



**COMBINED MANAGEMENT REPORT**

- 42 Overall statement by the Management Board of CECONOMY AG on the business development and situation of CECONOMY
- 43 Overview of financial year 2016/17 and forecast
- 45 [Group principles](#)**
- 66 Economic report
- 87 Report on events after the closing date and outlook
- 90 Risk and opportunity report
- 98 Remuneration report
- 120 Disclosures pursuant to Sections 315 (4) and 289 (4) HGB (superseded version) and explanatory report by the Management Board
- 128 Supplementary notes for CECONOMY AG (pursuant to the German Commercial Code)

## 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
<b>Forecast-relevant key figures in financial year 2016/17</b>		
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.



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Key figure	Explanation	Reference
<b>Forecast-relevant key figures in financial year 2017/18</b>		
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.  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.  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:  Inventories + Trade receivables + Receivables due from suppliers + Credit card receivables + Advance payments on inventories - Trade payables - Liabilities to customers - Deferred revenues from vouchers and customer loyalty programmes - Provisions for customer loyalty programmes and rights of return - Prepayments received on orders = Net working capital	Financial and asset position
<b>Other key figures in the statement of profit or loss</b>		
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.  $\text{Online share} = \frac{\text{Online sales}}{\text{Total sales}}$	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.  $\text{Services \& Solutions share} = \frac{\text{Services \& Solutions sales}}{\text{Total sales}}$	Earnings position
Gross margin	The gross margin is the ratio of gross profit on sales and total sales.  $\text{Gross margin} = \frac{\text{Gross profit on sales}}{\text{Total sales}}$  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.  $\text{EBITDA margin} = \frac{\text{EBITDA}}{\text{Total sales}}$	CECONOMY facts & figures
EBIT margin	The EBIT margin is the ratio of EBIT to total sales.  $\text{EBIT margin} = \frac{\text{EBIT}}{\text{Total sales}}$	CECONOMY facts & figures



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Key figure	Explanation	Reference
EBT	EBT is the earnings before taxes (EBT) of CECONOMY.  EBIT +/- Net financial result = EBT	Earnings position
Tax rate	The tax rate is the ratio of tax expense to earnings before taxes (EBT).  $\text{Tax rate} = \frac{\text{Tax expense}}{\text{EBT}}$	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).  $\text{EPS} = \frac{\text{Net income}}{\text{No. of shares issued}}$	Earnings position
<b>Key figures in the cash flow statement</b>		
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.  Cash flow from operating activities - Investments = Free cash flow	CECONOMY facts & figures
<b>Key figures in the statement of financial position</b>		
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.  $\text{Equity ratio} = \frac{\text{Equity}}{\text{Total assets and liabilities}}$	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.  Borrowings - Cash and cash equivalents = Net liquidity/net debt	Financial and asset position
<b>Other key operational figures</b>		
Cash flow conversion	Cash flow conversion is the percentage ratio of simplified free cash flow to EBITDA.  $\text{Cash flow conversion} = \frac{\text{EBITDA} - \text{Investments} + \text{Change in net working capital}}{\text{EBITDA}}$	Goals and strategy



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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.  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