# // COMBINED MANAGEMENT REPORT

# OVERALL STATEMENT BY THE MANAGEMENT BOARD OF CECONOMY AG ON THE BUSINESS DEVELOPMENT AND SITUATION OF CECONOMY

In a still challenging economic environment, CECONOMY once again increased total sales and EBIT before special items. The Management Board can therefore look back on an overall successful financial year 2016/17. With the demerger of METRO GROUP and the Company's resulting independence, the most important step was also taken to continue to grow as Europe's leading platform for companies, concepts and brands in the consumer electronics sector. The acquisition of a stake of approximately 24.33 per cent in the French consumer electronics retailer Fnac Darty S.A. also demonstrates CECONOMY's potential as one of the leading players to push the consolidation of the European market in consumer electronics retailing forward.

Overall, the Management Board is satisfied with the Company's performance, especially as all of CECONOMY's expected sales and earnings targets were achieved. As a result, we will once again propose an attractive dividend to our shareholders.

# OVERVIEW OF FINANCIAL YEAR 2016/17 AND FORECAST



In financial year 2016/17, the demerger of the former METRO GROUP into two legally independent listed companies announced in March 2016 was completed by way of a hive-down and spin-off (hereinafter: demerger). First, the wholesale and food retail business including real estate as well as the associated management and service activities were hived down from the former METRO AG and subsequently spun off. The Consumer Electronics division remained in the former METRO AG, now CECONOMY AG, as a continuing operation.

## Results of continuing operations

- Total sales of CECONOMY increased by 1.3 per cent to €22.2 billion in financial year 2016/17 (in local currency: +1.4 per cent)
- Like-for-like sales rose by 1.9 per cent in financial year 2016/17
- CECONOMY's EBIT before special items improved by €6 million to €471 million (2015/16: €466 million), including negative exchange rate effects of around €4 million
- Reported EBIT increased from €312 million to €334 million
- Profit or loss for the period before special items rose to €249 million (2015/16: €227 million)
- CECONOMY's earnings per share before special items of improved significantly to €0.58 (2015/16: €0.47)

## Financial and asset position

- Net liquidity amounts to €317 million (2015/16: Net debt of €2,301 million)
- Investments from continuing operations amounted to €319 million (2015/16: €406 million)
- Cash flow from operating activities for continuing operations €521 million (2015/16: €378 million)
- Total assets and liabilities amount to €8,280 million (30/09/2016: €24,952 million)
- Equity: €666 million (30/09/2016: €5,332 million); equity ratio: 8 per cent (30/09/2016: 21.4 per cent)
- Stable rating in the investment grade range: Baa3/Stable (Moody's), BBB-/Stable (Scope)

## Outlook of CECONOMY

The forecast is adjusted for exchange rate effects and before portfolio changes.

### SALES

For financial year 2017/18 CECONOMY expects a slight increase in total sales compared to the previous year. The Western/Southern Europe region in particular will contribute to this. Correspondingly, we expect a slight improvement in net working capital compared with the previous year.

### EARNINGS

Both in terms of EBITDA and EBIT, CECONOMY expects an increase at least in the mid single-digit percentage range, not taking into account the earnings contributions from the investment in Fnac Darty S.A. The Western/Southern Europe region in particular will contribute to this. The comparative previous-year figures for 2016/17 have been adjusted for special items (EBITDA: €704 million, EBIT: €471 million).

In addition, EBITDA and EBIT for 2017/18 include our share of the profit or loss for the period for Fnac Darty S.A. Based on current analysts' estimates, we expect this investment to make a contribution to earnings in the low to mid double-digit millions in financial year 2017/18.

# GROUP PRINCIPLES

## Group business model

CECONOMY is the leading platform for companies, brands and concepts in the field of consumer electronics in Europe. CECONOMY's brand pledge – We empower life in the digital world – describes the Company's ambition to offer tailor-made solutions to support consumers and make their lives easier in a world that is becoming steadily more digital.

The business model builds on a clear division of responsibilities. The Group is headed by CECONOMY AG, which covers basic strategic management holding functions such as finance, controlling, legal and compliance.

Operational business is handled by several brands, with the main focus on MediaMarktSaturn Retail Group with its brands MediaMarkt and Saturn. The online retailer iBood and the entertainment platform Juke complete the range of products and services offered by the MediaMarktSaturn Retail Group.

Retail Media Group (RMG) is a further Group subsidiary of CECONOMY AG. CECONOMY AG is also the main shareholder of DTB Deutsche Technikberatung GmbH.

CECONOMY also holds a minority stake of around 24.33 per cent in Fnac Darty S.A., the leading consumer electronics and household appliances retailer in France.

## Overview of CECONOMY

**MediaMarkt**, founded in 1979, now operates around 850 stores in 14 European countries and is steadily expanding its position as Europe's leading consumer electronics retailer. MediaMarkt is consistent in promoting the core of its brand – entertainment – in its range, pricing, customer assistance and after-sales service. Its declared aim is to make MediaMarkt the most enjoyable place for customers to shop consumer electronics – whenever and wherever they are. The recipe for success includes not just the very latest brand products at prices that are always fair, but also individual advice and a portfolio of tailor-made after-sales services, ranging from delivery to assembly and installation and up to repairs of electronic appliances. MediaMarkt also offers customers the option of renting appliances rather than buying them. In nearly all the countries where it has a store presence, MediaMarkt also operates online shops adapted for mobile use, which are closely linked to the store-based business. The company has positioned itself as a provider of continuous customer experience that spans all sales channels – while at the same time giving its customers the option of flexibly combining all mobile, online and offline services with each other. In addition, MediaMarkt operates various online portals for consumers, focusing on topics such as Smart Home, Gaming and Virtual Reality, and featuring technology and lifestyle trends and special offers. **redcoon** is a MediaMarkt brand in Germany with a comprehensive portfolio of consumer electronics. This means that the MediaMarktSaturn Retail Group also offers the right products and services to customers who prefer purely online retailers.

**Saturn** has been a specialist for electronic brand products at consistently fair prices for more than 50 years. Nowadays, Saturn operates some 200 stores in four European countries. Saturn stores offer their customers a technology experience, featuring a range comprising an average of 45,000 consumer electronics, gaming, virtual reality, smart home, telecommunications, computer and photography products and household appliances. Saturn also incorporates augmented and virtual reality elements to present the very latest technologies to customers while in store. Saturn enhances its store-based business in Germany with its online shop and mobile channels. Within the framework of this multi-channel strategy, Saturn customers reap the benefits of both online shopping and the personal advice and comprehensive services offered by the local stores and at home. Saturn publishes a magazine entitled "Turn On" in hard copy, as well as on YouTube and social media, to keep technology enthusiasts up to date with the latest trends and to report on the latest developments in digital lifestyle.

**iBood** stands for "Internet's Best Online Offer Daily" and is Europe's biggest live shopping portal. Customers can find new brand products at particularly low prices on iBood. Availability is limited, and the products change daily. A key element of this business model is the exchange about products and offers within the iBood community.

**Juke** is the product developed by Juke Entertainment GmbH, a subsidiary of MediaMarktSaturn Retail Group. More than 46 million songs and other digital content can be borrowed, purchased and consumed via Juke. Juke users also receive support in the more than 400 MediaMarkt and Saturn stores across Germany.

**Retail Media Group (RMG)** develops customised advertising campaigns based on impersonal visitor and purchase statistics. The CECONOMY subsidiary draws on the online and mobile platforms operated by the participating retailers, such as MediaMarkt, Saturn or Thalia. RMG helps advertisers to develop online campaigns that ensure maximum reach of defined target groups.

**Deutsche Technikberatung (DTB)** offers professional assistance – either individually on site or remotely – with home installation, networking and troubleshooting of electronic appliances. In addition, cooperation with MediaMarkt and Saturn makes customers' lives easier in the digital world: DTB consultants can design solutions for an unlimited technology experience at home.

## Strategic investment

Fnac Darty is the leading consumer electronics and household appliances retailer in France with a market share of 23 per cent and a presence in nine additional countries. The Group consists of a multi-channel network of 664 outlets, including 455 in France. Through its two commercial websites, www.fnac.com and www.darty.com, Fnac Darty S.A. operates the second most frequently visited e-commerce platform in France with more than 13.6 million visitors per month. As a leading omnichannel retailer, Fnac Darty S.A. achieved proforma sales of €7.4 billion in 2016 in the year of the merger of Fnac and Darty. The stake in Fnac Darty S.A. of approximately 24.33 per cent underscores CECONOMY's ambition to further strengthen its position as the leading European platform for companies, brands and concepts in the consumer electronics sector.

### Store network by country

| | 30/09/2016 | Openings 2016/17 | Closures 2016/17 | 30/09/2017 |
|---|---|---|---|---|
| Germany | 424 | 5 | 0 | 429 |
| Austria | 49 | 1 | 0 | 50 |
| Switzerland | 28 | 0 | –1 | 27 |
| Hungary | 22 | 2 | 0 | 24 |
| **DACH** | **523** | **8** | **–1** | **530** |
| Belgium | 23 | 7 | –2 | 28 |
| Greece | 11 | 1 | 0 | 12 |
| Italy | 111 | 5 | 0 | 116 |
| Luxembourg | 2 | 0 | 0 | 2 |
| Netherlands | 49 | 0 | 0 | 49 |
| Portugal | 9 | 1 | 0 | 10 |
| Spain | 79 | 4 | 0 | 83 |
| **Western/Southern Europe** | **284** | **18** | **–2** | **300** |
| Poland | 83 | 3 | 0 | 86 |
| Russia | 61 | 1 | –5 | 57 |
| Turkey | 45 | 10 | –2 | 53 |
| **Eastern Europe** | **189** | **14** | **–7** | **196** |
| Sweden | 27 | 0 | 0 | 27 |
| **Others** | **27** | **0** | **0** | **27** |
| **CECONOMY** | **1,023** | **40** | **–10** | **1,053** |

# Management system

During financial year 2016/17, METRO GROUP was split into two independent, listed companies. This entailed a restructuring of the control system of the two companies. The CECONOMY control system will be discussed in more detail in the next section. Prior to this, the definition of the key figures which METRO GROUP has forecast for 2016/17 as the most important key figures in its annual report 2015/16 is briefly discussed here.

| Key figure | Explanation | Reference |
|---|---|---|
| **Forecast-relevant key figures in financial year 2016/17** | | |
| Sales growth, adjusted for currency translation effects and based on the current Group structure | Total sales are stated in euros. The sales generated in a given period in the countries are translated at the corresponding average exchange rate. Currency-adjusted sales growth is determined by translating the sales of the previous year's period at the exchange rate of the corresponding period of the current year. An adjustment for significant changes in the Group's structure is made by taking into account sales affected by these changes neither in the current year nor in the previous year. | Earnings situation |
| Like-for-like sales growth | Like-for-like sales growth refers to like-for-like sales growth in local currency or with respect to a comparable group of locations or sales concepts such as online retail and delivery. The figure includes only sales of locations with a comparable history of at least one full financial year. This means that locations affected by openings, closures or material changes to the business during the reporting period or comparable year are excluded. | Earnings situation |
| EBIT before special items | EBIT is defined as earnings before interest and taxes. Special items include one-time transactions or a number of one-time transactions of the same type, which make it difficult to gauge a company's operating performance and are reported in the statement of profit or loss. This includes, in particular, restructuring and efficiency improvement programmes. | Earnings situation |

CECONOMY's ambition is to offer tailor-made solutions to support consumers and make their lives easier in a world that is becoming steadily more digital. In order to consolidate and expand its position as the leading European platform for companies, brands and concepts in the consumer electronics sector, CECONOMY's management system is consistently geared to the needs of all stakeholders.

The key figures used by CECONOMY to control the Company are presented below. In addition to a brief description of the content of the respective key figure, reference is made to the corresponding section of the annual report, which provides a more detailed description of the key figure in its overall context. The following table summarises how the key performance indicators are used in a value-oriented manner to sustainably increase the corporate value of CECONOMY.

The key performance indicators of CECONOMY, total sales growth adjusted for currency effects and portfolio changes as well as net operating assets, EBITDA and EBIT, are highlighted at the beginning of the table. CECONOMY provides a forecast for these main key figures. The key figures are grouped below according to their allocation to the statement of profit or loss, statement of cash flows, statement of financial position and other operating figures.

| Key figure | Explanation | Reference |
|---|---|---|
| **Forecast-relevant key figures in financial year 2017/18** | | |
| Sales adjusted for currency and for portfolio changes | Total sales are stated in euros. The sales generated in a given period in the countries are translated at the corresponding average exchange rate.<br>Currency-adjusted sales growth is determined by translating the sales of the previous year's period at the exchange rate of the corresponding period of the current year.<br>Adjustments are made for portfolio changes by taking into account sales affected by the measure neither in the current year nor in the previous year. | from 2017/18 |
| EBITDA | EBITDA is the profit of CECONOMY before financial result, taxes, depreciation, amortisation, impairment and reversals of impairment losses on property, plant and equipment, intangible assets and investment properties (earnings before interest, taxes, depreciation and amortisation). | Earnings position |
| EBIT | EBIT is defined as CECONOMY's earnings before interest and taxes. | Earnings position |
| Net working capital | Net working capital as non-current operating assets is defined as follows:<br><br>Inventories<br>+ Trade receivables<br>+ Receivables due from suppliers<br>+ Credit card receivables<br>+ Advance payments on inventories<br>- Trade payables<br>- Liabilities to customers<br>- Deferred revenues from vouchers and customer loyalty programmes<br>- Provisions for customer loyalty programmes and rights of return<br>- Prepayments received on orders<br>= Net working capital | Financial and asset position |
| **Other key figures in the statement of profit or loss** | | |
| Total sales | Total sales are stated in euros. The sales generated in a given period in the countries are translated at the corresponding average exchange rate. | Earnings position |
| Total sales growth | Total sales growth refers to the percentage change in total sales compared with the corresponding period of the previous year. | Earnings position |

| Key figure | Explanation | Reference |
|---|---|---|
| Like-for-like sales growth | Like-for-like sales growth refers to like-for-like sales growth in local currency or with respect to a comparable group of locations or sales concepts such as online retail and delivery. The figure includes only sales of locations with a comparable history of at least one full financial year. This means that locations affected by openings, closures or material changes to the business during the reporting period or comparable year are excluded. | Earnings position |
| Online sales | The key figure online sales comprises the sales generated via the internet. This includes both the sales of the Online Pure Player and the sales generated by MediaMarktSaturn Retail Group via their websites. Goods ordered online and collected at the store are also included here. | Earnings position |
| Online growth | Online growth refers to the change in online sales compared with the corresponding period of the previous year. | Earnings position |
| Online share | The online share refers to the share of online sales in the total sales of the relevant period.<br>$\text{Online share} = \frac{\text{Online sales}}{\text{Total sales}}$ | Earnings position |
| Services & Solutions sales | Services & Solutions revenues are those revenues that are not pure sales of goods. Examples are warranty extensions, brokerage of mobile phone contracts, repair services, and delivery and assembly. | Earnings position |
| Services & Solutions growth | Services & Solutions growth refers to the change in Services & Solutions revenues compared with the corresponding period of the previous year. | Earnings position |
| Services & Solutions share | The Services & Solutions share represents the share of Service & Solutions sales in total sales for the relevant period.<br>$\text{Services \& Solutions share} = \frac{\text{Services \& Solutions sales}}{\text{Total sales}}$ | Earnings position |
| Gross margin | The gross margin is the ratio of gross profit on sales and total sales.<br>$\text{Gross margin} = \frac{\text{Gross profit on sales}}{\text{Total sales}}$<br>Gross profit is defined as total sales less cost of goods sold, plus any subsequent rebates granted by suppliers. | Earnings position |
| EBITDA margin | The EBITDA margin is the ratio of EBITDA to total sales.<br>$\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{Total sales}}$ | CECONOMY facts & figures |
| EBIT margin | The EBIT margin is the ratio of EBIT to total sales.<br>$\text{EBIT margin} = \frac{\text{EBIT}}{\text{Total sales}}$ | CECONOMY facts & figures |

| Key figure | Explanation | Reference |
|---|---|---|
| EBT | EBT is the earnings before taxes (EBT) of CECONOMY.<br><br>EBIT<br>+/- Net financial result<br>= EBT | Earnings position |
| Tax rate | The tax rate is the ratio of tax expense to earnings before taxes (EBT).<br><br>$\text{Tax rate} = \frac{\text{Tax expense}}{\text{EBT}}$ | Earnings position |
| Minority interest in profit or loss for the period | The minority interest in the profit or loss for the period refers to the share of the net profit or loss for the period attributable to non-controlling interests (synonym for "profit or loss for the period attributable to non-controlling interests"). | Earnings position |
| Net working capital | Net income is defined as the figure which, after deduction of non-controlling interests, is calculated from the result for the period (synonymous with "profit or loss for the period attributable to CECONOMY shareholders"). | Earnings position |
| Earnings per share (EPS). | EPS is the ratio of net income to the number of shares issued (ordinary and preference shares).<br><br>$\text{EPS} = \frac{\text{Net income}}{\text{No. of shares issued}}$ | Earnings position |
| **Key figures in the cash flow statement** | | |
| Change in net working capital | As part of the cash flow from operating activities, changes in the items in the statement of financial position attributable to net operating assets are shown here, adjusted for currency effects, which are reported separately, and investments and divestments. | Financial and asset position |
| Income taxes paid (cash taxes) | As part of the cash flow from operating activities, the actual cash outflow for income taxes in the relevant period is shown here. | Cash flow statement |
| Cash flow from operating activities | The cash flow from operating activities refers to movements in the item "Cash and cash equivalents", which are allocated to operating activities. These mainly comprise EBITDA adjusted for additions to or reversals of provisions, changes in net operating assets and tax payments. | Financial and asset position |
| Investments (CAPEX) | Cash investments is the absolute amount of cash investments in the period under review. For this purpose, the "Acquisition of subsidiaries", "Investments in property, plant and equipment (excl. finance leases)" and "Other investments" from cash flow from investing activities are combined. | Cash flow statement |
| Cash flow from investing activities | The cash flow from investing activities refers to movements in the item "Cash and cash equivalents", which are allocated to investing activities. This mainly comprises cash investments and inflows from divestments. | Financial and asset position |

| Key figure | Explanation | Reference |
|---|---|---|
| Dividends paid | The key figure dividends paid includes the cash outflows to shareholders contained in the cash flow from financing activities and includes both the distribution to ordinary and preference shareholders and payments to non-controlling shareholders. | Cash flow statement |
| Cash flow from financing activities | The cash flow from financing activities refers to movements in the item "Cash and cash equivalents", which are allocated to financing activities. This mainly comprises payments of dividends, borrowing/redemption of borrowings and interest payments. | Financial and asset position |
| Free cash flow | Free cash flow is the sum of all actual cash flows before payments to equity and debt capital providers and before inflows from divestments.<br><br>Cash flow from operating activities<br>- Investments<br>= Free cash flow | CECONOMY facts & figures |
| **Key figures in the statement of financial position** | | |
| Equity | Under IFRS accounting, equity is a residual value resulting from the formation of the difference between assets and liabilities. | Financial and asset position |
| Equity ratio | The equity ratio is the ratio of equity to total assets and liabilities.<br><br>$\text{Equity ratio} = \frac{\text{Equity}}{\text{Total assets and liabilities}}$ | Financial and asset position |
| Borrowings | Borrowings comprise current and non-current financial liabilities including finance leases. | Financial and asset position |
| Cash and cash equivalents | Cash and cash equivalents comprise cash and cash equivalents as well as investments in the form of current bank balances and debt securities available for sale. | Financial and asset position |
| Net liquidity/net debt | Net liquidity/net debt is calculated by offsetting financial liabilities against cash and cash equivalents.<br><br>Borrowings<br>- Cash and cash equivalents<br>= Net liquidity/net debt | Financial and asset position |
| **Other key operational figures** | | |
| Cash flow conversion | Cash flow conversion is the percentage ratio of simplified free cash flow to EBITDA.<br><br>$\text{Cash flow conversion} = \frac{\text{EBITDA} - \text{Investments} +/- \text{Change in net working capital}}{\text{EBITDA}}$ | Goals and strategy |

| Key figure | Explanation | Reference |
|---|---|---|
| Investments according to the segment report | The key figure investments in the segment report includes all additions to non-current intangible assets, property, plant and equipment (e.g. land, buildings, expenditure on modernisation) and investment property. In contrast to cash investments, this item also includes the present value of finance leases entered into. However, this figure does not include payments for financial assets, advance payments on account or prepayments of rent. | Investments/divestments |
| Total number of stores | The number of stores refers to the number of brick-and-mortar stores with a selling space that can be quantified in square metres. | Group business model/earnings position |
| Total new openings | Number of new openings in a period. | Group business model/earnings position |
| Total closings | Number of closings in a period. | Group business model/earnings position |
| Selling space | The selling space is the total area of all stores in square metres. | Earnings position |
| Average selling space per store | The average selling space per store is calculated as the ratio of the total area of all stores in square metres and the number of stores as of the closing date.<br>Average selling space per store = $\frac{\text{Total area of all stores in square metres}}{\text{Number of stores}}$ | Earnings position |
| Number of employees | This key figure specifies the number of full-time employees as of the closing date. | Employees |

Based on similar economic conditions and the economic characteristics of business activities, individual countries are aggregated into the following **operating segments**, which are subject to reporting requirements:

- DACH (Germany, Austria, Switzerland, Hungary)
- Western/Southern Europe
- Eastern Europe

All non-reportable operating segments and activities that do not meet the definition criteria of an operating segment are summarised under “Other”.

As part of CECONOMY’s **value-based management**, key figures and targets are regularly checked for their orientation towards a sustainable increase in corporate value. The perspective of the shareholders and other stakeholders is taken into account. In addition to the strong focus on sales and margin ratios, which is typical for the retail sector, cash flow also plays an important role in CECONOMY’s key figure system. Based on the 2015/16 financial year, CECONOMY’s management formulated a medium-term ambition before portfolio changes and assigned it the following key figures and corresponding target values:

- Sales growth (>3% average growth rate)
- EBITDA margin (close to 5%)
- Investments (around 1.5% of sales) and cash flow conversion (60% to 70%)
- Tax rate (close to 40%)
- Dividends (generally 45% to 55% of EPS, depending on future economic development and the profitability of investment projects)

The former METRO GROUP had defined the key performance indicators for value-based management Cost of Capital (EBITaC) and Return on Capital Employed (RoCE), which are not used by CECONOMY.

# Sustainability management

CECONOMY makes life easier in the digital world. The products and technologies that make this world possible are not necessarily sustainable at first glance because of their power consumption. However, they open up completely new opportunities for a sustainable lifestyle, for example through the needs-oriented control of heating, cooling and lighting. At the same time, the worldwide web creates transparency about product characteristics and the sustainability governance of companies. Because CECONOMY makes the advantages of digitalisation available to customers, it is a logical step to apply these advantages itself. We therefore assume the responsibility of leading the companies we invest in and setting individual economic goals for them with social requirements that go beyond the legal requirements. We must respect the limits imposed by the environment. By taking this approach, we act today for the good of tomorrow. Accordingly, our business activities are designed to create added value while reducing negative effects. This makes all aspects of our business sustainable.

Until the demerger of METRO GROUP, key stakeholders were regularly asked to evaluate the sustainability efforts of the Group in its former structure within the scope of specific ratings. These evaluations provided important motivation to us and served as a management tool for the former METRO GROUP because they demonstrated the progress of our activities and potential to improve them.

Prior to the demerger, the sustainability performance of the former METRO GROUP received positive evaluations: In July 2017, for example, the former METRO GROUP was once again included in the FTSE4Good Global/Europe Index. Oekom Corporate Rating reassessed CECONOMY in the summer of 2017, and once again awarded the restructured CECONOMY Prime Status C+ (scale D- to A+). In financial year 2016/17, the former METRO GROUP was also ranked best in the industry for the third consecutive year in the internationally important sustainability indices Dow Jones Sustainability World and Europe.

Until the demerger, the former METRO GROUP focused on the value chain and those areas of our interaction with society where it could exercise the most influence. Based on our former structure, we had identified the following areas of responsibility: Focus on commitment to our employees, sustainable operations, sustainable procurement and assortment, sustainable consumption, and social engagement.

## Sustainability approach

Since the splitting up of METRO GROUP, CECONOMY AG has been working on designing and developing its own approach to ensure sustainability is afforded the necessary importance and presence within the Company's overall strategy. This approach is based on a roadmap for the next twelve months, starting with a comprehensive material analysis that we performed in 2017.

## Anchoring sustainability at CECONOMY

Embedding sustainability in the core business operations of our key investments is essential to realise our future vision.

CECONOMY AG plans to set up a "Sustainability Committee" to make sure this happens. It will be based on the Sustainability Committee of the MediaMarktSaturn Retail Group (MMSRG), which was founded in November 2015 and meets quarterly. CECONOMY's Sustainability Committee will be responsible for defining the Group strategy for sustainability to provide a basis and guidance for the individual strategies of our investment companies. Both the issues relating to sustainability at CECONOMY AG itself, as well as the status of programmes and activities in place at our investment companies will be discussed, and appropriate decisions made, by CECONOMY's Sustainability Committee.

Members of CECONOMY's Sustainability Committee will consist of the Chairs and Vice-Chairs of the investment companies, although initially most of the members will come from MMSRG and CECONOMY AG.

In addition, executives in each country and service organisation of MMSRG have been appointed as "Sustainability Managers" to carry the idea and strategy into their respective organisation. Our goal is to ensure that all executives as well as every single member of staff acknowledge the significance of sustainability with respect to both themselves and their professional environment, and that they conduct themselves accordingly.

## Sustainability approach of MMSRG

The sustainability approach adopted by MMSRG, our largest investment, is closely linked to the vision and strategy of CECONOMY. Accordingly, MMSRG regards itself as a responsible and sustainable partner, daily companion and navigator for consumers in an increasingly digitised world. As a supplier of products and services that considerably influence society and the environment, MMSRG has also derived sustainability goals from this mission, and has structured them in three dimensions of action.

### Activity dimensions of sustainability targets


MMSRG is committed to embedding sustainability firmly in its future business practices. Through digitalisation and new service concepts coupled with a broad spectrum of sustainable products, the scope is widening, especially for supporting the sustainability effects of our customers and for satisfying the demands we make of ourselves as a responsible enterprise.

## Responsible portfolio

The key factor driving the economic success of our retail brands MediaMarkt and Saturn has always been the huge choice: an average market offers around 45,000 products to its customers locally. Around 300,000 items are available in the German online shops of the two retail brands MediaMarkt and Saturn, for example. Key aspects of our commitment to sustainability include assuring that our suppliers' production facilities adhere to social standards, as well as providing comprehensive advice and information on sustainability aspects of all our products. By adopting this approach, MMSRG helps its customers opt for entertainment electronics and services that support a more sustainable lifestyle.

#### STRICT SUPPLIER MANAGEMENT STANDARDS (OWN BRANDS)

When it comes to its own brands – ok., Peaq, Isy and Koenic – MMSRG focuses on adherence to strict social standards in the facilities that manufacture the appliances. The core labour standards dictated by the International Labour Organisation (ILO) form an integral part of our contract terms and conditions. Moreover, the Company responsible for own brands – Imtron GmbH – has since 2014 been a member of the Business Social Compliance Initiative (BSCI), which was set up to protect workers' rights in factories. The core elements reviewed under this membership include the Company's management practice, environmental protection and health & safety aspects at work, as well as any violations of the ban on child and forced labour. The BSCI's Code of Conduct is derived from the SA8000 Standard issued by Social Accountability International (SAI). It obliges its members to ensure performance of regular external audits of its suppliers and to comply with other requirements defined by the Initiative.

#### INFORMING CUSTOMERS ABOUT SUSTAINABLE PRODUCTS

Since 2012, Saturn has been collaborating in Germany with Utopia, an Internet platform for sustainable consumption. Particularly sustainable items available in numerous Saturn stores and through the online shop are marked with a green label “Recommended by Utopia”. In order to provide its customers with even better information about sustainability aspects of electrical products, Saturn has developed a new communication concept, which is being tested at its store in Freiburg. The slogan “Go green now” aims to provide customers with better information about products that are particularly resource efficient. These products are also labelled accordingly. The criteria for the classification of the devices are regularly checked by a neutral party and meet the requirements of the EcoTopTen criteria (environmental friendliness and total costs).

In addition, the Saturn store in Freiburg – like all other MediaMarkt and Saturn stores in Germany – converted its electricity supply to 100 per cent green power from German hydropower plants at the start of 2017. This Saturn store is leading the way as the first-ever store to be certified as a climate-neutral business. Its estimated total emissions of 455 tonnes of $CO_2$ in 2017 will be fully compensated.

### Responsibility for the environment, climate and resources

When designing new and refurbishing existing stores and other properties, MMSRG places great importance on energy efficiency and is constantly striving to find new ways of minimising its resource consumption. Most of the environmental pollution for which electronic products are accountable is caused during production and operation. There are, however, numerous ways to reduce this pollution, even in retail. MMSRG has set itself the goal of leading the way in environmental and climate protection and resource efficiency.

#### REDUCING ELECTRONIC SCRAP

MMSRG also assumes responsibility for electronic products at the end of the product life cycle. Each year, around ten million tonnes of electronic scrap occur worldwide. Although this scrap can be recycled with no loss of quality and virtually infinitely, it is often dumped in the household waste.

Customers in Germany have been able to return old electrical appliances to any MediaMarkt or Saturn store since 2005, which means that we have fulfilled our legal obligations in full by voluntarily taking it back. Returned appliances are taken to a certified initial treatment plant for proper recycling. Added to this, we don’t impose any restrictions on the appliances we take back. MMSRG Germany alone received 35,000 tonnes of electrical appliances back in financial year 2016/17. This figure represents 50 per cent of the total volume of old electrical appliances returned in Germany (about 70,000 tonnes).

#### EFFICIENT ENERGY UTILISATION

MMSRG operates more than 1,000 stores around the globe, featuring thousands of electronic products for customers to try. The group of companies is committed to efficient energy management and to constantly modernising its stores and administrative buildings in order to reduce the energy used at these locations. For example, we use energy monitoring in the markets. In addition, MMSRG is making targeted investments in more energy-efficient lighting at its stores. LED light strips have since been installed in more than 200 stores. Compared with conventional T8 and T5 tubes, LED light strip lamps require up to 50 per cent less power. The group of companies aims to install LED lighting systems in all of its stores internationally between now and 2025 at the latest. By 2030, MMSRG expects this and other measures to produce like-for-like savings of 30 per cent electricity compared to 2011. As an intermediate target, MMSRG wanted to save 15 per cent electricity through its programme “Saving Energy 2.0” by the end of 2020. It had already exceeded this goal by the end of 2016, with savings of nearly 20 per cent.

In addition, the group of companies is striving to establish a high standard of quality with regard to the sustainable fittings and technical equipment in its stores. To achieve this, MMSRG has compiled an internationally standardised Sustainable Property Guideline based on the Gold Standard of the LEED classification system for energy-efficient and environmentally compatible building design.

## Responsibility to employees and society

Since MMSRG wants its employees to be both a success factor and ambassadors when it comes to sustainability, it encourages individual sustainable engagement and offers a varied spectrum of benefits to boost their personal well-being. MMSRG supports society and the environment by inspiring its customers to make the right purchasing decisions.

#### SUSTAINABILITY IN INITIAL AND FURTHER TRAINING PROGRAMMES

Store employees regularly attend product training sessions organised by the manufacturers to enable them to provide advice and answer questions about product sustainability, above and beyond the conventional product information. These training programmes also address issues such as energy efficiency and water consumption. At Saturn in Germany, for example, course attendants also take part in online training sessions focusing on special sustainability aspects of smartphones, tablets and notebooks, such as rare minerals, factory labour conditions and conflict commodities.

At its head office in Ingolstadt, MMSRG has incorporated sustainability as a key element into its trainee plans and talent programmes. Sustainability even plays a role during the recruitment process and is one of the modules in the Assessment and Development Centre. During their induction in Ingolstadt, international managers are introduced to the sustainability initiatives of MMSRG.

#### INFORMING EMPLOYEES ABOUT SUSTAINABILITY

Our employee magazine “GoGreen” was launched in March 2016 for everyone working at Saturn stores. It discusses ongoing sustainability initiatives at Saturn in Germany, lists interesting facts and figures about sustainability, such as changes to laws or regulations, and showcases specific examples from various stores around Germany. The magazine is published four times a year. In addition, the extensive information offered on the intranet, in the internal social network Yammer, and on the social media channels Facebook, Twitter and Xing, which are often used by employees, enable intensive engagement with the topic of sustainability and provide concrete action tips.

# Employees

CECONOMY is continuing the activities of the former METRO GROUP in the Consumer Electronics division, particularly with the MediaMarkt and Saturn sales brands.

The following information therefore relates exclusively to the operations continued under CECONOMY.

## Sustainable human resource policies

We have set ourselves the goal of increasing the relevance of our concepts, formats and brands, supporting our customers in an increasingly digital world and making their lives easier with our tailor-made solutions. To achieve this goal, we need dedicated employees who bring our strategy to life in their everyday work and create added value for our customers. One thing is certain: CECONOMY can only grow if we support our employees. Our human resource strategy focuses on two key aspects: human resource management, which includes employee recruitment, retention and development; and occupational safety and health management. Our objective is to attract the very best employees, to support them in accordance with their drive and abilities, and to strengthen their long-term connection to our company. By taking this approach, we strive to be the employer of choice among current and future employees.

## Recruiting employees

In the competition for the most highly skilled employees and executives, we at CECONOMY are taking steps to polish our image among potential applicants. For us, this also includes the initial training of young employees for retail, through which we can recruit employees from our own ranks.

**Training programmes at CECONOMY**

| | 2015/16[1,2] | 2016/17 |
|---|---|---|
| Number of trainees in Germany | 2,420 | 2,328 |
| Number of trainees internationally | 394 | 395 |
| Newly employed trainees in Germany | 801 | 780 |
| Trainee ratio (incl. interns and students) in Germany | 8.9% | 8.7% |

[1] Due to a changed calculation basis in Germany, the figures for 2015/16 cannot be compared with the figures for previous years
[2] The disclosures for 2015/16 relate exclusively to the MediaMarktSaturn Retail Group.

In financial year 2016/17, training focused on the topics of customer orientation and digital skills.

For example, the “Digital Dino meets Digital Native” project was launched for trainees by the MediaMarktSaturn Retail Group (MMSRG) Germany. In this programme, trainees and employees form teams in order to learn across generations.

Regarding the link between training and the digital world as well, CECONOMY was represented by MMSRG as a business representative in an advisory capacity in the BIBB (Federal Institute for Vocational Education and Training) committee on the establishment of the new job requiring training. The job requiring training will be launched on 1 September 2018 and training will take place at MMSRG Germany in Ingolstadt.

In addition, we are working intensively on digital supplementary modules for all CECONOMY training courses.

The MediaMarkt sales brand further increased the number of trainees in the 2016/17 financial year. In order to maintain the quality of training at the highest level, the trainers in the markets on the e-learning platform “Fit with MediaMarkt” are supported by their own departments (Trainer toolbox). This toolbox contains complete information on recruiting, onboarding, mentoring and development of the trainees.

The Saturn sales brand also relies on close cooperation with the trainers in the stores for its training. A national meeting of trainers was held for this purpose. In addition to the possibility of exchanging ideas and networking and making spontaneous presentations, they worked together on the content of a future-oriented training course.

At the Trainee Academy, Saturn trainees are prepared for their future careers and accompanied through the entire training. The annual Top Trainee Event is the crowning achievement for all trainees who are taken on at Saturn.

In addition to dual vocational training, we offer young people the opportunity to attend a dual course of study with practical modules. In financial year 2016/17, around 50 students were registered in Germany.

### TALENT DEVELOPMENT

For its junior employees at MMSRG, CECONOMY conducts special trainee programmes with a focus on finance, IT and multi-channel marketing. These programmes encourage graduates to take personal responsibility for themselves and at the same time offer individual design freedom in terms of process, programme design and personal development.

The sales brands MediaMarkt and Saturn are focusing on the continuous expansion of their dual degree programmes in Germany. The focus of these programmes is on individual development and needs-oriented further training of junior employees.

In order to promote exchange and networking within the talent groups as well as with management, Saturn held a talent day, and other events.

### EMPLOYER BRAND AND HUMAN RESOURCE MARKETING

By rebranding from “Media-Saturn” to “MediaMarktSaturn Retail Group”, CECONOMY was also able to strengthen the employer brand MMSRG among graduates and young professionals. This helps recruiters to raise awareness and identify potential talent. As part of this effort, MMSRG developed and implemented a creative and appealing IT campaign. In order to improve the impression the Company makes on potential recruits, the career page was revised. You can now find the way to our career portal with just a few clicks.

CECONOMY continues to focus on direct dialogue in the recruitment of young talents and IT specialists. In order to generate new talent, CECONOMY representatives were also represented at trade fairs, universities and workshops in the financial year 2016/17. For the first time, CECONOMY was represented at the Taktraum Festival and the Metronom – regional events that facilitate an intensive exchange with students.

In order to counteract the shortage of IT specialists and strengthen digital skills, CECONOMY relies on participation in hackathons and meetings – events and forums where concrete IT issues are worked on and trends and innovations are discussed. For the first time, MMSRG was represented at DAHOAM, a conference for developers. In addition, the social media channels were further expanded.

In addition, an employee recommendation programme called #plus1 was launched at MMSRG. The aim of the programme is to encourage employees to recommend vacancies within CECONOMY to their immediate network.

#### EMPLOYER OF CHOICE: FROM ZERO TO 26

For the twelfth time, 20,000 pupils in grades eight to 13 at general and vocational schools were interviewed about their preferred employers and career plans. MMSRG jumped from zero to 26 in the study this year and is among the top 100 for the first time – despite the fact that the retail sector has even lost slightly in comparison with other industries in the survey.

### Remuneration models and succession planning

Entrepreneurship is a value traditionally strongly anchored at CECONOMY and especially at MMSRG. The remuneration structures are therefore oriented towards the market and to the success of the Company. Our systematic succession planning enables our skilled employees and managers to develop attractive careers within CECONOMY.

#### PERFORMANCE-BASED COMPENSATION FOR EXECUTIVES

Our compensation systems include a monthly fixed salary and a one-year variable salary component, the amount of which depends on the profitability and economic development of our Company. In addition, there are models of performance-based remuneration with a long-term incentive effect whose structure is at the discretion of the Company.

#### PERFORMANCE REVIEWS AND SUCCESSION PLANNING

Within CECONOMY, systematic development of managers is a central task of the Company’s management. In this way, we ensure that the skills and competencies of our managers are consistently aligned with the needs and strategic goals of our Company. In addition, we are able to offer our managers targeted international career paths – regardless of the company in which they are employed. Moreover, our career planning processes enable us to identify and support suitable candidates for key positions in the Company. This ensures that we are able to fill the greatest number of vacancies possible from our own ranks.

#### INDIVIDUAL JOB PERFORMANCE REVIEWS

CECONOMY supplemented its competency model “Passion for the Customer” to include an online-based 360-degree feedback instrument for high-potential managers. This instrument can be applied flexibly and can also be used for 180-degree feedback.

#### EXECUTIVE DEVELOPMENT

The German country organisation of the MediaMarkt sales brand has consistently pursued the path that was successfully embarked upon with the “Fit for Management” programme last year in this financial year.

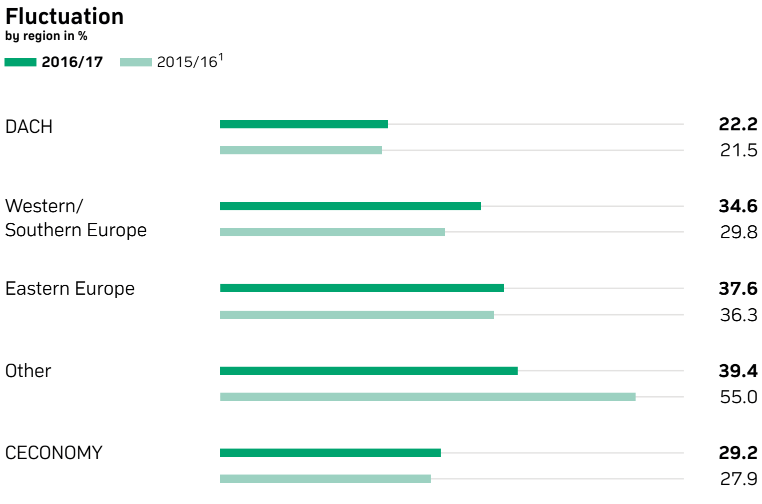
45 managers completed the pilot project. The focus of the project is on the sustainability of the measures. Among other things, the exchange and networking of the participants – including various leadership programmes – was promoted through alumni meetings.

In addition, two further education programmes were launched: the talent programme, which is designed to assist employees at the start of their career, and the potential programme, which includes the development of young managers for the next steps in their management and specialist careers.

Furthermore, the management vision for the future was designed to develop a modern understanding of leadership that meets the requirements of the working world 4.0.

### EMPLOYEE TURNOVER RATE

In the period under review, CECONOMY's average length of service at the Company was 6.1 years, slightly higher than in the previous year (2015/16: 6 years in respect of MMSRG). Turnover rates varied widely according to region. The chart shows the turnover rates by region for comparison purposes. The turnover rate is calculated as the number of employees leaving the Company in relation to the average number of employees (by headcount) in the year under review.




[1] The disclosures for 2015/16 relate exclusively to the MediaMarktSaturn Retail Group.

## Further training for employees

We are determined to promote lifelong learning among our staff as a way of responding to current and future challenges in retailing.

A central focus of CECONOMY's continuing education is the digitalisation of the working world. In May 2017, for example, MMSRG held the "Digital Campus" event for all employees at its Ingolstadt site and selected international colleagues from the national companies for the third time in order to promote the digital transformation of the Company. This year's programme included nine thematic worlds, including Data Era, Digital Transformation, Future Retail, Mixed Reality and Robotics. During the two-day event, employees were able to choose from more than 40 presentations, panel discussions and new formats. In addition, employees were able to try out the latest digital products and technologies at more than 30 booths on 600 square metres of exhibition space, and test their digital capabilities in a self-designed Digital Escape Room, for example.

CECONOMY continues to rely on the blended learning approach for digitalisation. The e-learning platforms "Saturn Online Academy" and "Fit with MediaMarkt" were used intensively in the past financial year, among other things, for onboarding new employees of the two sales brands.

### EMPLOYEE ENGAGEMENT

In order to integrate the wealth of experience, knowledge and creativity of the employees in an even more targeted manner, CECONOMY AG (formerly METRO AG) launched the idea management system "MyIdea". Employees who have ideas on how to optimise processes, simplify processes or realise potential savings are given the opportunity to introduce them. In July 2014, the MMSRG launched the idea management programme "Ideas4Us".

Since then, around 1,000 ideas have been submitted and numerous proposals are on the way to being implemented. Regular activities are conducted to motivate employees to submit suggestions for improvements of all kinds. In addition, employees have access to an ideas platform where they can view and evaluate suggestions, as well as a wide range of opportunities to find out about ideas that are currently being implemented. With a focus on digitalisation, it is now also possible to submit ideas on a mobile basis.

## Occupational safety and health management

CECONOMY places high priority on ensuring fair working conditions for all employees. Promoting occupational safety and health plays an important role in a personnel-intensive business like trade and retail. Due to demographic change, its importance continues to grow. We respond to these requirements with circumspect and structured activities.

For example, CECONOMY AG offers employee support programmes that give them the opportunity to seek psychological advice. In work-related conflict situations, but also in the event of private troubles, external experts are available who offer support in finding solutions, independently and anonymously.

## Diversity management

| | 2015/16[1,2] | 2016/17 |
|---|---|---|
| Average age of the workforce (years) | 35.5 | 35.9 |
| Share of employees in the 50-plus age group as a proportion of the total workforce in Germany | 15.8% | 17.3% |
| Share of employees in the 50-plus age group as a proportion of the total workforce at international level | 9.8% | 10.7% |
| Employees with recognised severe disability or equivalent persons in Germany | 541 | 565 |
| Employees with recognised severe disability or equivalent persons at international level | 537 | 517 |

[1] Due to a changed calculation basis in Germany, the figures for 2015/16 cannot be compared with the figures for previous years.
[2] The disclosures for 2015/16 relate exclusively to the MediaMarktSaturn Retail Group.

We firmly believe that inclusion and diversity lead to better business results for CECONOMY – through improved representation of our customers within the Company, access to a larger talent pool and greater employee engagement and development. Going beyond gender diversity, our approach places the focus on the individuality and diversity of our employees, thereby creating a truly empowering work environment for all Company employees. For this reason, CECONOMY must create an inclusive work environment and open work culture in which individual differences are respected, valued and developed, resulting in a diverse workforce in which each individual can fully unfold and leverage his or her individual potential and strengths.

CECONOMY relies on international cooperation, among other things, to execute its growth strategy successfully. In total, employees from 132 nations working together at CECONOMY. As at the closing date of 30 September 2017, 19.1 per cent of MMSRG's country organisation directors are from foreign subsidiaries.

The stated aim is to promote diversity in the Company. The diversity of our employees is one of our great strengths for the sustained success of our Company. The CECONOMY Code of Conduct categorically excludes discrimination based on race, ethnic origin, religion, belief, disability, age, sexual orientation or gender. Any form of harassment, such as bullying or sexual harassment, is prohibited. Employees can contact their managers or the Compliance Officer if they have any questions. A whistleblower system also enables all employees to report any violations of this principle anonymously.

At MMSRG, this principle is implemented by the compliance guideline "Style and Practice". This excludes discrimination in any shape or form. Employees can contact their managers and the relevant departments if they have any questions. An international reporting system also enables all employees to report any violations of this principle anonymously. As an Equal Opportunity Employer, we offer all employees and candidates equal opportunities regardless of gender, age, race, ethnic origin, sexual identity, disability, religion or belief.

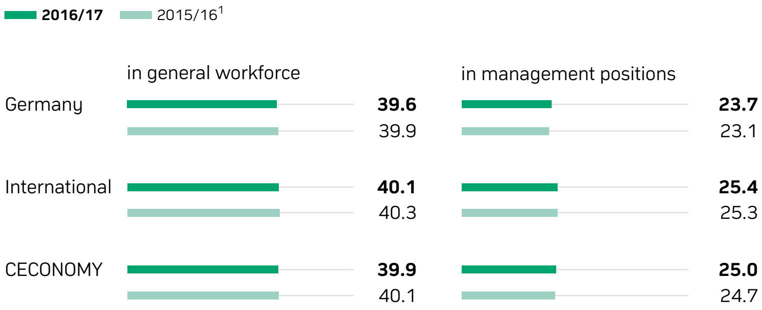
Through diversity management, we aim to achieve a proportion of women in management positions that corresponds to the employee structure. Currently, 39.9 per cent of CECONOMY's total workforce is female, 39.6 per cent in Germany. In management positions, the proportion is 25 per cent.

CECONOMY encourages women to participate in programmes for young talent. In 2016/2017, 42 per cent of the trainees at MMSRG in Germany were female. In the "Foundation Management Programme", the proportion was 40 per cent.

### EQUAL OPPORTUNITIES

As part of our diversity management, we promote equal professional opportunities for men and women. In 2011, together with other listed German companies, CECONOMY (formerly METRO GROUP) voluntarily pledged to increase the share of women in management levels one to three. During financial year 2013/14, CECONOMY (formerly METRO GROUP) renewed its voluntary pledge to increase the proportion of women in management positions. At CECONOMY AG, the proportion of women in the first two management levels under the Management Board is targeted to reach 15 per cent at the first level and 45 per cent at the second management level by the end of the 2019 financial year. We take these objectives into account in succession planning and recruitment.

**Percentage of women**
in %




[1] The disclosures for 2015/16 relate exclusively to the MediaMarktSaturn Retail Group.

↗ For more information about the objectives regarding the composition of the Management and Supervisory Boards, see chapter "Corporate governance – Corporate governance report".

### WORK-LIFE BALANCE PROGRAMMES BASED ON PHASES OF LIFE

At CECONOMY, we place great value on the compatibility of work and family life. Therefore we naturally offer our employees flexible working time models and extensive home office options.

Since 2010, the headquarters of MMSRG in Ingolstadt has been certified as a family-friendly company by the Hertie Foundation. As part of an array of measures aimed at supporting work-life balance, childcare during school holidays as well as nursery slots for children of employees are offered in Ingolstadt. In emergency situations, the services of the non-profit care services association Mobile Familie e. V. can be used for issues surrounding childcare or family member care.

In addition, MMSRG provides support by endorsing flexible working times. With the three-month sabbatical, employees have the option to take a longer break from everyday working life. The "My Day Off" programme allows them to gain up to twelve extra days of holiday per year. This is offset by a reduction in salary.

The share of part-time employees at CECONOMY is 19.5 per cent. In Germany, 16.8 per cent of our employees worked part-time and internationally the figure was 21.3 per cent.

## Employer-employee relationships

CECONOMY supports open dialogue at various levels between its management and employees or employee representatives. We want to ensure good long-term working conditions for employees and thus contribute to growth. Specifically, this means:

- We apply the principles of fair working conditions and social partnership in all our activities.
- We encourage our management to create an open and trusting work environment in which people share their ideas and problems.
- We regularly meet our employees and/or their representatives to inform them about the business situation and ask them for feedback.

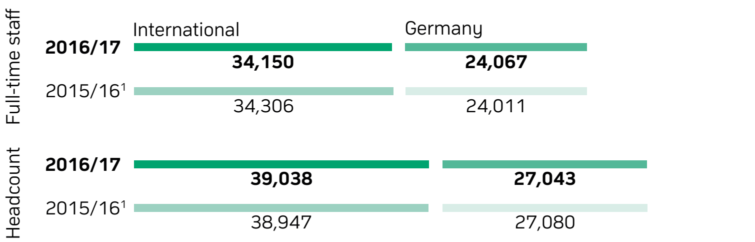
At the European level, the CECONOMY Euro Forum acts as a European works council.

CECONOMY also continues its social dialogue with works councils and unions on national level.

## Development of staff numbers

During the reporting period, CECONOMY employed an average of 58,217 (2015/16: 58,317 in respect of MMSRG) full-time equivalents. This corresponds roughly to the previous year's level. The majority of our employees work outside our home market of Germany. MMSRG employed an average of 58,141 full-time equivalents in the reporting period. Approximately 49 per cent are employed in the DACH region, 41 per cent of them in Germany.

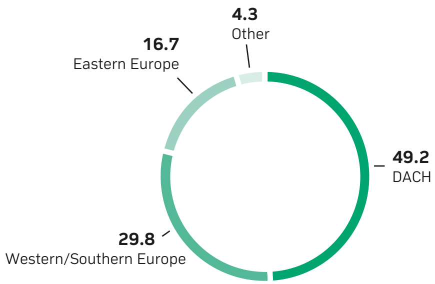
### Employees: Full-time staff and headcount




[1] The disclosures for 2015/16 relate exclusively to the MediaMarktSaturn Retail Group.

### Employees by region 2016/17

Full-time in %




## Development of personnel expenses

Our personnel expenses remained unchanged year-on-year at €2.3 billion (2015/16: €2.3 billion, based on MMSRG). Of this amount, €1.9 billion (2015/16: €1.9 billion) was accounted for by wages and salaries. The rest was attributable to social welfare contributions, pension expenses and employee benefits.

We encourage our staff to set up their own private pension accounts. Our Group-wide future package provides them with voluntary benefits that exceed the collective bargaining standards generally seen in the industry. During the reporting year, 4,155 employees in Germany took advantage of these benefits (2015/16: 4,269 employees, based on MMSRG). This represents 15.4 per cent of employees (2015/16: 15.6 per cent).

↗ For more information about personnel expenses, see the notes to the consolidated financial statements, No. 16 – Personnel expenses.

**Development of employee numbers by country and segment as of the closing date of 30/09[1]**

| | Full-time equivalents[2] | | By headcount | |
|---|---|---|---|---|
| | **2016[3]** | **2017** | **2016[3]** | **2017** |
| Germany | 25,037 | 25,060 | 28,083 | 28,122 |
| Austria | 2,381 | 2,358 | 2,834 | 2,821 |
| Switzerland | 1,087 | 1,020 | 1,272 | 1,207 |
| Hungary | 1,294 | 1,339 | 1,312 | 1,355 |
| **DACH** | **29,799** | **29,777** | **33,501** | **33,505** |
| Belgium | 1,564 | 1,585 | 1,642 | 1,660 |
| Greece | 793 | 737 | 859 | 789 |
| Italy | 5,213 | 4,932 | 5,870 | 5,594 |
| Luxembourg | 128 | 132 | 132 | 136 |
| Netherlands | 3,591 | 3,908 | 4,737 | 5,214 |
| Portugal | 540 | 514 | 604 | 563 |
| Spain | 5,357 | 5,431 | 6,523 | 6,657 |
| **Western/Southern Europe** | **17,186** | **17,240** | **20,367** | **20,613** |
| Poland | 5,019 | 5,044 | 5,066 | 5,097 |
| Russia | 2,976 | 2,471 | 2,996 | 2,487 |
| Turkey | 1,921 | 2,043 | 1,921 | 2,044 |
| **Eastern Europe** | **9,916** | **9,558** | **9,983** | **9,628** |
| **Others** | **1,351** | **1,375** | **1,845** | **1,861** |
| **CECONOMY** | **58,251** | **57,951** | **65,696** | **65,607** |

[1] Due to a changed calculation basis in Germany, the figures for 2015/16 cannot be compared with the figures for previous years.
[2] Rounding differences may occur
[3] The disclosures for 2015/16 relate exclusively to the MediaMarktSaturn Retail Group.

# Characteristics of the accounting-related internal control system

The objective of the accounting-related internal control system is to employ tools and measures to identify, assess, manage and monitor risks that might impact proper accounting. The system incorporates preventive, monitoring and detection measures that are firmly embedded in the accounting and reporting process to assure proper procedure when preparing financial statements.

Overarching responsibility for all processes related to the preparation of the consolidated and individual financial statements, as well as the combined management report of CECONOMY AG, rests with the Board department of the Chief Financial Officer. The actual preparation of the financial statements as well as the combined management report in the legal sense is the responsibility of the Management Board of CECONOMY AG. The Supervisory Board of CECONOMY AG is responsible for approving and releasing the consolidated and annual financial statements and the combined management report.

Building on the “Internal Control – Integrated Framework” concept of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), the Accounting department of CECONOMY AG has defined Group-wide minimum requirements regarding the design of the accounting-related internal control system. These requirements are subject to continuous review and improvement.

They address risk control matrices governing the design of control mechanisms, the implementation of controls, accountabilities and reviews of the effectiveness of the controls.

- Design of controls: Taking a top-down approach, the Company has identified the risk of significant errors with regard to financial reporting for material financial and accounting processes, and has stipulated binding Group-wide control objectives which the key Group companies must meet through Company-specific control activities.
- Implementation of controls: The Group companies must keep records of the implementation of these controls.
- Effectiveness of controls: The major Group companies are obliged to evaluate the effectiveness of controls at the end of each financial year (self-evaluation). A uniform Group-wide method must be applied and the results of the self-evaluations must be reported using a standardised reporting format.

The Group companies must confirm that their self-evaluations were conducted using the stipulated method. Aside from the control activities, the Group companies must also report on the other four components of the COSO framework: control environment, risk assessment, information and communication, as well as monitoring.

Companies’ individual reports are validated centrally and compiled into an overall report on CECONOMY’s accounting-related internal control system. This is reported to the Governance, Risk, and Compliance (GRC) Committee and the Management Board of CECONOMY AG.

The Supervisory Board of CECONOMY AG monitors the effectiveness of the internal control system.

The material accounting-related processes are discussed in more detail below.

The half-year financial statements and the consolidated financial statements of CECONOMY AG are prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union. A Group-wide IFRS accounting guideline that is compulsory for all companies included in the consolidated financial statements ensures the uniform application in CECONOMY of accounting procedures in accordance with IFRS. The management of each key Group company must accompany each report with a letter of representation confirming compliance with the IFRS accounting guideline. Amendments to IFRS are continually included in the guideline and communicated to all companies included in the consolidated financial statements.

Standard operating procedures and deadlines for global milestones are defined and communicated for each upcoming report. The Accounting function of CECONOMY AG monitors adherence to the global financial statements calendar. The local scheduling of specific actions relating to the financial statements and monitoring of the milestones and activities required to achieve these Group milestones as part of the local preparation of the financial statements are part of the responsibilities of the respective company's management.

SAP-based accounting systems are mainly used for local preparation of the financial statements of consolidated companies according to IFRS for consolidation purposes. Functional separation is guaranteed to assure control processes such as the principle of dual control.

Local accounting-related business data are collated by a central consolidation system (CCH Tagetik) to which all consolidated Group companies of CECONOMY are linked. This system provides for a uniform accounts table used by all consolidated companies in accordance with the IFRS accounting guideline.

Once they have been transmitted to the consolidation system, the local data are subjected to an automated plausibility review in relation to accounting-specific contexts and dependencies. Any errors or warning messages generated by the system during this validation process must be addressed by the person responsible for the financial statements before the data are transmitted to the consolidation function. In addition, all key Group companies must add comments in the consolidation system to explain any notable deviations in key items on the statement of financial position and the statement of profit or loss compared to the previous period.

Once the local data have been submitted and validated, the process of preparing the consolidated financial statements commences, for which, again, milestones, activities and deadlines are defined. The actions typically associated with the preparation of consolidated financial statements constitute specific milestones. These milestones include making sure the consolidation group is complete, checking the punctual submission of complete and correct data, typical consolidation steps – such as consolidating capital, expenses and income – and, ultimately, completing the Annual Report. Personnel responsibilities for these milestones are documented, and stand-in arrangements considered.

The Group also relies on external service providers to handle support activities related to the preparation of the consolidated financial statements. These services essentially relate to valuations of pension obligations and share-based payments.

The consolidation measures required to prepare the consolidated financial statements are subject to various systematic and manual controls. The automated plausibility reviews (validations) used for local data also apply to the consolidation measures. Additional monitoring mechanisms at Group level include target-performance comparisons as well as analyses dealing with the composition and changes of individual items in the statement of financial position and the statement of profit or loss.

Access regulations for accounting-related EDP systems guarantee IT security. Each company included in the consolidated financial statements is subject to the regulations concerning IT security, which are summarised in an appropriate guideline. This ensures that users only have access to the information and systems needed to fulfil their specific task.

Access regulations for the consolidation system are implemented to ensure adherence to IT security regulations (writing and reading authorisations). Authorisations to use the consolidation system are managed centrally by CECONOMY AG.

In addition to self-assessing effectiveness, the internal audit function regularly checks the effectiveness of CECONOMY's accounting-related internal control system. This independent monitoring process ensures the discovery and remedy of any potential weaknesses in the control system, and supports its continuous optimisation.

# ECONOMIC REPORT

## Macroeconomic and sector-specific parameters[1]

The following comments on the macroeconomic and sector-specific parameters include descriptions relevant to both the continued and discontinued operations of CECONOMY in financial year 2016/17.

### Global economy

In the 2016/17 financial year, the development of the global economy was more positive and more uniform than in the previous year. In Western Europe, the moderate upswing continued almost without exception. The economies were supported by persistently low interest rates and only moderately rising prices. Developments in Eastern Europe were also somewhat more uniform: the Central European countries continued to grow steadily. The countries of Eastern Europe, in particular the Russian economy, showed signs of recovery. In Asia, growth in China settled at a slightly lower level than in previous years. However, the region as a whole continued to show the strongest growth, and economic risks declined. Overall, the growth trend of the global economy continued to improve in the past financial year compared with the same period of the previous year.

### Germany

Germany continued to develop solidly across all sectors in financial year 2016/17. Consumer spending and trade and retail also supported the German economy, albeit to a somewhat lesser extent than in the previous year, due to the continuing positive development of the labour market. In addition, the upturn in world trade also stimulated exports and thus had a positive impact on the economy.

### Western/Southern Europe

In Western Europe, growth began to pick up in 2016/17, mainly due to an improvement in labour market trends and export activity. Furthermore, in some countries, the burden of budget consolidation was reduced, with positive effects on the economy. Retailers benefited from an improvement in private consumption with only a slight increase in prices in the past financial year. Again in 2016/17, the most positive economic development in Western Europe was again recorded in Spain.

### Eastern Europe

The economy in Eastern Europe recorded a solid upturn in the 2016/17 financial year, which continued to strengthen at the end of the financial year. Overall, the countries of Central Europe developed somewhat more stably, but growth in Eastern Europe also picked up again. In particular, the Russian economy again recorded moderate growth on a price-adjusted basis. This was mainly due to the significant stabilisation of the rouble and the associated decline in inflation. Retail sales also benefited from this decline in the inflation rate and the stabilisation of the labour market. On a price-adjusted basis, they reversed course and rose slightly in the second half of financial year 2016/17.

### Asia

Asia's economy continued to show stable high growth rates in financial year 2016/17. China and India recorded slightly weaker development than in the previous year, but remained on a stable growth path, with growth of just over 6.5 per cent each. Japan's economy has recently been developing somewhat more strongly again, although growth remains at a low level. Domestic sales and trade growth in the Asian countries followed the good economic performance and were consistently positive.

[1] The numbers indicating the development of gross domestic product in the section "Macroeconomic parameters" represent the entire years of 2016 and 2017. As such, the figures for 2017 represent projections. Unless otherwise indicated, the qualitative statements in the text refer to the reporting period.

**Development of gross domestic product in key global regions and Germany**

| Percentage change year-on-year | 2016[1] | 2017[2] |
|---|---|---|
| World | 3.2 | 3.6 |
| Germany | 1.9 | 2.0 |
| Western Europe (excl. Germany) | 1.8 | 2.0 |
| Eastern Europe | 1.2 | 2.8 |
| Asia | 5.3 | 5.1 |

Source: Feri

[1] Previous year's figures may differ from those of the 2015/16 Annual Report, as final figures were not available at the time of its completion and a change to purchasing power adjusted figures was made in 2017.

[2] Forecast

## Sector development in consumer electronics retailing

German consumer electronics retailing sales performance was significantly positive in financial year 2016/17. Growth in the reporting period was boosted partly by the conversion of the terrestrial TV signal in several major German regions and the associated higher demand in the TV segment.

As such, the consumer electronics segment accounted for a significant share of the positive performance in the German electronics market, together with small electrical appliances, which continued to record significant growth. Smartphones – an important submarket – and large electrical appliances recorded slightly weaker growth, in contrast.

In consumer electronics retailing in Southern Europe, after several years of growth, Spain recorded only a slightly positive performance in financial year 2016/17. In contrast, Portugal managed to record strong growth compared to previous years. Performance in Italy is slightly positive at present.

Starting from different levels, the Eastern European markets performed well across the board, while Russia again showed positive market development, following negative growth the previous year in difficult economic conditions. Growth in Turkey was again very dynamic in financial year 2016/17, although it fell short of the growth rates witnessed in recent years. As the economic situation in Greece remains difficult, growth in this market continues to be slightly negative.

Switzerland has not yet fully recovered from its move to unpeg the Swiss franc from the euro. After two years of significant shrinkage, growth in the market increased slightly in financial year 2016/17.

Sweden, Belgium, the Netherlands and Austria – all generally regarded as saturated markets – recorded solid growth.

## Industry development of discontinued operations

Sales in the **self-service wholesale trade** developed well overall worldwide, but varied in the regions in which METRO operates.

In the German self-service wholesale trade, sales declined slightly in the 2016/17 financial year. The development was thus somewhat behind that of grocery retailing, which again recorded a slight increase. In the reporting period, however, the positive sales trend of the customer group of hotel and restaurant operators (HoReCa) had a positive impact.

In Western Europe, self-service wholesale trade recorded slight growth, in line with economic development. In Portugal and Spain, in particular, the positive development of the HoReCa sector contributed significantly to this trend.

In the Central and Eastern European countries as a whole, self-service wholesale trade also developed slightly positively. The Turkish market grew on a price-adjusted basis despite the stagnating hotel and catering industry and rising inflation. In Russia, the sector recovered as a result of declining inflation and the general economic recovery. In Central Europe, the growth trend varied by country.

The Asian markets in which METRO is active recorded stable development. India, in particular, turned in a positive performance. Compared to the growth rates of recent years, China's development was somewhat more restrained. The delivery business remained a growth driver here, as before.

In the 2016/17 financial year, **grocery retailing** continued to develop positively, with nominal sales growth of 1.2 per cent. All organisational forms participated in the increase in sales in the grocery retail sector. The big winners in the past five years have been supermarkets with a wide range of products, and organic markets. In the 2016/17 financial year, customers were again prepared to spend a higher proportion of their net disposable household income on food. The discounter business was able to overcome a brief period of weakness and to increase its turnover again. In the case of hypermarkets, the restructuring process initiated by the nationwide operators continues. Only small grocery stores are steadily losing ground.

# Results of operations, financial position and net assets

## Earnings position

### COMPARISON OF FORECAST WITH ACTUAL BUSINESS DEVELOPMENTS

With the approval of the Annual General Meeting of the former METRO AG on 6 February 2017 on the demerger of the former METRO GROUP into two independent listed companies, the forecast of CECONOMY (former METRO GROUP), which relates exclusively to the continuing operations of CECONOMY, was already adjusted in the half-year financial statement in 2016/17.

**Sales**

CECONOMY had forecast slight sales growth adjusted for currency effects for financial year 2016/17. This goal was achieved with an increase of 1.4 per cent in local currency.

CECONOMY had expected like-for-like sales growth (in local currency) to increase slightly. With a 1.9 per cent increase in like-for-like sales, this target was also met.

**Earnings**

Adjusted for exchange rate effects, CECONOMY's EBIT before special items was expected to show a slight increase compared with the figure for financial year 2015/16 of €466 million. Adjusted for negative currency effects of €4 million, EBIT was €10 million or 2.2 per cent higher than in the previous year. CECONOMY has thus met its forecast.

## GROUP SALES[1] INCREASED THANKS TO SUSTAINED GROWTH IN THE ONLINE BUSINESS

| | Sales (€ million) | | Change | | Currency effects | | Change (local currency) | | Like-for-like sales (local currency) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| **Total** | **21,870** | **22,155** | **0.6%** | **1.3%** | **−0.9%** | **−0.1%** | **1.5%** | **1.4%** | **0.1%** | **1.9%** |
| DACH | 12,358 | 12,662 | 2.3% | 2.5% | 0.1% | 0.0% | 2.3% | 2.4% | 0.7% | 3.2% |
| Western/Southern Europe | 6,609 | 6,714 | 1.4% | 1.6% | 0.0% | 0.0% | 1.4% | 1.6% | 0.6% | −0.6% |
| Eastern Europe | 2,181 | 2,226 | −11.2% | 2.0% | −8.2% | −0.4% | −3.0% | 2.4% | −2.3% | 3.1% |
| Others | 722 | 553 | 5.2% | −23.4% | −0.1% | −1.5% | 5.2% | −21.9% | −8.2% | 0.2% |

[1]All figures from continuing operations only

In financial year 2016/17, CECONOMY AG's sales increased by 1.3 per cent to €22.2 billion or 1.9 per cent on a like-for-like basis. The higher like-for-like sales growth is due mainly to the restructuring of redcoon and its exclusion from the like-for-like panel as a result. Currency-adjusted sales increased by 1.4 per cent in the past financial year 2016/17. There were no changes in the Group structure that would require adjustment.

Sales in the mobile communications and white goods segments grew at an above-average rate in the reporting period. In addition to a favourable basis for comparison, the introduction of new mobile communications and entertainment products also contributed to revenue growth in the fourth quarter.

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

| € million | 2015/16 | 2016/17 |
|---|---|---|
| Total sales in € (as reported) | 21,870 | 22,155 |
| Total sales in local currency | 21,852 | 22,155 |
| Sales of stores that were not part of the like-for-like panel in 2016/17 | 751 | 643 |
| **Like-for-like sales in local currency** | **21,101** | **21,512** |

## NOTES TO SALES BY SEGMENT

### DACH

In the DACH segment, sales in the 2016/17 financial year rose by 2.5 per cent to €12.7 billion. This growth was mainly driven by the positive development in our home market of Germany. This growth reflected, among other things, the positive impact of the Saturn value-added tax campaign in January and the "5 Years of MediaMarkt Onlineshop Deutschland" campaign in May. In contrast, there was a decline in sales in Switzerland in financial year 2016/17, due in particular to declining footfall. However, the decline in sales was halted in the fourth quarter.

### Western/Southern Europe

Sales in the Western/Southern Europe segment increased by 1.6 per cent to €6.7 billion in the past financial year, due in part to numerous new openings. Growth in Spain and the Netherlands made a major contribution to the increase in sales. In Italy, the significant decline in revenues recorded in the first nine months of the year in a market environment with aggressive pricing was made up for significantly in the fourth quarter by optimised pricing and an improved assortment.

**Eastern Europe**

The Eastern Europe segment recorded a 2 per cent increase in sales to €2.2 billion in the 2016/17 financial year. Strong overall demand for consumer electronics and improved category management boosted sales again in Turkey. The growth was more than sufficient to compensate for the continuing negative development in Russia.

**Others**

The significant decline in sales of −23.4 per cent to €0.6 billion in the Others segment is primarily due to the termination of redcoon operations in six countries.

### ONLINE BUSINESS CONTINUES TO DRIVE GROWTH

In the online business, the two retail brands MediaMarkt and Saturn achieved a sales increase of around 40 per cent in the past financial year. Total online sales in the Group including pure play online activities (including redcoon) rose by around 23 per cent. At €2.4 billion, it accounted for 10.9 per cent of total sales. In the previous year, this figure was 8.9 per cent.

Our pick-up option (collection in store of goods ordered online) again contributed to this sales growth. This option was selected in around 42 per cent of all transactions generated online. Our campaign celebrating the 5th anniversary of our MediaMarkt Online Shop in Germany also had a positive impact on both sales and gross margin in the third quarter. In addition, the expansion of our online business continues to progress. For example, we increased the number of items available online to around 350,000 by the end of the financial year.

### POSITIVE SALES TREND IN SERVICES & SOLUTIONS

Sales in the Services & Solutions division also developed positively. At €1.4 billion, they were 6 per cent higher than in the previous year and accounted for 6.2 per cent of total sales. This was boosted by the expansion of our “SmartBars”, which meanwhile offer repair and other services in 642 stores. There was also strong growth in the areas of the brokerage of mobile phone contracts and the financing business.

### CUSTOMER LOYALTY PROGRAMME RECORDS SUSTAINABLE GROWTH

Our two customer loyalty programmes – MediaMarkt Club and Saturn Card – also continued to develop very satisfactorily. Since the beginning of the financial year, the MediaMarkt Club in Germany has welcomed around 2 million new members, taking total membership to 3.2 million as of 30 September 2017, while the number of holders of our recently launched Saturn Card has now risen to 600,000 in Germany.

With the successful launch of both programmes in Germany, we see this as confirmation of our commitment to actively promoting their introduction in other countries.

### TOTAL NUMBER OF STORES AT 1,053 AT THE END OF THE FINANCIAL YEAR

At the end of the last financial year, our network comprised 1,053 stores in total. As part of our selective expansion strategy, a total of 40 new stores (of which nine are shop-in-shop locations) were opened. The largest number of new store openings was in Turkey with ten new stores, followed by Belgium with seven new stores, and Germany and Italy with five each. In contrast, a total of ten stores were closed during the same period. Of these, five were in Russia, two each in Belgium and Turkey, and one in Switzerland. In addition to measures to reduce space at existing stores, the smaller size of the new store openings has reduced average selling space across all locations by 3.4 per cent to 2,811 square metres by the end of the 2016/17 financial year. At the end of the previous 2015/16 financial year, the average selling space per store was still 2,909 square metres. The total selling space was 2,960 thousand square metres, after standing at 2,975 thousand square metres in the previous year.

## SLIGHT DECLINE IN EBITDA, BUT EBIT INCREASES SLIGHTLY[1]

| | EBITDA | | Special items | | EBITDA before special items | | EBIT | | Special items | | EBIT before special items | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| in € million | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| **Total** | **619** | **597** | **100** | **107** | **719** | **704** | **312** | **334** | **−154** | **−138** | **466** | **471** |
| DACH | 470 | 516 | 22 | 23 | 493 | 539 | 298 | 384 | −60 | −38 | 359 | 421 |
| Western/Southern Europe | 212 | 148 | 18 | 21 | 230 | 169 | 137 | 65 | −21 | −26 | 158 | 91 |
| Eastern Europe | −45 | −15 | 54 | 49 | 9 | 34 | −102 | −57 | −67 | −60 | −35 | 3 |
| Others | −18 | −52 | 6 | 13 | −12 | −39 | −22 | −58 | −6 | −14 | −16 | −44 |

[1]All figures from continuing operations only

The **EBITDA** of CECONOMY AG decreased in the past financial year, from €619 million to €597 million.

This includes **special items** amounting to €107 million, compared with €100 million in the previous year. The special items in the financial year 2016/17 resulted mainly from a Group-wide efficiency enhancement project, the restructuring in Russia and provisions for legal risks from past activities at redcoon.

**EBITDA before special items** fell from €719 million in the previous year to €704 million. This decrease is due in particular to additional expenses for the establishment of a listed company. The previous year's result also included income of €35 million from the redemption of pension obligations, which was offset in the current financial year by lower results from plan curtailments of €18 million. Without these effects, EBITDA would have increased by around €12 million. The online activities and higher subsequent reimbursements made a particularly positive contribution. While Germany and Turkey improved their results, results deteriorated in Italy and Switzerland in particular.

The difference between EBITDA and EBIT before special items decreased by €21 million to €233 million. Impairment losses in Germany and Russia not related to restructuring had a negative impact on the previous year's figures.

As a result, **EBIT before special items** improved by €6 million to €471 million. Reported **EBIT** increased by €22 million to €334 million.

## NOTES TO EARNINGS BY SEGMENT

### DACH

In the DACH segment, **EBITDA** increased from €470 million to €516 million. The special items included in EBITDA remained virtually unchanged at €23 million in the past financial year. **EBITDA before special items** thus improved from €493 million to €539 million.

Germany in particular contributed to the improvement in earnings thanks to strong growth in online sales, higher subsequent rebates and strong sales of white goods products. In contrast, the decline in sales in Switzerland also led to a deterioration in profitability. However, this trend was halted in the fourth quarter.

**EBIT before special items** in the DACH segment improved by €63 million to €421 million. Reported **EBIT** increased by €85 million to €384 million.

### Western/Southern Europe

The segment Western/Southern Europe recorded a decline in **EBITDA** in the past financial year from €212 million in the previous year to €148 million. The special items included in this figure increased slightly from €18 million in the previous year to €21 million. Accordingly, the segment reported a decline in **EBITDA before special items** from €230 million to €169 million.

The aggressive competitive environment in Italy contributed to this decline in earnings. In Spain, on the other hand, earnings developed positively, while earnings were down in the Netherlands, due to a negative one-off accounting effect resulting from the insolvency of a major telecom provider.

**EBIT before special items** in the Western/Southern Europe segment fell by €−67 million to €91 million, while reported **EBIT** fell by €−72 million to €65 million.

### Eastern Europe

**EBITDA** of the Eastern Europe segment improved in the past financial year from €−45 million in the previous year to €−15 million. EBITDA included special items of €49 million. These were slightly lower than in the previous year (€54 million). The majority was due to restructuring measures in Russia. In addition, there were special factors in connection with legal risks from past activities at redcoon Poland. **EBITDA before special items** improved from €9 million to €34 million.

The positive development in the Eastern Europe segment was mainly due to a significant improvement in earnings in Turkey and stabilisation in Russia.

**EBIT before special items** in the Eastern Europe segment rose by €37 million to €3 million, while reported **EBIT** improved by €44 million to €−57 million.

### Others

The Others segment comprises, in particular, activities relating to CECONOMY AG in its capacity as strategic management holding company, and operations of smaller companies.

**EBITDA** in the Others segment fell from €−18 million to €−52 million. The special items included in EBITDA increased from €6 million in the previous year to €13 million in the past financial year, due mainly to costs in connection with the demerger. Accordingly, the segment reported a decline in **EBITDA before special items** from €−26 million to €−39 million.

This decline is mainly due to the higher holding costs resulting from the hive-down and spin-off of the wholesale and food and retail business. The previous year's result also included income of €35 million from the redemption of pension obligations, which was offset in the current financial year by lower results from plan curtailments of €18 million.

**EBIT before special items** in the Others segment fell by €−28 million to €−44 million, while reported **EBIT** declined by €−36 million to €−58 million.

## NET FINANCIAL RESULT AND TAXES

| € million | 2015/16 | 2016/17 |
|---|---|---|
| **Earnings before interest and taxes EBIT** | **312** | **334** |
| Earnings share of non-operating companies recognised at equity | 0 | 0 |
| Other investment result | 0 | −5 |
| Interest income/expenses (interest result) | −12 | −11 |
| Other financial result | −10 | −10 |
| **Net financial result** | **−22** | **−26** |
| **Earnings before taxes EBT** | **290** | **308** |
| Income taxes | −198 | −186 |
| **Profit or loss for the period from continuing operations** | **92** | **121** |
| Profit or loss for the period from discontinued operations after tax | 565 | 1,032 |
| **Profit or loss for the period** | **657** | **1,153** |

### Net financial result

At €–26 million, the financial result was relatively constant compared to the previous year (2015/16: €–22 million). The change of €–4 million mainly results from the impairment of the shares in Locafox GmbH, which is reflected in the investment result.

↗ For more information about the net financial result, see the notes to the consolidated financial statements, Nos. 6 to 8 – Other income from investments/earnings share of operating/non-operating companies recognised at equity, Other investment result, Net interest income/interest expenses, and Other financial result.

### Taxes

The recognised income tax expense of €186 million (2016/17: €198 million) are €12 million lower than in the previous year, which is mainly due to lower actual taxes outside Germany.

| € million | 2015/16 | 2016/17 |
|---|---|---|
| Actual taxes | 177 | 167 |
| thereof Germany | (118) | (118) |
| thereof international | (59) | (49) |
| thereof tax expenses/income of current period | (171) | (160) |
| thereof tax expenses/income of previous periods | (6) | (7) |
| Deferred taxes | 21 | 19 |
| thereof Germany | (–8) | (19) |
| thereof international | (29) | (0) |
| | **198** | **186** |

The Group tax rate represents the relationship between recognised income tax expenses and earnings before taxes. In the period under review, the Group's tax rate from continuing operations before special items was 44.1 per cent (2015/16: 48.8 per cent). The reported Group tax rate is 60.6 per cent (2015/16: 68.4 per cent).

↗ For more information about income taxes, see the notes to the consolidated financial statements, No. 10 – Income taxes.

## PROFIT OR LOSS FOR THE PERIOD AND EARNINGS PER SHARE

Profit for the period from continuing operations rose by €30 million to €121 million (2015/16: €92 million) thanks to improved EBIT and lower tax expenses.

The total profit or loss for the period according to the statement of profit or loss for the 2016/17 financial year was €1,153 million, €496 million higher than in the same period of the previous year (2015/16: €657 million.). This includes the profit or loss for the period from continuing operations of €1,032 million, which, due to the demerger, increased by €467 million compared with the previous year (2015/16: €565 million). The profit or loss for the period from discontinued operations includes current earnings from discontinued operations to the deconsolidation, taking into account the suspended scheduled depreciation in the amount of €456 million as well as the non-cash result from the deconsolidation in the amount of €576 million.

Earnings per share before special items from continuing operations were €0.58, 11 cents higher than the previous year's figure (2015/16: €0.47). Total earnings per share are €3.37 (2015/16: €1.83). This includes the aforementioned deconsolidation result of €576 million and the effect of the depreciation not taken in current income. Both effects are non-cash.

Earnings per share in the reporting period remained unchanged with a weighted number of 326,787,529 shares. On this basis, the profit or loss for the period attributable to CECONOMY AG shareholders from continuing operations before special items of €189 million and the profit or loss for the period attributable to CECONOMY AG shareholders (net profit) of €1,102 million were allocated. There was no dilution from so-called potential shares in financial year 2016/17 or in the previous year.

### Profit or loss for the period and earnings per share

| | | | | Change | |
|---|---|---|---|---|---|
| | | 2015/16 | 2016/17 | Absolute | % |
| Profit or loss for the period from continuing operations | € million | 92 | 121 | 30 | 32.4 |
| Profit or loss for the period attributable to non-controlling interests from continuing operations[1] | € million | 46 | 34 | −12 | −25.4 |
| Profit or loss for the period from continuing operations attributable to the shareholders of CECONOMY AG (€ million) | € million | 46 | 87 | 41 | 89.6 |
| Earnings per share from continuing operations[2] | € | 0.14 | 0.27 | 0.13 | 89.6 |
| Earnings per share from continuing operations before special items[1,2] | € | 0.47 | 0.58 | 0.11 | 24.3 |

[1] Previous year's figure includes a non-cash component of €15 million from the restructuring of market companies.
[2] After non-controlling interests

## SPECIAL ITEMS[1]

### Special items by segment

| € million | 2015/16 as reported | 2016/17 as reported | 2015/16 special items | 2016/17 special items | 2015/16 before special items | 2016/17 before special items |
|---|---|---|---|---|---|---|
| **EBITDA** | **619** | **597** | **100** | **107** | **719** | **704** |
| thereof DACH | 470 | 516 | 22 | 23 | 493 | 539 |
| Western/Southern Europe | 212 | 148 | 18 | 21 | 230 | 169 |
| Eastern Europe | −45 | −15 | 54 | 49 | 9 | 34 |
| Others | −18 | −52 | 6 | 13 | −12 | −39 |
| Consolidation | 0 | 0 | 0 | 0 | 0 | 0 |
| **EBIT** | **312** | **334** | **154** | **138** | **466** | **471** |
| thereof DACH | 298 | 384 | 60 | 38 | 359 | 421 |
| Western/Southern Europe | 137 | 65 | 21 | 26 | 158 | 91 |
| Eastern Europe | −102 | −57 | 67 | 60 | −35 | 3 |
| Others | −22 | −58 | 6 | 14 | −16 | −44 |
| Consolidation | 0 | 0 | 0 | 0 | 0 | 0 |
| Net financial result | −22 | −26 | 0 | 0 | −22 | −26 |
| **EBT** | **290** | **308** | **154** | **138** | **444** | **446** |
| Income taxes | −198 | −186 | −19 | −10 | −217 | −197 |
| **Profit or loss for the period from continuing operations** | **92** | **121** | **136** | **128** | **227** | **249** |
| **Profit or loss for the period from discontinued operations after tax** | **565** | **1,032** | **−65** | **−340** | **500** | **692** |
| **Profit or loss for the period** | **657** | **1,153** | **70** | **−212** | **727** | **941** |
| Profit or loss for the period attributable to non-controlling interests | 58 | 51 | 29 | 26 | 88 | 78 |
| from continuing operations | 46 | 34 | 29 | 26 | 75 | 60 |
| from discontinued operations | 13 | 17 | 0 | 1 | 13 | 18 |
| Profit or loss for the period attributable to shareholders of CECONOMY AG | 599 | 1,102 | 41 | −239 | 639 | 864 |
| from continuing operations | 46 | 87 | 106 | 102 | 152 | 189 |
| from discontinued operations | 553 | 1,015 | −65 | −341 | 487 | 674 |
| **Earnings per share in € (basic = diluted)** | **1.83** | **3.37** | **0.12** | **−0.73** | **1.96** | **2.64** |
| from continuing operations | 0.14 | 0.27 | 0.32 | 0.31 | 0.47 | 0.58 |
| from discontinued operations | 1.69 | 3.11 | −0.20 | −1.04 | 1.49 | 2.06 |

[1] For an explanation of special items, see chapter "Group principles – Management system"

## Special items by category 2015/16

| | | Special items | | | | |
|---|---|---|---|---|---|---|
| in € million | as reported | Portfolio changes | Restructuring and efficiency enhancement measures | Risk provisions and impairments of goodwill | other special items | before special items |
| EBITDA | 619 | 5 | 58 | - | 37 | 719 |
| EBIT | 312 | 5 | 111 | - | 37 | 466 |
| Net financial result | −22 | - | - | - | - | −22 |
| EBT | 290 | 5 | 111 | - | 37 | 444 |
| Income taxes | −198 | - | −19 | - | - | −217 |
| Profit or loss for the period from continuing operations | 92 | 5 | 93 | - | 37 | 227 |
| Profit or loss for the period from discontinued operations | 565 | −391 | 283 | - | 42 | 500 |
| Profit or loss for the period | 657 | −386 | 376 | - | 79 | 727 |
| Profit or loss for the period attributable to non-controlling interests | 58 | - | 29 | - | - | 88 |
| from continuing operations | 46 | - | 29 | - | - | 75 |
| from discontinued operations | 13 | - | - | - | - | 13 |
| Profit or loss for the period attributable to shareholders of CECONOMY AG | 599 | −386 | 346 | - | 79 | 639 |
| from continuing operations | 46 | 5 | 63 | - | 37 | 152 |
| from discontinued operations | 553 | −391 | 283 | - | 42 | 487 |

## Special items by category 2016/17

| | | Special items | | | | |
|---|---|---|---|---|---|---|
| in € million | as reported | Portfolio changes | Restructuring and efficiency enhancement measures | Risk provisions and impairments of goodwill | other special items | before special items |
| EBITDA | 597 | 1 | 85 | - | 21 | 704 |
| EBIT | 334 | 15 | 102 | - | 21 | 471 |
| Net financial result | −26 | - | - | - | - | −26 |
| EBT | 308 | 15 | 102 | - | 21 | 446 |
| Income taxes | −186 | −2 | −9 | - | 0 | −197 |
| Profit or loss for the period from continuing operations | 121 | 14 | 93 | - | 21 | 249 |
| Profit or loss for the period from discontinued operations | 1,032 | −505 | 84 | - | 82 | 692 |
| Profit or loss for the period | 1,153 | −492 | 177 | - | 103 | 941 |
| Profit or loss for the period attributable to non-controlling interests | 51 | 1 | 26 | - | - | 78 |
| from continuing operations | 34 | - | 26 | - | - | 60 |
| from discontinued operations | 17 | 1 | - | - | - | 18 |
| Profit or loss for the period attributable to shareholders of CECONOMY AG | 1,102 | −493 | 151 | - | 103 | 864 |
| from continuing operations | 87 | 14 | 67 | - | 21 | 189 |
| from discontinued operations | 1,015 | −506 | 84 | - | 82 | 674 |

## Financial and asset position

### CAPITAL STRUCTURE

As at 30 September 2017, CECONOMY's consolidated statement of financial position shows equity of €666 million (30/09/2016: €5,332 million). The reduction is mainly due to the demerger.

The equity ratio is 8.0 per cent (30/09/2016): 21.4 per cent).

Based on the annual financial statements of CECONOMY AG prepared in accordance with German commercial law, the capital reserve was reduced to €128 million as a result of the hive-down and spin-off. Other demerger-related disposals in shareholders' equity were offset against reserves retained from earnings, resulting in a negative amount of €–294 million, which is mainly attributable to pension revaluation effects included in other comprehensive income.

| € million | Note no. | 30/09/2016 | 30/09/2017 |
|---|---|---|---|
| **Equity** | **32** | **5,332** | **666** |
| Share capital | | 835 | 835 |
| Capital reserve | | 2,551 | 128 |
| Reserves retained from earnings | | 1,934 | –294 |
| Non-controlling interests | | 12 | –2 |

Net liquidity as of 30 September 2017 was €317 million (30/09/2016: Net debt €2,301 million, of which €2,943 million from discontinued operations).

Net liquidity/net debt is calculated by netting financial liabilities including finance leases in the amount of €544 million (30/09/2016: €4,759 million, of which €4,740 million from discontinued operations) with cash and cash equivalents in accordance with the statement of financial position in the amount of €861 million (30/09/2016: €2,368 million, of which €1,797 million from discontinued operations) as well as current financial investments in the amount of €0 million (30/09/2016: €90 million, of which €90 million from discontinued operations).

The change from net debt to net liquidity is mainly due to the demerger. In the previous year, net liquidity from continuing operations amounted to €642 million. The €325 million decrease in net liquidity from continuing operations to €317 million is mainly due to an increase in financial debt, primarily as a result of the acquisition of the 24.33 per cent interest in Fnac Darty S.A.

| € million | 30/09/2016 | 30/09/2017 |
|---|---|---|
| Cash and cash equivalents according to the statement of financial position | 2,368 | 861 |
| Current financial investments[1] | 90 | 0 |
| Borrowings (incl. finance leases) | 4,759 | 544 |
| **Net liquidity (+)/net debt (-)** | **–2,301** | **317** |

[1] Shown in the statement of financial position under other financial and non-financial assets (current)

As at 30 September 2017, non-current liabilities amounted to €1,062 million (30/09/2016: €5,950 million, of which €5,048 million from discontinued operations).

Non-current liabilities as of the closing date consist mainly of provisions for pensions and similar obligations amounting to €640 million (30/09/2016: €1,414 million, of which €979 million from discontinued operations) and non-current financial liabilities in the amount of €278 million (30/09/2016: €3,812 million, of which €3,796 million from discontinued operations).

The significant decrease in non-current liabilities of €4,888 million is primarily due to the demerger. Non-current liabilities from continuing operations amounted to €902 million in the previous year. The increase of €160 million to €1,062 million is almost exclusively due to the combined effect of an increase in financial debt of €262 million and a decrease in provisions for pensions and similar obligations of €127 million.

As at 30 September 2017, CECONOMY had current liabilities of €6,551 million (30/09/2016: €13,670 million, of which €7,856 million from discontinued operations).

Current liabilities as of 30 September 2017 consist mainly of trade liabilities amounting to €4,929 million (30/09/2016: €9,383 million, of which €4,889 million from discontinued operations) and current financial liabilities in the amount of €266 million (30/09/2016: €947 million of which €944 million from discontinued operations) and current other financial and non-financial liabilities in the amount of €1,113 million (30/09/2016: €2,465 million, of which €1,358 million from discontinued operations).

The reduction in current liabilities of €7,119 million is mainly due to the demerger. Current liabilities from continuing operations amounted to €5,814 million in the previous year. The increase of €737 million is due to an increase in trade liabilities of €436 million and current financial liabilities of €263 million.

Compared with 30 September 2016, the debt ratio has increased by 13.3 percentage points to 92 per cent. After being at 69.7 per cent on 30 September 2016, the ratio of current liabilities of 86 per cent to total liabilities increased by 16.4 percentage points.

For more information about the maturity, currency and interest rate structure of financial liabilities as well as the credit facilities, see the notes to the consolidated financial statements, No. 37 – Financial liabilities.

| € million | Note no. | 30/09/2016 | 30/09/2017 |
|---|---|---|---|
| **Non-current liabilities** | | **5,950** | **1,062** |
| Provisions for pensions and similar obligations | 33 | 1,414 | 640 |
| Other provisions | 34 | 383 | 51 |
| Borrowings | 35, 37 | 3,812 | 278 |
| Other financial and non-financial liabilities | 35, 38 | 191 | 86 |
| Deferred tax liabilities | 25 | 150 | 8 |
| **Current liabilities** | | **13,670** | **6,551** |
| Trade payables | 35, 36 | 9,383 | 4,929 |
| Provisions | 34 | 705 | 199 |
| Borrowings | 35, 37 | 947 | 266 |
| Other financial and non-financial liabilities | 35, 38 | 2,465 | 1,113 |
| Income tax liabilities | 35 | 170 | 44 |
| Liabilities related to assets held for sale | 31 | 0 | 0 |

For more information about the development of liabilities, see the notes to the consolidated financial statements under the numbers listed in the table. Information about contingent liabilities and other financial liabilities can be found in the notes to the consolidated financial statements, No. 45 – Contingent liabilities and No. 46 – Other financial liabilities.

## INVESTMENTS/DIVESTMENTS

In the financial year 2016/17 CECONOMY invested €319 million, around €90 million below the previous year's level (continuing operations). While expenditures for expansion activities were kept stable, investments in modernisation measures declined significantly. This is, however, exclusively due to the nationwide introduction of electronic price tags in MediaMarkt and Saturn stores in the previous year, which moved point-of-sale digitalisation ahead. Excluding this one-off investment, expenditure on modernisation measures remains at the previous year's level. Following the investment in the acquisition of RTS Elektronik Systeme GmbH (RTS) in the previous year, the acquisition of Electronic Repair Logistics B.V. in the Netherlands in the current financial year further expanded our service expertise. A total of 40 new stores were opened in the 2016/17 financial year, compared with 33 new store openings in the previous year. Despite the higher number of expansion investments, there is a clear trend toward selective expansion with new, less capital-intensive small formats, which account for more than half of the new openings.

**Investments according to CECONOMY segment report**

| € million | 2015/16 | 2016/17 | Change Absolute | Change % |
|---|---|---|---|---|
| DACH | 244 | 168 | −76 | −31.1 |
| Western/Southern Europe | 113 | 112 | −1 | −0.6 |
| Eastern Europe | 47 | 34 | −13 | −26.9 |
| Others | 3 | 5 | 2 | 51.8 |
| **CECONOMY** | **406** | **319** | **−87** | **−21.5** |

€168 million was invested in the **DACH** region in financial year 2016/17. Investment is thus around €76 million below the previous year's level. This is due mainly to the introduction of the Electronic Shelf Label (ESL) and the acquisition of RTS in the previous year. Investments in expansion declined due to a lower number of new store openings and a focus on smaller store formats. A total of eight stores were opened in the DACH region, following eleven new store openings in the previous year. In Germany, the store network was expanded by five new locations; in addition to three new openings, two stores were taken over by the Expert Flösch network group. Two stores were opened in Hungary in the new shop-in-shop format in cooperation with Tesco. In addition, a new store was opened in Austria. In Switzerland, a store in Bern was closed.

Investments in **Western/Southern Europe** in financial year 2016/17 amounted to €112 million, around €1 million below the previous year's level. Also due to the implementation of the Electronic Shelf Label (ESL) in the previous year, investments in modernisation measures declined significantly. This was counterbalanced by higher investments in expansion (a total of 18 new stores with seven new openings in the previous year) and the acquisition of Electronic Repair Logistics B.V. in the Netherlands. Expansion focused on Belgium, with seven new openings; Italy, with five new openings; and Spain, with four new openings. Branch networks in Greece and Portugal were supplemented by one location each. In Belgium, six of the seven new store openings will be operated in the shop-in-shop format at MAKRO Belgium stores. Two stores in Belgium were also closed in the reporting period.

In **Eastern Europe**, €34 million was invested in financial year 2016/17, which is €13 million less than in the same period of the previous year. The decline is the result of lower investments in modernisation due to the rollout of the Electronic Shelf Label (ESL) in the previous year. Expansion investments were slightly lower than in the previous year, with a total of 14 new store openings, one store fewer than in the previous year. As in the previous year, the focus of expansion was on Turkey, with ten new store openings. Three stores were opened in Poland and another store was opened in Russia in September in a METRO Cash & Carry store, using the shop-in-shop concept. In addition, five stores were closed in Russia and two stores were closed in Turkey.

Investments in the **Others segment** amounted to €5 million in financial year 2016/17 (2015/16: €3 million). Investments related primarily to concept and modernisation measures as well as intangible assets.

In 2016/17, CECONOMY received €34 million in cash from **divestments** (2015/16: €21 million). This relates mainly to the sale of shelves and other equipment from closed stores.

## LIQUIDITY (CASH FLOW STATEMENT)

From continuing operations, operating activities in the financial year 2016/17 generated cash outflow of €521 million (2015/16: €+378 million). The year-on-year improvement of €143 million is mainly due to the positive development of net working capital (2016/17: €52 million, 2015/16: €−225 million, deviations from values in the statement of financial position due to translation effects and changes in the consolidation group). This improvement was achieved despite a one-off payment of €220 million from the METRO benevolent fund in the previous year, which was reported under other operating activities (2016/17: €64 million, 2015/16: €233 million).

Investing activities from continuing operations amounted to cash inflow of €744 million (2015/16: €−376 million). The change compared with the previous year is mainly due to payments for the acquisition of the investment in Fnac Darty S.A.

The cash flow from financing activities from continuing operations was an inflow of €140 million (2015/16: €−454 million), mainly due to proceeds from non-current borrowings of €512 million in connection with the acquisition of approximately 24.33 per cent of Fnac Darty S.A.

↗ For more information, see the cash flow statement in the consolidated financial statements as well as the notes to the consolidated financial statements, No. 42 – Notes to the cash flow statement.

### Cash flow statement[1]

| € million | 2015/16 | 2016/17 |
|---|---|---|
| **Cash flow from operating activities of continuing operations** | **378** | **521** |
| Cash flow from operating activities of discontinued operations | 1,192 | 236 |
| Cash flow from operating activities | 1,569 | 758 |
| **Cash flow from investing activities of continuing operations** | **−376** | **−744** |
| Cash flow from investing activities of discontinued operations | 354 | −1,544 |
| Cash flow from investing activities | −22 | −2,287 |
| **Cash flow before financing activities of continuing operations** | **2** | **−222** |
| Cash flow before financing activities of discontinued operations | 1,546 | −1,308 |
| Cash flow before financing activities | 1,548 | −1,530 |
| **Cash flow from financing activities of continuing operations** | **−454** | **140** |
| Cash flow from financing activities of discontinued operations | −3,130 | −91 |
| Cash flow from financing activities | −3,584 | 49 |
| Total cash flows | −2,036 | −1,480 |
| Currency effects on cash and cash equivalents | −13 | −27 |
| Total change in cash and cash equivalents | −2,049 | −1,507 |

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

## FINANCIAL MANAGEMENT

**Principles and objectives of financial activities**
The financial management function at CECONOMY ensures the permanent liquidity of the Group, manages cash flows throughout the Group, and reduces financial risks where economically feasible. The Treasury function manages these tasks centrally for the Group as a whole, with the aim of centrally steering the financing requirements and assets of Group companies to ensure surplus cash flows are invested at attractive terms and conditions or that any refinancing requirements can be funded where possible on the international capital markets. This applies to operating activities as well as to investments. CECONOMY aligns its selection of investment and financial products to the maturities of the underlying transactions.

METRO GROUP's financial activities are based on a financial budget for the Group, which covers all relevant companies and is updated monthly. In addition to daily reconciliation of the Group-wide financial status, CECONOMY prepares both a short-term liquidity plan and a long-term liquidity plan for three months after the end of the financial year, which is updated on a rolling basis.

In addition, an intensive dialogue with bond investors and credit analysts facilitates capital market access. Our Creditor Relations team also presents the Company to all key European financial markets during its annual roadshow. Investors and analysts can also learn about CECONOMY's high-performance capabilities in face-to-face meetings and tours.

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

**Financial unity:** By presenting a single face to the financial markets, the Group obtains better terms on financial markets.

**Financial scope:** In our relationships with banks and other business partners in the financial arena, we consistently maintain our scope of action in order to remain independent.

**Centralised risk management:** We conduct financial transactions to cover our financing requirements and hedge risks related to underlying business transactions. CECONOMY's total financial portfolio is centrally monitored by the Treasury function.

**Centralised risk monitoring:** Changes in financial parameters, such as interest rate or exchange rate fluctuations, can impact the financing activities of CECONOMY. Associated risks are regularly quantified by the Treasury in the context of scenario analyses. Open risk positions – for example, financial transactions without an underlying business transaction – may only be concluded after the Management Board of CECONOMY AG has granted the appropriate approval.

**Exclusively authorised contractual partners** CECONOMY conducts financial transactions only with contractual partners who have been authorised by the Treasury function. The creditworthiness of these contractual partners is tracked daily, based on their ratings and the monitoring of their credit risk ratios (essentially credit default swap analyses). On this basis, the Treasury function at CECONOMY continuously monitors adherence to the authorised limits.

**Approval requirement:** As a matter of principle, all financial transactions of CECONOMY companies are conducted with CECONOMY AG. In cases where this is not possible for legal reasons, these transactions are concluded with another Group company on behalf of the Group company or directly between the Group company and the external financial partner in coordination with CECONOMY AG.

**Audit security:** The principle of dual control applies within our Company. All processes and responsibilities are laid down in Group-wide guidelines. The conclusion of financial transactions is organisationally separated from the settlement and controlling functions.

↗ For more information about the risks stemming from financial instruments and hedge accounting, see the notes to the consolidated financial statements, No. 44 – Management of financial risks.

**Ratings**

Ratings evaluate the ability of a company to meet its financial obligations. They communicate the creditworthiness of a company to potential debt capital providers. In addition, ratings facilitate access to international capital markets. CECONOMY AG has commissioned Moody's Investor Service – a leading international ratings agency – and Scope Ratings – an agency that is increasingly making a name for itself in European ratings – to continuously analyse CECONOMY's creditworthiness.

The current ratings awarded to CECONOMY AG by Moody's Investor Service and Scope Ratings are as follows:

**Moody's Investors Service**

| Category | 2017 |
|---|---|
| Non-current | Baa3 |
| Current | P-3 |
| Outlook | Stable |

**Scope Ratings**

| Category | 2017 |
|---|---|
| Non-current | BBB- |
| Current | S-2 |
| Outlook | Stable |

Based on these ratings, CECONOMY has access to all financial markets.

**Financing measures**

CECONOMY AG's medium- and long-term financing needs are covered by issues on the capital markets. In March 2017, the Company successfully issued several promissory note loans with a total volume of €250 million and terms of five, seven and ten years, respectively.

A euro-denominated commercial paper programme with a maximum volume of €500 million is available to cover the short-term financing requirements of CECONOMY AG. As at 30 September 2017, commercial paper with a nominal volume of €254 million was outstanding.

The Group had access to sufficient liquidity at all times. CECONOMY AG has adequate reserves comprising both the liquidity available within the Company, and a syndicated credit facility of €550 million together with multi-year guaranteed credit facilities of €490 million. These comprehensive multi-year credit facilities, which are listed in the table below, were undrawn as of 30 September 2017.

**CECONOMY's undrawn credit facilities**

| | 30/09/2016 | | | 30/09/2017 | | |
|---|---|---|---|---|---|---|
| | | Remaining term | | | Remaining term | |
| € million | Total | up to 1 year | more than 1 year | Total | up to 1 year | more than 1 year |
| Bilateral credit facilities | 681 | 437 | 244 | 498 | 8 | 490 |
| Utilisation | –276 | –132 | –144 | –8 | –8 | 0 |
| Unutilised bilateral credit facilities | 405 | 305 | 100 | 490 | 0 | 490 |
| Syndicated credit facilities | 2,525 | 0 | 2,525 | 550 | 0 | 550 |
| Utilisation | 0 | 0 | 0 | 0 | 0 | 0 |
| Unutilised syndicated credit facilities | 2,525 | 0 | 2,525 | 550 | 0 | 550 |
| Total credit facilities | 3,206 | 437 | 2,769 | 1,048 | 8 | 1,040 |
| Total utilisation | –276 | –132 | –144 | –8 | –8 | 0 |
| **Total undrawn credit facilities** | **2,930** | **305** | **2,625** | **1,040** | **0** | **1,040** |

## ASSET POSITION

In financial year 2016/17, total assets decreased by €16,672 million to €8.3 billion as a result of the demerger (30/09/2016: €25.0 billion).

The non-current assets as of 30 September 2017 were €2,144 million (30/09/2016): €13,369 million, of which €11,595 million from discontinued operations). This mainly consists of goodwill amounting to €531 million (30/09/2016: €3,361 million, of which €2,847 million from discontinued operations) and property, plant and equipment in the amount of €858 million (30/09/2016: €8,141 million, of which €7,260 million from discontinued operations) and non-current financial liabilities in the amount of €135 million (30/09/2016: €104 million, of which €89 million from discontinued operations) and investments accounted for using the equity method in the amount of €458 million (30/09/2016: €188 million, of which €183 million from discontinued operations).

The €11,225 million decrease in non-current assets is mainly due to the demerger. This was partly offset by the acquisition of the 24.33 per cent stake in Fnac Darty S.A., which was acquired as a €458 million investment and accounted for using the equity method. In addition, the inclusion of the investments classified as non-current in the amount of 1 per cent in the current METRO AG and 6.61 per cent in METRO PROPERTIES GmbH & Co. KG resulted in an increase in non-current financial assets of €116 million.

| € million | Note no. | 30/09/2016 | 30/09/2017 |
|---|---|---|---|
| **Non-current assets** | | **13,369** | **2,144** |
| Goodwill | 8 | 3,361 | 531 |
| Other intangible assets | 19 | 497 | 100 |
| Property, plant and equipment | 20 | 8,141 | 858 |
| Investment properties | 22 | 126 | 0 |
| Financial assets | 23 | 104 | 135 |
| Investments accounted for using the equity method | 23 | 188 | 458 |
| Other financial and non-financial assets | 24 | 289 | 22 |
| Deferred tax assets | 25 | 663 | 39 |

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

As at 30 September 2017, current assets amounted to €6,136 million (30/09/2016: €11,583 million, of which €6,655 million from discontinued operations). At the closing date, they consisted mainly of inventories amounting to €2,553 million (30/09/2016: €5,456 million, of which €3,063 million from discontinued operations) and trade receivables in the amount of €498 million (30/09/2016: €808 million, of which €485 million from discontinued operations) and current other financial and non-financial assets in the amount of €2,136 million (30/09/2016: €2,734 million of which from discontinued operations €1,278 million) and cash and cash equivalents of €861 million (30/09/2016: €2,368 million, of which €1,707 million from discontinued operations).

The €5,447 million decrease in current assets is also mainly due to the demerger. By contrast, trade receivables increased by €175 million and inventories by €161 million. In addition, other financial and non-financial assets from continuing operations increased by €680 million. This increase is primarily due to the addition of the nine-per cent stake in the current METRO AG amounting to €584 million.

| € million | Note no. | 30/09/2016 | 30/09/2017 |
|---|---|---|---|
| **Current assets** | | **11,583** | **6,136** |
| Inventories | 26 | 5,456 | 2,553 |
| Trade receivables | 27 | 808 | 498 |
| Other financial and non-financial assets | 24 | 2,734 | 2,136 |
| Entitlements to income tax refunds | | 216 | 87 |
| Cash and cash equivalents | 30 | 2,368 | 861 |
| Assets held for sale | 31 | 0 | 0 |

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

Net working capital developed as follows in the financial year 2016/17:

| € million | 30/09/2016 | 30/09/2017 |
|---|---|---|
| Inventories | 5,456 | 2,553 |
| Trade receivables | 808 | 498 |
| Receivables due from suppliers | 1,774 | 1,246 |
| Receivables from credit cards | 104 | 68 |
| Advance payments on inventories | 12 | 0 |
| Trade payables | −9,383 | −4,929 |
| Liabilities to customers | −184 | −129 |
| Deferred revenues from vouchers and customer loyalty programmes | −163 | −69 |
| Provisions for customer loyalty programmes and rights of return | −56 | −19 |
| Prepayments received on orders | −48 | −39 |
| **Net working capital** | **−1,680** | **−820** |

Net working capital increased by €860 million compared with the previous year to €−820 million (30/09/2016: €−1,680 million of which €−901 million from discontinued operations). Net working capital for continuing operations thus showed an improvement.

The amount of net working capital as of 30 September 2017 is mainly based on inventories amounting to €2,553 million (30/09/2016:

€5,456 million of which €3,063 million from discontinued operations), trade receivables of €498 million (30/09/2016: €808 million, of which from discontinued operations €485 million), receivables due from suppliers of €1,246 million (30/09/2016: €1,774 million of which €562 million from discontinued operations), trade liabilities of €4,929 million (30/09/2016: €9,383 million, of which €4,889 million from discontinued operations).

This increase is mainly due to the demerger. Inventories from continuing operations increased by €160 million, trade receivables by €175 million and trade liabilities by €436 million.

# REPORT ON EVENTS AFTER THE CLOSING DATE AND OUTLOOK

## Report on events after the closing date

### Events after the closing date

Between the closing date (30 September 2017) and the date of preparation of the consolidated financial statements (29 November 2017) there was no event of material importance for the assessment of CECONOMY AG's and CECONOMY's net assets, financial position and results of operations.

## Outlook

The outlook of CECONOMY AG considers relevant facts and events that were known at the time the consolidated financial statements were prepared, and that impact future business developments. Alongside numerous sources from national and international economic research institutes and organisations, the outlook is mainly based on analysis provided by Feri Trust. The following conclusions reflect a mid-range scenario of expectations.

### Economic parameters for 2017/18

With global political uncertainty persisting, the outlook for economic development remains equally unpredictable.

As things stand at present, global economic growth is expected to recover in calendar year 2017, boosted by stronger US growth of 2.2 per cent and economic revival in the emerging markets, and especially Brazil and Russia. This revival in the emerging markets is expected to produce growth of 4.0 per cent, helped by higher oil prices.

In contrast, the future of the Eurozone remains uncertain in light of a host of unresolved issues. Nevertheless, the area continues to indicate moderate economic growth of 2.1 per cent. Economic uncertainty is increasing at present in the USA, fuelled by the continued vagueness of the US president's economic policy. Furthermore, the Chinese economy is expected to slow down marginally as it transitions to a greater service orientation. Last but not least, the complex scenario is rounded off by the current political turbulence in Latin America.

Against this backdrop, the world economy is expected to grow by 2.8 per cent in real terms in 2017, which is a significant improvement on the previous year's figure of 2.2 per cent. This trend is, moreover, expected to continue in 2018.

Over the medium term, factors that will strongly influence global economic performance include the further course of monetary policy and the currently high levels of sovereign, corporate and private debt. Overall, the global economy has still not returned to a path of sustainable economic growth in 2017 following the financial and sovereign debt crisis.

**DACH**
Boosted by favourable financing terms and conditions and a robust labour market which is ensuring solid domestic demand, the German economy gained further strength over the course of 2016. At present, inflation is rising significantly, from 0.4 per cent in 2016 to 1.7 per cent in 2017. Recovering energy prices and weaker public spending will probably dampen the increase in consumer spending in the foreseeable future. Nevertheless, economic growth in Germany is expected to increase slightly in real terms, from 1.9 per cent last year to 2.0 per cent in 2017. It can be assumed that the sustained growth trend, with an ex-

pected real growth rate of 1.8 per cent in 2018, will continue to have an effect on the real development of the retail business in the future.

In Austria, growth in 2017 is expected to be significantly stronger at 2.4 per cent, compared with an increase of 1.5 per cent in the previous year, due to strong domestic demand. It can be assumed that a solid growth trend of 1.8 per cent will continue in 2018.

In Switzerland, on the other hand, growth in the overall economy is not expected to accelerate in 2017. With an increase of 0.9 per cent in real terms, the trend is below the levels of 2016. Real growth of 1.7 per cent is expected for 2018. Overall, the economic environment in Switzerland will remain challenging in 2018, but at a high level.

After a relatively weak real economic trend in 2016, with 2 per cent growth due to a lack of investment, Hungary is again expected to record a 3.7 per cent increase in economic output in 2017, supported by robust private consumption. It can be assumed that a solid growth trend of 3.3 per cent in real terms will continue in 2018.

**Western/Southern Europe**
Following years of (overall) solid growth rates, the economy in Western Europe is expected to continue expanding in 2017 at a stable rate of 1.9 per cent. The uncertainties provoked by the Brexit referendum and the current lack of clarity in US economic policy pose a risk of declining GDP growth given the close economic and financial ties between Western Europe and both countries. At the same time, the low interest environment continues to boost growth, although it remains to be seen which course European Central Bank monetary policy will take beyond 2017. Furthermore, the solid labour market with declining unemployment rates in all key Western European countries is cushioning the impact of declining rates of private consumption growth.

We expect real economic growth of about 1.7 per cent for calendar year 2018. The Netherlands (2.1 per cent) and Spain (2.6 per cent) continue to outperform this trend, although growth momentum is expected to slow in Spain. Italy – Western Europe's fourth-largest economy – continues to labour under structural economic problems and a persistently very high level of sovereign debt. Over the medium term, only slight growth of just over 1.1 per cent is expected here, as well. In both Spain and Italy, private consumption is a key driver of economic development. It remains to be seen how rising inflation impacts the further development of consumer behaviour in real terms.

In light of the national impacts of the Brexit referendum, the UK is facing real GDP growth rates of less than 1.1 per cent.

**Eastern Europe**
Following (overall) moderate expansion in 2016, economic growth in Eastern Europe is picking up again in 2017. The growth rate of 3.0 per cent is significantly higher than that for Western Europe over the same period. For 2018, this growth trend is expected to continue and 2.9 per cent real economic growth is expected.

This trend is being primarily supported by the anticipated development in Russia, which is coupled with real GDP growth of around 1.4 per cent in 2017. After two years of economic contraction, we expect to see a moderately positive growth rate of more than 2.0 per cent over the coming years, helped not least by higher oil and gas prices.

With domestic demand recovering, we expect economic growth in Poland to gain more momentum in 2017 and 2018, with growth of 4.2 per cent and 3.3 per cent, respectively. Irrespective of these positive macroeconomic growth expectations, it remains to be seen what impact the currently planned (partial) Sunday opening bans will have on sales trends in the retail industry.

Following a major decline in GDP expansion in 2016, growth in Turkey started increasing significantly towards the end of the calendar year, with the latest forecasts expecting growth of 5.7 per cent for 2017, boosted by a sharp decrease in value added tax on certain product groups, low hurdles to loan approvals, and increased public spending. These political measures are not, however, resolving the deficits inherent in the Turkish economy that are manifested in the continued weakness of the Turkish lira vis-à-vis the euro. Private consumption is expected to decline once state intervention ends on 30 April 2017. The tourist industry is a key economic factor that is expected to witness moderate improvement over the course of the current year. In the medium term, from 2018 the Turkish economy is expected to grow by just under 2 per cent in real terms – significantly less than past years (2014 to 2017).

## Consumer electronics retailing

Consumer electronics retailing in Europe is likely to continue its stable development in financial year 2017/18.

In view of the high base level and the relatively low speed of innovation expected in Germany, the electronics retail sector will probably see slight growth in financial year 2017/18.

Technological advances in the TV segment are expected to continue and generate growth momentum in the brown goods sector. Major sporting events are also expected to boost growth moderately in 2018. Trending product categories such as health, sports and beauty, virtual reality and leisure electronics (hoverboards, drones, etc.) will probably stimulate growth and generate initial volume effects. The networking of home automation, household appliances and consumer electronics – subsumed under the term “smart home” – will also continue to grow in relevance.

The saturated Western European electronics markets will continue to record moderate growth in 2018 at the previous year’s level.

Growth in consumer electronics will continue, albeit at different rates across Eastern Europe. Although market growth in Russia is currently only moderate in local currency terms, the positive development of the rouble makes the growth rates look strong in euro terms. Since this one-off currency effect will not recur in 2018, we expect slight to moderate growth in euro terms for the coming year. Poland will continue to grow as in recent years, albeit at a slightly lesser pace from 2018 onwards. However, it remains to be seen what impact the currently planned (partial) Sunday opening bans in Poland will have on sales trends in the retail industry. In light of the political and economic uncertainties, we expect growth in the Turkish market to be slightly weaker in 2018 than has been the case in the past.

## Outlook of CECONOMY

The forecast is adjusted for exchange rate effects and before portfolio changes.

### SALES

For financial year 2017/18 CECONOMY expects a slight increase in total sales compared to the previous year. The Western/Southern Europe region in particular will contribute to this. Correspondingly, we expect a slight improvement in net working capital compared with the previous year.

### EARNINGS

Both in terms of EBITDA and EBIT, CECONOMY expects an increase at least in the mid single-digit percentage range, not taking into account the earnings contributions from the investment in Fnac Darty S.A. The Western/Southern Europe region in particular will contribute to this. The comparative previous-year figures for 2016/17 have been adjusted for special items (EBITDA: €704 million, EBIT: €471 million).

In addition, EBITDA and EBIT for 2017/18 include our share of the profit or loss for the period for Fnac Darty S.A. Based on current analysts’ estimates, we expect this investment to make a contribution to earnings in the low to mid double-digit millions in financial year 2017/18.

# RISK AND OPPORTUNITY REPORT

## Risk and opportunity management system

The demerger of METRO GROUP has resulted in numerous organisational changes. Against this background, CECONOMY has redesigned parts of its risk and opportunity management system to meet the requirements of the new organisation adequately. The new risk and opportunity management system of CECONOMY is presented and explained below. The risk and opportunity profile has also changed due to the demerger of METRO GROUP. The former top risks of METRO GROUP are no longer classified as the material risks for CECONOMY.

In a dynamic market environment, the early identification and systematic exploitation of opportunities is a fundamental entrepreneurial task. This is the prerequisite for our Company's long-term success. CECONOMY is continuously exposed to risks that can impede the realisation of our short-term and medium-term objectives or the implementation of long-term strategies. In some cases, however, we must consciously take controllable risks so as to be able to exploit opportunities in a targeted manner. We define risks as internal or external events resulting from uncertainty over future developments that can negatively impact the realisation of our corporate objectives. We define opportunities as possible successes that extend beyond the defined objectives and can thus positively impact our business development. We consider risks and opportunities as inextricably linked. For example, risks can emerge from missed or poorly exploited opportunities. Conversely, exploiting opportunities in dynamic growth markets or in new business areas always entails risks.

With this in mind, we regard our Company's risk and opportunity management system as a tool that helps us to realise our corporate goals. It is a systematic, Group-wide process. It helps the Company's management to identify, assess and control risks and opportunities. As such, risk and opportunity management is a uniform process. Risk management renders developments and events that could hinder us from reaching our business targets transparent at an early stage and analyses their implications. This allows us to put the necessary countermeasures and monitoring into place in a timely manner. At the same time, this forecasting process allows us to exploit emerging opportunities systematically.

### CENTRALISED MANAGEMENT AND EFFICIENT ORGANISATION

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

It is the responsibility and a legal requirement of the Management Board of CECONOMY AG to have an adequate governance system in place. This includes, in particular, the risk management, internal control and compliance management systems, as well as internal auditing as components of the governance, risk and compliance system (GRC system). This organisational structure is based on the governance elements identified in Section 107 Section 3 of the German Stock Corporation Act [AktG] as well as the German Corporate Governance Code [DCGK]. The goal of this guideline is to render structures and processes more transparent as well as provide for a uniform procedural-organisational framework for the subsystems. In this way, we aim to increase the transparency and efficiency of the GRC system within CECONOMY as a whole and continuously to improve its effectiveness.

CECONOMY AG's Group committee for governance, risk and compliance (GRC committee) regularly discusses ways to harmonise and refine the GRC subsystems. The committee also regularly discusses the current risk and opportunity situation. Permanent members are representatives of the Group divisions Accounting, Controlling & Reporting, Risk Management, Internal Control System, Treasury & Insurance, Group Corporate Legal, Group Compliance, Strategy & VCP, Mergers & Acquisitions, as well as representatives of the risk management of MediaMarktSaturn Retail Group.

### RISK MANAGEMENT

The Management Board of CECONOMY AG assumes overall responsibility for the adequacy and effectiveness of the risk management system as part of the GRC system. Risks are identified, assessed, managed and monitored by the Group companies. Key elements of internal monitoring include effectiveness checks in the form of self-assessments by the management of the Group companies as well as internal audits.

The effectiveness of risk management is also monitored by the Supervisory Board of CECONOMY AG. In compliance with the provisions of the German Corporate Control and Transparency Act [Gesetz zur Kontrolle und Transparenz im Unternehmens-bereich, KonTraG], the external auditor submits the Company's early detection system as part of the risk management system to a periodic review. The results of this review are presented to the Management Board and Supervisory Board.

CECONOMY AG Corporate Risk Management is responsible for the management and development of our risk management system. The approach, methods and standards of risk management are determined for the Group in coordination with the GRC Committee and, as a current material investment, the MediaMarktSaturn Retail Group. CECONOMY AG Corporate Risk Management informs the Management Board of CECONOMY AG promptly and continuously about significant developments in risk management, ensures the exchange of information within our Company and supports the further development of risk management in the Group companies.

### OPPORTUNITY MANAGEMENT

Systematically identifying and communicating opportunities is an integral part of the management and controlling system of CECONOMY. Opportunities may refer to internal or external events and developments that can have a positive impact on our business development. As a matter of principle, we strive to ensure that CECONOMY's main opportunities compensate for the identified risks and that there is at least a balanced relationship between opportunities and risks for the Company.

We conduct macroeconomic analyses, study relevant trends and evaluate market, competition and location analyses. In addition, we analyse the critical success factors of our business models and relevant cost drivers of our Company. The Management Board of CECONOMY AG specifies the derived market and business opportunities as well as efficiency enhancement potential in the context of strategic as well as short-term and medium-term planning. To this end, it seeks close communication with the heads of the Group divisions and the management of the Group companies. As a Company, we focus primarily on business approaches driven by the market and by customers. We continuously review the various elements of our sustainable long-term growth strategy.

### REPORTING

Group reporting is the central element of internal risk and opportunity communication. It is complemented by risk and opportunity management reporting. The aim is to allow for the structured and continuous monitoring of risks and opportunities and document this in line with legal and regulatory stipulations. In this way, the Management Board receives regular information on the risk situation and ensures that negative trends are identified in good time and appropriate countermeasures can be taken.

We conduct an annual risk inventory to systematically map and assess all material Group-wide risks based on quantitative and qualitative indicators and uniform criteria relating to loss potential and the probability of occurrence. The results of the risk inventory and the risk portfolio are updated on a regular basis.

From a functional point of view, the risk managers at Group level validate the results reported by the Group companies for their area of responsibility. In a second step, they summarise these in a functional risk profile coupled with a detailed description of material individual risks. In a third step, risk profiles for selective categories are validated in direct interaction between the risk managers at Group level and the GRC committee, and specific steps to improve risk management are devised.

In addition, we consider the results of the analyses of strengths, weaknesses, opportunities and threats carried out as part of the strategic planning process. We also consider analyses and reports that we compile as part of our medium-term planning and projections. Furthermore, we examine relevant results from the internal control system, the compliance management system, the opportunity management system, and internal auditing.

The overarching risk and opportunity portfolio at CECONOMY that emerges from these findings enables us to gain a very good understanding of the Company's risk and opportunity situation. The GRC report describes the status quo and contains recommendations for risk management. In addition, the main features of the GRC subsystems are presented, including planned measures to improve the effectiveness of the GRC subsystems.

The Management Board of CECONOMY AG informs the Supervisory Board and in particular the Audit Committee on an ongoing basis about risk and opportunity management. Once a year, the Supervisory Board receives a comprehensive written report informing it about the organisation and alignment of risk and opportunity management as well as the current risk and opportunity situation.

When preparing the half-year financial report, we regularly review and update the overarching risk and opportunity portfolio for CECONOMY compiled in the previous year.

Furthermore, an emergency notification system takes effect if serious risks to our asset, financial and earnings position arise. In this case, the Management Board of CECONOMY AG directly and promptly receives the necessary information.

## Strict risk policy principles

In principle, METRO GROUP takes entrepreneurial risks only if they are manageable and if the associated opportunities promise reasonable added value. Business interests and risk management aspects are therefore carefully weighed up and harmonised to the extent possible.

We bear the risks associated with core retail processes ourselves. The core processes include the development and implementation of business models, decisions about store locations, and the procurement and sale of merchandise and services. Risks from support processes are reduced within the Group or, where this appears sensible, transferred to third parties. In principle, we do not assume risks that are not related to core processes or support processes.

## Risk management details clearly defined

The coordinated and efficient implementation of measures within risk management is guaranteed by the fact that all relevant facts are compiled in sets of rules based on the internationally recognised standards COSO II and IDW PS 981.

Our Group-wide risk management system thus records all strategic, operational, financial and compliance risks.

In principle, we consider all external and internal risks for prospective one- and three-year periods.

### RISK CLASSIFICATION

All risks identified are classified based on uniform standards and quantitative and qualitative indicators with respect to loss potential (negative effects on our corporate objectives and key performance indicators EBIT and EBITDA) and probability of occurrence (in per cent). In assessing the extent of damage, we distinguish between five classes of Group risks in particular: < €5 million, ≥ €5 million, ≥ €25 million, ≥ €50 million, ≥ €150 million. The probability of occurrence for Group risks is also divided into five classes: unlikely (≤ 5 per cent), low (> 5 to 25 per cent), possible (> 25 to 50 per cent), likely (> 50 to 90 per cent), high (> 90 per cent). All risks are assessed on the basis of their potential impact at the time of the risk analysis and before potential risk-minimising measures (presentation of gross risks, that is, before the implementation of risk-limitation measures, but taking into account measures that have already been effectively implemented). In principle, but at least from a probability of occurrence of 25 to 50 per cent, concrete measures are defined and implemented for each risk in order to control or avoid the risk or to mitigate the effects associated with it.

## Presentation of the risk situation

In addition to the general risks, the Management Board of CECONOMY AG has identified and evaluated the following risks (gross risks) for the reporting period, which are material for CECONOMY.

CECONOMY's risks are classified into three categories – high, medium and low – on the basis of the loss potential and the probability of occurrence:

| | | | | | | |
|---|---|---|---|---|---|---|
| ≥ 150 million Critical | 1 | M | H | H | H | H |
| ≥ 50 million Considerable | 2 | M | M | H | H | H |
| ≥ 25 million Significant | 3 | L | M | M | M | H |
| ≥ 5 million Moderate | 4 | L | L | L | M | M |
| < 5 million Marginal | 5 | L | L | L | L | L |
| | | E | D | C | B | A |
| | | ≤ 5% - Unlikely | > 5-25% - Minor | > 25-50% - Possible | > 50-90% - Likely | > 90% - High |

The risks classified as high (H) are considered material for CECONOMY and are described in detail below. The sequence does not reflect the significance of the risks. Risks that we classify as medium (M) or low (L) are not presented separately in the risk and opportunity report unless we expect the risk to become particularly relevant for the Group or our shareholders in the future.

| No. | Material risks 2016/17 | Risk group | Risk assessment |
|---|---|---|---|
| 1 | Significant intensification of competition in the transformation to digital | Risks related to the retail business | high |
| 2 | Default of receivables due to insolvency of business partners | Risks related to the retail business | high |
| 3 | Rating downgrade of CECONOMY AG | Financial risks | high |
| 4 | Budget and forecast deviations due to increasingly dynamic customer behaviour and against the background of macroeconomic developments (including the reduction in the value of goodwill and assets as a result of the deviation) | Financial risks | high |

In the following, we explain the material risks, classified into various risk groups and the corresponding control measures.

### RISKS RELATED TO THE RETAIL BUSINESS

Particularly in the saturated markets of Western Europe and against the backdrop of digital change, the retail industry is characterised by a high rate of change and intense competition. The resulting conditions can influence business development and represent natural business risks. A major business risk is a significant intensification of competition in the transformation to digital, especially from online retailers such as Amazon (risk no. 1). The intense competition for market share in saturated markets and, during the consolidation phase against competitors that price aggressively, can lead to increasing pressure on margins and the loss of market share. In order to mitigate this risk, we continuously monitor the market and our competitors and play an active role in market consolidation.

We also regularly evaluate internal and external information so that we can identify market trends and the changing needs of our customers at an early stage.

In addition, the default of receivables due to the insolvency of important suppliers, in particular mobile communications providers, is also a risk that we continuously monitor and control (risk no. 2). To this end, we regularly analyse information about our suppliers in order to be able to take early protective measures with regard to outstanding receivables if necessary. This naturally also includes an examination of the creditworthiness of our contractual partners. We grant higher receivables only to business partners with good credit ratings. In addition, regular checks are carried out to determine whether, for example, an adjustment of existing contracts with mobile phone providers can contribute to a reduction in the risk of default.

#### FINANCIAL RISKS

The risk of price changes (interest rate risks, currency risks, share price risks), liquidity risks, credit risks in dealings with counterparties in the context of financial transactions and risks arising from cash flow fluctuations may have a significant negative impact on our financial result. CECONOMY's financial risks are therefore managed centrally.

Ensuring CECONOMY AG's unlimited access to the capital markets is integral to the management of financial risks. A downgrading of our rating to a non-investment grade below Baa3/BBB- would have a negative impact on our liquidity and Group financing (risk no. 3). In addition, negative effects on net working capital cannot be ruled out. In principle, a deterioration in net working capital would trigger additional financing requirements. For this reason, we continuously optimise and monitor ratings-relevant key figures to allow us to initiate countermeasures at short notice. In order to counteract this risk, our strategy focuses on optimising our net working capital and funds for investment.

In addition, we have identified unexpected deviations from the budget or forecast as a further risk (risk no. 4), particularly in view of increasingly dynamic customer behaviour and macroeconomic developments. Such discrepancies could cause us to fail to meet our targets or to make business decisions based on incorrect assumptions. This might necessitate a revaluation of assets, including goodwill, which would have a negative impact on our assets and results of operations (EBIT). Deviations from our forecasts could also lead to a loss of confidence on the capital market. For this reason, we attach high priority to measures designed to limit these risks. In this context, we consistently implement strategic and organisational measures aimed at improving the quality of data and forecasts and at improving earnings. Special emphasis is placed on countries for which there is an impairment risk.

In addition, the steps we take to counter these risks include careful monitoring as well as effective internal controls for the budget and forecast process. We also continue to intensify the planning process and the related internal information flow and coordination processes. Closer integration of strategic planning and the budgeting process as well as a stronger involvement of the supervisory bodies in the strategy and budgeting process contribute to this. We also support the proactive implementation of CECONOMY's strategy by developing and implementing value creation plans at the country level. Finally, the outlook offers insights into the Group's expectations for business development during the coming financial year.

#### RISKS RELATED TO BUSINESS PERFORMANCE

The online business is a strong growth driver for CECONOMY. We are therefore constantly pushing ahead with the expansion of our online activities. The resulting increase in complexity presents additional challenges and risks, which we counteract by working closely with the relevant departments. A delay in online expansion due to the intensification of competition, especially from online retailers such as Amazon, could lead to a weakening of CECONOMY's competitive position and thus dampen sales growth.

In addition, significantly slower growth than forecast in the Services & Solutions division may result in a loss of market share to our competitors. In addition to negative effects on sales and EBITDA/EBIT, the relevance of the Services & Solutions division for our business model and for communications with the capital market could have capital market-related effects.

In addition to the material risks for CECONOMY described above, there are also risks resulting from the demerger of METRO GROUP, for example tax risks. These were continuously monitored and evaluated prior to and after the demerger. For CECONOMY, however, we estimate the probability of occurrence to be less than 5 per cent and therefore do not consider the risks to be material for the Group.

The following risks are continuously analysed in the context of risk management due to their general significance, but from today's perspective they are not material for CECONOMY.

One risk that is not considered material to CECONOMY relates to the macroeconomic and political situation in the countries in which we operate. The uneven development of the global economy with solid growth in Western and Central Europe and weaker development in the Eastern European markets presents challenges for CECONOMY. In addition, the constantly changing basic conditions in these countries as well as unrest, changes in political leadership and attacks represent risks for CECONOMY. In this context, Turkey stands out during the reporting period, as the domestic political situation remains tense. However, our international presence provides us with the opportunity to offset economic, legal and political risks as well as fluctuations in demand between individual countries.

In addition, we have identified new and increasingly complex regulations on data protection, such as the processing of personal data or the use of customer-specific information, as a risk to our Company. We are therefore actively preparing for the implementation of the new general data protection regulation. This includes a large number of strategic and organisational measures, including strengthening awareness of the requirements of data protection at all levels in the Group, as well as anchoring the obligation to comply with data protection regulations in the employment contracts in accordance with the German Federal Data Protection Act [Bundesdatenschutz-gesetz, BDSG]. In particular, employees of Company units who have access to and work with sensitive data are given intensive training on the subject of data protection and data security.

We have also identified disruptions of important business processes, such as downtimes of IT systems or cyber attacks, as a non-material risk for CECONOMY. Systems for online retailing must be continuously available, as these systems are a prerequisite for unlimited access outside normal store hours. Systems that are essential for business operations in the stores, especially checkouts, are largely self-contained and can continue to be used for some time even during events such as network failures or the failure of central systems. In the event of partial network failures, they can automatically reroute shipments or switch to redundant routes. Modern technologies such as remote server management and cloud computing allow us to use our hardware efficiently. In addition, in the event of one or more server failures, centralised IT systems can be quickly restored.

In addition, other non-material risks may arise from the various legal regulations and self-imposed standards of conduct to which CECONOMY is subject. For example, in CECONOMY's business relationships with suppliers, antitrust law risks may arise, for example, in areas such as the resale prices for merchandise. Appropriate risk provisions were created for pending antitrust proceedings where liability is sufficiently substantiated. Employees in sensitive business areas receive intensive training as part of the antitrust programme. As a matter of principle, legal requirements in the various jurisdictions, as well as the expectations of our customers and the public regarding corporate compliance, have continued to increase and become more complex. In response to these requirements, CECONOMY has established a Group-wide compliance system that it continuously refines. The aim of this system is to systematically and sustainably prevent regulatory infringements within the Company.

## Presentation of opportunities

CECONOMY has numerous opportunities to ensure long-term positive business developments. Above all, these are due to the fact that we respond in a rigorous manner and at an early stage to the needs of our customers. Our main goal is to create added value for our customers and to provide support to them in the digital world. To this end, we are constantly developing new business models, solutions and formats and making use of the opportunities arising from digitalisation.

We also take into account demographic developments, increasing differentiation in the mature markets of Western Europe and population growth in developing and emerging countries. We analyse the relevant global and national trends and take decisions aimed at systematically exploiting opportunities of the future and creating competitive edges.

We have identified the following opportunities that may have a positive impact on our ability to meet our corporate goals over the next five years as material for CECONOMY.

### OPPORTUNITIES FROM THE DEVELOPMENT OF BUSINESS CONDITIONS

During financial year 2017/18, we expect a slight improvement in business conditions for retail, which, however, could support our sales and earnings development.

### STRATEGIC BUSINESS OPPORTUNITIES

CECONOMY is very well known in the countries in which it operates. We have assumed leading positions in many markets. We must further strengthen and expand these. Weaker market participants have withdrawn, especially in countries with challenging basic conditions. We are working to fill these gaps or, when reasonable, to take over individual locations and plan to actively move pan-European market consolidation forward. Market exits of competitors would create additional opportunities for market share gains. To this end, we continuously analyse competitors and other potential acquisition candidates. We also see additional potential in the successful repositioning of national and subsidiary companies operating in a difficult economic environment (e.g. Russia, Italy). Ongoing transformation, repositioning and restructuring measures aim to improve the market position and boost its profitability, particularly with respect to focal topics such as the consolidation of procurement activities, logistics and the country portfolio.

Another important opportunity for the future success of our Company is a significantly faster than expected expansion of the online business. The online business in retailing is experiencing high growth rates and the online market share could start to come close to that of the brick-and-mortar business. We believe that the positive development in the online business will continue and create continued competitive momentum both in the store-based business and in online retail over the medium term. As a result, it is imperative for CECONOMY to further develop its internet sales channel. Our internet presence has already intensified in recent years and we are continuously optimising our online shops. In financial year 2016/17, we made further progress in the transformation from a purely brick-and-mortar store to a multi-channel distribution channel, combining the advantages of the physical and digital world. Unlike pure online providers, we create real added value for customers this way. In order to ensure further online expansion, we invest not only in technical resources but also in our employees, who bring the necessary expertise to our companies.

We also see an important opportunity in the further expansion of our service offering. The focus of these efforts is on the customer and his or her needs, for example in providing support for increasingly complex products. To this end, we have set up smart bars at our stores to carry out repairs on site and assist customers in the event of problems. In order to support our customers in technical matters at home, we cooperate with DTB Deutsche Technikberatung GmbH, in particular. Against this backdrop, we are constantly reviewing possible acquisitions that will further enhance our range of services. In addition, we develop and implement new service concepts that extend and complement our range of services.

We see a further opportunity in our strategic investment in Fnac Darty S.A., in which we acquired a stake of around 24.33 per cent in July 2017.

We also see opportunities in intensified cooperation with our strategic partners. For example, we are already testing our shop-in-shop concepts, which include the electronics departments of METRO Cash & Carry, in Russia.

We believe that the application of innovative ideas relating to progressing digitalisation will increasingly shape the future of retail and drive the development of new business models. Digitalisation also influences the behaviour of our customers. In our Group, we see potential for those new business models which offer excellent added value to our customers, in line with our strategy and building on existing strengths of our operating processes. We therefore continually review new concepts and maintain an intensive exchange with startups that are relevant to us, in some cases through direct investments in startups, in order to gain insight into new business areas and develop innovative ideas. In the past, the Spacelab Accelerator programme has been mainly used for this. In the future, CECONOMY will be supported by the newly founded "Retailtech Hub".

#### BUSINESS PERFORMANCE OPPORTUNITIES

In addition to systematically tapping cost-cutting potential, productivity increases, especially through process optimisation, and the centralisation of core functions across the entire organisation create the basis for sustainable success. This effort includes a number of projects that we have already initiated and will systematically continue to pursue. These include, for example, centralising our purchasing and optimising the supply chain. Should we make more progress in implementing further productivity enhancements than we currently expect, this could have a positive impact on our business development.

Sustainability is important to us and we believe that it will continue to grow in importance globally. Expectations of customers, employees, investors, policymakers and society will increase, and we want to live up to them. To this end, we are developing a holistic sustainability strategy that we are systematically implementing. In addition to increasing the attractiveness of our brand, the range of products and our own brands, we see in the area of sustainability an abundance of new business models that we are currently analysing in detail with regard to their potential. In addition, we continually review further opportunities and initiatives in sustainability. These include developing a more sustainable range of products and services as well as taking measures to reduce $CO_2$ emissions. These opportunities and our social commitment can have a positive impact on our reputation. This will help us to grow our sales over the medium term. We also believe that a stronger focus on sustainability can have a positive impact on our shares. This will make us more attractive, especially to investors with a sustainable outlook, and we will be able to gain access to better conditions.

### Overall assessment of the risk situation by the Company's management

The Management Board and the Supervisory Board of METRO AG are regularly informed about the Company's risk and opportunities situation. The demerger of METRO GROUP has changed the overall risk and opportunity profile, meaning that it is no longer comparable with the previous year. To evaluate the present risk situation, we not only analysed individual risks and opportunities: the interdependencies between risks were also analysed and rated according to their probability and impact. The assessment has shown that the overall risks are manageable. The individual and cumulative risks identified do not represent risks that jeopardise the continuity of CECONOMY AG due to illiquidity or over-indebtedness over a period of at least one year. We are confident that CECONOMY's earnings strength provides a solid foundation for sustained positive business developments and the exploitation of numerous opportunities. This assessment is mirrored by the rating of the internationally leading, independent rating agency Moody's, whom we commissioned. CECONOMY has an investment grade credit rating of Baa3 – with a stable outlook. The Management Board of CECONOMY AG does not currently expect any fundamental change in the risk and opportunities situation.

# REMUNERATION REPORT

This remuneration report provides explanatory information on the remuneration of the Management Board, Supervisory Board and executives of CECONOMY AG. The main features of the remuneration system for the Management Board and Supervisory Board are presented, as well as the structure and amount of the remuneration. For executives, the report provides information on their share-based remuneration.

The information on the Management Board and Supervisory Board follows the German Commercial Code [HGB] and the recommendations of the German Corporate Governance Code [DCGK].

## Significant remuneration systems for the members of the Management Board of the former METRO AG and for the members of the Management Board of CECONOMY AG in financial year 2016/17

The remuneration system for the members of the Management Board of the former METRO AG valid at the beginning of financial year 2016/17 was approved by 99.6 per cent of the votes cast at its Annual General Meeting on 20 February 2015. As a result, it was not yet able to account for the division of the former METRO GROUP into two independent, listed companies in the year under review. Against this backdrop, the Supervisory Board of former METRO AG had developed new Management Board remuneration systems for the two units resulting from the division, which it specifically focused on the respective business activities in consumer electronics and the wholesale and food retail segment.

Once the spin-off took effect, the remuneration was settled during the year in accordance with the remuneration system applicable at the beginning of the 2016/17 financial year. Since the beginning of financial year 2017/18, CECONOMY AG has been subject to the new remuneration system, which was approved by the Annual General Meeting of former METRO AG on 6 February 2017 with 79.1 per cent of the votes cast and which the Supervisory Board of former METRO AG again adjusted in individual aspects at its meeting in March 2017.

The main characteristics, primarily of the remuneration of the Management Board of the former METRO AG in financial year 2016/17 for the period until the spin-off took effect (members of the Management Board active up to the time of the spin-off Olaf Koch, Pieter C. Boone, Mark Frese, Pieter Haas, Heiko Hutmacher), and the remuneration of the Management Board of CECONOMY AG in financial year 2016/17 after the date of the spin-off are presented below, as is the remuneration of the Management Board of CECONOMY AG (from this time the members of the Management Board in office were Pieter Haas, Mark Frese und Dr Dieter Haag Molkenteller) in financial year 2016/17.

### GENERAL CHARACTERISTICS

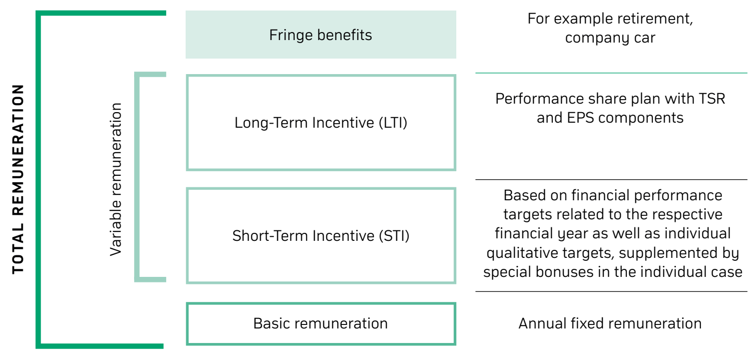
The remuneration system for the Management Board includes the general benchmarks for determining the individual remuneration of the members of the Management Board, as well as specific guidelines for the composition and structure of the individual remuneration components. In accordance with the provisions of the German Stock Corporation Act [AktG] and the German Corporate Governance Code [DCGK], the Supervisory Board of CECONOMY AG decides on the system for the remuneration of the Management Board. With a view to this determination, the Code of Procedure of the Supervisory Board of CECONOMY AG has assigned the task of preparing the Supervisory Board's resolution and, if necessary, of issuing a recommendation for a resolution to the Presidential Committee. The Supervisory Board of the former METRO AG had delegated this preparatory work to the Personnel Committee of the Supervisory Board of the former METRO AG until the spin-off took effect.

In principle, the total compensation of the Management Board consists of a fixed annual salary and two variable performance-related components. In order to create balanced incentives to increase the Company's success, the two variable components differ in their bases of assessment, both with regard to the parameters on which they are based and the relevant observation periods.

In addition to the remuneration components in the narrower sense, the Company also offers post-employment benefit plans and other supplemental benefits.

Total compensation of the Management Board and the individual remuneration components are geared appropriately to the responsibilities of each individual member of the Board, his or her personal performance and the Company's economic situation, and fulfil legal stipulations regarding customary remuneration. New members of the Management Board may receive a reduced fixed salary and variable remuneration compared to members who have served longer on the Management Board. There is no provision for remuneration to increase as the time served on the Management Board increases.

**Remuneration system for the members of the Management Board**




(schematic representation)

**Fixed salary**
The fixed salary is agreed with the respective Management Board members as fixed remuneration and is paid out in monthly instalments.

**Performance-based compensation (short-term incentive)/special bonuses**
The short-term incentive (STI) rewards the Company's operating performance on the basis of financial performance targets for the respective financial year.

A target value in euros is set for each member of the Management Board. The payout amount is calculated by multiplying the target value by a certain factor. The respective factor is determined as the overall target achievement level of the target achievement levels of the relevant financial performance targets, which have been determined in advance.

Achievement of the financial performance targets defined in detail is measured by the development of predefined parameters or key Company figures in relation to the respective financial year.

To determine whether a target has been achieved, before the beginning of the relevant financial year, the Supervisory Board generally determines thresholds (entry barriers) and target values for the achievement of each performance target and a performance target value of 1.0 (equivalent to 100 per cent target achievement) for each parameter to be considered. In accordance with the regulations in the employment contracts of the members of the Management Board, the Supervisory Board takes into account the Company's annual budget submitted by the Management Board for approval by the Supervisory Board for the relevant financial year when determining the threshold values. After the end of the financial year, the degree to which targets have been achieved is measured for each of the performance targets and a target achievement factor is determined. The following sample calculation illustrates the range of possible target achievement levels:

- If 100 per cent of the target is met, the target achievement level is 1.0.

- If the level of target achieved is less than or equal to the threshold, the target achievement level is 0.0.

– The degree of target achievement is determined by linear interpolation in the event of target attainment between the threshold value and the target value, as well as in the event of a target attainment above 100 per cent.

To ensure the individual performance orientation of Management Board remuneration and to reward the performance of individual members of the Management Board, the Supervisory Board reserves the general right to reduce or increase the weight of the individual short-term incentive by up to 30 per cent at its discretion.

In addition, the Supervisory Board may grant special bonuses to members of the Management Board for exceptional performance.

**Long-term incentive**

The long-term incentive (LTI) is designed to achieve sustainable growth in the Company's value and, accordingly, applies a multi-year assessment basis.

The long-term incentive is usually structured as a plan, from which the members of the Management Board are issued with individual tranches each financial year, and with a term of usually three to four years. Achievement of the target is determined over the term of the respective tranche on the basis of performance targets, which provide specific incentives for long-term and sustainable corporate development, taking into account the expectations of shareholders and other stakeholders.

As part of the long-term incentive, a target amount in euros is also initially set for each member of the Management Board. The payout amount is calculated by multiplying this target value by the factor of overall target achievement.

Separate rules for the payout of the tranches have been agreed upon for the case of employment being terminated.

## REMUNERATION SYSTEM FOR THE MEMBERS OF THE MANAGEMENT BOARD OF THE FORMER METRO AG UNTIL THE SPIN-OFF TOOK EFFECT

In the past financial year, the spin-off made it necessary to adjust the performance targets and benchmarks during the year. This related to both the one-year variable remuneration and the multi-year variable remuneration. In this context, the previously issued tranches of the multi-year variable remuneration were also corrected, which required the declaration of a deviation from the recommendation in accordance with Section 4.2.3 (2) sentence 8 DCGK.

**Performance-based compensation (short-term incentive) / special bonuses**

The remuneration system, which was unchanged from the previous year at the beginning of the 2016/17 financial year, initially provided for rewarding the Company's operating performance through the short-term incentive, with the following three financial performance targets for the financial year having a relative weighting of one third each:

– EBIT before special items of the former METRO GROUP,

– METRO GROUP's return on capital employed (ROCE), and

– Like-for-like sales growth of the former METRO GROUP.

For the spin-off year 2016/17, however, the Supervisory Board decided to modify the STI in the event that the spin-off of the wholesale and food retail business from the former METRO AG became effective – as expected – before the end of financial year 2016/17. If the spin-off of the wholesale and food retail business became effective before the end of the 2016/17 financial year, the STI would be settled and paid out during the year. The ROCE performance target, which, due to the highly seasonal nature of the retail business, cannot be reasonably settled for during the course of the year, should be left out of the equation and settlement should be based solely on the two other performance targets, which in this case should be weighted at 50 per cent each. The settlement of the STI during the financial year should then be based on the achievement of targets at the immediately preceding quarterly closing date and the STI target values calculated pro rata.

The effective date of the spin-off, which was entered in the commercial register of the former METRO AG on 12 July 2017, resulted in the relevant dates for determining the achievement of the target achievement and for the pro rata calculation of the STI target values. Accordingly, the individual target values and payout caps shown in the following table were used as a basis for the interim financial statements.

| € | Target value of the short-term incentive for financial year 2016/17 up to the time the spin-off took effect | Payout cap for financial year 2016/17 up to the time the spin-off took effect |
|---|---|---|
| Olaf Koch | 938,710 | 1,877,420 |
| Pieter C. Boone | 569,032 | 1,138,064 |
| Mark Frese | 704,032 | 1,408,064 |
| Pieter Haas | 704,032 | 1,408,064 |
| Heiko Hutmacher | 704,032 | 1,408,064 |

**Long-term incentive**
At the beginning of financial year 2016/17, former METRO AG issued various tranches from the following plans to the members of the Management Board:

– Performance share plan – Tranche 2013
The last tranche of the performance share plan issued in the short financial year 2013 and not yet completed at the beginning of the financial year 2016/17 was based on the allocation of performance shares, which after a period of at least three years were entitled to a cash payment depending on the development of the price of the former METRO share in absolute and relative terms compared to the average value of the DAX 30 and Euro Stoxx Retail stock indices – total return. In order to support the incentive effect of the performance share plan, which is geared to sustainable corporate development, Share Ownership Guidelines were also introduced, which make the payment of the performance shares conditional on the members of the Management Board building and holding a self-financed investment in former METRO shares.

– Sustainable Performance Plan (2013/14)
The 2013/14 tranche of the Sustainable Performance Plan 2013/14 had a term of three years and was determined by the performance targets “Return on equity/total shareholder return (TSR)” and “Sustainability”.

– Sustainable Performance Plan Version 2014
The tranches 2014/15 and 2015/16 of the Sustainable Performance Plan Version 2014 were based on the three performance targets “Return on equity/total shareholder return (TSR)”, “Sustainability” and “Earnings per share (EPS)”. In addition to share-based key figures and internal growth, the target setting and the corresponding incentive effect also took into account qualitative aspects of business, environmental and social company management.

In November 2016, the Supervisory Board of former METRO AG resolved to settle the performance-based remuneration with long-term incentive effect during the year for those tranches of performance-based remuneration that had not actually been terminated at the time the spin-off became effective. Accordingly, the tranches of Sustainable Performance Plan 2013/14 that had not yet been terminated as planned at the time the spin-off became effective, were settled and paid out at fair value. For the tranches Sustainable Performance Plan 2014/15 and Sustainable Performance Plan 2015/16, the portions earned at the relevant point in time were settled and paid out at fair value, while the portions not yet earned at this point in time and their corresponding pro rata target values were transferred to a new long-term incentive plan for the unit resulting from the allocation. For the portion of the tranche Sustainable Performance Plan 2014/15 contributed to the new plans, the key figure established was “Return on Capital Employed (ROCE) before special items”. For the portion of the tranche Sustainable Performance Plan 2015/16 contributed to the new plans, the performance period was shortened to 40 exchange-trading days after the Annual General Meeting in 2019 and the key figure was set as “Earnings per share (EPS)”.

COMBINED MANAGEMENT REPORT



## REMUNERATION SYSTEM FOR THE MEMBERS OF THE MANAGEMENT BOARD OF THE FORMER CECONOMY AG UNTIL THE SPIN-OFF TOOK EFFECT

The remuneration system for the members of the Management Board of the former CECONOMY AG from the time the spin-off took effect include, in addition to a fixed salary, a short-term performance-based remuneration component and a performance-based remuneration component with a long-term incentive effect. In addition, the Company grants members of the Management Board post-employment benefits and other supplemental benefits.

### Short-term performance-based remuneration (short-term incentive)

For the STI in financial year 2016/17, from the date on which the spin-off takes effect, the following equally weighted parameters apply:

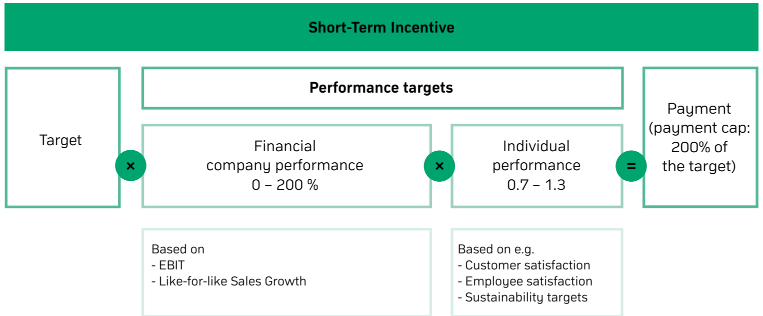
- EBIT before special items

- Like-for-like sales growth

In accordance with the interim settlement in financial year 2016/17 at the time the spin-off took effect, the following pro rata target values and payout caps were used for the short-term incentive in financial year 2016/17 from the time the spin-off took effect, calculated pro rata:

| € | Target value of the short-term incentive for financial year 2016/17 from the time the spin-off took effect | Payout cap for financial year 2016/17 from the time the spin-off took effect |
|---|---|---|
| Pieter Haas | 231,677 | 463,355 |
| Mark Frese | 182,903 | 365,806 |
| Dr Dieter Haag Molkenteller | 87,097 | 174,194 |

### Short-term performance-related remuneration




### Long-term incentive

The LTI provides incentives to achieve sustainable and long-term corporate development, taking into account internal and external performance as well as the interests of shareholders and other stakeholders associated with the Company. For this reason, a multi-year assessment basis is used: the annual tranches of the performance share plan have a three-year performance period.

Conditional performance shares are allocated to each member of the Management Board, the number of which corresponds to the ratio of the individual target value and the average share price of the Company's ordinary share at the time of allocation. This is based on the average Xetra closing price of the Company's ordinary share over a period of 40 consecutive stock exchange trading days immediately following the Company's Annual General Meeting in the grant year. The performance period ends on the 40th stock exchange trading day after the Annual General Meeting of the third financial year following the issue of the tranche. After the performance period of a tranche has expired, the final number of performance shares is determined. This depends on the achievement of two performance targets, which are each weighted at half of the LTI's target amount:

- Earnings per share (hereinafter: EPS);

– Return on equity/total shareholder return (hereinafter: TSR).

**EPS component:** As a rule, at the beginning of the financial year in which the tranche of the performance share plan is granted, the Supervisory Board decides on a lower threshold (entry barrier) for target achievement and an EPS target value for 100 per cent target achievement. A factor is allocated to the specific degree of target achievement: if the degree of target achievement is less than or equal to the entry barrier at the end of the performance period, the factor is zero; if the target achievement is 100 per cent, it is 1.0. The factor for all other values (including above factor 1.0) is determined linearly.

**TSR Component:** The target achievement factor of the TSR component is developed on the basis of the relative development of the return on the Company's ordinary shares in the performance period compared with a defined benchmark index or certain comparison groups.

At the beginning of the financial year in which the performance share plan is granted, the Supervisory Board also normally decides on a lower threshold (entry barrier) and a TSR target value for 100 per cent fulfilment of the target.

The Xetra closing prices of the Company's ordinary shares are calculated over a period of 40 consecutive stock exchange trading days immediately after the Company's Annual General Meeting in the grant year in order to determine the achievement of the target. This is used to calculate the mean, which is known as the starting share price. The performance period for this component begins on the 41st stock exchange trading day after the Annual General Meeting. Over a period of 40 consecutive stock exchange trading days immediately following the Annual General Meeting three years after determination of the initial price and issue of the respective tranche, the Xetra closing prices of the Company's ordinary shares are determined. This is used again to calculate the mean, which is known as the ending share price. The TSR percentage value will be determined on the basis of the change in the Company's ordinary or performance share price and the total amount of hypothetically reinvested dividends throughout the performance period in relation to the starting and ending share prices in accordance with the following formula:

**TSR components**

$$\text{TSR} = \frac{\text{Final price}_3 \times \Pi^{3}_{t=1}\ \text{dividend adjustment}_t}{\text{Starting price}_0} - 1$$

$$\text{Dividend adjustment factor}_t = \frac{\text{Closing price before dividend distribution}_t}{\text{Closing price before dividend distribution}_t - \text{dividend distribution}_t}$$

The Company's TSR calculated in this way is compared with the TSR of a defined benchmark or a defined peer group (index TSR) in the performance period. The respective degree of target achievement is assigned a factor. If the degree of target achievement after the performance period has ended is smaller or equal to the entry hurdle, the factor is zero, for a target achievement of 100 per cent it is 1.0. The factor for all other values (including above a factor of 1.0) is determined in a linear fashion.

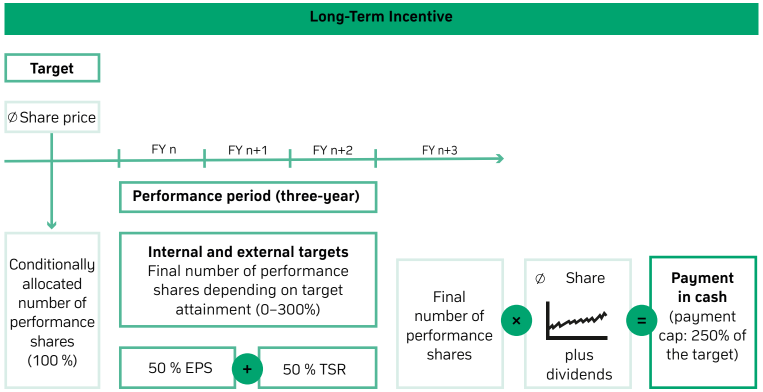
**Determination of the target number of the performance shares and payment amount:** From the target achievement factor of the EPS and TSR component, the arithmetic mean is formed, which forms the overall target achievement factor. With this total target achievement factor, the target number of the performance shares is determined by means of linear interpolation, which result in a cash payment in euros at the end of the performance period of the tranche. In this process, the number is limited to a maximum of 300 per cent of the conditionally assigned number of performance shares.

The payment amount, which is calculated per performance share, is thus determined as follows: once again, the Xetra closing prices of the Company's ordinary share are determined over a period of 40 consecutive trading days immediately following the Annual General Meeting three years after calculating the starting share price and issuing the applicable tranche. The average is again formed from this and all dividends paid during the performance period for the ordinary share of the Company added to it. This equity factor is multiplied by the number of performance shares determined and then subsequently determines the payment amount.

The payment amount is limited to a maximum of 250 per cent of the agreed individual target amount (payment cap).

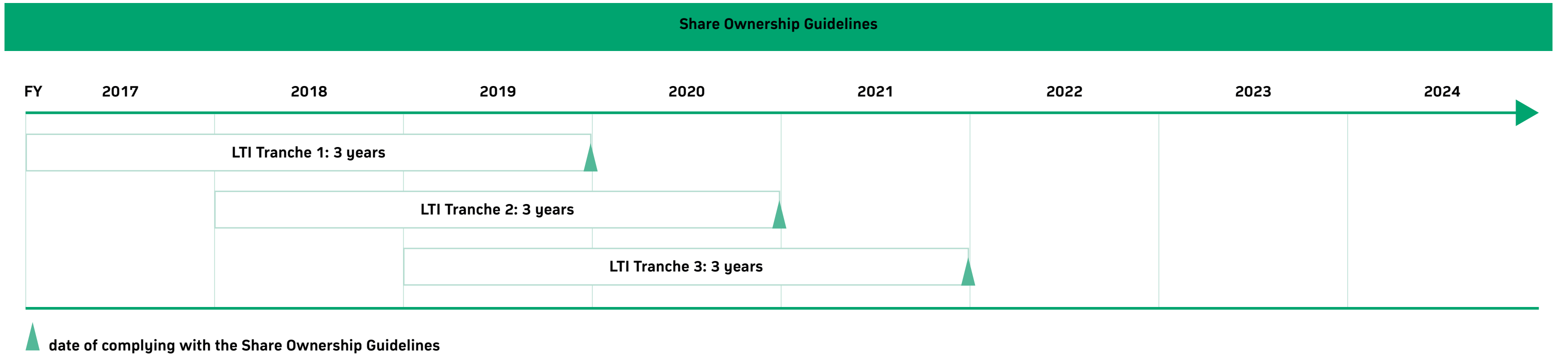
The payment of the LTI is made no later than four months after the ordinary Annual General Meeting, which decides on the appropriation of the balance sheet profit of the last financial year of the performance period, but not before approving all annual and consolidated financial statements for the financial years of the performance period.

**Performance-based remuneration**




**Share Ownership Guidelines:** The Performance Share Plan is linked to Share Ownership Guidelines. As a requirement for the payment of performance shares in cash, the members of the Management Board are obliged to establish for each tranche an independently financed investment in ordinary shares of the Company by the end of February in the third year of the performance period. In this process, the amount to be invested per tranche by the Chair of the Management Board is two thirds of his gross annual base salary, and for an ordinary member of the Management Board, 50 per cent of his or her gross annual base salary. The plan aims for the Chair of the Management Board to have invested 200 per cent, and an ordinary member of the Management Board 150 per cent of his or her gross annual base salary in ordinary shares of the Company within five years of service, with reference to the purchase price calculated for the relevant shares. The number of purchasable ordinary shares is guided by the average price of the Xetra closing prices of the ordinary share on the 40 directly consecutive trading days after the statement of financial position conference, which is held before the month of February in the third year of the performance period. It corresponds to the quotient of the amount to be invested from the gross annual base salary and the average price determined. If the independently financed investment in ordinary shares of the Company on the relevant necessary due date is not fulfilled or not fulfilled completely, the determined payment amount is initially paid out in cash, but with the obligation to invest in ordinary shares of the Company until the Share Ownership Guidelines have been fulfilled.

**Share Ownership Guidelines**




**Regulations for the departure of a member of the Management Board:** If a member of the Management Board leaves the Company on expiry of his or her term in office, entitlements obtained during the term of the service agreement do not become due early, but under the conditions of the LTI at the regular end of the tranches in the same way as for the members of the Management Board who are still active for the Company.

Payments from the LTI are not made in the following cases:

– Release of a member of the Management Board for good cause

– Immediate removal of a member of the Management Board

– Cancellation of the service agreement by the Company for good cause

– Early termination of the service agreement or removal of the appointment to the Management Board or release by the Company on request of the relevant member of the Management Board. If the Supervisory Board has indications of well-founded exceptions, such as in cases of hardship, it may deviate from the above regulations at its discretion.

In the event of amicable revocation of the appointment and/or an amicable early termination of the service agreement of a member of the Management Board and if the wish of the relevant member of the Management Board is not authoritative for this, a pro rata calculation of the claims for the period in which the member of the Management Board was active on the board function until removal is carried out. Calendar months that were started are considered in full for this purpose. In doing so, tranches not yet granted are not included. LTI benefits are granted at the regular end of the tranches in the same way as for the members of the Management Board who are still active for the Company.

**Post-employment benefit plans**

In 2009, post-employment benefit plans were introduced for members of the Management Board in the form of a direct commitment with a contribution-based and a performance-based component.

The contribution-based component is financed jointly by the Management Board and the Company. Here, the apportionment of "7 + 14" applies. If the member of the Management Board contributes 7 per cent of their defined assessment base, the Company adds the double contribution. When a member of the Management Board leaves the Company before retirement age, the contributions retain the level they have reached. The performance-based component is congruently reinsured by Hamburger Pensionsrückdeckungskasse VVaG (HPR). The interest rate for the contributions is paid in accordance with the Articles of Association of the HPR with regard to profit participation, with a guarantee applying to the paid-in contribution.

There is an entitlement to pension provisions

- if the working relationship ends with or after the reaching of standard retirement age as applies to the German state pension scheme.

- as early retirement benefits, if the working relationship ends at the age of 60 or after the age of 62 for pension benefits that were granted after 31 December 2011, as well as ends before reaching standard retirement age.

- in the case of disability or death insofar as the relevant conditions for entitlement have been met.

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

Furthermore, since 2015, members of the Management Board have been offered the option of converting future compensation components in the fixed salary as well as in the variable remuneration into Company pension entitlements with Hamburger Pensionsrückdeckungskasse VVaG as part of a tax-privileged compensation conversion scheme.

**Further supplemental benefits**
The supplemental benefits granted to members of the Management Board, in addition to occupational pension provisions, include non-cash benefits and expense allowances (for example, company cars). A cap exists for the cash value benefits associated with the private use of company cars and for the amount of supplemental benefits overall.

**Benefits in the event of the employment relationship ending**
In the event of an early end to their activity, the active members of the Management Board are paid out the contractual claims existing for the remaining period of their employment contracts in principle in the form of one-off remuneration, while the severance payment including supplemental benefits will in any event not exceed the value of two annual salaries (severance payment cap). Benefits in the event of an end to their activities are granted to the active members of the Management Board in addition to the provisions for pensions as described, in connection with a change in control or in the form of a waiting allowance for the period of a non-compete clause following contract termination. Pensions for non-activity are not granted.

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

**Payment caps**
The remuneration should under Item 4.2.3 of the DCGK overall and as regards its variable remuneration components have maximum limits in terms of the amount. The variable remuneration components are limited in their amount by the payment caps of the STI (200 per cent of the target amount) and LTI (250 per cent of the target amount), and the post-employment benefit plans on the basis of the percentage contribution on the basis of the measurement basis. The cap for the supplemental benefits is defined as a total of €150,000. In addition, the remuneration for each member of the Management Board is individually limited to a total of an absolute maximum figure (total payment cap). As such, for each member of the Management Board, the remuneration has maximum thresholds overall and as regards the individual remuneration components.

## Remuneration of the Management Board in financial year 2016/17[1]

| € thousand | Financial year | Fixed salary | Supplemental benefits | STI total | LTI<br>Value of granted tranche[2] | Total[3] |
|---|---|---|---|---|---|---|
| Olaf Koch[5] | 2015/16 | 1,200 | 41 | 1,277 | 2,624 | 5,142 |
| | **2016/17** | **939** | **12** | **614** | **-** | **1,565** |
| Pieter Haas | 2015/16 | 900 | 146 | 958 | 1,968 | 3,972 |
| | **2016/17** | **1,140** | **26** | **1,049** | **1,139** | **3,354** |
| Pieter C. Boone[5] | 2015/16 | 720 | 18 | 702 | 1,575 | 3,015 |
| | **2016/17** | **569** | **14** | **310** | **-** | **893** |
| Mark Frese | 2015/16 | 900 | 79 | 878 | 1,968 | 3,825 |
| | **2016/17** | **900** | **71** | **828** | **899** | **2,698** |
| Dr Dieter Haag Molkenteller[4] | 2015/16 | - | - | - | - | - |
| | **2016/17** | **152** | **5** | **175** | **131** | **463** |
| Heiko Hutmacher[5] | 2015/16 | 900 | 56 | 878 | 1,968 | 3,802 |
| | **2016/17** | **704** | **14** | **384** | **-** | **1,102** |
| Total | 2015/16 | 4,620 | 340 | 4,693 | 10,103 | 19,756 |
| | **2016/17** | **4,404** | **142** | **3,360** | **2,169** | **10,075** |

[1] Statements pursuant to Section 285 Sentence 1 No. 9 a and Section 314 (1) No. 6 a of the German Commercial Code (HGB) (excluding provisions for post-employment benefit plans)
[2] Shown here is the fair value at the time of granting the tranche.
[3] Total of the columns fixed salary, supplemental benefits, short-term incentive and value of the granted tranche of the long-term incentive
[4] Member of the Management Board since 13 July 2017
[5] Member of the Management Board until 13 July 2017

## Benefits granted

| | Olaf Koch | | | | Pieter Haas | | | | Pieter C. Boone | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Chair of the Management Board: 01/01/2012–12/07/2017<br>Member of the Management Board: 14/09/2009–12/07/2017 | | | | Chair of the Management Board: since 13/07/2017<br>Labour Director: since 13/07/2017<br>Member of the Management Board: since 01/04/2013 | | | | Member of the Management Board: 01/07/2015–12/07/2017 | | | |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | 2015/16 | 2016/17 | 2016/17 | 2016/17 | 2015/16 | 2016/17 | 2016/17 | 2016/17 |
| € thousand | | | Minimum value | Maximum value | | | Minimum value | Maximum value | | | Minimum value | Maximum value |
| Fixed salary | 1,200 | 939 | 939 | 939 | 900 | 1,140 | 1,140 | 1,140 | 720 | 569 | 569 | 569 |
| Supplemental benefits | 41 | 12 | 12 | 12 | 146 | 26 | 26 | 26 | 18 | 14 | 14 | 14 |
| **Total** | **1,241** | **951** | **951** | **951** | **1,046** | **1,166** | **1,166** | **1,166** | **738** | **583** | **583** | **583** |
| One-year variable remuneration[1] | 1,200 | 939 | 0 | 1,877 | 900 | 936 | 0 | 1,872 | 720 | 569 | 0 | 1,138 |
| Multi-year variable remuneration[2] | | | | | | | | | | | | |
| Roll-over of the 2014/15 tranche of the Sustainable Performance Plan (version 2014) into a new LTI plan depending on ROCE; granted on 29/08/2017, end of performance period: 40 trading days after the ordinary Annual General Meeting of CECONOMY AG in 2018 (the actual granting of the new plan without taking into account the reduction of the former granting in accordance with the old plan is stated) | - | - | - | - | - | 310 | 0 | 775 | - | - | - | - |
| Roll-over of the 2015/16 tranche of the Sustainable Performance Plan (version 2014) into a new LTI plan depending on EPS; granted on 29/08/2017, end of performance period: 40 trading days after the ordinary Annual General Meeting of CECONOMY AG in 2019 (the actual granting of the new plan without taking into account the reduction of the former granting in accordance with the old plan is stated) | 2,624 | - | - | - | 1,968 | 831 | 0 | 2,078 | 1,575 | - | - | - |
| Performance Share Plan 2016/17 tranche | - | - | - | - | - | 1,139 | 0 | 2,848 | - | - | - | - |
| **Total** | **5,065** | **1,890** | **951** | **2,828** | **3,914** | **4,382** | **1,166** | **8,739** | **3,033** | **1,152** | **583** | **1,721** |
| Pension expenditure | 169 | 263 | 263 | 263 | 129 | 320 | 320 | 320 | 135 | 203 | 203 | 203 |
| **Total remuneration** | **5,234** | **2,153** | **1,214** | **3,091** | **4,043** | **4,702** | **1,486** | **9,059** | **3,168** | **1,355** | **786** | **1,924** |

[1] The figures shown here relate to the short-term incentive excluding any potential additional special bonuses.
[2] Shown here is the fair value at the time of granting the tranche.

## Benefits granted (continued)

| | Mark Frese | | | | Dr Dieter Haag Molkenteller | | | | Heiko Hutmacher | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Member of the Management Board: since 01/01/2012 | | | | Member of the Management Board: since 13/07/2017 | | | | Chief Human Resources Officer: 01/10/2011–12/07/2017 Member of the Management Board: 01/10/2011–12/07/2017 | | | |
| | 2015/16 | 2016/17 | 2016/17 | 2016/17 | 2015/16 | 2016/17 | 2016/17 | 2016/17 | 2015/16 | 2016/17 | 2016/17 | 2016/17 |
| € thousand | | | Minimum value | Maximum value | | | Minimum value | Maximum value | | | Minimum value | Maximum value |
| Fixed salary | 900 | 900 | 900 | 900 | - | 152 | 152 | 152 | 900 | 704 | 704 | 704 |
| Supplemental benefits | 79 | 71 | 71 | 71 | - | 5 | 5 | 5 | 56 | 14 | 14 | 14 |
| **Total** | **979** | **971** | **971** | **971** | **-** | **157** | **157** | **157** | **956** | **718** | **718** | **718** |
| One-year variable remuneration[1] | 900 | 887 | 0 | 1,774 | - | 87 | 0 | 174 | 900 | 704 | 0 | 1,408 |
| Multi-year variable remuneration[2] | | | | | | | | | | | | |
| Roll-over tranche 2014/15 of the Sustainable Performance Plan (version 2014) into a new LTI plan depending on ROCE; granted on 29/08/2017, end of performance period: 40 trading days after the ordinary Annual General Meeting of CECONOMY AG in 2018 | - | 310 | 0 | 775 | - | 43 | 0 | 107 | - | - | - | - |
| Roll-over tranche 2015/16 of the Sustainable Performance Plan (version 2014) into a new LTI plan depending on EPS; granted on 29/08/2017, end of performance period: 40 trading days after the ordinary Annual General Meeting of CECONOMY AG in 2019 | 1,968 | 831 | 0 | 2,078 | - | 114 | 0 | 286 | 1,968 | - | - | - |
| Performance Share Plan tranche 2016/17 | - | 899 | 0 | 2,248 | - | 131 | 0 | 328 | - | - | - | - |
| **Total** | **3,847** | **3,898** | **971** | **7,846** | **-** | **532** | **157** | **1,052** | **3,824** | **1,422** | **718** | **2,126** |
| Pension expenditure | 127 | 250 | 250 | 250 | - | 34 | 34 | 34 | 127 | 197 | 197 | 197 |
| **Total remuneration** | **3,974** | **4,148** | **1,221** | **8,096** | **-** | **566** | **191** | **1,086** | **3,951** | **1,619** | **915** | **2,323** |

[1] The figures shown here relate to the short-term incentive excluding any potential additional special bonuses.
[2] Shown here is the fair value at the time of granting the tranche

COMBINED MANAGEMENT REPORT



## Accruals

| | Olaf Koch | | Pieter Haas | | Pieter C. Boone | | Mark Frese | | Dr Dieter Haag Molkenteller | | Heiko Hutmacher | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Chair of the Management Board: 01/01/2012–12/07/2017 Member of the Management Board: 14/09/2009–12/07/2017 | | Chair of the Management Board: since 13/07/2017 Labour Director: since 13/07/2017 Member of the Management Board: since 01/04/2013 | | Member of the Management Board: 01/07/2015–12/07/2017 | | Member of the Management Board: since 01/01/2012 | | Member of the Management Board: since 13/07/2017 | | Chief Human Resources Officer: 01/10/2011–12/07/2017 Member of the Management Board: 01/10/2011–12/07/2017 | |
| € thousand | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 | 2015/16 | 2016/17 |
| Fixed salary | 1,200 | 939 | 900 | 1,140 | 720 | 569 | 900 | 900 | - | 152 | 900 | 704 |
| Supplemental benefits | 41 | 12 | 146 | 26 | 18 | 14 | 79 | 71 | - | 5 | 56 | 14 |
| **Total** | **1,241** | **951** | **1,046** | **1,166** | **738** | **583** | **979** | **971** | **-** | **157** | **956** | **718** |
| One-year variable remuneration | 1,277 | 614 | 958 | 1,142 | 702 | 310 | 878 | 902 | - | 210 | 878 | 384 |
| Multi-year variable remuneration | | | | | | | | | | | | |
| Payment 2013 tranche Performance Share Plan | - | 1,631 | - | 979 | - | 102 | - | 0 | - | 0 | - | 0 |
| Payment of 2013/14 tranche of the Sustainable Performance Plan | - | 2,131 | - | 1,279 | - | 0 | - | 1,598 | - | 0 | - | 1,598 |
| Payment of the share of the 2014/15 tranche of the Sustainable Performance Plan (version 2014) earned at the time of the spin-off | - | 2,043 | - | 1,532 | - | 211 | - | 1,532 | - | 0 | - | 1,532 |
| Payment of the share of the 2015/16 tranche of the Sustainable Performance Plan (version 2014) earned at the time of the spin-off | - | 824 | - | 618 | - | 494 | - | 618 | - | 0 | - | 618 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | 0 | 0 | 0 |
| **Total** | **2,518** | **8,194** | **2,004** | **6,716** | **1,440** | **1,700** | **1,857** | **5,621** | **-** | **367** | **1,834** | **4,850** |
| Pension expenditure | 169 | 263 | 129 | 320 | 135 | 203 | 127 | 250 | - | 34 | 127 | 197 |
| **Total remuneration** | **2,687** | **8,457** | **2,133** | **7,036** | **1,575** | **1,903** | **1,984** | **5,871** | **-** | **401** | **1,961** | **5,047** |

**Services after the end of employment in financial year 2016/17 (including provisions for post-employment benefit plans)**
In financial year 2016/17, a total of €1.267 million according to International Financial Reporting Standards (IFRS) and €1.312 million according to the German Commercial Code (HGB) was used for the remuneration of the members of the Management Board of CECONOMY AG (formerly METRO AG) active in this financial year for benefits to be provided after the end of their employment (2015/16: €0.69 million determined according to IFRS and €0.62 million determined according to the German Commercial Code (HGB)). Thereof, according to IFRS, the pensions provisions of Mr Koch made up about €0.263 million, of Mr Haas about €0.320 million, of Mr Boone about €0.203 million, of Mr Frese about €0.250 million, of Dr Haag Molkenteller about €0.034 million, and of Mr Hutmacher about €0.197 million. The corresponding figures in accordance with HGB for the pensions provisions of Mr Koch made up about €0.264 million, of Mr Haas about €0.344 million, of Mr Boone about €0.224 million, of Mr Frese about €0.255 million, of Dr Haag Molkenteller about €0.034 million, and of Mr Hutmacher about €0.191 million.

The provisions amount in accordance with IFRS and HGB as at 30 September 2017 is for Mr Haas about €0.086 million (IFRS)/about €0.082 million (HGB), for Mr Frese about €0.012 million (IFRS)/about €0.011 million (HGB) and for Dr Haag Molktenteller about €0.006 million (IFRS)/about €0.006 million (HGB). The cash amount of the obligation volume in accordance with IFRS and HGB is for Mr Haas about €1.507 million (IFRS)/about €1.504 million (HGB), for Mr Frese about €1.836 million (IFRS)/about €1.835 million (HGB), and for Dr Haag Molktenteller about €0.564 million (IFRS)/about €0.564 million (HGB). With the exception of the provisions listed in the last paragraph, the cash value of the commitment volume is offset by assets.

**Total compensation of members of the Management Board in the 2016/17 financial year**
Former members of the Management Boards of CECONOMY AG (formerly METRO AG) and the companies that were merged into CECONOMY AG (formerly METRO AG) as well as their surviving dependants received benefits in the amount of €3.4 million in the 2016/17 financial year (2015/16: €3.4 million). The present value of provisions for current pensions and pension entitlements made in accordance with IFRS amounts to €47.6 million (30/09/2016: €53.2 million). The corresponding cash value of provisions for current pensions and pension entitlements according to the German Commercial Code (HGB) amounts to €38.8 million (30/09/2016: €40.4 million).

## Long-term incentive for executives

### LONG-TERM INCENTIVE AT CECONOMY AG

**Sustainable Performance Plan Version 2014 (2014/15–2016/17)**
After the first tranche of the Sustainable Performance Plan (hereinafter: SPP) was issued in financial year 2013/14, an adjustment to the SPP from the 2014/15 financial year was decided: the SPP Version 2014 with an original plan period of four tranches until the following financial year 2017/18. For the 2014/15 tranche of the SPP Version 2014, a three-year performance period applied; from tranche 2015/16 a four-year performance period. With the demerger on 12 July 2017, however, the SPP ends early with the 2016/17 financial year.

A target value in euros was set for the eligible managers. The payout amount was calculated by multiplying the target value by the factor of overall target achievement. This, in turn, was calculated by determining the target achievement factors, each of which is rounded to two decimal points, for each of the three performance targets. The arithmetic mean of the factors, also rounded to two decimal points, gave the overall target achievement factor. The payout amount was limited to a maximum of 250 per cent of the target value (payout cap). Separate rules for the payout of the tranches were agreed upon for the case of employment termination.

The SPP Version 2014 was based on the following three performance targets:

– Total shareholder return (TSR),

– Sustainability, and

– Earnings per share (EPS).

The relative development of the total shareholder return of the former METRO share, compared to a defined comparative index in the performance period, determined the target attainment of the TSR components. To calculate the target achievement factor of the TSR component, the Xetra closing prices of the former METRO ordinary share were determined over a period of 40 trading days directly after the ordinary Annual General Meeting of the former METRO AG in the year of granting. This was used to calculate the arithmetic mean, which is known as the starting share price.

The performance period for the respective tranche began on the 41st trading day following the Annual General Meeting. Once again, the Xetra closing prices of the METRO ordinary share are determined over a period of 40 consecutive trading days immediately following the Annual General Meeting after calculating the starting share price and issuing the applicable tranche. This was used again to calculate the arithmetic mean, which is known as the ending share price. The TSR percentage value was determined on the basis of the change in the METRO share price and the total amount of hypothetically reinvested dividends throughout the performance period in relation to the starting and ending share prices.

The METRO TSR calculated in this manner was compared with the TSR of the Stoxx Europe 600 Retail index (index TSR) during the performance period, and the factor for computing the TSR component determined in this way:

– If the former METRO's TSR was identical to the index TSR, the factor for the TSR component was 1.0;

– If the former METRO's TSR was 30 percentage points or more below the index TSR, the factor for the TSR component was 0.0;

– If the former METRO's TSR was 30 percentage points above the index TSR, the factor for the TSR component was 2.0.

In the case of target achievement with intermediate values and more than 30 percentage points, the TSR factor for the SSP Version 2014 is calculated using linear interpolation to two decimal points.

For the determination of the target achievement factor of the sustainability component, CECONOMY AG – at the time still operating as METRO AG in its function as a holding of the former METRO GROUP – participated every year in the Corporate Sustainability Assessment, which was conducted by the external service provider RobecoSam AG. RobecoSAM AG used this assessment to determine the ranking of the former METRO AG within the industry group Food and Staples Retailing defined in accordance with the Global Industry Classification Standard (GICS). S&P Dow Jones Indices uses this ranking as the basis for decisions regarding a company's inclusion in the Dow Jones Sustainability Indices (DJSI). The former METRO AG is informed each year by RobecoSam AG about its new ranking. The Company's average ranking per tranche – rounded to whole numbers – was determined on the basis of the rankings communicated by RobecoSam AG. The factor for the sustainability component was determined on the basis of the average ranking during the performance period.

The target achievement factor for the EPS component, which was introduced for the first time in the SPP Version 2014, was calculated as follows: Generally, an EPS target value (before special items) for the third or fourth year of the EPS performance period, a lower threshold/entry barrier as well as an upper threshold for 200 per cent target achievement were decided upon at the beginning of the financial year. The EPS value actually achieved during the performance period was compared to the approved values and the factor for calculating the EPS component is determined as follows:

– If the EPS target value was achieved, the factor for the EPS component was 1.0;

– If only the lower entry barrier or a value lower than it was achieved, the factor for the EPS component was 0.0;

– In the event of 200 per cent target achievement, the factor for the EPS component was 2.0.

– In the case of target achievement with intermediate values and more than 200 per cent, the EPS factor for the SPP Version 2014 was calculated using linear interpolation to two decimal points.

The demerger on 12 July 2017 makes the final performance measurement of the SPP Version 2014 impossible based on the pre-determined performance targets. An external expert therefore determined the cash value of the relevant tranches in accordance with a recognised actuarial method on the day of the demerger and paid them out accordingly to those eligible. Those parts of the target values that had not yet vested were transferred to an "LTI-Roll over". A ROCE performance target was set for the 2014/15 tranche; this portion will mature at the end of the original performance period in April 2019. An EPS performance target was set for the 2015/16 tranche and the performance period was reduced by one year to April 2019 when it will mature.

The total payout amount for both tranches in financial year 2016/17 for the seven eligible people at CECONOMY AG was €409,818.25.

| Tranche | Payment in 2016/17 | Roll-over target amount |
|---|---|---|
| 2014/15 | €255,323.50 | €51,642.35 |
| 2015/16 | €154,494.75 | €207,802.87 |

The current tranches of share-based payment programmes resulted in expenses of €6 million (2015/16: €28 million) in the financial year, made up nearly exclusively of discontinued operations.

The provisions relating to the programmes as at 30 September 2017 amount to €0.05 million (30/09/2016: €0.34 million). Thereof €0.02 million relates to the 2014/15 tranche (30/09/2016: €0.26 million) and €0.03 million the 2015/16 tranche (30/09/2016: €0.08 million).

## LONG-TERM INCENTIVE FOR THE DISCONTINUED OPERATIONS

The explanations below relate to the long-term incentives for the discontinued operations for the period from the start of the 2016/17 financial year until the demerger came into effect on 12 July 2017.

### Entitlement for the wholesale business (MCC LTI)

The long-term incentive developed in past financial year for the then sales line METRO Cash & Carry (MCC LTI) was designed specifically for the operating model. It was issued for the first time in the 2015/16 financial year to the senior executives and the management bodies of the METRO Cash & Carry (MCC) companies. This is a cyclical plan that is issued every three years. The respective performance targets focus primarily on value creation in the individual national subsidiaries or for the wholesale segment overall, as well as their sustained development and prospects to measure their success. The performance period of the MCC LTI runs from 1 April 2016 to 31 March 2019. Over this period, the individual target amounts are designed proportionately. The final target amount accumulated at the end of the performance period is based on the period of eligibility for the MCC LTI as well as on the individual's position. According to the terms of the plan, senior managers can be included pro rata in the group of eligible persons or can leave the plan.

### Entitlement for the food retail segment (Real LTI)

The Real long-term incentive (Real LTI) was developed during this financial year for the food retail segment. Top management and management bodies of the food retail business area were eligible. Its performance period started on 1 April 2017 and ends on 31 March 2020. It also replaces the further eligibility for the SPP 2.0. The way it works is based on MCC LTI, and is described below.

### How MCC and Real LTI work

After the end of the relevant performance period, the payout amount is determined by multiplying the respectively accumulated individual target amount by a total target achievement factor. The target achievement rate of this factor for the past performance and future value components accounts for 45 per cent each; the remaining 10 per cent is accounted for by the target achievement rate of the sustainability component. The payout amount is capped and the total target achievement factor cannot drop below zero.

The relevant measure for the past performance and future value components for eligible executives at the MCC national subsidiaries is the performance/value creation of the relevant MCC national subsidiary. The relevant measure for the other eligible executives is the overall performance of the relevant former MCC or Real sales line.

The past performance component rewards the achievement of internal commercial target values and is determined on the basis of the internal metric EBITDA after special items, generated cumulatively over financial years 2015/16 to 2017/18 for MCC and 2016/17 to 2018/19 for Real. Separate target values have been defined for target achievement factors of 1.0 and 0.0, respectively. In the case of intermediate values and values above 1.0, the factor for target achievement is calculated using linear interpolation to two decimal points. The target achievement factor for the past performance component cannot drop below zero and is capped.

The future value component reflects the external valuation of MCC and Real, respectively, in relation to the expected future performance of the respective national subsidiary and the respective former sales line as a whole from an analyst's perspective. To set the targets, the enterprise value of the respective sales line was determined on the basis of analyst valuations before the start of the performance period. It is determined again at the end of each performance period. The enterprise value of the MCC national subsidiaries is derived from the enterprise values of the former MCC sales line. Separate target values have been defined for target achievement factors of 1.0 and 0.0, respectively. In the case of intermediate values and values above 1.0, the factor for target achievement is calculated using linear interpolation to two decimal points. The target achievement factor for the future value component cannot drop below zero and is capped.

The performance target achievement for the sustainability component is determined by the average ranking achieved by CECONOMY AG (still trading as METRO AG acting as the holding company of the former METRO GROUP) during the respective performance period in an externally conducted Corporate Sustainability Assessment. The former METRO AG participated in each year of the performance periods in the Corporate Sustainability Assessment conducted by the independent service provider RobecoSam AG every year of the performance periods. RobecoSam AG used these assessments to determine the ranking of the former METRO AG within the industry group "Food & Staples Retailing", defined in accordance with the Global Industry Classification Standard (GICS). RobecoSam AG will inform the former METRO AG of any changes in its sector classification. In the case of material changes in the composition of the companies or ranking method, RobecoSam AG can determine adequate comparable values.

The Company's average ranking, rounded up to whole numbers, was determined on the basis of the rankings communicated during the respective performance period. The factor for the sustainability component was determined in the following manner on the basis of the average over the performance period:

| Average ranking (rounded) | Sustainability factor |
|---|---|
| 1 | 3.00 |
| 2 | 2.50 |
| 3 | 2.00 |
| 4 | 1.50 |
| 5 | 1.25 |
| 6 | 1.00 |
| 7 | 0.75 |
| 8 | 0.50 |
| 9 | 0.25 |
| Below 9 | 0.00 |

As at the closing date, none of the managers of CECONOMY AG qualified for payments from MCC LTI or Real LTI.

**Sustainable Performance Plan (2013/14)**

After the last tranche of the Performance Share Plan was paid in the short financial year 2013, the first tranche of the Sustainable Performance Plan (hereinafter: SPP) was issued in financial year 2013/14.

A target value in euros was set for the eligible managers. This depends for 75 per cent on the TSR component and for 25 per cent on the sustainability component.

The calculation of the TSR component follows the method described for the SPP Version 2014; however, the factor for the TSR component is a maximum of 3.0 (cap). Furthermore, the following additional condition applies assuming the TSR factor is positive: a payment of 75 per cent of the target amount multiplied by the TSR factor will be made only if the calculated final price of the former METRO share does not fall below the initial share price. Should this condition not be met, the calculated amount will not initially be paid. In this case, an entitlement to payment will exist only if the Xetra closing price of the former METRO ordinary share is higher than or equal to the initial share price for 40 consecutive trading days within a three-year period from the end of the performance period. Should this condition not be met within three years after the performance period ends, no payment will be made of the TSR component of the tranche.

Similarly, the method described for the SPP Version 2014 also applies to the calculation of the factor for the sustainability component, with the factor for the sustainability component depending on the average ranking during the performance period.

The following additional condition will also apply: A payment of 25 per cent of the target amount multiplied by the sustainability factor will be made only if the ranking of the former METRO AG does not fall by more than two places below the last published ranking before the issuance of the tranche in any year of the performance period. Otherwise, the factor for the sustainability component will be zero. The payment cap for the sustainability component amounts to three times the target amount.

The sustainability component was paid as normal to those eligible under the plan conditions following the end of the performance period on 3 April 2017. As the additional payout condition for the TSR component was not achieved, this part was not yet due for payment. Due to the demerger on 12 July 2017, however, no final measurement of achievement of the TSR components based on the defined criteria was now possible. An external assessor applied a recognised financial process to calculate the cash value of the TSR components on the date of the demerger, and it was paid out to those eligible on this basis.

In financial year 2016/17, none of the CECONOMY AG management team was eligible for payments under the SPP.

**Performance Share Plan (2009–2013)**

In 2009, the former METRO AG introduced a Performance Share Plan for a period of five years, for which the last tranche was issued in the short financial year 2013. Under this scheme, eligible managers were given an individual target amount for the Performance Share Plan (target value) reflecting with the significance of their responsibilities. The target number of performance shares was calculated by dividing this target value by the share price upon grant, based on the average price of the METRO share during the three months up to the granting date. The key metric in this calculation was the three-month average price of the former METRO share before the grant date. A performance share entitles its holder to a cash payment in euros equivalent to the price of the former METRO share on the payment date. The key metric in this calculation is also the three-month average price of the former METRO share before the payment date.

Based on the relative performance of the former METRO share compared with the median of the DAX 30 and Euro Stoxx Retail indices – total return – the final number of performance shares payable is determined after the end of a performance period of at least three and at most 4.25 years. It corresponds to the target number of shares when an equal performance with these stock indices is achieved. Up to an outperformance of 60 per cent, the number increases linearly to a maximum of 200 per cent of the target amount. Up to an underperformance of 30 per cent, this is accordingly reduced to a minimum of 50 per cent. In the case of an underperformance of more than 30 per cent, the number is reduced to zero.

Payment can be made at six possible times, which are set in advance. The earliest payment date is three years after granting of the performance shares. From this time, payment can be made every three months. The eligible managers can choose the date upon which they wish to exercise performance shares. Distribution over several payment dates is not permitted. The payment cap amounts to five times the target value.

METRO GROUP introduced Share Ownership Guidelines along with its Performance Share Plan: as a prerequisite for payments of performance shares, eligible executives are obliged to undertake continuous self-financed investment in former METRO shares up to the end of the three-year vesting period. This ensures that, as shareholders, they will directly participate in share price gains as well as potential losses of the former METRO share. The required investment volume generally amounts to approximately 50 per cent of the individual target value.

The exercise period for the 2013 tranche ended in July 2017. None of the senior managers at CECONOMY AG was entitled to payments under the Performance Share Plan in financial year 2016/17. The Performance Share Plan duly ended on 1 July 2017 and there are no further claims under the plan.

## Compensation of members of the Supervisory Board

In accordance with Art. 13 of the Articles of Association of CECONOMY AG and what is, in this respect, similar wording in Art. 13 of the Articles of Association of the former METRO AG, the Supervisory Board members receive fixed annual remuneration payable at the end of the respective financial year. An individual member's remuneration is generally €80,000.

The individual amount of Supervisory Board remuneration takes into account the duties and responsibilities of the individual members of the Supervisory Board based on their oversight remit. Due to their special responsibilities, the Chair of the Supervisory Board receives three times, his Vice-Chair and the committee Chairs double, and the members of the Supervisory Board committees one and a half times, the compensation of an ordinary Supervisory Board member, but not the chair and members of the Mediation Committee pursuant to Section 27 (3) MitbestG. In addition, the increased remuneration for a committee member or chair only applies if during the financial year in question the said committee has held at least two meetings or adopted other resolutions on at least two occasions.

A Supervisory Board member who holds several offices at the same time receives compensation for only one office; if levels of remuneration are different, the member is compensated for the most highly paid office.

The remuneration factors that potentially apply to the fixed annual remuneration for individual Supervisory Board members are shown in the summary below:

### Remuneration factors

| | |
|---|---|
| Chair of the Supervisory Board | ●●● |
| Vice-Chair | ●● |
| Committee chairs[1] | ●● |
| Committee members[1] | ●◖ |
| Members of the Supervisory Board | ● |

[1] For at least two meetings/resolutions of the committee in the relevant financial year

Supervisory Board members who have been members of the Supervisory Board for only part of the financial year receive a twelfth of the remuneration for each new month of their activity. This correspondingly applies to members of a committee, the Chair or Vice-Chair of the Supervisory Board, or the chair of a committee.

The figures given in the summary below apply to financial year 2016/17. The circumstances that increase the remuneration for an individual member of the Supervisory Board and the underlying periods for the members of the Supervisory Board or members of the committees are noted for the individuals concerned.

**Remuneration of Supervisory Board members for financial year 2016/17 pursuant to Art. 13 of the Articles of Association of the former METRO AG and Art. 13 of the Articles of Association of CECONOMY AG[1]**

| € | Financial year | Fixed salary |
|---|---|---|
| **Jürgen B. Steinemann**<br>(01/10/2016–12/07/2017, including as Chair of the Supervisory Board, Chair of the Supervisory Board Presidential Committee, Chair of the Personnel Committee, chair of the Nomination Committee, and Chair of the Mediation Committee: 01/10/2016–12/07/2017) | 2015/16 | 186,667 |
| | **2016/17** | **200,000** |
| **Jürgen Fitschen**<br>(01/10/2016–30/09/2017, including as Chair of the Supervisory Board, Chair of the Supervisory Board Presidential Committee, Chair of the Nomination Committee, and Chair of the Mediation Committee: 25/07/2017–30/09/2017 and as member of the Supervisory Board Presidential Committee, Personnel Committee and Nomination Committee: 01/10/2016–25/07/2017) | 2015/16 | 120,000 |
| | **2016/17** | **150,000** |
| **Werner Klockhaus**<br>(01/10/2016–12/07/2017, including 01/10/2016–12/07/2017 as Vice-Chair of the Supervisory Board and Vice-Chair of the Supervisory Board Presidential Committee, Vice-Chair of the Personnel Committee, Vice-Chair of the Accounting and Audit Committee, and Vice-Chair of the Mediation Committee) | 2015/16 | 160,000 |
| | **2016/17** | **133,333** |
| **Jürgen Schulz**<br>(01/10/2016–30/09/2017, including as Vice-Chair of the Supervisory Board, member of the Supervisory Board Presidential Committee, Vice-Chair of the Audit Committee, and member of the Mediation Committee: 25/07/2017–30/09/2017) | 2015/16 | 66,667 |
| | **2016/17** | **100,000** |
| **Prof. Dr oec. Dr iur. Ann-Kristin Achleitner**<br>(01/10/2016–06/02/2017) | 2015/16 | 80,000 |
| | **2016/17** | **33,333** |
| **Gwyn Burr**<br>(01/10/2016–12/07/2017) | 2015/16 | 80,000 |
| | **2016/17** | **66,667** |

**Remuneration of Supervisory Board members for financial year 2016/17 pursuant to Art. 13 of the Articles of Association of the former METRO AG and Art. 13 of the Articles of Association of CECONOMY AG[1]**

| € | Financial year | Fixed salary |
|---|---|---|
| **Ulrich Dalibor**<br>(01/10/2016–30/09/2017, including as member of the Audit Committee: 25/07/2017–30/09/2017) | 2015/16 | 80,000 |
| | **2016/17** | **90,000** |
| **Karin Dohm**<br>(01/10/2016–30/09/2017, including as member of the Audit Committee: 25/07/2017–30/09/2017) | 2015/16 | 53,333 |
| | **2016/17** | **90,000** |
| **Thomas Dommel**<br>(01/10/2016–12/07/2017) | 2015/16 | 66,667 |
| | **2016/17** | **66,667** |
| **Dr Bernhard Düttmann**<br>(12/07/2017–30/09/2017, including as member of the Nomination Committee, and as member of the Mediation Committee: 25/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **20,000** |
| **Daniela Eckardt**<br>(13/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **20,000** |
| **Stefanie Friedrich**<br>(13/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **20,000** |
| **Dr Florian Funck**<br>(01/10/2016–30/09/2017, including as member of the Accounting and Audit Committee: 01/10/2016–25/07/2017, and as member of the Audit Committee: 25/07/2017–30/09/2017) | 2015/16 | 120,000 |
| | **2016/17** | **120,000** |
| **Ludwig Glosser**<br>(13/07/2017–30/09/2017, including as member of the Mediation Committee: 25/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **20,000** |
| **Julia Goldin**<br>(12/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **20,000** |
| **Jo Harlow**<br>(12/07/2017–30/09/2017) | 2015/16 | |

**Remuneration of Supervisory Board members for financial year 2016/17 pursuant to Art. 13 of the Articles of Association of the former METRO AG and Art. 13 of the Articles of Association of CECONOMY AG[1]**

| € | Financial year | Fixed salary |
|---|---|---|
| | **2016/17** | **20,000** |
| **Andreas Herwarth**<br>(01/10/2016–12/07/2017, including as member of the Accounting and Audit Committee: 01/10/2016–12/07/2017) | 2015/16 | 113,333 |
| | **2016/17** | **100,000** |
| **Peter Küpfer**<br>(01/10/2016–30/09/2017, including as member of the Audit Committee: 25/07/2017–30/09/2017) | 2015/16 | 80,000 |
| | **2016/17** | **90,000** |
| **Rainer Kuschewski**<br>(01/10/2016–30/09/2017, including as member of the Accounting and Audit Committee: 01/10/2016–25/07/2017, and as member of the Audit Committee: 25/07/2017–30/09/2017) | 2015/16 | 120,000 |
| | **2016/17** | **120,000** |
| **Susanne Meister**<br>(01/10/2016–12/07/2017) | 2015/16 | 80,000 |
| | **2016/17** | **66,667** |
| **Dr Angela Pilkmann**<br>(01/10/2016–12/07/2017) | 2015/16 | 6,667 |
| | **2016/17** | **66,667** |
| **Birgit Popp**<br>(13/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **20,000** |
| **Mattheus P. M. (Theo) de Raad**<br>(01/10/2016–12/07/2017) | 2015/16 | 80,000 |
| | **2016/17** | **66,667** |
| **Dr Fredy Raas**<br>(01/10/2016–30/09/2017, including as member of the Accounting and Audit Committee: 01/10/2017–25/07/2017) | 2015/16 | 120,000 |
| | **2016/17** | **113,333** |
| **Xaver Schiller**<br>(01/10/2016–12/07/2017, including as member of the Supervisory Board Presidential Committee, as member of the Personnel Committee, and member of the Mediation Committee: 01/10/2016–12/07/2017) | 2015/16 | 120,000 |
| | **2016/17** | **100,000** |

### Remuneration of Supervisory Board members for financial year 2016/17 pursuant to Art. 13 of the Articles of Association of the former METRO AG and Art. 13 of the Articles of Association of CECONOMY AG[1]

| € | Financial year | Fixed salary |
|---|---|---|
| **Dr jur. Hans-Jürgen Schinzler** (01/10/2016–30/09/2017, including as Chair of the Accounting and Audit Committee: 01/10/2016–25/07/2017, and as Chair of the Audit Committee: 25/07/2017–30/09/2017, as member of the Nomination Committee: 01/10/2016–25/07/2017, and member of the Nomination Committee: 25/07/2017–30/09/2017) | 2015/16 | 160,000 |
| | **2016/17** | **160,000** |
| **Regine Stachelhaus** (06/02/2017–30/09/2017, including as member of the Supervisory Board Presidential Committee, and member of the Nomination Committee: 25/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **63,333** |
| **Vinko Vrabec** (13/07/2017–30/09/2017, including as member of the Supervisory Board Presidential Committee: 25/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **30,000** |
| **Angelika Will** (01/10/2016–30/09/2017) | 2015/16 | 80,000 |
| | **2016/17** | **80,000** |
| **Sylvia Woelke** (13/07/2017–30/09/2017, including as member of the Audit Committee: 25/07/2017–30/09/2017) | 2015/16 | |
| | **2016/17** | **30,000** |
| **Total**[2] | **2015/16** | **1,973,334** |
| | **2016/17** | **2,276,667** |

[1] Plus any applicable value added tax in each case in accordance with Art. 13 (5) of the Articles of Association
[2] Reported figures for 2015/16 relate to active members of the Supervisory Board in financial year 2016/17.

In accordance with the provisions of the Articles of Association, the Company also reimburses members of the Supervisory Board for expenses they incur in the exercise of their office. Any value added tax payable on the remuneration and reimbursement of expenses will also be reimbursed to the members of the Supervisory Board.

In financial year 2016/2017, individual members of the Supervisory Board of CECONOMY AG (former METRO AG) also received compensation from the relevant Group companies of the former METRO GROUP and CECONOMY for Supervisory Board mandates at Group companies.

### Other intra-Group compensation of members of the Supervisory Board for financial year 2016/17[1]

| € | Financial year | |
|---|---|---|
| Werner Klockhaus | 2015/16 | 9,300 |
| | **2016/17** | **9,300** |
| Thomas Dommel | 2015/16 | 4,500 |
| | **2016/17** | **4,500** |
| Rainer Kuschewski | 2015/16 | 6,200 |
| | **2016/17** | **1,550** |
| Xaver Schiller | 2015/16 | 9,000 |
| | **2016/17** | **9,000** |
| Total | 2015/16 | 29,000 |
| | **2016/17** | **24,350** |

[1] Plus any applicable value added tax in each case

Beyond this, the members of the Supervisory Board were not granted any remuneration or benefits for work they performed personally, in particular, consulting and brokerage services, on behalf of companies of the former METRO GROUP as defined in section 5.4.6 of the German Corporate Governance Code.

# DISCLOSURES PURSUANT TO SECTIONS 315 (4) AND 289 (4) HGB (SUPERSEDED VERSION) AND EXPLANATORY REPORT BY THE MANAGEMENT BOARD

### Composition of share capital (Section 315 (4) No. 1 and Section 289 (4) No. 1 German Commercial Code [HGB] (superseded version))

As at 30 September 2017, the share capital of CECONOMY AG totalled €835,419,052.27. It is divided into 324,109,563 ordinary bearer shares (proportional value of the share capital: around €828,572,941 or about 99.18 per cent) and 2,677,966 preference bearer shares (proportional value of the share capital: around €6,846,111 or about 0.82 per cent). The proportional value per share amounts to about €2.56.

Each ordinary share grants one voting right. In addition, ordinary shares entitle the holder to dividends. In contrast to ordinary shares, preference shares principally do not carry voting rights and give a preferential entitlement to profits in line with Art. 21 of the Articles of Association of CECONOMY AG. This section states the following:

“(1) Holders of non-voting preference shares will receive from the annual balance sheet profit a preference dividend of €0.17 per preference share, which shall be paid in arrears.

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

(3) After the preference dividend has been distributed, the holders of ordinary shares will receive a dividend of €0.17 per ordinary share. Thereafter, a non-cumulative extra dividend of €0.06 per share will be paid to the holders of non-voting preference shares. The extra dividend shall amount to 10 per cent of such dividend as, in accordance with Section 4 herein below, will be paid to the holders of ordinary shares insofar as such dividend equals or exceeds €1.02 per ordinary share.

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

Other rights associated with ordinary and preference shares include in particular the right to attend the Annual General Meeting (Section 118 (1) AktG), the right to information (Section 131 AktG) and the right to file a legal challenge or a complaint for nullity (Section 245 Nos. 1–3, Sections 246, 249 AktG). As well as the said right to receive a dividend, shareholders have in principle a right to subscribe to capital increases (Section 186 (1) AktG). They are also entitled to the liquidation proceeds following dissolution of the Company (Section 271 AktG) and to compensation and a severance payment in certain structural measures, including those under Sections 304 ff., 320 b, 327 b AktG.

## Voting-related restrictions (Section 315 (4) No. 2 and Section 289 (4) No. 2 HGB (superseded version))

To the knowledge of the Management Board, the following agreements exist or existed during financial year 2016/17. These agreements can be regarded as restrictions in the sense of Section 315 (4) No. 2 and Section 289 (4) No. 2 HGB (superseded version):

A pooling agreement exists between Beisheim Capital GmbH, Düsseldorf, Germany, and Beisheim Holding GmbH, Baar, Switzerland, which includes the CECONOMY AG shares held by Beisheim Capital GmbH and Beisheim Holding GmbH.

In preparation for the demerger of CECONOMY AG (which was then still operating under the name of METRO AG), each of the three major shareholders of CECONOMY AG – the Haniel shareholder group, the Schmidt-Ruthenbeck shareholder group and the Beisheim shareholder group – has entered into temporary lock-up agreements at arm's length conditions with CECONOMY AG for their CECONOMY shares, and has agreed to certain other restrictions on title of these shares.

There may also be statutory restrictions of the voting rights, for example pursuant to Section 136 AktG or, where the Company was to hold own shares, pursuant to Section 71 b AktG.

## Capital holdings (Section 315 (4) No. 3 and Section 289 (4) No. 3 HGB (superseded version))

The following direct and indirect capital holdings (pursuant to Section 22 WpHG) exist which exceed ten per cent of the voting rights:

| Name/company | Direct/indirect stake exceeding 10 per cent of voting rights |
|---|---|
| Haniel Finance Deutschland GmbH, Duisburg, Germany | Direct |
| Franz Haniel & Cie. GmbH, Duisburg, Germany | Indirect |
| Palatin Verwaltungsgesellschaft mbH, Essen, Germany | Direct |
| BVG Beteiligungs- und Vermögensverwaltungs-GmbH, Essen, Germany | Indirect |
| Gebr. Schmidt GmbH & Co. KG, Essen, Germany | Indirect |
| Gebr. Schmidt Verwaltungsgesellschaft mbH, Essen, Germany | Indirect |
| Meridian Stiftung, Essen, Germany | Indirect |

The above disclosures are based, in particular, on the notifications under Section 21 WpHG, which CECONOMY AG has received and published.

Notifications of voting rights published by CECONOMY AG can be found on the website www.ceconomy.de in the section Investor Relations – Legal Announcements.

## Owners of shares with special rights and type of voting rights control where capital holdings are held by employees (Section 315 (4) No. 4 and 5 and Section 289 (4) Nos. 4 and 5 HGB (superseded version))

The Company has not issued any shares with special rights pursuant to Section 315 (4) No. 4 and Section 289 (4) No. 4 HGB (superseded version). No capital holdings are held by employees within the meaning of Section 315 (4) No. 5 and Section 289 (4) No. 5 HGB (superseded version).

## Regulations governing the appointment to and removal of members from the Management Board, and changes to the Articles of Association (Section 315 (4) No. 6 and Section 289 (4) No. 6 HGB (superseded version))

The appointment to and removal of members from the Management Board of CECONOMY AG are governed by Sections 84, 85 AktG and Sections 30, 31, 33 of the German Codetermination Act [MitbestG]. Art. 5 of the Articles of Association of CECONOMY AG additionally stipulates that the Management Board shall consist of at least two members, and also that the Supervisory Board shall determine the number of members of the Management Board.

Amendments of the Articles of Association of CECONOMY AG shall in principle be determined in accordance with Sections 179, 181, 133 AktG. In addition, there are numerous other provisions of the German Stock Corporation Act [AktG] which may apply in the case an amendment to the Articles of Association and modify or replace the aforementioned provisions, for example Sections 182 et seqq. AktG in the case of capital increases, Sections 222 et seqq. AktG in the case of capital reductions or Section 262 AktG for the dissolution of the public limited company. Amendments which only affect the version of the Articles of Association may be decided on by the Supervisory Board pursuant to Art. 14 of the Articles of Association of CECONOMY AG without a resolution by the Annual General Meeting.

## Powers of the Management Board (Section 315 (4) No. 7 and Section 289 (4) No. 7 HGB (superseded version))

### AUTHORITIES TO ISSUE NEW SHARES

The Annual General Meeting on 6 February 2017 authorised the Management Board to increase the share capital, with the consent of the Supervisory Board, by issuing new ordinary bearer shares in exchange for cash or non-cash contributions in one or more tranches for a total maximum of €417,000,000 by 5 February 2022 (authorised capital).

In the process, a subscription right is granted to existing shareholders. The new shares may also be acquired by banks or equivalent entities as defined in Section 186 (5) sentence 1 AktG chosen by the Management Board if they agree to tender them to the shareholders. However, the Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholder subscription rights in the following cases:

- For the settlement of fractional amounts
- Where the shares are issued in exchange for contributions in kind for the purpose of company mergers or the acquisition of companies, parts of companies, businesses, parts of businesses, or shares in companies.
- In the case of capital increases in exchange for cash deposits, to the extent necessary in order to grant the owners of the warrant or convertible bearer bonds issued by the Company, or by Group companies in which the Company directly or indirectly has at least a 90 per cent share, a right to subscribe to new ordinary shares to the extent to which they would be entitled as shareholders after exercise of the right or fulfilment of the obligation under the warrant or convertible bearer bonds or after exercise of a substitution authority of the Company.
- In the case of capital increases in consideration of cash deposits, if the nominal amount of said capital increases does not in aggregate exceed 10 per cent of the share capital and the issue price of the new ordinary shares in each case does not fall significantly below the stock price of the Company's previously listed shares with the same terms. The limit of 10 per cent of the Company's share capital is reduced by the share of the share capital represented by the Company's own shares which are (i) used as own shares or sold during the term of authorised capital while excluding subscription rights of the shareholders in analogous application of Section186 (3) sentence 4 AktG, or (ii) issued from contingent capital to service warrant or convertible bearer bonds which, in turn, have been or are issued while excluding subscription rights in analogous application of Section 186 (3) sentence 4 AktG. The portion of the share capital attributable to shares that are being issued in ex-

change for contributions in cash and/or in kind during the term of this authorisation with an exclusion of the shareholders' subscription rights may not exceed 20 per cent of the Company's share capital existing at the point in time of the adoption of the resolution by the Annual General Meeting.

The Management Board is authorised, with the consent of the Supervisory Board, to define further details of the capital increases. The authorised capital has not been used to date. There are no concrete plans as to the utilisation of this authorisation.

### AUTHORISATION TO ISSUE WARRANT AND/OR CONVERTIBLE BONDS

The Annual General Meeting on 20 February 2015 authorised the Management Board to issue, in each case with the consent of the Supervisory Board, warrant or convertible bearer bonds (in aggregate, "bonds") with an aggregate par value of up to €1,500,000,000 prior to 19 February 2020, on one or more occasions, and to grant the holders of warrant or convertible bearer bonds warrant or conversion rights or impose warrant or conversion obligations upon them for ordinary bearer shares in CECONOMY AG, representing up to €127,825,000 of the share capital in accordance with the terms of the warrant or convertible bearer bonds. Contingent capital of up to €127,825,000 was created in connection with this authorisation (contingent capital I).

The bonds may also be issued by affiliates of CECONOMY AG as defined in Section 18 AktG in which CECONOMY AG directly or indirectly holds at least 90 per cent of the shares. In that case, the Management Board is authorised to assume, in each case with the consent of the Supervisory Board, a guarantee for those bonds on behalf of CECONOMY AG and grant their holders warrant or conversion rights to ordinary shares in CECONOMY AG or impose warrant or conversion obligations upon them.

Shareholders will be granted statutory subscription rights in that the bonds will be acquired by a bank or syndicate of banks contingent upon agreement to offer the bonds to the shareholders. If bonds are issued by an affiliate of CECONOMY AG as defined in Section 18 AktG in which CECONOMY AG directly or indirectly holds at least 90 per cent of shares, CECONOMY AG must ensure that statutory subscription rights are granted to the shareholders of CECONOMY AG in accordance with the above sentence.

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

The Management Board is also authorised to entirely exclude, in each case with the consent of the Supervisory Board, shareholder subscription rights to bonds issued in exchange for cash payment carrying warrant or conversion rights or obligations insofar as the Management Board concludes, after careful review, that the issue price of the bonds is not substantially lower than the hypothetical market value ascertained using recognised financial mathematical methods. This authorisation to exclude subscription rights applies to bonds which are issued with warrant or conversion rights or obligations to ordinary shares comprising no more than 10 per cent of the share capital at the time the authorisation takes effect or – if this value is lower – at the time the authorisation is exercised. The proportion of share capital which is (i) attributable to shares of the Company which are issued or sold during the term of said authorisation excluding the subscription right in direct or analogous application of Section 186 (3) sentence 4 AktG, and (ii) attributable to shares of the Company which are issued or are to be issued to service warrant or convertible bearer bonds, which in turn have been issued during the term of said authorisation (pursuant to other authorisations) excluding the subscription right by analogous application of Section 186 (3) sentence 4 AktG, will count towards this 10 per cent limit.

Where bonds are issued which grant a warrant or conversion right or create a warrant or conversion obligation, the warrant or conversion price will be determined in accordance with the provisions in Art. 4 (8) of the Articles of Association of CECONOMY AG.

In the case of bonds carrying warrant or conversion rights or warrant or conversion obligations, the warrant or conversion price may be adjusted after closer determination in order to preserve the value of such warrant or conversion rights or warrant or conversion obligations in the event their economic value is diluted, to the extent that such an adjustment is not already provided for by law. The terms of the bonds may also provide for an adjustment of warrant or conversion rights or warrant or conversion obligations in case of a capital reduction or other extraordinary measures or events (for example, unusually high dividends, acquisition of control by third parties). In case of the acquisition of control by third parties, the terms of the bonds may provide for adjustment of the warrant or conversion price in accordance with typical market terms. Furthermore, the terms of the bonds may provide for a variable conversion ratio and/or variable warrant and conversion price, with the warrant or conversion price being determined within a range to be set based on the development of the share price during the term. Nor must the minimum issue amount according to the stipulations in Art. 4 (8) of the Articles of Association of CECONOMY AG be undercut.

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

The terms of the bonds may also call for a warrant or conversion obligation at the end of the term (or at any other time), or authorise CECONOMY AG to grant bond holders ordinary shares in CECONOMY AG or shares in another exchange-listed company upon maturity of bonds carrying warrant or conversion rights (including bonds which mature due to termination), in whole or in part, in lieu of a maturity payment in cash. The percentage of share capital represented by the ordinary shares in CECONOMY AG issued upon the exercise of warrant or conversion rights must not exceed the par value of the bonds. Sections 9 (1) and 199 (2) AktG apply.

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

To date, the authorisation to issue warrant and/or convertible bonds has not been used and no concrete plans exist as to the utilisation of this authorisation.

### AUTHORISATION TO BUY BACK THE COMPANY'S OWN SHARES

The Company is authorised to buy back its own shares in accordance with Section 71 AktG. Pursuant to Section 71 (1) No. 8 AktG, the Company was authorised by resolution of the Annual General Meeting of 20 February 2015 to purchase own shares of any class up until 19 February 2020. The authorisation is limited to the acquisition of shares collectively representing a maximum of ten per cent of the share capital issued as of the date the Annual General Meeting resolution is passed or – if this value is lower – at the time the authorisation is exercised. The shares acquired on the basis of this authorisation, together with any own shares acquired for other reasons held by the Company or attributable to it in accordance with Sections 71a et seqq. AktG, shall collectively not exceed 10 per cent of the Company's share capital at any time.

The shares may be acquired on the stock exchange or by a public tender offer. The authorisation contains specifications in each case concerning the purchase price and the procedure when a public tender offer is oversubscribed.

The Management Board is authorised to use the shares in the Company acquired based on the above authorisation or based on a previously issued authorisation for the following purposes:

- Sale of shares of the Company on the stock exchange or by an offer to all shareholders,

- Listing of shares of the Company on foreign stock exchanges on which they have previously not been admitted for trading, in which case the authorisation will contain requirements concerning the initial listing price,

- Transfer of shares of the Company to third parties for a non-cash consideration as part of company mergers or in the acquisition of companies, parts of companies, businesses, holdings in companies or other assets,

- Sale of shares of the Company by means other than via the stock exchange or via an offer to all shareholders, provided that the sale is for cash payment and at a price not substantially lower than the stock exchange price in effect for listed shares of the Company with the same terms on the date of the sale. The foregoing authorisation is limited to the sale of shares collectively representing no more than 10 per cent of the share capital at the time the authorisation takes effect or – if this value is lower – at the time the authorisation is exercised. The proportion of share capital which is (i) attributable to shares of the Company which are issued during the term of said authorisation excluding the subscription right in direct or analogous application of Section 186 (3) sentence 4 AktG, and (ii) attributable to shares of the Company which are issued or are to be issued to service warrant or convertible bearer bonds, which in turn have been issued during the term of said authorisation excluding the subscription right by analogous application of Section 186 (3) sentence 4 AktG, shall count towards this cap of 10 per cent of the share capital.

- Delivery of shares to holders of warrant or convertible bearer bonds of the Company or its affiliates, in accordance with Section 18 AktG under the terms and conditions applicable to such warrant or convertible bonds. This also applies to the delivery of shares based upon the exercise of subscription rights, which in the event of a sale of Company shares through an offer to all shareholders or in the event of a capital increase with subscription rights may be granted to holders of warrant or convertible bearer bonds of the Company or any of its affiliates in accordance with Section 18 AktG to the same extent that holders of such warrant or convertible bearer bonds would have subscription rights for shares of the Company after exercising the warrant or conversion rights or performing the warrant or conversion obligations. The shares transferred based upon this authorisation shall collectively not exceed a pro rata amount of 10 per cent of the share capital at the time the authorisation takes effect or – if this value is lower – at the time the authorisation is exercised, insofar as such shares were issued to service warrant or conversion rights or obligations granted or imposed in application of Section 186 (3) sentence 4 AktG mutatis mutandis. The limit of 10 per cent of the share capital is reduced by the pro rata amount of share capital represented by any shares issued or sold during the effective period of this authorisation by application of Section 186 (3) sentence 4 AktG mutatis mutandis.

- Dividend payment in the form of shares (scrip dividend), whereby Company shares are used (also partially and optionally) to service dividend rights of shareholders,

- Redemption of shares of the Company, without the need for any further resolution by the Annual General Meeting. Such redemption may also be accomplished without an increase in capital by adjusting the proportional value of the remaining no-par value shares to the share capital of the Company. In this case, the Management Board is authorised to adjust the number of no-par value shares in the Articles of Association.

The above authorisations to acquire and use the Company's own shares based on the above or previous authorisations may be exercised in whole or in part, on one or more occasions, individually or collectively by the Company or its affiliates in accordance with Section 18 AktG or by third parties acting for their account or for the account of the Company. The above authorisations may be exercised for ordinary shares as well as preference shares or for ordinary shares or preference shares only.

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

The subscription rights of shareholders are excluded if Company shares are used for any of the purposes authorised above except for the authorisation to sell own shares by offer to all shareholders, authorisation for dividend payments in form of a scrip dividend, and authorisation for the redemption of shares without the need for any further resolution by the Annual General Meeting.

The Management Board is authorised to exclude shareholder subscription rights for residual amounts if Company shares are used according to the authorisation to sell own shares by offer to all shareholders in compliance with the principle of equal treatment ("Gleichbehandlungsgrundsatz", Section 53a AktG). In addition, the Management Board is authorised to exclude shareholder subscription rights if Company shares are used for dividend payments in form of a scrip dividend.

On 20 February 2015, the Management Board was also authorised by the Annual General Meeting to acquire shares under this authorisation by use of put or call options or futures (hereinafter: futures) or a combination thereof (hereinafter: derivatives). The acquisition of shares using derivatives is limited to shares collectively representing a maximum of 5 per cent of the share capital issued as of the date the Annual General Meeting resolution is passed or – if this value is lower – at the time the authorisation is exercised. The derivative's term of maturity must be chosen such that the acquisition of shares using derivatives does not take place after 19 February 2020. The derivatives contracts must be concluded with one or more credit institution(s) that are independent of CECONOMY AG and/or one or more companies meeting the requirements of Section 53 (1) sentence 1 or Section 53 b (1) sentence 1 or (7) of the German Banking Act [Kreditwesengesetz, KWG]. The characteristics of the derivatives must ensure that they are serviced only with shares purchased in compliance with the equal treatment principle (Section 53a AktG). This requirement is met by shares purchased on a stock exchange.

The option premium received by the Company for put options/paid for call options must not fall significantly below the theoretical market value determined using recognised financial mathematical models for the options concerned. The purchase price per Company share to be paid when exercising a put or call option or upon due date of the futures may not be more than 10 per cent higher or lower than the average closing price (arithmetic mean) of the same class of Company shares in the Xetra trading system (or a comparable successor system) on the Frankfurt Stock Exchange over the three days of trading before concluding the corresponding derivative transaction (excluding incidental costs but taking the received or paid option premium into consideration).

If the Company's own shares are acquired using derivatives in compliance with the above regulations, the rights of shareholders to enter into derivative transactions with the Company as well as any put options for shareholders are excluded.

The regulations listed above also cover the use of the Company's own shares acquired using derivatives.

To date, the authorisation granted by resolution adopted by the Annual General Meeting on 20 February 2015 to buy back the Company's own shares in accordance with Section 71 (1) No. 8 AktG, also by using derivatives, has not been used, nor are there any specific plans to use this authorisation.

In financial year 2016/17, the Management Board did, however, decided to grant ordinary shares in CECONOMY AG to CECONOMY AG employees in three tranches as an incentive. The transfer of the tranches to the employees will commence at the start of financial year 2017/18 and continue at the start of calendar years 2018 and 2019. The CECONOMY AG shares needed to service this programme and representing a total volume of approximately €90,000.00 will be repurchased under the statutory authorisation granted in Section 71 (1) No. 2 AktG. The CECONOMY AG shares destined for transfer to the employees will also be purchased in three tranches at the start of financial year 2017/18 and at the start of calendar years 2018 and 2019, respectively. The relevant number of ordinary shares in CECONOMY AG that are slated for issue to the employees of CECONOMY AG in each tranche will be repurchased accordingly. As per statutory regulations, shareholders' subscription rights will be excluded in the share repurchase programme.

### Fundamental agreements subject to change of control (Section 315 (4) No. 8 and Section 289 (4) No. 8 HGB (superseded version))

As a borrower, CECONOMY AG is currently party to a syndicated credit agreement and to multi-year bilateral credit agreements that the lender may cancel in the event of a change of control. The requirements of a change of control are, first, that the shareholders who controlled CECONOMY AG at the time at which each contract was signed lose control over CECONOMY AG. The second requirement is the assumption of control of CECONOMY AG by one or more parties. In this case, the banks may cancel the contracts and demand repayment of the loans governed by the agreements. The regulations as described here are common market practice and serve to protect creditors. In financial year 2016/17, these loans were not drawn upon.

### Compensation agreements in the event of a change of control (Section 315 (4) No. 9 and Section 289 (4) No. 9 HGB (superseded version))

The decision in financial year 2016/17 to reappoint/appoint Pieter Haas, Mark Frese and Dr Dieter Haag Molkenteller to the Management Board of CECONOMY AG was accompanied by the inclusion in their contracts of clauses governing compensation agreements in the event of a takeover bid that became effective on the day after the hive-down and spin-off of METRO Wholesale & Food Specialist AG became effective. In accordance with these agreements, these members of the Management Board are granted an exceptional right of termination in the event of a change of control accompanied by significant limitations imposed on their Management Board roles, which they must exercise within six months of the change in control. If the appointment of one of these members of the Management Board ends, either as a result of their exercising their exceptional right of termination or by mutual agreement, within six months of the change in control, that member of the Management Board will be paid the contractual claims to which they are entitled for the residual term of their contract in one lump sum. Such severance payment including supplemental benefits is, however, capped at the equivalent of three years' remuneration. A change of control is deemed to have occurred when one shareholder, or several shareholders acting together, acquire or have acquired control as defined in Section 29 of the German Securities Acquisition and Takeover Act [Wertpapierübernahmegesetz, WpÜG] by virtue of holding at least 30 per cent of the voting rights in CECONOMY AG.

In the event of a change of control at CECONOMY AG prior to 31 December 2019, most of the staff are conditionally entitled to higher severance payments. A higher severance payment equivalent to two years' fixed salary plus simple base bonus amount is payable if CECONOMY AG terminates an employee's contract (notwithstanding dismissal for cause) within one year of the change of control or if the job description or responsibilities of an employee change(s) by at least 50 per cent within two years of the change of control (notwithstanding voluntary resignation by the employee), and that employee is not offered alternative employment in another company within the CECONOMY Group or has not received a binding offer of employment from or through another company within CECONOMY Group.

# SUPPLEMENTARY NOTES FOR CECONOMY AG (PURSUANT TO THE GERMAN COMMERCIAL CODE)

## Demerger of the former METRO GROUP

The former METRO AG (now: CECONOMY AG) and METRO Wholesale & Food Specialist AG (now METRO AG) concluded a hive-down and spin-off agreement (hereinafter: spin-off agreement) in notarised form on 13 December 2016. In accordance with the spin-off agreement, the former METRO AG (now: CECONOMY AG) transfers all assets and liabilities, which form the sales lines of the wholesale and food retail business operated by METRO Cash & Carry and Real and further associated real estate and service activities, to METRO Wholesale & Food Specialist AG (now: METRO AG). The Consumer Electronics business (entertainment and household electronics), which is operated in the Media-Saturn sales division, remained with the former METRO AG (now: CECONOMY AG), along with the associated service and support activities.

The former METRO AG (now: CECONOMY AG) had already placed 100 per cent of its stake in METRO Wholesale & Food Specialist AG into MWFS Zwischenholding GmbH & Co. KG (hereinafter: MWFS KG) in preparation for the demerger.

The transfer of assets and debts to METRO Wholesale & Food Specialist AG (now METRO AG) has taken place in the form of legally independent measures, both by way of a hive-down and a spin-off under the German Transformation Act [UmwG].

With the spin-off, the majority of the MWFS operations (including the associated employees and operating and office equipment), the intangible assets of the former METRO AG, in particular the licence agreements and rights of use for the brands METRO and real, - the participation in METRO Dienstleistungs Holding GmbH, METRO Cash & Carry International GmbH (six percent share) and other equity investments, as well as the liabilities to finance the Group companies to METRO Wholesale & Food Specialist AG (now METRO AG), which in return receive about 10 per cent (after completion of the subsequent spin-off, they dilute approximately 1 per cent), which has received shares in the share capital of METRO Wholesale & Food Specialist AG (now METRO AG). Subsequently, the assets and liabilities of the former METRO AG (now: CECONOMY AG), which are not attributable to the spin-off assets or the entirety of the economic activities of the Consumer Electronics business segment assigned to CECONOMY AG, were transferred to METRO Wholesale & Food Specialist AG (now: METRO AG) by means of the spin-off. In return for the spin-off, the shareholders of the former METRO AG (now: CECONOMY AG) shares in METRO Wholesale & Food Specialist AG (now METRO AG), which represent around 90 per cent of the share capital of METRO Wholesale & Food Specialist AG (now METRO AG).

Following the demerger, CECONOMY AG now has a direct stake of approximately 1 per cent of the Company's share capital and an indirect stake of approximately 9 per cent through its subsidiary MWFS Zwischenholding GmbH & Co. KG due to the dilution effects of the capital increase at the current METRO AG during the course of the spin-off.

The entry of the hive-down and the spin-off of the Company in the commercial register took place on 12 July 2017.

The shares of CECONOMY AG and the current METRO AG have been traded separately on the stock exchanges in Frankfurt am Main and Luxembourg since 13 July 2017.

The renaming of the former METRO AG as CECONOMY AG was entered into the commercial register on 11 August 2017, and the renaming of the former MWFS AG as METRO AG on 18 August 2017.

Against the background of the demerger, the figures for the 2016/17 financial year for CECONOMY AG are not comparable with the previous year's figures. In order to provide comparability, additional information on selected items in the statement of financial position and statement of profit or loss is provided in the Notes to the previous year's figures in order to clarify the effects of the demerger through the hive-down and spin-off of the Wholesale and Food Retail segment.

## Overview of financial year 2016/17 and outlook of CECONOMY AG

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

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

## Business development of CECONOMY AG

The business development of CECONOMY AG is primarily characterised by the development and dividend distributions of its investments. CECONOMY AG's annual financial statements prepared under German commercial law serve as the basis for dividend distribution. The statement of profit or loss and statement of financial position of CECONOMY AG prepared in accordance with the German Commercial Code (HGB) are outlined below.

## Results of operations of CECONOMY AG and profit appropriation

### Statement of profit or loss for the financial year from 1 October 2016 to 30 September 2017 in accordance with HGB

| € million | 2015/16 | 2016/17 |
|---|---|---|
| Investment result | 124 | 157 |
| Net financial result | –42 | –5 |
| Other operating income | 746 | 1,006 |
| Personnel expenses | –226 | –21 |
| Depreciation/amortisation/impairment losses on intangible assets and property, plant and equipment | –4 | 0 |
| Other operating expenses | –570 | –37 |
| Income taxes | –15 | 0 |
| **Earnings after tax** | **13** | **1,100** |
| Other taxes | –1 | 0 |
| **Net profit or loss** | **12** | **1,100** |
| Profit carried forward from the previous year | 57 | 13 |
| Withdrawals from the capital reserves | 0 | 2,431 |
| Withdrawals from the revenue reserves | 272 | 2,388 |
| Reduction in assets due to the demerger | 0 | –5,824 |
| **Balance sheet profit** | **341** | **108** |

For financial year 2016/17, CECONOMY AG reported an investment result of €157 million (2015/16: €124 million; comparable previous year's value €56 million). The earnings from investments amounting to €158 million contained therein relate to profit shares from the limited partnership in METRO PROPERTIES GmbH & Co. KG amounting to €8 million (2015/16: comparable previous year's value of €0 million) and the distribution of capital reserves of CECONOMY Retail GmbH of €150 million (2015/16: comparable previous year's €35 million). Income from profit and loss transfer agreements amounts to €5 million (2015/16: €24 million in the previous year) is attributable mainly to CECONOMY Retail GmbH, which holds 78.38 per cent of Media-Saturn-Holding GmbH. Expenses from loss transfers amounting to €6 million mainly relate to CECONOMY Data GmbH amounting to €4 million (2015/16: comparable to previous year's value of €3 million) and the CECONOMY Retail GmbH amounting to €2 million (2015/16: comparable to previous year's €0 million).

A fiscal unit for income taxes exists for certain subsidiaries. There is no fiscal unit for income taxes between CECONOMY AG and subsidiaries of CECONOMY AG.

The financial result of CECONOMY AG is mainly characterised by interest paid from the compounding of provisions for pensions and similar obligations liabilities and interest expenses from the liabilities accepted in the 2016/17 financial year under the Multi-Currency Commercial Paper Programme and the long-term promissory note loan. The improvement in the financial result compared to the previous year is in particular due to the demerger, as all financial liabilities were transferred as at 30 September 2016, meaning that CECONOMY AG had significantly lower debt at the closing date. This was offset by the transfer of loans in connection with the demerger, which led to lower interest income.

Within the scope of the demerger, assets and liabilities with a negative carrying amount of €992 million have been transferred to the current METRO AG (formerly MWFS AG). The positive hive-down result has been recognised in profit or loss and is reported under other operating income. The change in other operating income is therefore attributable to the demerger. This was in particular offset by the elimination of transfer pricing income from the transfer pricing model agreed with the wholesale and food retail companies as well as other group offsetting. In the past financial year, the ruling of the Federal Labour Court on the so-called "late marriage" clause was used for the first time in the accounting of pension obligations. The resulting plan curtailments in considering the surviving dependants' rights led to a reduction in pension accrual that was reported in other income.

Personnel expenses totalled €21 million in the current financial year 2016/17. Costs for wages and salaries came to €19 million. As at 30 September 2017, CECONOMY AG had 75 employees (30/09/2016: 1,082, average across four quarters). Part-time employees and temporary workers were converted into full-time equivalents. The decline in personnel expenses overall compared to the previous year is due to the merger.

Other operating expenses in the current financial year 2016/17 mainly include consulting expenses and other expenses in connection with the demerger. The year-on-year change is primarily due to the merger, as services from the former METRO AG as a holding company were previously provided almost exclusively to companies in the wholesale and food retail business. Likewise, the risks from the transfer pricing model related exclusively to Group companies in the wholesale and food retail business.

Net profit amounted to €1,100 million (2015/16: €12 million), mainly due to the hive-down result on the transfer of €992 million.

From the balance sheet profit of €341 million reported for the financial year 2015/16, dividends were distributed in the 2016/17 financial year in accordance with the resolution of the Annual General Meeting of the former METRO AG (now: CECONOMY AG) on 6 February 2017 amounting to €1.00 per ordinary share and €1.06 per preference share, that is, a total of €327 million. The balance was carried forward to new account as profit. The profit carried forward of €13 million was used to offset the reduction in assets from the spin-off.

Regarding the appropriation of the balance sheet profit for 2016/17, the Management Board of CECONOMY will propose to the Annual General Meeting to distribute from the reported balance sheet profit of €108 million a dividend amounting to €0.26 per ordinary share and €0.32 per preference share – that is, a total of €85 million – and to carry forward the remaining amount to the new account.

## Financial position of CECONOMY AG

### CASH FLOWS

Cash inflows in financial year 2016/17 resulted partly from inflows (bond) from a multi-currency commercial paper programme with a volume of €254 million. Cash inflows were also due to a promissory note loan of €250 million. As at the closing date, cash and cash equivalents primarily consisted of credit balances of €4 million with banks. The decrease in cash and cash equivalents compared with the previous year is attributable to the demerger and the payment of the dividend for the previous financial year.

### CAPITAL STRUCTURE

**Equity and liabilities**

| € million | 30/09/2016 | 30/09/2017 |
|---|---|---|
| **Equity** | | |
| Share capital | 835 | 835 |
| Ordinary shares | 828 | 828 |
| Preference shares | 7 | 7 |
| (Contingent capital) | (128) | (128) |
| Capital reserve | 2,558 | 128 |
| Reserves retained from earnings | 2,388 | 0 |
| Balance sheet profit | 341 | 108 |
| | **6,122** | **1,071** |
| **Provisions** | **447** | **134** |
| **Liabilities** | **3,230** | **578** |
| **Deferred income** | **5** | **0** |
| | **9,804** | **1,783** |

Liabilities consisted of equity of €1,071 million (30/09/2016: €6,122 million) and provisions, liabilities, and prepaid expenses and deferred charges of €712 million (30/09/2016: €3,682 million). As at the closing date, the equity ratio amounted to 60.1 per cent compared with 62.4 per cent in the previous year. The change in equity is largely attributable to the net asset decrease due to the demerger.

Provisions for pensions and similar obligations of €84 million (30/09/2016: €93 million; comparable previous year's value €91 million) for direct pension commitments and €35 million (30/09/2016: €38 million; comparable previous year's value €38 million) were created for shortfalls in the underfunded support facilities.

Within the item “Provisions for pensions and similar obligations”, asset values of reinsurance policies amounting to €19 million (30/09/2016: €39 million; comparable previous year's value €17 million) were offset. The assets of the reinsurance policies are pledged and insolvency-secured. The cost of acquisition essentially corresponds to the fair value of the reinsurance policies and the settlement amount of the obligations. There were no significant offsetting expenses and income in this regard.

As part of the demerger, provisions for pensions and similar obligations of around €2 million were transferred to employees of the current METRO AG, leaving CECONOMY AG with provisions for pensions and similar obligations of €129 million.

The change in tax provisions to €0 million is fully based on the hive-down.

The other provisions of €15 million mainly consist of €8 million in employee benefits and €5 million of outstanding cost accounting. Of the other provisions of €309 million recognised as at 30 September 2016, €298 million were transferred as part of the demerger.

The bonds include liabilities from commercial paper programmes newly concluded in the 2016/17 financial year. The multi-currency commercial paper programme is used to service short-term financing needs. It is an ongoing capital market programme with a maximum volume of €500 million. As at 30 September 2017, the programme has a volume of €254 million. The bonds reported in the previous year were fully transferred amounting to €1,751 million as part of the demerger. CECONOMY AG has adequate reserves comprising both the liquidity available within the Company, and a syndicated credit facility of €550 million together with multi-year guaranteed credit facilities of €490 million. These extensive multi-year credit facilities were not drawn as of 30 September 2017.

Liabilities to banks include a promissory note loan arranged in the 2016/17 financial year amounting to €250 million. The liabilities to banks reported in the previous year were fully transferred amounting to €94 million as part of the demerger.

Cost and investment calculations are reported under trade payables amounting to €5 million. Within the scope of the demerger, trade payables amounting to €21 million were completely divested as at 30 September 2016.

Of the liabilities to affiliated companies amounting to €56 million, €6 million were attributable to liabilities from profit and loss transfer agreements in financial year 2016/17, and a substantial amount of €50 million out of short-term financial investments performed by the Group companies of CECONOMY AG. The significant reduction in the statement of financial position item compared to the previous year is due to the demerger, as liabilities to Group companies of the current METRO AG with a volume of €1,209 million have been transferred.

Other liabilities of more than €13 million mainly include a €8 million reimbursement of VAT by the tax office, which relates to companies of the current METRO AG and will therefore be passed on to them. As part of the demerger, the majority of other liabilities – approximately €44 million – was transferred as at 30 September 2016.

## Net assets of CECONOMY AG

### Assets

| € million | 30/09/2016 | 30/09/2017 |
|---|---|---|
| **Fixed assets** | | |
| Intangible assets | 32 | 1 |
| Property, plant and equipment | 2 | 0 |
| Financial assets | 7,705 | 1,561 |
| | **7,739** | **1,562** |
| **Current assets** | | |
| Receivables and other assets | 1,433 | 215 |
| Cash on hand, bank deposits and cheques | 618 | 4 |
| | **2,051** | **219** |
| **Deferred income** | **14** | **2** |
| | **9,804** | **1,783** |

Assets totalled €1,783 million as at the closing date (30/09/2016: €9,804 million) and consisted mainly of financial assets of €1,561 million (30/09/2016: €7,705 million). Financial assets represent 87.6 per cent (30/09/2016: 78.6 per cent) of total assets.

Shares in affiliated companies amounted to €1,548 million as at 30 September 2017 (30/09/2016: €6,835 million, compared to previous year €869 million) and comprise essentially 100 per cent of the shares in CECONOMY Retail GmbH with a book value of €651 million, which in turn holds the majority of the shares in Media-Saturn-Holding GmbH. In addition, 100 per cent of the shares with a book value of €433 million are held in MWFS Zwischenholding GmbH & Co. KG, through which CECONOMY AG indirectly holds a stake of approximately 9 per cent in the current METRO AG and 100 per cent of the shares in CECONOMY Retail International GmbH, which in turn holds a 24.33 percent stake in Fnac Darty S.A. in Ivry-sur-Seine, France, acquired in the year under review, with a book value of €453 million.

The change in shares in affiliated companies compared to the previous year is attributable to the demerger in the year under review. As at 30 September 2016, shares with a book value of €5,966 million, attributable to the wholesale and food retail business, were transferred by way of the hive-down and spin-off. Cumulative depreciation of €458 million was also transferred.

All loans, totalling €869 million, were also divested as part of the demerger, as they were owed to wholesalers and food retailers.

The shareholdings mainly comprise 6.61 per cent of the shares in METRO PROPERTIES GmbH & Co. KG and the approximately one percent share held by CECONOMY AG in the current METRO AG. This approximate one percent share held by CECONOMY AG in the current METRO AG is tax-exempt for seven years, which means that it cannot be sold without accepting negative tax consequence. As a result of the demerger, the stakes no longer exist in affiliated companies, so they are reported under the equity investments.

Receivables from affiliated companies amounting to €163 million mainly comprise €5 million receivables from profit and loss transfer agreements (30/09/2016: comparable previous year: €24 million), receivables from the distribution of capital from an additional subsidiary of €150 million (30/09/2016: comparable previous year: €35 million) as well as €8 million in receivables from the financing function of CECONOMY AG as a holding company against Group companies (30/09/2016: comparable prior-year figure: €1 million).

Other assets amounting to €52 million mainly include tax refund claims of €50 million (30/09/2016: compared to previous year €60 million) plus related interest receivable.

The changes to receivables and other assets compared to the previous year is essentially due to the demerger.

## Risk situation of CECONOMY AG

As CECONOMY AG is closely engaged with the Group companies through financing and guarantee commitments as well as direct and indirect investments, among other things, the risk situation of CECONOMY AG is highly dependent on the risk situation of CECONOMY Group. As a result, the summary of the risk situation issued by the Company's management also reflects the risk situation of CECONOMY AG.

## Outlook of CECONOMY AG

The business development of METRO AG as the management holding company essentially depends on the development and dividend distributions of its investments. CECONOMY AG assumes that the net income for the coming financial year 2017/18 will be at the level of the previous year, excluding the result from the divestment (2016/17: €992 million).

## Investments planned by CECONOMY AG

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

## Declaration on corporate management

The declaration on corporate management is available on the Company's website (www.ceconomy.de) in the section Company – Corporate Governance.