous national and international social projects. The action areas under the "Social Involvement" pillar are: "Healthy Nutrition and Exercise", "Opportunities for Children and Young People", "Handling Food Responsibly" and "Biodiversity and Environmental Protection". In addition, the following preamble was formulated for the food retail sector in Germany: "REWE and PENNY promote non-profit organisations and projects, as well as organisations dedicated to consumer education".

One commitment of particular significance to the REWE Group is to support local food bank initiatives. For instance, for more than 19 years now, the Company has been one of the primary sponsors of more than 900 "Tafel" food banks across Germany and a member of the Bundesverband Deutsche Tafel e.V.

Sustainability Activities

The core of the REWE Group's sustainability activities is the active integration and sensitisation of all relevant stakeholder groups, consumers in particular. The sales lines oversee customer relations, for instance by providing information in the form of weekly flyers, on its website or as part of Sustainability-related initiatives. Manufacturers of brand-name products are also motivated to make their offerings more sustainable. For instance, the REWE Group is a proud supporter of the "Germany's most sustainable products" competition, where consumers can vote online to determine the winners. The winners receive the German Sustainability Award that was handed out in December 2018 together with the German Sustainability Award Foundation. As a retail and tourism company, the REWE Group's business activities have an impact on biodiversity, which for years the REWE Group has demonstrated a commitment to preserving. For instance, since 2010 we have been planting areas of blossoming plants and installed nesting aids in apple orchards. The benefits of this work were published in 2018. Efforts to monitor the populations of wild bees revealed a significant increase in the number of species of wild bees in the surveyed areas compared to 2010.

These and other activities undertaken by the REWE Group are covered in detail in the REWE Group's annual sustainability report.

Risk and Opportunities Report

The Value of Risk Management

As an internationally active retail and tourism group, we are exposed to a wide variety of risks, some with short reaction times, as part of our business operations.

Risks are uncertain company-external and internal influential factors that impair the potential profit areas (assets, profit and liquidity) and/or the Group's reputation and thus hinder or threaten to hinder the realisation of planned goals or may negatively impact further business development. On the other hand, opportunities are company-external and internal influential factors that create the potential profit areas (assets, profit and liquidity) and thus positively impact the planned goals or further business development.

We employ a uniform risk management system throughout the Group to counter this risk potential successfully and ensure our opportunities potential in the long term. In so doing, we understand risk management as a continual process that is firmly integrated as a regular step in our operating practices.

At the REWE Group, all risks are subject to mandatory management and are mitigated in their effect and probability through operational initiatives. The scope of the related need for action and the point in time for initiating appropriate actions are based on the urgency (probability of materializing) as well as the threat potential (potential damage determined from the monetary, reputational, and legal impact) of the risk. We document and manage existing needs for action in our risk areas using documented action plans and schedules.

Risk Management Organisation

The general conditions, guidelines and processes for uniform corporate risk management are created centrally by Corporate Controlling in cooperation with the corporate Governance & Compliance and Business Administration departments.

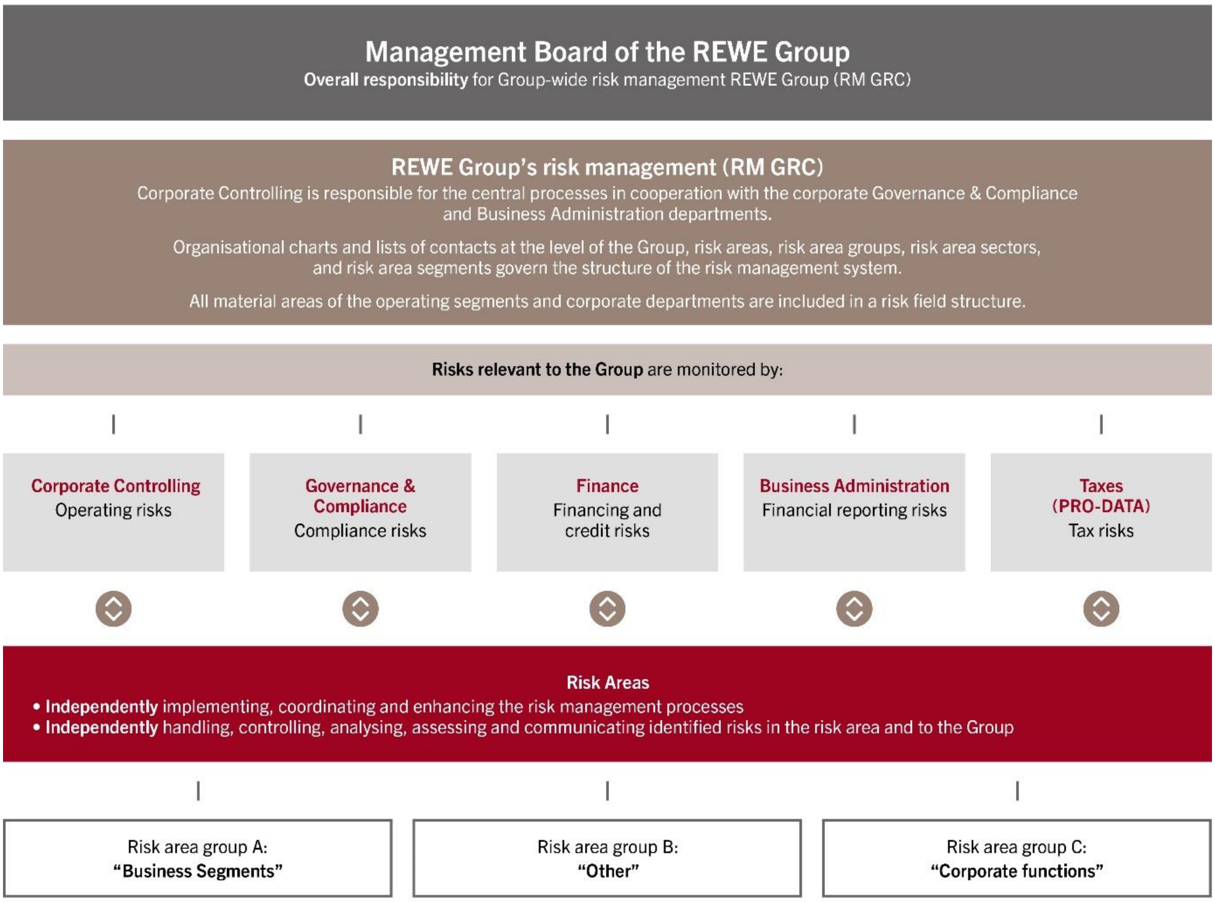
Under the groups' prescribed guidelines concerning the defined risk areas, it is the responsibility of the groups to locally organise the establishment and procedural flow of the operational risk management process.

Risk managers identify reportable risks early in our risk areas using a bottom-up approach and these risks are then classified uniformly throughout the Group and managed independently.

Risk checklists in the form of Group recommendations are developed by our corporate departments and provided to the risk areas regularly in advance of the annual risk inventory to support their risk identification and analysis. This ensures the Group-wide consideration of possible risk events as seen by headquarters.

The risk analysis covers a three-year planning horizon, analogous to the period of our mid-term plan.

Risks with relevant significance for the groups are managed and monitored by selected corporate departments based on their technical competence. In addition to operational business risks with significant threat potential, the focus is also on significant risks from finance, compliance, taxes and financial reporting. The corporate departments discuss and reconcile the varying risk assessments with the risk areas after the risk inventory has been completed and before the risk report is prepared.

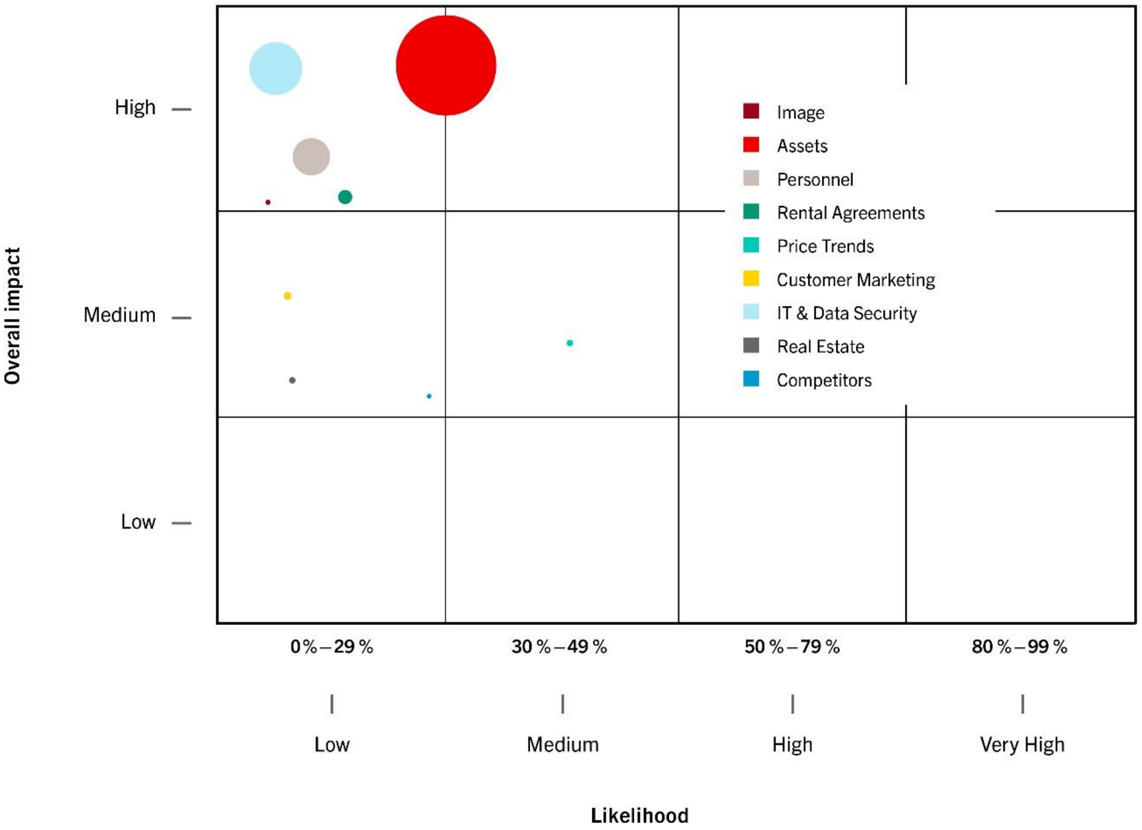


Our management and supervisory boards are informed of the groups' current risk situation in standardised form on an annual basis. To that end, the risk managers send risk reports to the groups. These reports contain risk inventories of relevant individual risks from the risk areas as of a given closing date. Risks with similar content and causes are subsequently aggregated at the level of the groups into risk categories and classified as high, medium or low with regard to their relevance to the groups based on the threat potential to our business activities, financial position, results of operations, cash flows and our reputation (high: monetary impact in specific cases > 100 million euros or considerable significance with regard to business activities, cash flows, financial position, and results of operations and reputation; medium and low: at most moderate significance with regard to business activities, cash flows, financial business activities, and results of operations and reputation).

We measure and manage opportunities as part of our regularly scheduled operational and strategic planning. Opportunities and risks are not offset at the level of the groups.

In addition, binding provisions were made under which newly identified, significant risks or existing risks with material effects, changes in their development and high probability of occurrence in the risk areas must be reported in a timely manner and directly to our management bodies.

As independent bodies, external auditors and the Auditing department assess the quality and functionality of our risk management system at regular intervals. Nevertheless, we cannot guarantee with complete certainty that all relevant risks are recognised early and the controls and processes function in the desired scope. Human error can never be ruled out completely.



Presentation of Risks

The risk assessment is made based on given or realistically assumable circumstances. Changes in the risk environment, the initiation of actions and changes to planning approaches result in changes to the risk portfolio. Therefore, the contract and environment risk types are no longer included in the top risks. The real estate and customer marketing risk types were added.

a) Top Risks

Valuation Risks

Assets

Unexpected budget or forecast deviations as well as changes in general economic conditions may result in having to remeasure assets such as real estate and goodwill. This can materially impact the earnings development of the groups. Changes in input factors can result in either charges to earnings through impairment write-downs and/or to increases in earnings through reversals of impairment losses. Regular reviews of the recoverability of assets, the examination and plausibility check of the mid-term plan as well as monitoring of the current development of earnings and values give us a current picture of our valuation portfolio and future valuation risks at all times. Necessary strategic measures for reducing the impairment risk can be taken in a timely manner.

Rental Agreements

Budget deviations may similarly influence the measurement of rental agreements (onerous contracts). For example, a degradation of retail earnings can result in a higher measurement adjustment that weighs down earnings. The monitoring of current earnings and a regular earnings forecast allow for the early countering of possible risks from existing rental agreements.

IT and Data Security

Due to the high dependence of trading and tourism processes on IT systems, including of stored data, the security of these systems represents an important foundation for the Company's success. Risk gaps will be closed by a high level of expenditures and investments in the security and performance capability of systems as well as ongoing monitoring of key processes. Furthermore, we use information events, training courses and work instructions to regularly inform our employees about material changes relating to data security.

Data security is ensured by the introduction of new, state-of-the art technologies, thus reducing possible abuse to a minimum. Documenting processes, setting rules and instructions as well as contractual safeguards form the basis for securing the Company's IT processes and systems.

A residual risk cannot be excluded entirely despite the necessary security measures.

Personnel Risks

Due to the dominance of personnel expenses in the retail business, personnel risks are also a primary focus of risk reporting. The development of pay scales and non-wage labour costs as well as the increased availability of labour are therefore of major importance. In particular, developments on the labour market are currently showing that risks are intensifying.

Third-party services and work agreements also continue to be a source of potential risk. We attempt to mitigate any risks associated with engaging third-party services by raising the awareness of our executives and employees through training courses, information events and recommended courses of action.

An optimum recruiting process is essential to ensure that vacancies are filled quickly and with suitable candidates.

Cost increases can be partially compensated for by continually reviewing our processes and optimising our procedures. This requires strict and consistent cost management.

Customer Marketing

Customer marketing risks relate primarily to the dissemination and distribution of customer and product information. Disruptions in the information process or delayed or incorrect customer information materially affect revenue and earnings development. Spreading the tasks across multiple vendors and service providers serves to mitigate the risk of dependency and significant communication disruptions.

Real Estate

Business interruptions that can occur due to technical errors in the buildings of our retail properties lead to loss of revenue and earnings during extended conversion or repair work.

Damage to buildings caused by fire or natural disasters and the requisite renovation or rebuilding work can lead longer business interruptions and loss of revenue and earnings.

In the case of such damage, it is generally only the property that is insured and not the business interruption.

Price Trend Risks

An intensification of the competitive environment can negatively impact price trends and be contained by initiatives only with difficulty. Negative price developments slow sustainable growth in revenue and gross profit and lead to profit erosion. The situation is aggravated by discounters adding brand-name products to their shelves and in the non-food sector by the continued fierce competition among online retailers. Since these articles are essentially high revenue items, long-term price reductions on these items have a significant impact on the development of gross profit.

Changes in the general conditions, such as an increase in excise duties or value added taxes, could materially impact the price trend and thus directly or indirectly affect the results of operations. Changes in prices on the procurement markets can also have a material influence on the gross profit situation.

We are able to react quickly to price adjustments and adapt to the new price situation by monitoring the competition and prices. Innovative products and brands as well as competitive cost structures assist us in containing or reducing erosions of gross margins.

A residual risk cannot be excluded entirely despite the necessary security measures.

Image

Flawed communication with customers and stakeholders, first and foremost on the topic of sustainability, can lead to image risks for the Company. Because the REWE Group takes a leading position in the field of sustainability, correct and transparent communication, e.g. on issues relating to products and employees, plays an important role. Due to the high sustainability requirements and continual observation by stakeholders, flawed communication can have material adverse effects on customers and stakeholders.

Sustainability communications are therefore subject to a careful examination and are reviewed by the necessary specialist departments. Campaigns are centrally supported by market research. A clearing office has been established to review communications media and statements.

Competitors

Overall, competition in the food retail sector continues to put pressure on prices and thus on gross margins.

Discounters are increasingly carrying brand-name products, which is increasing the pressure on market price trends. The resulting pressure on gross profit could have a material impact on the results of operations.

It is important for a retail company to recognise market trends early and to develop characteristics distinguishing it from the competition using new store concepts. Changes in customers' lifestyles affect their purchasing behaviour and thus the market requirements. Therefore, it is important to recognise market trends and changes in behaviour early in order to offer the store concepts to customers that meet their needs. If trends or market changes are identified too late, especially in the saturated markets, this results in a long-term competitive disadvantage and thus in revenue and earnings declines.

The growing online business poses new challenges for both over-the-counter retailing and travel and tourism. The increasing activities in the Internet retail trade will lead to changes in the retail landscape. It is therefore particularly important to closely observe and actively follow this trend. For instance, the REWE Group has continued to strengthen its online activities, particularly in the German food retail sector. We plan to expand the segment further and take a leading role in online business in the German food retail sector.

Store concepts and ranges are continually refined, meaning that innovations must be identified and implemented at an early stage. We constantly observe our competitors and the markets so as not to miss trends or new developments. This enables us to identify and implement trends and changes at an early stage.

b) Other Risks

Financial Risks

The groups are exposed to various financial risks by their business activities, in particular to liquidity risk, interest rate risk, foreign currency risk and commodity price risk (jet fuel). The liquidity, interest rate and foreign currency risks are managed systematically pursuant to the financial guidelines. Financial risks are identified, assessed and hedged in close co-operation with the operating units. A central Treasury Committee consults and decides on the risk policy and risk strategy. Treasury committees also exist at the level of the business segments. The permissible range of actions, responsibilities, financial reporting and control mechanisms for financial instruments are defined in detail in the corporate guidelines. These guidelines call in particular for a clear functional separation between trading and settlement activities.

Comprehensive management of financial risks focuses on the unpredictability of developments on the financial markets and aims to minimise the potential for negative impact on the financial position of the groups. Mitigating risk generally takes precedence over considerations of profitability.

A treasury management system is used to limit interest rate and foreign currency risks so that they are always within the scope stipulated by financial guidelines. Derivative financial instruments are used to hedge risks; their use is coordinated by the Treasury Committee.

Loans, fixed-term deposits and overnight money are used as financial instruments.

The aim of liquidity management is to ensure that, through REWE International Finance B.V., Venlo, Netherlands ("RIF"), the consolidated companies always have access to sufficient liquidity on the basis of adequate undrawn lines of credit so that no liquidity risk exists should unexpected events have a negative financial impact on liquidity.

The budgeted demand for jet fuel is secured in coordination with the responsible managers within DER Touristik using derivative financial instruments with terms up to 18 months.

Legal Risks

As an international company, the REWE Group is confronted with changes in the legal framework of its business activities as well as legal disputes and official proceedings, some of which could significantly impact on the Group's business. A team of legal experts observes such changes continually and coordinates the Group's key legal steps.

A Compliance Management System (CMS) was implemented in the REWE Group in 2010 to ensure adherence with statutory and internal Company directives. Since then, the CMS has been continuously enhanced and includes in particular preventive measures to avoid compliance risks, with a focus on antitrust and corruption risks. The decentrally-structured compliance organisation has a direct link to the chairman of the Management Board.

The compliance programme was further expanded in 2018 as well. Phase I of the REWE Group's project to certify the Compliance Management System in accordance with the IDW Audit Standard AuS 980 – "Audit of the design of the REWE Group's CMS" – was successfully completed in 2017. The design of the Group-wide Compliance Management System was set out in writing and was subsequently examined by the external auditing firm KPMG, which issued an unqualified audit opinion. Phase II of the project, a review of the "Appropriateness of the CMS", began in mid-2017. In this regard, compliance-relevant processes have been and will continue to be optimised and adapted with respect to their content and systems, and new processes were established and gradually implemented in the Group. Furthermore, in 2018, efforts were initiated to expand and comprehensively implement the training concept. In addition, numerous on-site training sessions and workshops were again conducted in which employees were also taught subject-specific behaviour conforming to compliance requirements. In 2018, in addition to the existing interactive online courses, comprehensive in-person training sessions on anti-trust law were also carried out. Furthermore, work began to establish new online training courses on "Integrity and anti-corruption", which will be rolled out throughout the Group in 2019. Executives and employees also took advantage of the individual compliance consultations offered. After the completion of the project to reorganise the Group's policies and guidelines management system in 2017, which has been the responsibility of the corporate Governance & Compliance department since 2016, Group-relevant guidelines continued to be transferred to the new system and into the dedicated nationally and internationally applicable "House of Rules" (HORUS) IT system in 2018, accompanied by regular communication measures.

Furthermore, in 2018, REWE's internal employee platforms were redesigned with respect to compliance updates and news, so that employees now receive the latest key compliance information in a format that is easy to understand. The REWE Group's compliance reporting system is also available on the intranet and all relevant contact data for whistleblower notifications is published there. Material information about the CMS as well as the REWE Group's code of conduct are also available on the REWE Group's website.

In its decision dated 2 February 2017, the European Commission initiated formal proceedings against the largest European tour operators – including companies of the groups – due to suspected source market restrictions. The outcome of these investigations is difficult to predict at the present time.

Tax Risks

Tax risks result primarily from ongoing and upcoming tax audits. These risks and possible legal risks are always taken into account by recognising provisions or allowances for claims in the statement of financial position. Tax risks are minimised by engaging qualified tax experts to closely monitor and collect information on the operating areas, by involving such experts in change projects and contractual matters and by the internal control system.

Socio-political Risks

As an international corporate group, the REWE Group is dependent on the political and economic situation in the countries in which it operates. The general conditions in the individual countries can change rapidly. Changes or instability in the political leadership, strikes, civil unrest, attacks, embargos or changes in regulations, laws or levies can lead to risks.

We are following very closely the current tense situation in Europe, the intensive discussions on immigration and asylum policies and the varying opinions of the individual member states regarding European policies, in particular also the discussions and decisions surrounding the United Kingdom's withdrawal from the EU (Brexit). In light of the current discussions being held, we expect significant effects for Europe's future economic development.

We closely analyse risks or opportunities that arise from the social and political situation and initiate measures if necessary.

We continuously monitor the development of socio-political risks in the countries relevant to us. In particular, we are closely monitoring current political developments in the Arabic world as well as the resulting uncertainty for our markets in these destinations as well as for the European economy.

Presentation of Opportunities

Markets and Customers

The REWE Group is represented in the Western and Eastern Europe countries with successful brands and distribution strategies. The REWE Group can utilise its opportunities on the market by developing new business models and by further developing innovative sales concepts and consistently aligning its actions to the customers' needs.

As such, the customer is the focal point of the Group's actions. By expanding the product lines of regional and sustainable products, the REWE Group is taking a leading role in the food retail sector, which is distinguishing it significantly from the competition.

In international business, the REWE Group signifies strong retail brands such as BILLA, MERKUR, BIPA, PENNY and IKI that have a high degree of name recognition. Our strength is an innovative product line which is tailored to specific countries and is continually improved and expanded. Improvements in quality and freshness lead to a positive customer perception and strengthen our competitive position.

We are in a position to improve our market share through investments in a modern and extensive branch network and by focusing on strong brands and sales concepts.

The intensified expansion of our tourism business could enable us to solidify and expand our position in the European market. Extending the value chain and expanding into additional source markets create further added value and increase the potential of harnessing market opportunities.

We want to continue to exploit the opportunities to profit from the growth of online sales and online business by further expanding our online activities. At the same time, we can further expand our market position by sensibly linking our strong brick-and-mortar retail activities and travel service activities.

Economic Environment

The positive economic developments in Western Europe in the previous year are also benefiting the economic climate in Eastern Europe. If, despite the current negative forecasts, the positive development in Western Europe persists, the knock-on effects could also lay a positive foundation for development in Eastern Europe.

Prices

The prevailing strong competition in the food retail sector, the continuing price wars and the increasing share of brand articles being sold in the discount sector are sharply reducing margins in the food retail sector. Should the price wars and competitive pressure abate or ease, this could lead to increasing revenue and margins and therefore positive growth of gross margins.

The success of our retail companies is dependent to a considerable extent on the purchase prices. In the past we formed a purchasing company in Brussels with E.Leclerc in order to meet the growing challenges of the competition in retailing and the increasing internationalisation of the food retail sector.

We are also part of the COOPERNIC strategic alliance with other European retail companies. We can counter the risk of purchasing price volatility and leverage international purchasing potentials through joint purchasing and by negotiating terms and conditions.

Costs

Continuous optimisations of processes and costs lead to improvements in productivity which positively impacts costs, and in turn, earnings.

Management's Overall Assessment of the Risk Situation

Due to our activity in the retail and tourism sectors, we are particularly dependent on demand for consumer goods and the competitive situation. Recent years have shown that economic development in the countries of Western, Southern and Eastern Europe sharply impacts purchasing power and therefore demand. Even if the food retail sector is not as strongly affected by the economic crisis as other retail sectors, a degradation of general conditions still has a negative influence on the Company's success.

A substantial degradation of general economic conditions and an intensification of the political and economic situation in the leading nations in the Americas, Asia and Europe will greatly increase potential risks. Developments within the European Union and the discussions surrounding its future, in particular the developments in connection with the United Kingdom's withdrawal from the EU, may also lead to higher potential risks. In the Travel and Tourism business segment, the booking behaviour of customers is significantly influenced by general economic conditions and external factors. Political events, natural disasters, epidemics or terrorist attacks influence the demand for travel in certain destination areas. The market risks are increasing through the entry of additional market participants and new business models.

Overall, however, there are currently no identifiable risks whose materialisation could threaten the continued existence of the groups.

Report on Expected Developments

1. FUTURE MACRO-ECONOMIC DEVELOPMENT

The report on expected developments considers the relevant facts and events known as at the date the report was prepared, which could influence future business development. The forecasts are based primarily on the analyses of the International Monetary Fund (IMF) and the joint forecast.

Forecast economic data for REWE Group countries

in %[1]	GDP		Inflation		Unemployment	
	2018p	2019p	2018p	2019p	2018p	2019p
Germany	1.5	1.3	1.8	2.0	3.2	3.0
Austria	2.8	2.2	2.1	2.1	4.8	4.6
Czech Republic	3.1	3.0	2.2	2.3	2.2	2.2
Italy	1.0	0.6	1.2	1.3	10.7	10.4
Hungary	4.0	3.3	2.8	3.1	3.7	3.5
Romania	4.0	3.4	4.4	3.5	4.6	4.2
Slovakia	3.9	4.1	2.6	2.4	6.8	6.0
Russia	1.7	1.6	2.8	5.1	5.5	5.3
Bulgaria	3.6	3.1	2.4	2.4	5.3	4.6
Switzerland	3.0	1.8	1.1	1.4	2.8	2.8
United Kingdom	1.4	1.5	2.5	2.1	4.2	4.4
Sweden	2.4	2.2	1.9	2.0	6.3	6.0
Lithuania	3.5	2.9	2.7	2.7	6.1	5.8
Norway	2.1	2.1	1.9	2.0	3.8	3.7
Denmark	2.0	1.9	1.0	1.5	5.1	4.8
France	1.5	1.5	2.1	1.8	9.1	8.7
Ukraine	3.5	2.7	10.9	7.3	9.4	9.2
Croatia	2.8	2.6	1.6	1.8	9.7	8.6

Sources: International Monetary Fund, World Economic Outlook Database October 2018, Update January 2019; Joint forecast (Autumn 2018)
p = projected; [1] year-on-year GDP change in per cent

Germany will report lower growth in 2019 than in 2018. The issues facing the automotive industry and a slowdown in production in the second half of 2018 will have a knock-on effect on growth in Germany in 2019. An upturn in consumer spending and increasing wages will have a favourable impact on domestic demand, which will remain the primary force driving economic growth, while the shortages on the labour market will limit growth opportunities. Stable demand for labour and slower growth in the number of gainfully employed people will lead to a tightening of the labour market. This is particularly evident in the construction industry, which already reached its capacity limits in 2018. It is unclear how the USA's future economic policy and the developments relating to the United Kingdom's withdrawal from the EU will affect the global economy.

For **Austria**, we expect weaker growth in 2019 than in 2018. The Austrian economy will be primarily shaped by stable domestic demand and weaker, but still favourable investment activities. Private consumption, driven by the increase in real wages in 2018, will continue to underpin the economy. The unemployment rate will improve to 4.6 per cent. We expect consumer prices to reach 2018 levels.

Economic development in **Italy** for 2019 shows a downward trend, at 0.6 per cent, and is expected to lag well behind the European trend. The current uncertainty regarding Italy's economic development was exacerbated further by declining investments in the second half of 2018 and the Italian government's budget dispute with the EU. The high level of government debt and the tense situation on the financial markets have increased the risk for 2019.

The **Eastern European** economies in which the REWE Group is represented will lose momentum in 2019. Due to the slowdown in the global economy, declining exports will adversely impact growth. The current difficult situation facing the automotive industry in Europe may also have a dampening effect on the economic development in those countries. The increasing employment trend in some countries may lead to an increased shortage of skilled workers.

Compared to 2018, economic growth in **Switzerland** will lose significant steam in 2019. The economic slowdown in the euro zone and rather subdued growth in domestic demand will reduce growth. In the case of investments in particular, lower growth is expected due to the global economic uncertainties.

Economic development in the **United Kingdom** is characterised first and foremost by the uncertainties surrounding the upcoming Brexit. Generally, growth rates are expected to stabilise in 2019 as against 2018. As previously, there is great uncertainty as to the future development of the country, particularly with respect to the outcome of the negotiations with the European Union.

We generally continue to anticipate stable growth rates in **Scandinavia** for 2019, and expect growth in Norway to remain level compared to 2018. Growth in Sweden and Denmark will decline slightly year on year. The high level of domestic demand will continue to be the driving force for the economy.

In **France** we expect economic growth to remain level year on year, at 1.5 per cent. Higher wages and tax breaks as well as social programmes launched by the government (reducing social security contributions, increasing minimum wage, etc.) are intended to increase purchasing power. While this would boost private consumption, it would also raise government debt. The unemployment rate is expected to improve to 8.7 per cent. We see a risk in prolonged protests by the "yellow vest" movement, which could adversely affect consumption and investment in 2019.

2. EXPECTED REVENUE AND EBITA DEVELOPMENT

For 2019, the REWE Group projects slightly increasing revenue marked by stronger growth due to expansion and growth on existing space. The projected earnings for 2019 will be achieved by increasing existing store space, positive developments from integration effects and the enhancement of existing business models. Cost-efficiency projects, particularly those at headquarters, are intended to improve the Group's cost structure and make a positive contribution to EBITA[1]. The increasing competitive and price pressure will weigh down the future earnings trend.

Retail Germany

In the **REWE** division, the strengthening of the price-performance perception in the over-the-counter business and the further development of the online business will be at the forefront in 2019. Investments in the existing store network and logistics will secure the Company's long-term future.

[1] The forecasts for 2019 do not include any effects in connection with the introduction of IFRS 16 "Leases".

Positive developments from the units integrated in the previous year as well as the favourable performance of the store and wholesale business will lead to higher revenue. The increase in revenue as well as more efficient cost structures will contribute significantly to a positive earnings trend.

In the **PENNY** division, we expect continued positive revenue development. Decisive here is the further investment in the existing store network, the optimisation of the product ranges, efficient process and cost structures as well as an increasing number of stores. The heightened competitive situation and resultant high price pressure will reduce revenue.

The positive revenue trend, the enhanced customer loyalty programmes and efficient cost structures will have a favourable effect on earnings in 2019.

Retail International

In the **Austria** and **CEE Full-Range Stores** business segment, revenue is forecast to increase slightly in 2019 as compared to 2018. The modernisation measures conducted and still planned will continue to result in revenue and earnings growth. BIPA Austria is performing according to plan but will continue to weigh down earnings in 2019. Nevertheless, the planned activities lay the foundation for future competitiveness in a solid environment.

The increased expansion activities will also lead to higher revenue and stable earnings in Eastern Europe. The situations in Russia and Ukraine remain challenging going forward. The integration of UAB Palink, Vilnius, Lithuania, in 2018 and the resulting effect for 2019 as a whole will significantly affect the division's performance.

At **Penny International**, revenue is forecast to increase as compared to 2018. This is due primarily to the positive performance of existing stores and the continued expansion. The positive revenue trend has a positive influence on the earnings situation, although increasing costs will erode this. Despite various project activities, the infrastructure expansion and the planned cost increases, earnings are projected to exceed the figure recorded in 2018.

Travel and Tourism

We expect the Travel and Tourism business segment to record higher revenue in 2019. This will be attributable to positive market developments as well as catch-up effects in the tour operator business compared to the previous year.

The positive revenue trend and cost efficiency measures will lead to a significant improvement in EBITA as compared to 2018.

DIY Stores

The DIY Stores business segment expects a slight improvement in the revenue situation and plans on an increase in earnings. The continued development of the online activities in connection with the brick-and-mortar business will be a focus of activities in 2019.

Management's Overall Assertion on Revenue, EBITA and Debt Development

We expect slight increases in revenue and a slightly rising price level for the business units for the 2019 financial year. Additional expansions and renovation activities will support long-term revenue development but will lead to higher investments in 2019.

We expect that the positive revenue trend, efficient cost structures and the expansion of the business models will lead to a significant year-on-year growth in operating EBITA in 2019.

As a result of high capital expenditures, the Group's net debt will continue to increase by the end of 2019. Sufficient provisions have been made for this in connection with the current credit facilities.

Cologne, 26 March 2019