COMBINED MANAGEMENT REPORT

45–134

COMBINED MANAGEMENT REPORT

1 OVERVIEW OF FINANCIAL YEAR 2016/17 AND OUTLOOK

Earnings position

- Due to positive currency and portfolio effects, reported sales for financial year 2016/17 increased by 1.6% to €37.1 billion in local currency: +1.1%)
- Like-for-like sales at METRO climbed by 0.5% in financial year 2016/17
- Reported EBIT amounts to €852 million (2015/16: €1,219 million)
- EBIT before special items: €1,106 million (2015/16: €1,106 million) on par with the previous year
- Profit for the period before special items: €583 million (2015/16: €495 million)
- Earnings per share before special items improved to €1.55 (2015/16: €1.33)

Financial and asset position

- Net debt increased by €0.1 billion to €3.1 billion (30/9/2016: €3.1 billion)
- Investments totalled €0.8 billion (2015/16: €1.0 billion)
- Cash flow from operating activities reached €1.0 billion (2015/16: €1.2 billion)
- Total assets amounted to €15.8 billion (30/9/2016: €16.0 billion)
- Equity: €3.2 billion (30/9/2016: €2.9 billion); equity ratio: 20.3% (30/9/2016: 18.3%)
- Long-term rating: BBB– (Standard & Poor’s)

Outlook for METRO

The outlook is based on the assumption of stable exchange rates without adjustments to the portfolio. In an effort to further improve the transparency of METRO’s operative performance, METRO will in the future report its earnings in the form of EBITDA excluding earnings contributions from real estate transactions. As the restructuring measures associated with the transformation of the group have been completed to the greatest extent, our future reporting will no longer include special items. Our reporting will also assume a continuously complex geopolitical situation.

Sales

For financial year 2017/18, METRO expects to see a slight rise in overall sales, despite the persistently challenging economic environment. We aim for our growth rate to at least match the 1.1% growth achieved in financial year 2016/17. The main growth driver will be METRO Wholesale.

METRO expects the like-for-like sales development to slightly surpass the 0.5% growth delivered in reporting year 2016/17. METRO Wholesale is expected to make a significant contribution to this growth.

Earnings

METRO is confident to deliver significantly improved earnings. We expect EBITDA excluding earnings contributions from real estate transactions to increase by around 10% compared to the previous year’s result (€1,436 million). Both segments are expected to contribute to this increase.

2 PRINCIPLES OF THE GROUP

2.1 GROUP BUSINESS MODEL

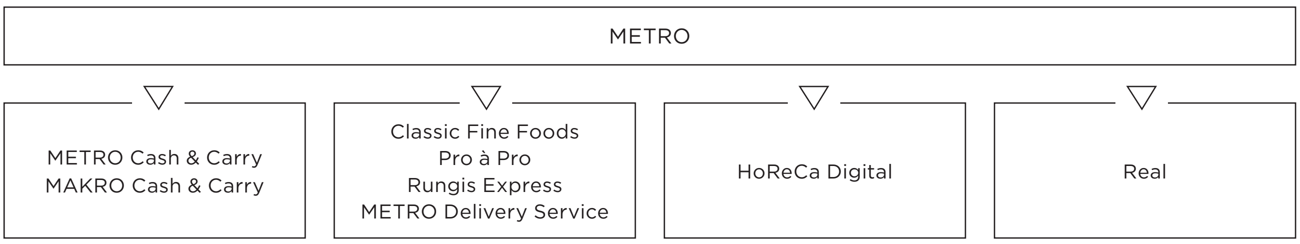
METRO is a leading international specialist company in the wholesale and food retail sector. The ultimate parent company is METRO AG, which acts as the central management holding company. It performs group management functions, particularly in the areas of finance, controlling, legal and compliance. The central management and administrative functions of METRO Cash & Carry are all anchored within METRO AG.

The group essentially consists of the 2 segments METRO Wholesale and Real. The wholesale company METRO Cash & Carry operates 759 wholesale stores across 25 countries. The delivery business (food service distribution) is also part of this segment, with companies like METRO Delivery Service and the delivery specialists Classic Fine Foods, Pro à Pro and Rungis Express. Real operates 282 hypermarkets across Germany.

Additionally, the business unit HoReCa Digital, founded in 2015, consolidates the group's digitisation initiatives, such as METRO Accelerator powered by Techstars. This initiative sponsors 2 programmes that last for 3 months and are aimed at supporting start-ups developing digitisation solutions in the area of hospitality and retail.

Other service companies include METRO PROPERTIES, METRO LOGISTICS, METRO SYSTEMS, METRO ADVERTISING and METRO SOURCING. These companies provide group-wide comprehensive services in the areas of real estate, logistics, information technology, advertising and procurement to all group companies.

OVERVIEW OF METRO



Overview of METRO

METRO Cash & Carry
MAKRO Cash & Carry

METRO Cash & Carry is one of the leading international wholesale traders and operates 759 wholesale stores under the METRO and MAKRO brands across 25 countries in Europe and Asia. Its more than 21 million commercial customers worldwide are mainly hotels, restaurants, catering companies, independent retailers as well as service providers and authorities, to which the company offers a portfolio of products and solutions that has been tailored to their specific requirements.

Classic Fine Foods
Pro à Pro
Rungis Express
METRO Delivery Service

In the area of **food service distribution (FSD),** METRO maintains a strong international presence with its METRO Delivery Service and the specialist companies Classic Fine Foods, Pro à Pro and Rungis Express. Classic Fine Foods is an Asian fine-food delivery specialist. The company delivers products to premium customers, such as 5-star hotels and upmarket restaurants in Asia and the Middle East. Pro à Pro has been augmenting this area since February 2017. The company delivers products to commercial customers across France, in particular in the fields of corporate catering, canteens and system catering. Rungis Express is an important food delivery company in Germany that mainly caters to HoReCa customers.

HoReCa Digital

The group has pooled its **digitisation initiatives** in the HoReCa Digital business unit. The initiatives include, for example, METRO Accelerator powered by Techstars. This start-up network supports international teams of entrepreneurs in the development of digital solutions for the HoReCa and retail sectors.

Real

Real is an innovative food retail company in Germany, where it is a leading operator of hypermarkets with currently 282 stores. The hypermarkets are distinguished by a product range of around 80,000 individual products – many of them high-quality fresh-food products – and an attractive range of non-food products. In addition to its bricks-and-mortar retail operations, the company is also pursuing online sales. The integration of the Hitmeister online shop into real.de allowed Real to expand its online product range considerably. Since February 2017, it has been offering a very large product range.

STORE NETWORK BY COUNTRIES AND SEGMENTS

as of the closing date of 30/9

	METRO Wholesale[1]		Real		METRO	
	2016	**2017**	2016	**2017**	2016	**2017**
Germany	**106**	**104**	**285**	**282**	**391**	**386**
Belgium	16	**16**			16	**16**
France	94	**97**			94	**97**
Italy	49	**50**			49	**50**
Netherlands	17	**17**			17	**17**
Austria	12	**12**			12	**12**
Portugal	10	**10**			10	**10**
Spain	37	**37**			37	**37**
Western Europe (excl. Germany)	**235**	**239**			**235**	**239**
Bulgaria	11	**11**			11	**11**
Kazakhstan	6	**6**			6	**6**
Croatia	9	**9**			9	**9**
Moldova	3	**3**			3	**3**
Poland	30	**30**			30	**30**
Romania	30	**30**			34[2]	**30**
Russia	89	**89**			89	**89**
Serbia	10	**9**			10	**9**
Slovakia	6	**6**			6	**6**
Czech Republic	13	**13**			13	**13**
Turkey	32	**33**			32	**33**
Ukraine	32	**31**			32	**31**
Hungary	13	**13**			13	**13**
Eastern Europe	**284**	**283**			**288**[2]	**283**
China	86	**90**			86	**90**
India	23	**24**			23	**24**
Japan	9	**10**			9	**10**
Pakistan	9	**9**			9	**9**
Asia	**127**	**133**			**127**	**133**
International	**646**	**655**			**650**[2]	**655**
METRO	**752**	**759**	**285**	**282**	**1,041**[2]	**1,041**

[1] The locations and countries of Classic Fine Foods and the locations of Pro à Pro and Rungis Express are not shown in the table since they relate to distribution centres and warehouses, whereas this table only covers sales locations.
[2] Including 4 stores in "Others".

2.2 MANAGEMENT SYSTEM

Our company's rigorous focus on creating added value for customers is also reflected in our internal management system. The primary objective is to create sustained value for the company by focusing on added value for customers. For this reason, METRO has been using value-oriented performance metrics to plan, manage and monitor business activities. The corresponding value drivers that have a direct impact on value creation form the core of our operational management system. Our focus in this process is on growth (sales), operational earning power (EBIT or EBITDA) and optimised capital deployment. The key metrics for METRO in financial year 2016/17 are sales growth and EBIT before special items.

Business transactions or a number of uniform business transactions that do not recur regularly, that are reflected in the income statement and that have a significant impact on business activities are classified as special items.

Starting in financial year 2017/18, our focus will increasingly be on EBITDA instead of EBIT. In addition, the reporting on special items will be discontinued.

As the restructuring measures associated with the transformation of the group have been completed to the greatest extent, our future reporting will no longer include special items.

The calculation of key performance indicators generally follows the approach for calculating the key figures of the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). Specifically, these are sales growth, earnings per share, profit or loss for the period as well as cash flow before financing activities.

In addition, METRO is managed on the basis of alternative performance indicators such as like-for-like sales growth in local currency, EBIT before special items, EBITDA before special items (as of 2017/18 due to reporting discontinuation of special items: EBIT reported and EBITDA reported), investments, net working capital, net debt, free cash flow and free cash flow conversion and return on capital employed (RoCE). We believe that these alternative performance indicators offer our stakeholders additional useful information about fundamental business developments and METRO's current situation, providing a better foundation for an analysis of METRO's performance strength. These alternative performance indicators are calculated regularly based on a uniform approach, which ensures that metrics from different financial years can be compared. However, as they have not been defined on the basis of IFRS, direct comparisons with the key figures of other companies are not possible. As such, they cannot replace key figures calculated in accordance with IFRS.

Formally, it should be noted that the EBIT key figure in financial year 2017/18 is no longer part of the forecast report, but is still a key performance indicator. It is replaced by EBITDA. This is based on specifications of German Accounting Standard No. 20 (GAS 20), which stipulates that only the most meaningful key performance indicators are part of the outlook and the comparison with actual business developments in the following year that is based on this outlook. The outlook regularly applies to the current group structure on the date the forecast is issued.

Key performance indicators: earnings position

As a key operational performance indicator, **sales growth** is reported both as total sales in euros and in local currency as well as like-for-like sales in local currency. Adjustments to group structures are called portfolio measures and are explained separately.

The like-for-like sales development reflects sales growth in local currency on a comparable area or with respect to a comparable group of locations or merchandising concepts such as delivery and online business. The figure only includes sales of locations with a comparable history of at least one year. Accordingly, sales from locations that were opened or closed in the reporting year or in the comparison year must be excluded from consideration. In addition, sales locations are excluded if their business operations have been materially affected by, for example, a change in selling space as a result of transformation or other changes in concept or if the sales are subject to other material external distortions. Delivery sales are included in like-for-like sales growth, provided that the location is part of the panel in question or the warehouse does not primarily serve new customers. Online sales are generally included in like-for-like sales growth. Sales from acquired companies are recognised in like-for-like sales growth after the business operated under our direction for a full financial year.

To enhance its assessments of operational developments, the Management Board also regularly informs itself about the key drivers of sales development, such as the delivery or online business.

— **For more information about these special items see chapter 3 economic report – 3.2 asset, financial and earnings position – earnings position.**

From financial year 2017/18, the second key performance indicator, in addition to like-for-like sales, will be **EBITDA excluding earnings contributions from real estate transactions.** This decision has been made in an effort to further improve the transparency of the operative performance of METRO. The development of real estate and the realisation of divestment income will continue to be a central component of our company's real estate strategy.

Earnings per share and **profit or loss for the period** are also included in our key performance indicators. They integrate the tax and net financial result into management of the earnings position and enable shareholders to better assess the group's earnings position.

— **For more information about these performance metrics, see chapter 3 economic report – 3.2 asset, financial and earnings position – earnings position.**

Performance metrics: financial and asset position

METRO manages its financial and asset position to ensure the long-term liquidity of group companies and cover their funding requirements in a cost-efficient manner.

— **For more information about the financial and asset position, see chapter 3 economic report – 3.2 asset, financial and earnings position – financial and asset position.**

Key performance indicators include **investments** which are planned and reported on aggregate group level as well as separately for the sales lines. In addition, the Management Board conducts differentiated assessments of various investments (for example, expansion, delivery, IT/digitisation, modernisations and refurbishments) with a view to enhancing customer value and METRO's company value. Investments are defined as additions to non-current assets and finance leases based on the consolidated financial statements pursuant to IFRS with the exception of financial instruments and deferred tax assets.

Aside from the focus on investments, regular **net working capital** analyses are carried out to maintain a focus on operations and optimised capital deployment. Changes in net working capital result from changes in inventories, trade receivables and receivables due from suppliers included in the item other financial and non-financial assets. Furthermore, it includes changes in trade liabilities.

— **For more information about the composition of net working capital, see the notes to the consolidated financial statements in no. 41 – notes to the cash flow statement.**

Investments and net working capital not only impact customer benefits and the company's value creation, but also have an effect on the company's indebtedness and financial position. Moreover, **net debt** and **cash flow before financing activities** are used as key performance indicators to guarantee liquidity and optimise the capital structure.

Net debt is calculated by offsetting financial liabilities including finance leases against cash and cash equivalents according to the balance sheet as well as financial investments. Financial investments comprise bank deposits with residual terms of more than 3 to 12 months as well as near money market investments that are not classified as cash and cash equivalents, such as short-term, liquid debt instruments and shares in money market funds.

In addition, free cash flow conversion is analysed as a measure of the group's ability to translate generated earnings into cash inflows. Free cash flow conversion reflects the relationship between free cash flow and EBITDA. Free cash flow in turn is defined as EBITDA less investments (excluding acquisition of subsidiaries and extension of finance leases) plus the change in net working capital.

— **For more information about these performance metrics, see chapter 3 economic report – 3.2 asset, financial and earnings position – financial and asset position.**

Value-oriented performance metrics

Since METRO's management system is strongly focused on value creation for the company, it also comprises value-oriented performance metrics such as return on capital employed (RoCE), which is based on the above-mentioned operational key performance indicators.

— **For more information about these key performance indicators, see chapter 3 the economic report – 3.2 asset, financial and earnings position – earnings position.**

2.3 INNOVATION MANAGEMENT

As a retail company, METRO does not make its own products and therefore does not conduct research and development in the strict sense of the term. As part of our innovation management, we rather aim to take the food retail and food service sector to a new level and taking advantage of the unique opportunities arising from the digitisation of the entire industry sector. We want to stay relevant to our customers and provide them with the best possible service. This means: we will create better, longer-lasting experiences for our customers at all touchpoints. In the store, while delivering goods, in e-commerce, with the apps we develop and while providing customer services. We are also optimising internal work processes.

Our development of digital innovations focuses on 3 different areas: customer-oriented solutions, user-centric solutions and solutions for our customers' own businesses. These 3 areas of development constitute an interlinked innovation process. They support our core business – stores, e-commerce, delivery and the trader franchise model – with requirements that vary for each country, on the one hand, and our customers with services, on the other hand.

In the field of customer-oriented solutions, our staff at METRO Cash & Carry France works closely with its customers to develop a new store format. We are using virtual reality in the developmental stage. Another example is the continuous improvement of the payment procedure as a central factor in customer satisfaction. Together with customers and employees, we are trialling and optimising self-scanning and self-checkout solutions.

In the field of user-centric innovations for internal users, we are constantly working on improving our range of internal and external IT solutions. In the field of food service distribution, this includes an innovative online ordering system and apps for customer managers and drivers.

In addition, our services also include the development of solutions for our customers' own businesses. We understand that assisting them in becoming more successful will also deliver rewards for our company.

HoReCa Digital

One of the key target groups of our wholesale business are independent companies in the fields of hotels, restaurants and catering services (HoReCa). The hospitality industry is experiencing increasing pressure to adapt to its customers' changing lifestyles. Customers have been integrating digital technologies in their daily lives for a long time and are now keen to put their benefits to good use, for example, when visiting a restaurant. But many operators in the hospitality industry fall short of their customers' expectations. METRO is well aware of this situation thanks to its long-standing business relationships with millions of independent companies. To survive and succeed in the future, these companies need to become more tech-savvy and embrace digitisation. In 2015, we established the new business unit HoReCa Digital with the objective of supporting the digital revolution in the hospitality industry.

Our international team is currently working on the following initiatives:

- Development of digital solutions for the food service industry
- Development of efficient sales channels (lead generation) for our own digital solutions and those offered by our partner companies (start-ups)
- Promotion of start-ups via the METRO Accelerator programmes
- Investments in relevant start-up companies
- Food technology and food innovation
- Community creation, exchange of experiences and observation of trends in the hospitality industry

Development of digital solutions for the food service industry

Most small independent companies lack the time and financial resources necessary to deal with the issues brought about by digitisation. We know the daily work of food service operators by heart and develop targeted and simple digital products that require little time and money. For example, we give our customers an opportunity to create their own website in less than 5 minutes and free of charge. Financial year 2016/17 saw around 10,000 customers using this service.

Another example from practice is the "Gastro-cockpit", a clearly laid-out management tool for food service operators. It shows the most important key figures, such as sales (per day, week and month), a per-table analysis and a break-even analysis, all available in a single place. The tool also analyses and illustrates data from the cash register and incorporates certain global parameters, such as public holidays, weather data as well as individual parameters, for example, costs. A web application makes the data accessible from anywhere at any time. Analyses and intelligent forecasts can assist with process optimisation, cost saving and sales increase. They enable the hospitality operator to take targeted action rather than responding to situations as they arise. This approach in turn leaves the operator with more time for what's really important: customer service.

Development of efficient sales channels

Our HoReCa Digital business unit also offers support services for the development of efficient sales channels. This allows us to provide our own digital solutions and assist start-ups in their efforts to offer suitable, usually digital solutions to independent companies from the food service and hotel industries. The objective is to offer digital solutions that have been tailored to the needs of the individual company and that can therefore support our HoReCa customers in their operative business. This process can also help

METRO Cash & Carry establish contact with new customers and nurture existing customer relationships. To ascertain which digital products and functions are particularly helpful and how they can help to significantly improve customers' daily operations, HoReCa Digital launched pilot projects in more than 500 restaurants in Berlin, Paris, Vienna, Barcelona and Milan. These projects give the start-ups important insights into user behaviour and preferences and connect them with potential future customers.

Promotion of start-ups via the METRO Accelerator programmes

In cooperation with the US company Techstars, we have been organising and promoting the development of innovative digital services for independent hospitality companies for 3 years. Since 2017, we offer the same service to the retail sector. The Accelerator initiative was established with the objective of promoting the development of innovative start-ups in this environment, for example, by helping them improve their chances of success and their access to growth capital from professional investors. The year 2017 saw the launch of the third hospitality programme and the first programme in the retail sector. 10 international teams compete in the programme, which is based in Berlin and spans over 3 months. They are supported by around 100 mentors from the start-up scene and investor communities, as well as food service and retail companies. HoReCa Digital invests in the companies participating in the Accelerator programme. Our partner Techstars supports us in our decisions in terms of accepting start-ups into the programme and placing our investments.

Investments in relevant start-up companies

We seek to accelerate the digitisation of the HoReCa industry by simplifying the target group's access to promising products and services. We therefore invest in start-up companies that develop solutions for the HoReCa industry. We frequently do this in partnership with other professional investors. Our objective is to participate in the growing value of these young companies. The acquisition and integration of these companies however does not serve the purpose of transforming METRO's core area of business. All investments are managed by a team of experienced experts. They are supported in their decision-making process by the Investment Committee, which is separated from the METRO Cash & Carry business. The investment strategy focuses on potentials to create additional value beyond METRO's core business. METRO also makes its resources available where advisable and helpful, thus providing opportunities to realise additional value. This is exemplified by METRO Sales Force, which is stimulating customer demand by providing proactive customer service.

In financial year 2016/17, HoReCa Digital invested in the start-up companies Planday from Denmark and Yoyo Wallet from the UK. Planday offers workforce management solutions enabling companies to switch from paper and pen to a lean digital process for their staff roster planning. This delivers significant savings in terms of time and resources. Yoyo Wallet offers a combination of quick and easy technologies for mobile payments, mobile ordering and personalised customer loyalty and bonus programmes. The application is supported by an analysis and event platform for retail companies.

Food technology and food innovation

The Food Technology and Food Innovation department at HoReCa Digital is concerned with trends, innovations and new solutions for the food industry. HoReCa Digital considers itself an interface between new technologies, food concepts and consumers. From new farming technologies to new approaches in recycling – the context of digital disruption and global megatrends creates new concepts on a daily basis. These new concepts must be explained to the consumers and validated together with the respective companies.

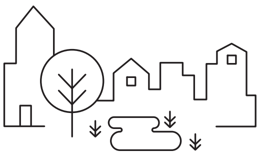
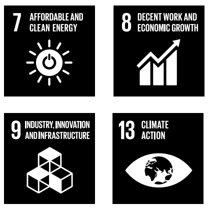
HoReCa Digital offers a number of different programmes aimed at supporting young start-ups on their way to the market. Together with them, the company also develops strategies for assessing the marketability of products. Partnership projects, such as the initiatives with the Association for Vertical Farming, the Schmiede.one AgTech Accelerator or the incubator initiative at the University of Wageningen in the Netherlands provide us with the privilege of gaining early access to new approaches in food technology, which are then tested and trialled together with the Purchasing, Quality Assurance and Sustainability departments. Our community activities, such as "Innovation in Retail" and the "Rising Spoon" meetups, create an environment that allows entrepreneurs and innovators to discuss the latest developments and receive inspiration from novel ideas. The goal is to not merely gather the visionaries around a table, but to engage with them proactively in designing the future.

Exchange of experiences and observation of trends in the hospitality industry

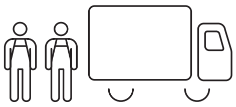
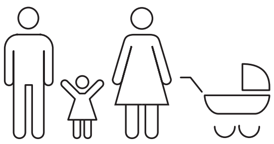
HoReCa Digital promotes the exchange of experiences and community building in the HoReCa sector, for example, by establishing a cooperation with Ecole hôtelière de Lausanne (EHL), which started in February 2016. Our joint efforts have resulted in the establishment of an academic chair for digital innovation in the hotel, restaurant and catering sectors. The goal of the METRO Chair of Innovation is to research the digitisation in the HoReCa sector in key markets like France, Italy, Spain, Germany and Japan as well as to strengthen academic teaching in this area. HoReCa Digital further pursues systematic social media activities (for example, for the finalists of the METRO Accelerator powered by Techstars) to strengthen the company's online reputation and help advance digital solutions for the food service and hospitality sectors.

2.4 SUSTAINABILITY MANAGEMENT

In 2015, the United Nations declared the global community's Sustainable Development Goals (SDGs). A detailed global agenda was provided to assist governments, companies and private individuals in reaching the overall 17 goals required to achieve a sustainable development on an economic, social and environmental level. Also METRO considers itself an active member of the global community and strives to contribute to the creation of additional value and thereby the attainment of the SDGs. As companies, we have a moral obligation to balance our economic interests with both social demands as well as the demands of our customers, employees, investors and business partners and to not limit our efforts to the requirements imposed on us by the legislator. We must respect the limits placed on us by humanity and the natural environment. For us, sustainability does not stop at focusing on environmental and social issues. The notion of sustainability encompasses every single aspect of our actions and is a fixed item on the agenda of our corporate strategy. Our thinking and actions go well beyond the next day. We strive to be an attractive employer for our employees and a reliable and service-focused system partner for our customers over the long term. We seek to facilitate the long-term success of our customers by making our expertise, products and solutions available for their benefit. Accordingly, our business activities are designed to create added value while reducing negative effects. This makes all aspects of our business sustainable. This is what drives us. This contributes to reaching a new level of sustainability in the food and food services industry.

We act sustainably for …	This is how we do it.	Into which SDGs[1] we put most of our efforts.	What these goals require/mean.
… the environment – in our own business operations for procurement and assortment management. 	We use resources responsibly in our own operations and avoid waste wherever we can. This is how we minimise our impact on the climate and protect the environment. A sustainable procurement process and product range further contribute to preserving precious resources for the future. This is how we help create a sound foundation for the retail of tomorrow.		**7** Ensure access to affordable, reliable, sustainable and up-to-date energy for all. **8** Promote durable, inclusive and sustainable economic growth, productive full-time employment and dignified work for all. **9** Build a resilient infrastructure, promote inclusive and sustainable industrialisation and support innovation. **13** Take immediate action to combat climate change and its effects.
… our customers – in regards to consumption. 	We provide our customers worldwide with locally sourced, safe, quality products through sustainable procurement and assortment. And with products that are produced, processed and recycled in a socially responsible, environmentally sound and resource-friendly manner. This is how we secure our future and promote sustainable consumption.		**12** Ensure sustainable consumption and production behaviour. **14** Preserve oceans, seas and marine resources and ensure sustainable development. **15** Protect and restore terrestrial ecosystems and promote their sustainable use. Sustainably manage forests, prevent desertification, halt and reverse soil degradation and stop biodiversity loss.

[1] SDGs = Sustainable Development Goals.

We act sustainably for ...	This is how we do it.	Into which SDGs[1] we put most of our efforts.	What these goals require/mean.
.. for the people who work for us – in procurement and assortment management. 	We operate our business fairly and responsibly and ensure fair living and working conditions. This is how we demonstrate responsibility in the supply chain.	1 NO POVERTY; 2 ZERO HUNGER; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES; 16 PEACE AND JUSTICE	**1** End poverty in every way and everywhere. **2** End hunger, improve food safety and nutrition, and promote sustainable agriculture. **8** Promote durable, inclusive and sustainable economic growth, productive full-time employment and dignified work for all. **10** Reduce inequality within and between states and countries. **16** Promote peaceful and inclusive societies for sustainable development, provide fair justice systems to all people, and build effective, accountable and inclusive institutions at all levels.
... for our employees. 	We respect, protect and support our employees at all times and build trusting relationships with them. We enable them to systematically integrate sustainability into their day-to-day operations and decisions. Thus, we create an attractive work environment that enables us to offer our customers optimal and sustainable solutions for their needs.	1 NO POVERTY; 3 GOOD HEALTH AND WELL-BEING; 4 QUALITY EDUCATION; 5 GENDER EQUALITY	**1** End poverty in every way and everywhere. **3** Ensure a healthy lifestyle for all people of all ages and support their well-being. **4** Ensure inclusive, just, high-quality education and promote lifelong learning opportunities for all. **5** Achieve gender equality and empowerment for all women and girls.
... for the benefit of society. 	We align our business with the needs of society through stakeholder dialogue based on mutual trust and by contributing to our local communities wherever we operate. This is how we work on solutions to global challenges and contribute to sustainable development.	1 NO POVERTY; 2 ZERO HUNGER; 17 PARTNERSHIPS FOR THE GOALS	**1** End poverty in every way and everywhere. **2** End hunger, improve food safety and nutrition, and promote sustainable agriculture. **17** Strengthen implementation tools and revitalise the global partnership for sustainable development.

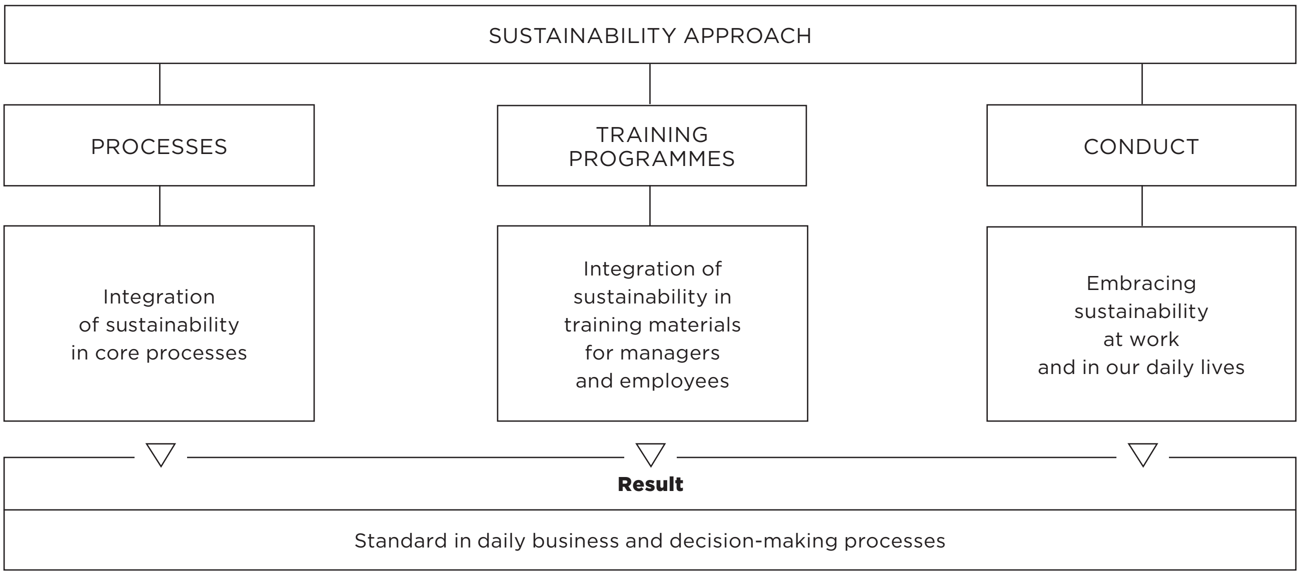
[1] SDGs = Sustainable Development Goals.

Embedding sustainability

To achieve our ambitious goals, we have embedded the notion of sustainability in our core business strategy. The implementation of this strategy is the responsibility of METRO's Sustainability Committee and its subcommittees. We also adapt relevant business processes and decision-making procedures and proactively involve our employees. We want each individual to ultimately appreciate the significance of sustainability, both personally and in the professional environment and adjust his or her personal conduct accordingly. While METRO may be able to drive the issue in a top-down approach, it can only come to fruition once it is embraced by everyone in the company.

— **More information about sustainability-related employee communication is available online at www.metroag.de/responsibility. For general information about our personnel, see chapter 2.5 employees in this METRO annual report.**

EMBEDDING SUSTAINABILITY



Issue	Goals	Status of goal attainment	Measures	Status of measures
EMBEDDING SUSTAINABILITY WITHIN THE COMPANY	METRO is systematically making sustainability an integral part of its daily operations.		Continuous implementation of the sustainability-related initiatives within our business processes (ongoing): METRO's sustainability measures include specific guidelines, the group also considers sustainability aspects in its decision-making processes. As an example, we invest between €20 and 25 million each year in energy-saving measures. The monetary value of CO_2 emissions is an important part of the decision-making process for investment applications.	
			Sharpen employees' understanding of sustainable behaviour. Driving sustainability campaigns. – METRO prepares and distributes internal and external communications relating to the wider topic of METRO and sustainability throughout the year. A good example is the UN World Water Day celebrated by our company on 22 March 2017 at its head office in Düsseldorf and 20 METRO countries around the globe. In the future, METRO will shine the spotlight on this and other important international sustainability days, throughout our administrative offices and sales outlets. – Our company also conducts sustainability workshops within our business units and the national subsidiaries in particular. – METRO also frequently hosts sustainability events, such as a Sustainability Week in our head office and Sustainability Days in 16 METRO Cash & Carry national subsidiaries. – Sustainability also plays an important part in our annual employee survey METRO Voice. The survey is conducted among employees at 25 METRO Cash & Carry national subsidiaries, 10 service companies and METRO AG. The survey results for the reporting year indicate that 82% of surveyed employees state their employer is an environmentally conscious company that accepts social responsibility.	
			Integration of the notion of sustainability into existing training programmes (partially completed). – We have conducted the METRO Sustainable Leadership Program for the third consecutive time with the aim of reinforcing our executives' awareness for sustainability. – Sustainability aspects are also firmly embedded in our new executive development programme called Lead & Win.	

Annotations to the symbols can be found on page 66.

Sustainability management

Sustainability management serves the purpose of systematically and structurally anchoring the notion of sustainability in our core business operations and to consider the interdependencies between economic, environmental and social aspects in an efficient, solution-driven manner. It is closely tied to our management of risks and opportunities. This enables the Management Board to systematically identify, evaluate and control deviations from the sustainability goals and the ensuing risks and opportunities.

— **For more information about risk and opportunity management, see chapter 5 risk and opportunity report.**

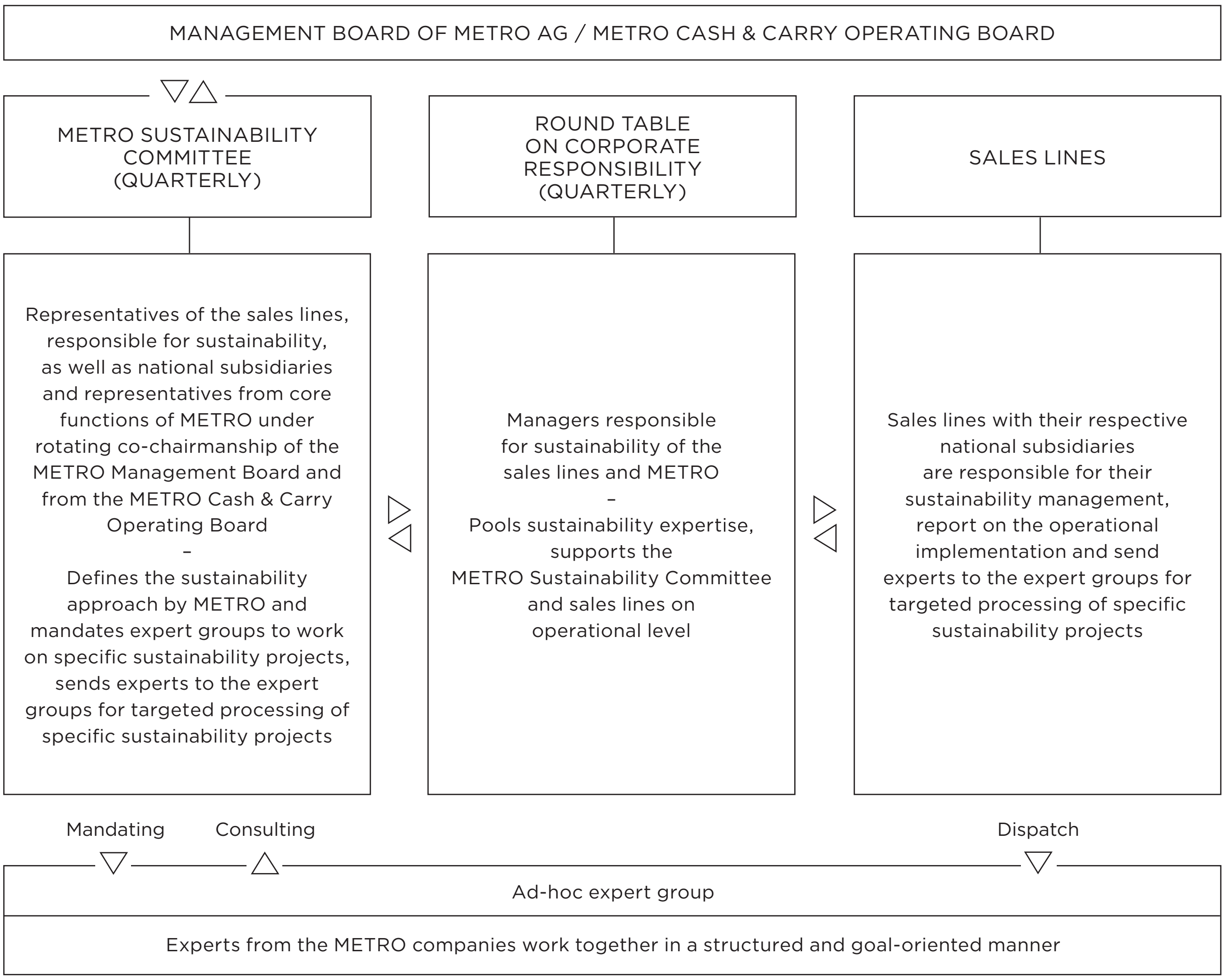
The METRO Sustainability Committee charts the strategic course for the entire company's sustainability-related performance and develops targets for core issues.

The round table on corporate responsibility serves as the interface between the strategic and operational aspects of sustainability. This corporate body lays the groundwork for decisions taken by the Sustainability Committee and assists in their implementation. On the operational level, the sales lines are charged with defining specific goals and programmes, putting them into practice in their daily business operations and ensuring that the objectives are reached. They report their progress to the Sustainability Committee at the round-table meetings.

Our stakeholders use ratings to evaluate the sustainability measures carried out by METRO. These evaluations provide important motivation to us and serve as a management tool because they demonstrate the progress of and potential to improve our activities.

Oekom Corporate Rating awarded METRO in September 2017 the prime status C+ (on a scale from D- to A+). Financial year 2016/17 also saw the internationally renowned sustainability indexes Dow Jones Sustainability World and Europe ranking our group as the leading company in its sector for the third consecutive time. In the CDP Climate Scoring and the CDP Water Scoring, METRO was awarded a score of A- (scale from F to A) in October.

METRO SUSTAINABILITY COMMITTEE



Areas of responsibility

When it comes to defining our responsibilities and key focus areas, we do not just rely on our own internal perspective. We also participate in the economic and socio-political discourse, cooperate with external stakeholders and are consistently guided by the agenda designed to meet the SDGs. This enables us to identify our stakeholders' expectations and requirements in relation to our actions at an early stage. We select the areas and issues relevant to our sustainability efforts based on both the internal and the external points of view. This allows us to create a foundation for the development of strategic objectives and specific measures. The former METRO GROUP conducted an initial stakeholder survey in 2016. The results of this survey continue to bear relevance for METRO today. The survey assists us in reviewing the relevance of the identified issues and also plays a role in the simplified materiality analysis for financial year 2016/17. The materiality analysis for the current financial year is in particular shaped by the intensive exchange with our stakeholders conducted in the context of METRO unboxed, an updated desktop and media analysis, as well as the dialogue with the respective stakeholders via the email inbox of the METRO AG sustainability unit. The assessment of the issues' relevance ranges from "not material" to "very material". The result of this year's analysis does not significantly deviate from last year's materiality analysis.

Our commitment to sustainability focuses on those segments of the value chain and interaction with society where our company has the biggest influence. This results in the identification of the following areas of responsibility:

- Commitment to our employees
- Sustainable business operations
- Sustainable procurement and assortment management
- Sustainable consumption
- Social commitment

Below is an overview of the focal issues addressed in the context of the identified areas of responsibility. Integration of the concept of sustainability into our sales lines' strategy process has resulted in additional specific focal areas at the operating level. A current overview of examples from the METRO Cash & Carry national subsidiaries and Real can be found in the METRO Progress Report on Corporate Responsibility 2016/17.

— **More information and figures about the topic of sustainability on a company and sales line level is available online at www.metroag.de/cr-progress-2016-17.**

Commitment to our employees

The success of METRO and its sales lines is only made possible by our more than 150,000 employees. It is their commitment and the decisions they make on a day-to-day basis that ensure we create value for our customers and society. In terms of our sustainable corporate governance, we consider it our duty to create and ensure an attractive, fair and safe work environment. We take the approach of valuing the individuality of our employees, encouraging their diversity and strengthening their personal responsibility. This allows us to support them in implementing our strategy successfully and sustainably.

— **For a complete overview of our commitment to our employees and METRO's human resources policy as well as the related key figures, see chapter 2.5 employees. Sustainability-related employee figures are also available online in our METRO Progress Report on Corporate Responsibility 2016/17, which is accessible at www.metroag.de/cr-progress-2016-17/employees.**

Sustainable business operations

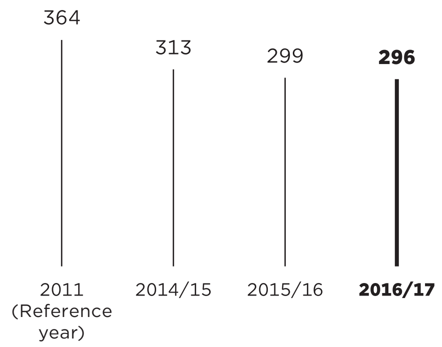
A responsible consumption of energy and other natural resources is crucial for all of us. The use of resources has a direct effect on our operating costs and may entail undesirable environmental implications, such as the emission of climate-damaging greenhouse gases. We strive to reduce the climate-relevant emissions caused by our business operations and our consumption of natural resources. We do this by focusing on intelligent energy consumption and investments aimed at increasing our energy efficiency. Adopting targeted measures enables us to reduce consumption levels as well as costs. In financial year 2016/17, our group has invested €18.2 million in programmes such as the METRO Cash & Carry Energy Saving Programme – predominantly for the installation of LED and other energy-efficient lighting systems and enclosed refrigeration counter units in the wholesale outlets and additionally for the development of renewable energies. Our goal is to save more than €4.6 million in energy costs per year. We are also committed to responsible resource management, for example in the areas of our logistics fleets, refrigerants and paper. Our group's facility management is also aligned with the notion of sustainability. We have invested in converting our refrigeration systems to natural refrigerants and have opened our second green store in Jinan, China.

Further key focal issues in relation to sustainable business operations are the prevention of waste, the reuse of resources and their recovery by means of recycling. The reduction of food waste is an issue of particular importance for the operational business of METRO. Every food product that is sorted out or discarded instead of being eaten represents wasted economic, social and environmental resources. METRO has therefore committed itself to the Resolution on Food Waste by the Consumer Goods Forum (CGF) and thus to eliminate 50% of the volume of food waste in our outlets by the year 2025.

Status climate protection target

From October 2016 to September 2017, METRO generated 296 kilograms of CO2 equivalent per square metre of selling space. This figure is down from 299 kg in the previous year's period. Our goal is to reduce these emissions to 184 kg by 2030. To achieve this goal, we are focusing our efforts on reducing our energy consumption and lowering our refrigeration emissions.

CLIMATE PROTECTION TARGET STATUS
Greenhouse gas emissions in kg CO_2 (CO_2-equivalent) per m² sales floor



Issue	Goals	Status of goal attainment	Measures	Status of measures
SUSTAINABLE BUSINESS OPERATIONS	METRO will reduce its greenhouse gas emissions by 50%, from 364 kg of CO_2e/m^2 in 2011 to 184 kg of CO_2e/m^2 by 2030.		Energy-saving programme: Investments in renewable energies and to increase energy efficiency. Energy awareness programme: Increasing awareness for responsible use of energy. F-Gas exit programme: Investments to reduce the emissions of refrigeration equipment.	
	METRO has committed itself to the "Resolution on Food Waste" by the Consumer Goods Forum and thereby to reducing the volume of food products discarded in our own business operations by 50% until the year 2025 (reference value: 2016).		Establishment of a working group dedicated to the issue of waste as part of Operations Federation. Evaluation of the implementation of "Food Loss and Waste Protocol" in a selected pilot country.	

Annotations to the symbols can be found on page 66.

Sustainable procurement and assortment management

In our procurement activities, we strive to purchase high-quality and safe products that are socially acceptable and environmentally safe. This provides the foundation for a sustainability-focused management of our assortment. As a retailer, our business also depends on the long-term availability of resources, as these raw materials are needed to produce and package our products.

Therefore, our actions are consistently geared to implement our group-wide purchasing policy for sustainable procurement across our entire product range. This policy sets out the fundamental requirements for sustainable supply chain and procurement management. At the same time, our purchasing policy forms the framework for various guidelines that address specific issues related to individual categories of products and raw materials. By developing and implementing these guidelines for sustainable purchasing, we are strengthening our procurement channels and help improve the sustainability of our products and thus our entire assortment.

Issue	Goals	Status of goal attainment	Measures	Status of measures
SUSTAINABLE PROCUREMENT AND ASSORTMENT MANAGEMENT	METRO committed itself to a company-wide mandatory guideline for sustainable fish purchasing. In 2016, METRO Cash & Carry set itself the target to purchase 80% of the 12 most popular fish and seafood products from sustainable sources by 2020.		Positioning of METRO and active exchange with experts on the issue: METRO is actively involved in numerous external committees and partnerships, such as the Global Sustainable Seafood Initiative (GSSI), the North Atlantic Seafood Forum (NASF), the World Economic Forum (WEF) and the Marine Stewardship Council (MSC) for sustainable fisheries. Another example is the Tuna 2020 Traceability Declaration, which METRO joined as a signatory in July 2017. METRO Cash & Carry further conducts sustainability workshops in the METRO Cash & Carry national subsidiaries. Their objective is to develop a specific implementation plan for each country.	
	METRO committed itself to a group-wide mandatory guideline for the sustainable purchasing of products containing palm oil. METRO Cash & Carry set itself the target to purchase 100% of its own brand products containing palm oil from sustainable sources by the year 2020.		Sustainability workshops conducted in the METRO Cash & Carry national subsidiaries: Their objective is to develop a specific implementation plan for each country. Croatia, Poland and Italy have already switched pure palm oil to sustainability-certified palm oil.	
	Real has been purchasing 100% of its own brand range of food products containing palm oil from sustainable sources since the year 2015. During the reporting period, Real set itself a new goal: 100% of the palm oil used for its own brand food products must be certified with regard to “Segregation and Identity Preservation” criteria by the year 2025.		Comprehensive annual supplier review: The objective is to ascertain the availability and use of palm oil or palm kernel oil that is certified with regard to “Segregation and Identity Preservation” criteria.	

Issue	Goals	Status of goal attain-ment	Measures	Status of measures
	METRO committed itself to improving the environmental footprint of its own brand product packaging by adopting a group-wide mandatory guideline. In the period until 2018, METRO Cash & Carry will take the following measures in the national organisations taking part in the project and the Global Own Brand Management: – Investigate the packaging of 10,000 own brand products for optimisation potentials, – Phase out polyvinyl chloride (PVC) packaging as much as possible and replace it with more sustainable packaging and – Obtain an FSC® (Forest Stewardship Council®) certification for 100% of SIG and Tetrapak beverage cartons.		Investigation of optimisation potentials: METRO has adopted the 5R principle: remove, reduce, reuse, renew and recycle. Assessment of the environmental footprint of product packaging: METRO Cash & Carry uses PIQET, a system for analysing the life cycle of product packaging. Knowledge transfer and best-practice-sharing: METRO conducts regular packaging workshops. 10 METRO Cash & Carry national subsidiaries and the Global Own Brand Management have set themselves country-specific targets that will contribute to the overall target. In financial year 2015/16, METRO has successfully reduced the amount of packaging materials by 15%. 83% of Tetrapak and SIG private label beverage cartons are now FSC® certified, while 62% of PVC-based own brand packaging has been replaced by more sustainable alternative solutions.	
	Real will successively – Switch 100% of its paper and carton packaging for own brand food products to FSC®- and PEFC-certified materials and – Assess the packaging of all own brand products on potentials for improvement of their environmental footprint (e.g. use of less material, certified materials).		Numerous projects on reducing the amount of packaging are ongoing. Trials with alternative fruit and vegetable packaging are also conducted. This led to the discontinuation of plastic shopping bags in January 2017.	

Issue	Goals	Status of goal attainment	Measures	Status of measures
	In 2016, METRO Cash & Carry adopted a guideline with the objective to source more than 50% of its own-brand products containing timber or paper from legal and sustainable sources by 2020.		Sustainability workshops in the METRO Cash & Carry national subsidiaries prepare the country-specific implementation plans. We have already been using 100% recycling paper in our head office in Düsseldorf, Germany, since the year 2015. Moreover, all products belonging to our range of centrally procured own brand outdoor furniture range are already FSC®-certified.	
	Real intends to switch its own brand products to 100% sustainable timber and paper by 2020, provided at least 50% of weight of the product consists of these resources. All printing paper, copy paper and sanitary tissues used internally at Real will be switched to 100% sustainable timber and paper. Real also intends to switch service packaging, such as packaging materials used at fresh food counters, to 100% sustainable timber and paper by 2020.		Involvement of Real suppliers in the objective and implementation of a supplementary supplier agreement.	

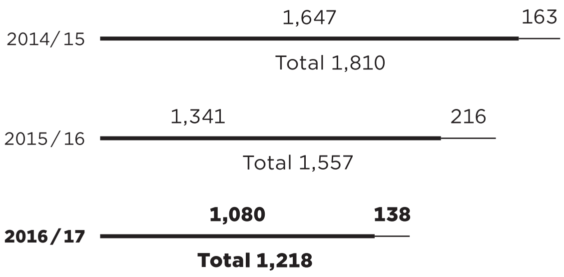
Annotations to the symbols can be found on page 66.

We aim to ensure socially acceptable working conditions within our sourcing channels. A systematic approach to achieving social standards is an integral part of the process as well as an important tool. It enables us to take effective action against any potential risks from violations. Irresponsible practices within the supply chain can damage the confidence in our conduct and, consequently, also our business. We will therefore require our producers to be audited to the standard set out by the Business Social Compliance Initiative (BSCI) or an equivalent standard. This applies to all producers in certain high-risk countries (based on the BSCI rating) that manufacture imported goods for METRO SOURCING. It also applies to the producers of our own brand products and our own import products in the area of clothing, shoes, toys and household hardware. As of 30 September 2017, 1,218 producers have been audited. Of that group, 89% (1,080 producers) passed the audit. Producers who fail the audit are allowed a period of 12 months to provide proof of improvement by way of a follow-up audit. METRO Cash & Carry and Real have introduced more stringent supplier requirements on 1 January 2017: New suppliers will only be accepted if they are able to prove at least an acceptable audit result. Existing suppliers have been granted a transitional period of 2 years.

SOCIAL AUDITS RELATING TO OWN IMPORTS BY METRO SOURCING AND NON-FOOD OWN BRAND PRODUCTS OF THE METRO SALES LINES

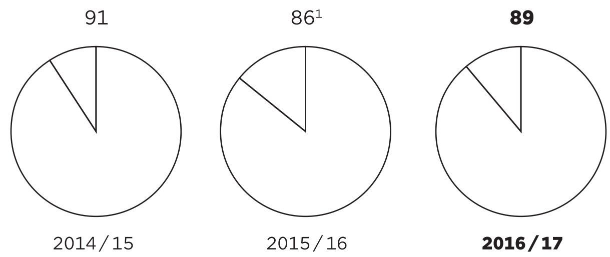
as of the closing date of 30/9

Factories with a valid audit (number)



thereof with passed audit
thereof with failed audit

Thereof with passed audit (in %)



Factories that have passed the audit may prove the successful implementation of the BSCI system of social standards or an equivalent system by furnishing a certificate issued by an independent third party.

[1] Adjustment of the BSCI rating system from three rating levels (good / improvements needed / non-compliant) in 2015 to five levels (A/B/C/D/E). The result "improvements needed" has been counted as a "passed" result. Some of the results previously counted as "improvements needed" have been reassigned to either "C" (passed) or "D" (failed) under the new rating system. The adjustment resulted in a declining proportion of producers in financial year 2015/16 that passed the audit.

Issue	Goals	Status of goal attainment	Measures	Status of measures
SUSTAINABLE PROCUREMENT AND ASSORTMENT MANAGEMENT	METRO is intensifying its efforts for fair working conditions at all producers in high-risk countries[1] where import goods are manufactured for METRO SOURCING. Our efforts also target the producers of our own brand products or our own imports in the area of clothing, shoes, toys and household hardware. More stringent requirements for suppliers: All factories producing for us[2] must prove at least acceptable audit results by 1 January 2019.		Continued inclusion of all factories[2] producing non-food own brand products in a valid BSCI social standard system or equivalent. Increasing the proportion of current audits, e.g. by providing specific training to the producers. As of 1 January 2017, new listings will only be accepted with at least an acceptable audit result.	

[1] BSCI definition of risk country.
[2] This includes merchandise producers (non-food own brand products and own non-food imports) that carry out the final value-creating production step.
Annotations to the symbols can be found on page 66.

Sustainable consumption

The specific product mixes of our sales lines are tailor-made to perfectly match the diverse needs of our private and commercial customers. These products and services must not only meet quality and safety requirements. Increasingly, they must also satisfy critical social and environmental requirements – from production and procurement to usage and disposal. For this reason, we focus firmly on measures that enable us to shape the relevant product features on the basis of our guidelines for sustainable purchasing. Our goal is to procure products that satisfy environmental, social and economic considerations. We also ensure transparency with regard to the resources used and the procurement of products by working closely with our respective business partners. Our harmonised international traceability solution Pro Trace further supports us in these efforts. METRO developed this solution in cooperation with other retailers, well-known partners and the standardisation organisation GS1 Germany. It enables us to gather relevant data electronically (e.g. data on products and suppliers) and manage it on a single software platform. Our Pro Trace app makes access to this information much easier and more reliable, both for customers and for other users.

Furthermore, we offer our customers greater transparency by using product labels that indicate our compliance with certain sustainability standards. We also label our own brand products accordingly. In addition, we provide complementary information flyers and customer brochures in our outlets and engage in a dialogue with our customers. This allows us to facilitate and encourage responsible consumption.

Our sales lines' assortments include fair trade products as well as foods that bear the European organic product symbol. In financial year 2016/17, METRO Cash & Carry and Real generated sales of nearly €16 million in Germany from fair trade products. This figure includes all articles bearing a Fairtrade or GEPA label. In the same period, our sales lines generated nearly €140 million in Germany-wide sales of products certified in accordance with the EU regulation on organic products. Our assortment also includes products from sustainable fisheries and aquaculture. These are products carrying the seal of the Marine Stewardship Council (MSC), the Aquaculture Stewardship Council (ASC) or the EU organic product label. In financial year 2016/17, METRO Cash & Carry and Real generated sales of more than €93 million from their sustainable fish assortment in Germany. Our objective is to meet the expectations of our customers and to contribute to the local economy. Our sales lines are therefore increasingly listing regional products in their assortments. Certain METRO Cash & Carry national subsidiaries already identify these products using special regional labels. The main characteristics of these regional products are superb freshness, outstanding quality and a regional connection to the supplier, both in terms of geographical proximity and in terms of close and mutually beneficial supplier relationships.

At Real, regionality refers to products that were produced within 100 km of the store that sells them. The Real sales line generated sales of more than €440 million from regional products during the past financial year. The sales lines increasingly offer its customers products from sustainable forestry. Sales of products bearing either the Forest Stewardship Council (FSC®) or the Programme for the Endorsement of Forest Certification (PEFC) label exceeded €39 million in Germany. Given our customers' increasing interest in sustainable products and the resulting potential for our business, we continue to work on increasing the share of more sustainable products in our assortment, as well as further developing business solutions for our customers. In financial year 2016/17, Real has added an additional 1,500 sustainable food products to its shelves compared to the previous year. This means that Real has made good progress in achieving its goal of increasing the share of sustainable products in its revenues to 30% by 2019. In financial year 2016/17, a share of 26% was reached. Sustainable products are products carrying certified seals or labels or Real's own or an approved quality seal. This also includes regional, reusable and free-range products. Real will achieve its goal by focusing on regional products, produce from organic farming, fruit and vegetables from permaculture as well as projects relating to animal welfare.

Consumption, even at reasonable levels, always involves the use and depletion of resources. We therefore feel that it is our responsibility to minimise the resultant waste and emissions. We place great importance on promoting innovative manufacturing and recycling technologies and on thinking in terms of cycles. Since products and packaging find themselves in the hands of consumers when they reach the end of their useful lives, we also advise our customers when it comes to proper disposal: Selected stores provide our customers with information about natural resources, encourage them to avoid waste and offer incentives and opportunities for proper disposal. For example, METRO Cash & Carry France accepts waste oil returns from its customers. This allows us to do our part to ensure that waste materials are converted back into raw materials that can be reused.

Issue	Goals	Status of goal attain-ment	Measures	Status of measures
SUSTAINABLE PROCUREMENT AND ASSORTMENT MANAGEMENT / SUSTAINABLE CONSUMPTION	METRO initiates and promotes the development of an international technical solution for global traceability that encompasses all industries and products.		Following successful implementation of the traceability solution Pro Trace for the fish and meat product categories at METRO Cash & Carry Germany, we started to introduce the solution in other countries at the beginning of 2015. At present, numerous countries and our international trading offices are involved in the project.	
	Real has set itself the target of achieving a 30% increase in the share of sustainable food and near food products by the year 2019.		After extending the project scope on country level to include the fish and meat product ranges, we have optimised our approach in 2016/17 and are now capable of tracing internal processing steps with this solution. METRO also supports the international cross-industry initiative Global Dialogue on Seafood Traceability (GDST). The goal of the initiative is to ensure inter-operability in this important area. A solid data pool has been prepared in order to ascertain the status quo and will now serve as the basis for the listing of new products. We also conduct specific training measures and initiate intensive discus-sions with our suppliers. Our priority are the modifi-cations in the rack planograms, with the main focus firmly fixed on sustainable products.	

Annotations to the symbols can be found on page 66.

Social commitment

METRO views its commitment to society and the envir-onment as a form of creating additional value by ad-dressing the challenges faced by our society. Our diverse activities aim at promoting the intercultural dialogue, supporting our retail and wholesale outlets and their local communities and offering targeted help to people in need. Our community involvement pro-gramme We help allowed us to assist countless people in need in 170 projects across 9 countries since the launch. With our global partnership with the United Nations World Food Programme (UN WFP), we are committed to fighting starvation and famine worldwide. The cooperation project will also be rolled out in the METRO companies: This will enable us to conduct a diverse range of local activities for generating dona-tions. METRO colleagues also offer their expertise on a pro-bono basis. As of 31 September 2017, the METRO countries Italy, Pakistan and Ukraine as well as METRO systems have joined the global partner-ship with the UN WFP.

COMMUNITY INVESTMENTS

in thousands of €	2015/16	**2016/17**
Charitable donations	783	**1,121**
Community investments	2,809	**2,345**
Commercial initiatives	2,299	**2,021**
Total	**5,891**	**5,487**

Issue	Goals	Status of goal attain-ment	Measures	Status of measures
SOCIAL COMMITMENT	METRO is expanding its projects involving food donations to international food bank initiatives from the current 16 METRO Cash & Carry countries to at least 17 countries.		METRO Cash & Carry cooperates with food bank initiatives in 16 of the 25 METRO countries. Collaboration in the remaining countries is challenging due to external circumstances such as political or tax-related reasons. At present, METRO Cash & Carry is holding talks with local relief organisations and politicians with the aim of advancing the cooperation in those countries where extraneous circumstances stand in the way of working together.	
	METRO launched the community involvement programme We help.The programme allows METRO to render non-bureaucratic help, assist in acute emergency situations and promote the integration of refugees. Our goal is to contribute a total of €1 million to refugee assistance projects in Europe by the end of financial year 2015/16. We have thus increased the budget for “community investments” (corporate citizenship) by €1 million.		The expansion of the programme and a group-internal round of applications – online and offline – has encouraged METRO colleagues to get involved.	
	Due to the great success of the community involvement programme We help, the Management Board has decided to continue the programme in financial year 2016/17. In 2017, all METRO subsidiaries may apply for special funding for their projects. All types of voluntary involvement are encouraged.		The expansion of the programme and an additional round of applications – online and offline – has encouraged METRO colleagues to get involved. The application paperwork has been translated into all METRO languages.	
	METRO will be the title sponsor at the Düsseldorf Marathon for the 15th time in 2018. One of the reasons for sponsoring the marathon is to foster employee loyalty. Participation not only increases team spirit but also promotes the health of participants. On average, nearly 700 co-workers take part each year. We intend to sustain or even increase our involvement and are working on further increasing the number of METRO participants from 650 runners in 2017.		Intensified promotion of the METRO Marathon via the group’s social intranet, both within Germany and abroad.	
	The inclusion of the UNWFP is scheduled for implementation in 6 national subsidiaries/service companies by the end of financial year 2017/18.		Creation of a contractual framework to assist with the preparation of local contracts. METRO AG is engaged in intense cooperation discussions with our colleagues in the METRO companies.	

Degree of goal achievement

Measure not yet started · Measure started · Measure ongoing · Measure concluded · New goal implemented · In progress · Goal reached · Goal not reached

2.5 EMPLOYEES

Sustainable human resource strategy

Our objective is to achieve revenue growth and profits that are sustainable over the long term. We also aspire to lift the food and hospitality sector to a whole new level. To achieve these goals, we need dedicated employees who bring our strategy to life in their everyday work. One thing is certain: METRO can only grow if we support the growth of our employees. Our human resource strategy focuses on 2 key aspects: on human resource management, which includes employee recruitment, retention and development and on occupational safety and health management. Our objective is to attract the very best employees, to support them in accordance with their motivation and abilities and to strengthen their long-term loyalty to our company. By taking this approach, we strive to be the employer of choice among current and future employees.

Recruiting employees

In competing for the most highly skilled employees and executives, we take steps to polish our image among potential applicants. This also includes offering initial training programmes to young professionals starting their career in retail, which in turn enables us to recruit employees from our own ranks.

INITIAL TRAINING AT METRO

	2015/16	**2016/17**
Number of apprentices in Germany	2,188	**2,064**
Number of apprentices internationally	1,222	**1,241**
Newly employed apprentices in Germany	783	**820**
Apprenticeship ratio (incl. interns and working students) in Germany	4.8%	**4.6%**
Proportion of apprentices passing the final examinations	92.2%	**92.1%**
Share of graduated apprentices retained by the company	70.1%	**71.8%**

In Germany, we focus on needs-based initial training with the goal of hiring a large portion of apprentices following graduation. Management and the Group Works Council have agreed that apprentices who complete the initial training programme with a positive aptitude assessment will generally be offered permanent, full-time positions. The individual METRO companies in Germany have defined their own specific requirements and possible exceptions. The organisation and implementation of the initial training programmes and the specification of their curricula are the responsibility of the sales lines. They offer various projects and programmes for their junior employees and encourage them to quickly assume responsibility and become involved in social causes.

METRO Cash & Carry Germany, for example, organised regional trainee camps in the reporting period for all 323 new apprentices, which gave the apprentices an opportunity to become acquainted with each other. The camp also covered retail- and wholesale-specific topics, such as active selling and conduct towards customers. The concept of the trainee camps is arranged in such a way that the participants can structure many areas themselves. The initial training programmes at Real are geared towards activity orientation and building expertise. The project “Frisch vom Nachwuchs” (Fresh food from fresh people) is an example for the complex and comprehensive apprenticeship curriculum: In January 2017, around 35 apprentices took over the reins at the butchery department of the Real outlet in Karlsruhe and assumed responsibility for all tasks, from production and customer service to giving product advice and analysing the project. The apprenticeship programme at Real is among the highest rated in the country, which was once again confirmed by an independent panel of experts. In September 2017, the “Ausbilder des Jahres” competition (Apprenticeship programme of the year) saw Real finishing second place in the retail centres category. The distinction was awarded by the “Lebensmittel Praxis” magazine. This is already the fourth time the company’s extraordinary initiative in the field of apprenticeships has received accolades.

In addition to the apprenticeship programme, METRO offers young people the opportunity to complete a special academic curriculum that includes practical modules. In reporting period 2016/17, 81 students were enrolled in Germany.

Talent development
Since October 2014, METRO Cash & Carry has been offering the METRO Potentials programme in all countries in which the sales line operates. The programme targets the best university graduates and young professionals worldwide with 2 to 3 years of work experience. The goal is to build a sufficient pool of future managers and executives. During the 2-year trainee programme, participants have an opportunity to expand their knowledge by participating in various hands-on projects. They are also coached by their local mentor, who is a member of the respective country’s management. The trainees complete various stations in their own country and abroad as well as at the company’s headquarters in Düsseldorf. After completing the programme, they are offered management positions, such as store manager. But the career prospects go far beyond that, up to a position on the Management Board of the respective country. 21 trainees completed the programme in financial year 2016/17.

Employer brand and human resources marketing
To strengthen the METRO employer brand specifically among graduates and (young) professionals, we joined forces with the Ecole hôtelière de Lausanne (EHL) in the year 2016 to establish an academic chair for digital innovation in the hotel, restaurant and catering (HoReCa) business. The goal of the "METRO Chair of Innovation" is to research the digitisation in the HoReCa sector in key markets like France, Italy, Spain, Germany and Japan and to strengthen academic teaching in this area. In 2017, METRO Cash & Carry exhibited at the EHL Career Day and presented career opportunities at METRO to the students. Financial year 2016/17 also saw us participating once again in the employer initiative Fair Company. This initiative allows us to offer interns, working students, career starters and trainees a direct entry point for their career.

METRO Cash & Carry has bolstered its investment into human resources marketing and aligned its recruiting activities in financial year 2016/17 to the corporate strategy. The focus was mostly on apprentices and professionals from the hospitality industry and the food trade. We have in particular improved our company's visibility in social media. The company now uses platforms such as Kununu, Xing, Linkedin, Hosco, which is the Linkedin for hospitality professionals and Twitter. As a corporate partner in CEMS, a cooperation between leading business universities worldwide and multinational companies and NGO's, METRO Cash & Carry also has the opportunity to recruit top-performing students and graduates from the leading management universities. In 2017, the annual "Top Employer" distinction was awarded to METRO Cash & Carry organisations in Croatia, France, Portugal, Spain, Belgium and Italy.

Real is also implementing numerous measures as part of human resource marketing, for example the career information events conducted at schools. These events are not only aimed at students, but also at others involved in preparing a choice of profession, such as teachers and advisers at the government's employment agency. The hypermarkets also take part in national campaign days, such as "Girls' Day" and "Boys' Day": in reporting period 2016/17, around 350 youths took a look behind the scenes at the company for an entire day and learned about the various apprenticeship options. In order to approach new talent, Real also relies on other formats, including apprenticeship information on private label products, contributions on the company's career website and in social networks, information booths at apprenticeship fairs as well as sharing of experiences by apprentices or banners on online platforms focusing on career choices.

Remuneration models and succession planning

Our remuneration models provide incentives for employees and managers to perform and to align their work practices with our guiding principles. Our systematic succession planning enables our skilled employees and managers to develop attractive careers within our company.

Performance-based remuneration for executives
Our Perform & Reward remuneration system comprises a fixed monthly base salary as well as 1-year and multi-year variable remuneration components that are essentially tied to our company's business performance. Additionally, the 1-year variable remuneration considers our executives' individual achievements, generation of additional value for customers as well as their implementation of our guiding principles in their daily work. Among other things, the multi-year variable compensation incorporates a sustainability component.

Remuneration principles
The remuneration model for the approximately 350 top executives of METRO worldwide is based on the following 4 principles:

- Fair and internally consistent compensation
- Performance-based pay
- Market-driven and appropriate salaries
- Encouragement of role model behaviour

During the reporting year, we used the sustainable development of the wholesale and retail segments as a basis of assessment for the 1-year and multi-year variable remuneration. This means that the managers are directly involved in the success of their respective units.

For both business segments, the 1-year variable remuneration is based on sales and profits. In the wholesale segment, customer satisfaction is an additional relevant key performance indicator. As part of the multi-year variable remuneration (long-term incentive, LTI), a specific plan has been developed for each top managers of the group These plans focus on the value generation of each business segment. The key indicator of sustainability is used as a key figure in both plans.

Within the framework of METRO's Green Car Policy, the carbon emission limits are specified in a bonus-malus system, while plug-in, hybrid and electric vehicles are allowed as company cars. Furthermore, the unused leasing budget for cars can continue to be converted into post-employment benefits plans in Germany. In addition, we offer our executives a company pension scheme that includes both contribution-based and performance-based components. The compensation principles described above are applied in all national subsidiaries. Local (labour) legislation is taken into consideration in all cases.

Performance reviews and succession planning
The systematic development of executives is a core responsibility of the general management teams of the respective group companies, as well as of the strategic management holding company METRO AG. By taking this approach, we ensure that the skills and abilities of our managers are consistently aligned with the requirements and strategic objectives of our company. It also allows us to offer suitable international career opportunities to our executives – independent of the sales line or company they are employed with. Our career-planning processes also allow us to identify and support suitable candidates for key positions in the company. This ensures that we can fill vacancies from our own ranks. The in-house succession rate for the senior executives – in particular the general managers and section heads at METRO – was 76.4% in the reporting period.

Individual performance reviews
We conduct annual individual performance reviews for all our sales lines as part of the Results & Growth process. The objective of these reviews is to better measure progress and abilities and to create a culture of feedback that focuses on individual job performance and personal development. We define the corresponding priorities at the beginning of each financial year; a mid-year performance review allows for these priorities to be re-examined and adjusted as necessary. The performance review is then conducted at the end of each financial year and also incorporates a feedback session. The review focuses on attaining the priorities and adherence to guiding principles, but also takes the respective employee's role-specific performance into account.

Systematic succession planning
As part of the Leadership Talent Review (LTR) process, succession planning for our key positions is conducted once a year. When performing the LTR, we examine the expertise, abilities and experience of every potential succession candidate and rate these individuals according to the particular responsibilities of their respective positions. This ensures that we identify and support suitable candidates for key positions at an early stage. The employee and his/her line manager then create a career development plan and determine targeted measures. The Leadership Talent Review serves as a long-term-oriented development process for candidates who can potentially fill top positions in our company. This process is complemented by additional methods, such as 360-degree feedback meetings.

Executive development
We are convinced that growth can only be generated if the people working for our company are given opportunities for their personal development. To bolster our management capabilities and to achieve sustainable growth, METRO Cash & Carry launched an executive development initiative in financial year 2016/17. More than 15,000 executives across 25 METRO countries are taking part in the Lead & Win programme. This integrated learning concept is broken down into 3 learning pathways of 6 to 8 months and offers executives an opportunity to explore the issues relating to their respective management level in learning groups. The objective is for all executives to have completed the programme by the end of 2019.

Financial year 2016/17 saw more than 150 level–2 executives participating in the programme. More than 60 internal trainers have already been trained to teach the Lead & Win programme to executives on lower levels in their countries.

Pushing ahead with the group-wide focus on sustainability, METRO conducted the second "METRO Sustainable Leadership Programme" for young executives in financial year 2016/17. This programme saw 27 international participants completing an 18-month programme focusing on the development of in-house sustainability projects. The current project line-up, which covers the topics of packaging, humans and mobility, is proposed to be implemented by mid-2018.

Continued development of employees

Our goal is to promote lifelong learning among our staff as a way of responding to current and future challenges in the retail and wholesale industry. The House of Learning business unit provides customised personnel development measures, learning solutions and services for the management holding company METRO AG as well as the METRO Cash & Carry sales line. The focus is on employees and executives from the sales, field service, delivery, purchasing and finance departments. The training contents are geared to the implementation of METRO Cash & Carry's corporate strategy and guiding principles, as well as the advancement of decision-making skills and personal development. Thanks to a sophisticated cascading process, all training programmes can be translated, adapted to local circumstances and – in the case of seminars and on-the-job training courses – delivered by internal full-time and part-time trainers.

TRAINING COURSES AT METRO CASH & CARRY AND METRO AG

	E-learning modules	Seminars, on-the-job trainings, online courses and webinars	Total
Number	321,538	24,418	345,956
Participants	320,055	243,090	563,145
Participant hours	205,130	2,778,332	2,983,462
Training costs (€/participant)	4.04	82.04	37.71

At Real, a total of 28,811 participants were trained using e-learning modules during the reporting period. This corresponds to 15,610 hours of study. Furthermore, a total of 4,575 employees, excluding trainees, were trained over a total of 60,164 programme hours delivered in the form of seminars.

By digitising our learning arrangements and the administrative side of our training measures, we offer access to digital study content for all employees in the METRO Cash & Carry sales line and the management holding company METRO AG. The open learning platform on the social intranet offers e-learning modules, moderated expert and study groups, thematically arranged online-learning sources, a digital library for abstracts of business literature and internally developed online courses on company-specific topics. This allows us to actively promote self-directed learning, independent of time and place, as well as an exchange of information between our employees. The global learning management system SAP Learning Solution supports the training administration and the associated operative and strategic reporting system in the planning and evaluation of our internal training measures. To deliver an efficient implementation of digital learning modules and a lean process for the SAP Learning Solution, the House of Learning cooperates closely with a team at METRO Global Business Services in Pune, India.

Financial year 2016/17 also saw METRO opening new training facilities at our site at the Albertus Lake in Düsseldorf. The facilities provide training measures that are unsuitable for digital delivery. This varied, informal and flexible facility promotes the exchange among seminar attendees from across the world.

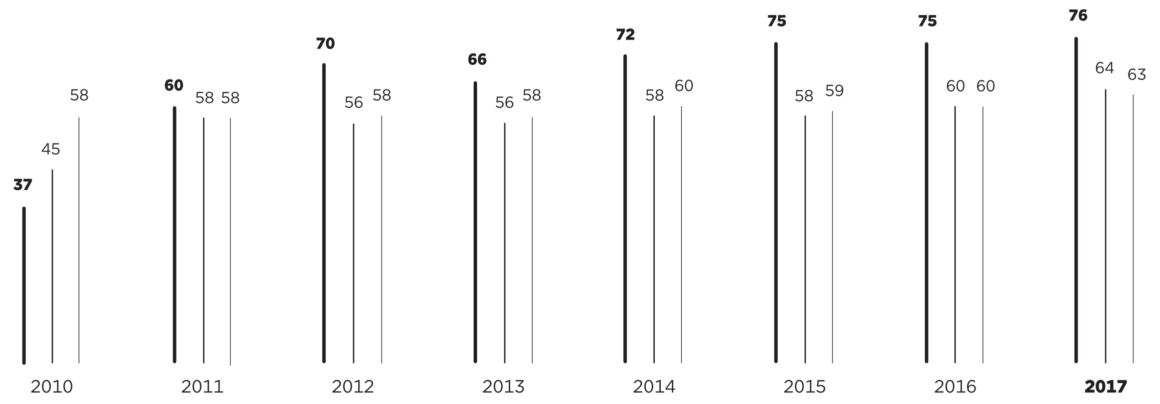
In financial year 2016/17, professional development programmes for group strategy were designed and implemented for METRO Cash & Carry. They include qualification initiatives on the topics related to food service delivery and HoReCa customer service as well as the interdisciplinary understanding of financial context. A central focus for advanced training in all sales lines is the digitisation of the workplace. As an example, METRO Cash & Carry Germany has revised its apprenticeship curricula. The “apprentice training events 2.0” teach important learning content in the area of merchandise management in an initial online learning phase with an assessment, followed by attendance phases – both in virtual space by way of online meetings and physically by way of workshops. The promotion of proactive work methods is another key focal area at METRO Cash & Carry Germany. Suitable methods, such as design thinking, are successively and consistently instilled in the organisation by the executives. This process started with the top-level executives in the reporting year.

Employee commitment

Our global employee survey METRO Voice is an important tool used to determine the commitment of the workforce and their loyalty to the company. We conduct the survey regularly in all countries with METRO Cash & Carry operations, in the service companies and at METRO AG. Under the slogan “Your opinion. Our dialogue.”, about 104,000 employees were invited to participate in the survey during the reporting period. 89% of employees at the surveyed business units took part in the survey. The level of commitment, which indicates the degree of connection, pride in the company, loyalty and motivation, increased by 1% to 76% during the reporting period. It far exceeds the score of Aon Hewitt’s Global Retail Benchmark (64%) and continues the positive trend of previous years (see illustration).

This positive development can be attributed to an intensive follow-up process. Managers receive detailed insight into the survey results and discuss them together with their teams. The aim is to develop suitable measures that can effectively raise the level of commitment. We have also established group-wide initiatives that we use to increasingly promote a focus on innovative ideas and encourage the appreciation and recognition of our staff.

DEVELOPMENT OF THE ENGAGEMENT SCORE
in %



Occupational safety and health management

As an international retail company, we are facing a variety of challenges in the area of human resources, such as the competition for quality personnel in the retail and wholesale industry sector and the demographic changes in our society as well as our workforce. This awareness raises the priority of issues such as occupational safety and health management as well as preventative measures aimed at protecting our personnel at METRO. METRO Großhandelsgesellschaft mbH, Real SB-Warenhaus GmbH, METRO AG, METRO Services GmbH, METRO LOGISTICS Germany GmbH, METRO SYSTEMS GmbH as well as METRO PROPERTIES GmbH & Co. KG have implemented a reporting system that allows for an evaluation of the causes of accidents and the identification of areas with high accident rates as well as especially vulnerable employee groups. The reporting system covered 97% of employees of German METRO group companies during the reporting period. The companies listed above have been able to reduce the number of accidents compared to the equivalent period in the previous year. In financial year 2016/17, an accident rate of 31.1 per 1,000 employees was determined for these companies (2015/16: 30.9). Regarding the accident ratio per 1,000 employees, accidents (not including commuting accidents) are recorded with a downtime of more than 3 days. This figure denotes the relative accident frequency for every 1,000 full-time employees and corresponds to 1,341 reported accidents (2015/16: 1,401).

In order to comply with international reporting standards, the accident ratio per 1,000 employees will be replaced by the Lost Time Injury Frequency Rate (LTIFR). This system records the number of accidents that cause a downtime of at least 1 day (excluding the day of the accident) per 1 million working hours. Deaths and long-term incapacity or disability are also included, but commuting accidents are not. The LTIFR for the companies listed above is 45.0 for financial year 2016/17. Assuming a minimum sick leave of 3 days per reportable accident, the average loss of productivity therefore decreased from approximately €806,300 last year to approximately €763,200 in the year under review for these companies.

To make our employees understand that occupational safety is the responsibility of every single employee, we participate in the World Day for Safety and Health at Work, an initiative by the International Labour Organization (ILO), which is held on 28 April of each year.

As a basic instrument for the management of occupational safety and health, we have introduced a standard process description for METRO Cash & Carry, METRO AG, METRO PROPERTIES, METRO LOGISTICS and METRO SYSTEMS during the reporting period. This description documents the responsibilities, the structure and the areas of activity for occupational safety and a proactive health management system and defines minimum standards. Our companies implemented numerous projects on a national and local level that related to occupational safety and health management during financial year 2016/17: in cooperation with the trade association trade and goods logistics (Berufsgenossenschaft Handel und Warenlogistik, BGHW) Real concluded the project “Healthy Work in Retail” with a focus on psychological stress.

METRO AG and a number of service companies with registered offices in Düsseldorf have agreed on a standardised process for assessing the potential risks incurred by being exposed to psychological stress at the workplace. A pilot project under the leadership of METRO AG conducted a simultaneous risk assessment at all participating companies: All employees received an online questionnaire on potential psychological stress experienced at their workplace.

In a cooperation project with the trade association trade and goods logistics (Berufsgenossenschaft

Handel und Warenlogistik, BGHW), Real contributed to the development of a certain range of instruments for the assessment of risks caused by exposure to psychological stress at the workplace. The “health workshop”, an instrument developed specifically for Real, was trialled and conducted in 15 Real outlets over the reporting years 2015/16 and 2016/17. Additionally, a version that is geared to industry-specific requirements and entails less effort was trialled in another Real outlet in financial year 2016/17. The long-term objective of Real is to further reduce the number of accidents and to achieve an accident ratio that is 25% below the average for the retail risk class. The accident ratio at Real is currently 15% below the average. Real intends to achieve this objective by increasing the accountability of its executives for occupational safety. Moreover, current work accidents will become a regular item on the agenda of meetings of the Occupational Safety and Health Committee. The company physician will be involved in the review of work accidents. Other measures are currently being developed. Real intends to further develop the risk assessment process in the upcoming financial year and trial an online tool provided by the trade association BGHW.

Diversity management

	2015/16	**2016/17**
Average employee age (years)	40.4	**40.6**
Newly hired employees in the 50-plus age group in Germany	458	**678**
Newly hired employees in the 50-plus age group at international level	848	**954**
Share of employees in the 50-plus age group as a proportion of the total workforce in Germany	42.4%	**43.5%**
Share of employees in the 50-plus age group as a proportion of the total workforce at international level	13.4%	**13.6%**
Employees with a recognised severe disability or equivalent status in Germany	4,182	**4,124**
Employees with a recognised severe disability or equivalent status at international level	1,353	**1,317**

We firmly believe that inclusion and diversity lead to better business results for METRO through an improved representation of our customers within the company, access to a larger talent pool and greater employee initiative and development. Going beyond mere gender diversity, we aspire to create an inclusive work environment and open work culture, in which individual differences are respected, valued and developed, resulting in a highly diverse workforce in which each individual can fully unfold and leverage his or her individual potential and strengths.

In financial year 2016/17, METRO developed an international diversity strategy with the aim of promoting inclusion and diversity with even more emphasis than previously. As a part of this strategy, certain inclusion and diversity targets will in the future be agreed with our executives. We intend to expand this strategy to all METRO countries. METRO will also launch a mentor programme for women working in operational activities.

As part of METRO’s diversity management, the group is also concerned with the issue of inclusion. The number of persons with disabilities employed at METRO goes far beyond the statutory minimum requirements. The proportion of employees with a recognised severe disability or equivalent status in METRO exceeds the statutory minimum requirement of 5%.

METRO is actively pursuing numerous initiatives in the area of Inclusion & Diversity. These include, for example, the Diversity Charter, the LEAD Network and Prout at Work. The employee networks Women in Trade (WiT) and METRO Pride are also involved in the topics.

Career prospects for underprivileged youths

Our sales line Real also focuses on specific target groups, such as people with learning disabilities, socially underprivileged persons and youths who failed to secure an apprenticeship position or who have yet to qualify for being admitted to an apprenticeship programme. This gives Real the opportunity to participate in the company’s entry qualification programme (EQ) and to support certain initiatives, such as a speed dating event for apprentices that specifically targets underprivileged youths in cooperation with the Federal Employment Agency. Real’s diverse initiatives assisting persons with disabilities was awarded the German Inclusion Award in 2015. The distinction is awarded by the corporate panel “UnternehmensForum” under the patronage of the Federal Ministry of Labour and Social Affairs.

Equal opportunities at work

The purpose of our diversity management is to promote equal opportunities at work for men and women. METRO aims at further increasing the proportion of women in executive positions. The objective is for 20% of employees on the first management level below the Management Board and 35% of employees on the 2nd management level below the Management Board to be women by June 2022. METRO has also adopted a voluntary target for the share of women in executive positions at METRO Cash & Carry. By June 2022, 1 quarter of executive positions at METRO Cash & Carry locations worldwide will be filled by women. We will incorporate these goals in our succession planning and recruitment activities. Additionally, the Supervisory Board has stipulated the objective of having at least 1 female member appointed to the METRO AG Management Board by June 2022. This represents a female quota of 25% at the current Management Board consisting of 4 members.

At Real, the proactive development of female talent and attractive career opportunities for women have been part and parcel of talent management for many years. Real offers its female employees individual arrangements to assist them with achieving a better balance between work and family. This includes issues like part-time apprenticeships, parental leave and women in executive positions.

Financial year 2016/17 saw Real being the first retailer to be awarded the golden seal "top4women" for its exemplary initiative. The company was distinguished for its integrative approach, the successful fostering of commitment to the company among its female high potentials and for offering long-term career prospects specifically for women.

Life stage-based initiatives to balance work and family

Our head office in Düsseldorf operates 3 day care centres with 242 full-time places for children from the age of 4 months. The staff speak German and English to the children.

The share of part-time employees at METRO rose slightly to 26.3% over previous year's period (2015/16: 27.1%). In Germany, 52.5% (2015/16: 52.8%) of our employees worked in part-time positions; the international share of part-time employees was 11.6% (2015/16: 12.2%). METRO wants to support its employees in all stages of their lives – including when they have to care for family members. Helpful advice on this particular issue is available to all employees.

Employer-employee relationships

Our objective is to ensure good working conditions that are sustainable over the long term. This is why we have defined our company's guiding principles on fair working conditions and social partnership. These principles are based on the UN Guiding Principles on Business and Human Rights, the core labour standards of the International Labour Organisation (ILO) as well as the 3 main principles of the Resolution on Forced Labour by the Consumer Goods Forum. They also help us to refine our corporate principle of being a responsible employer. Our guiding principles deal with issues such as free unionisation, the right to collective agreements, the prohibition of forced labour, child labour and discrimination, structured working hours and wages as well as occupational health and safety.

We ensure that our sales lines and their national subsidiaries comply with the principles relating to fair working conditions by auditing our head offices, outlets and logistics centres and work on developing a joint action plan together with our colleagues on-site. Financial year 2016/17 saw extensive audits on compliance with the METRO principles conducted in the METRO/MAKRO Cash & Carry national subsidiaries in Pakistan, Bulgaria, China, Japan and Hungary. Many areas returned encouraging results, while others have potential for improvement, in particular in the area of occupational safety. All on-site audits were followed by a comprehensive training in the METRO principles relating to fair working conditions. Audits are scheduled for a further 6 METRO/MAKRO Cash & Carry national subsidiaries in financial year 2017/18.

We place great emphasis on a smooth and open dialogue between our employees, employee representatives and managers. To facilitate this dialogue, METRO plays an active role at the annual UNI Global METRO Alliance conference, which was held at the head office of UNI Global Union in Nyon in November 2016. Employee representatives met with METRO management representatives in Berlin to discuss their views on developments within METRO in the various countries.

It is planned to introduce a new committee to assume the function of an European works council. The agreement is envisaged to be put into place by a negotiating committee comprising the elected representatives of the works councils in the EU countries where METRO operates, union representatives and the METRO management. Initial negotiations were conducted in September 2017.

METRO has also persevered in the social dialogue with the works councils and unions and encouraged its management team to engage in a continuous dialogue about our business with our employees and their representatives and to also solicit their feedback. This allows us to create an open and trusting working environment, in which our employees feel empowered to share their ideas and needs. This dialogue resulted in several collective employment agreements at the level of business units, countries or individual outlets – depending on local laws and customary practices. Out of 25 METRO/MAKRO Cash & Carry national subsidiaries, employees in 22 countries are now actively organised in a union. Collective agreements were put in place in 15 countries. Additionally, all Real outlets have elected and organised work councils.

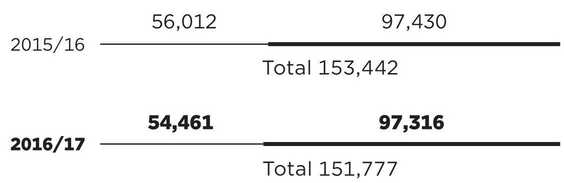
Development of employee numbers

During the reporting period, METRO employed an average of 137,136 (2015/16: 138,089) employees on the basis of full-time equivalents. This is a decrease of 0.7% from the same period of the previous year. The majority of our employees work outside of our home market Germany. In Western Europe (excluding Germany), Eastern Europe and Asia, we had 92,611 full-time equivalents, 0.2% more than during the same period of the previous year. In Germany, the workforce by full-time equivalents decreased slightly to 44,525 (2015/16: 45,702). During the reporting period, the METRO Wholesale segment employed an average of 102,368 full-time equivalents. This represents an increase of 0.3% over the same period of the previous year. The workforce by full-time equivalents at Real declined by 2.5% to 26,601 while the number of full-time equivalents in the Others segment decreased by 7.7% to 8,167.

EMPLOYEE DEVELOPMENT OF METRO

Average

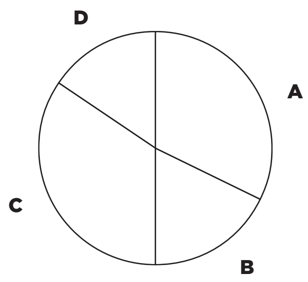
Workforce by headcount



Germany
International

NUMBER OF EMPLOYEES BY REGION

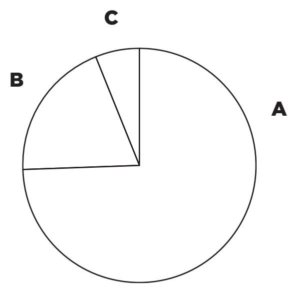
full-time equivalents



A	**32.5%**	Germany
B	**17.7%**	Western Europe (excl. Germany)
C	**34.5%**	Eastern Europe
D	**15.4%**	Asia

NUMBER OF EMPLOYEES BY SEGMENT

full-time equivalents

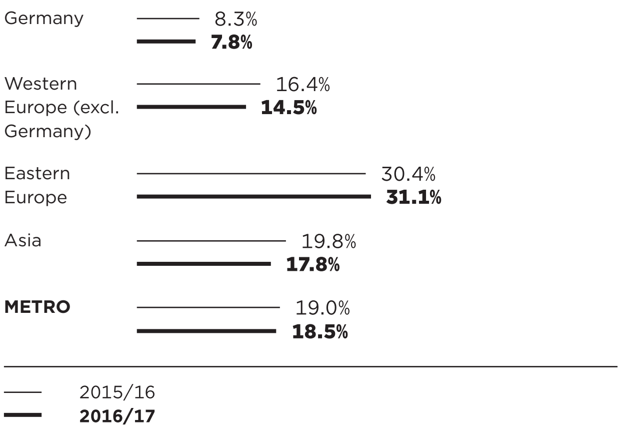


A	**74.6%**	METRO Wholesale
B	**19.4%**	Real
C	**6.0%**	Others

Employee turnover rate

The average length of employment in the reporting period was 10.3 years (2015/16: 10.3 years). Turnover rates varied widely between the regions. The development of the regional fluctuation rates is illustrated in the figure below.

METRO FLUCTUATION
by regions



Development of personnel expenses

Our personnel expenses decreased by 5.1% to €4.0 billion compared to the same period of the previous year (2015/16: €4.2 billion). This amount includes €3.2 billion (2015/16: €3.4 billion) for wages and salaries, including payroll tax and the employer's social security contribution. The remainder 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, 31,517 employees took advantage of this possibility (2015/16: 32,034 employees). This represents a quota of 63.1% (2015/16: 61.3%).

DEVELOPMENT OF EMPLOYEE NUMBERS BY COUNTRIES AND SEGMENTS

by headcount as of the closing date of 30/9

	METRO Wholesale		Real		Others		METRO	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Germany	**14,656**	**14,105**	**35,121**	**34,195**	**5,842**	**5,832**	**55,619**	**54,132**
Belgium	3,072	**2,897**					3,072	**2,897**
France	8,493	**10,151**			0	**1**	8,493	**10,152**
Italy	4,233	**4,225**					4,233	**4,225**
Netherlands	3,660	**3,523**			11	**3**	3,671	**3,526**
Austria	2,101	**2,037**			0	**8**	2,101	**2,045**
Portugal	939	**976**					939	**976**
Switzerland	80	**84**			78	**67**	158	**151**
Spain	3,690	**3,714**					3,690	**3,714**
Western Europe (excl. Germany)	**26,268**	**27,607**	**0**	**0**	**89**	**79**	**26,357**	**27,686**
Bulgaria	2,240	**2,268**					2,240	**2,268**
Kazakhstan	827	**930**					827	**930**
Croatia	1,085	**943**					1,085	**943**
Moldova	609	**603**					609	**603**
Poland	5,521	**5,401**			370	**371**	5,891	**5,772**
Romania	3,906	**3,842**			1,450	**764**	5,356	**4,606**
Russia	17,571	**16,053**			2	**0**	17,573	**16,053**
Serbia	1,229	**1,237**					1,229	**1,237**
Slovakia	1,257	**1,292**					1,257	**1,292**
Czech Republic	3,464	**3,339**					3,464	**3,339**
Turkey	4,294	**4,376**			86	**74**	4,380	**4,450**
Ukraine	2,828	**2,768**					2,828	**2,768**
Hungary	2,587	**2,558**			5	**3**	2,592	**2,561**
Eastern Europe	**47,418**	**45,610**	**0**	**0**	**1,913**	**1,212**	**49,331**	**46,822**
China[1]	12,142	**12,520**			383	**334**	12,525	**12,854**
India	4,624	**5,101**			687	**724**	5,311	**5,825**
Japan	1,137	**1,166**					1,137	**1,166**
Myanmar	0	**7**					0	**7**
Pakistan	1,837	**1,891**					1,837	**1,891**
Asia	**19,740**	**20,685**	**0**	**0**	**1,070**	**1,058**	**20,810**	**21,743**
USA[2]	**5**	**0**					**5**	**0**
International	**93,431**	**93,902**	**0**	**0**	**3,072**	**2,349**	**96,503**	**96,251**
METRO	**108,087**	**108,007**	**35,121**	**34,195**	**8,914**	**8,181**	**152,122**	**150,383**

[1] All employees of Classic Fine Foods are attributed to the Asia (China) region.
[2] US employees were employed by the Boston Trading Office (BTO), which closed on 28 February 2017.

DEVELOPMENT OF EMPLOYEE NUMBERS BY COUNTRIES AND SEGMENTS

full-time equivalents as of the closing date of 30/9[1]

	METRO Wholesale		Real		Others		METRO	
	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**
Germany	**12,697**	**12,153**	**27,087**	**26,460**	**5,729**	**5,694**	**45,512**	**44,307**
Belgium	2,601	**2,437**					2,601	**2,437**
France	8,192	**9,777**			0	**1**	8,192	**9,778**
Italy	3,702	**3,710**					3,702	**3,710**
Netherlands	2,162	**2,097**			11	**3**	2,172	**2,100**
Austria	1,915	**1,869**			0	**6**	1,915	**1,875**
Portugal	899	**935**					899	**935**
Switzerland	78	**80**			73	**64**	151	**144**
Spain	3,323	**3,344**					3,323	**3,344**
Western Europe (excl. Germany)	**22,871**	**24,249**	**0**	**0**	**83**	**74**	**22,954**	**24,323**
Bulgaria	2,235	**2,259**					2,235	**2,259**
Kazakhstan	820	**929**					820	**929**
Croatia	1,077	**938**					1,077	**938**
Moldova	609	**603**					609	**603**
Poland	4,877	**5,254**			368	**368**	5,245	**5,622**
Romania	3,874	**3,809**			1,444	**762**	5,318	**4,571**
Russia	17,319	**15,905**			1	**0**	17,320	**15,905**
Serbia	1,229	**1,237**					1,229	**1,237**
Slovakia	1,245	**1,277**					1,245	**1,277**
Czech Republic	3,227	**3,082**					3,227	**3,082**
Turkey	4,149	**4,220**			86	**74**	4,235	**4,294**
Ukraine	2,782	**2,694**					2,782	**2,694**
Hungary	2,549	**2,517**			5	**3**	2,554	**2,520**
Eastern Europe	**45,993**	**44,724**	**0**	**0**	**1,903**	**1,207**	**47,896**	**45,930**
China[2]	12,137	**12,518**			379	**331**	12,516	**12,849**
India	4,610	**5,021**			686	**723**	5,296	**5,744**
Japan	826	**846**					826	**846**
Myanmar	0	**7**					0	**7**
Pakistan	1,813	**1,884**					1,813	**1,884**
Asia	**19,386**	**20,276**	**0**	**0**	**1,065**	**1,054**	**20,451**	**21,330**
USA[3]	**5**	**0**					**5**	**0**
International	**88,254**	**89,248**	**0**	**0**	**3,052**	**2,334**	**91,306**	**91,582**
METRO	**100,950**	**101,402**	**27,087**	**26,460**	**8,781**	**8,028**	**136,818**	**135,890**

[1] Rounding differences may occur.
[2] All employees of Classic Fine Foods are attributed to the Asia (China) region.
[3] US employees were employed by the Boston Trading Office (BTO), which closed on 28 February 2017.

2.6 CHARACTERISTICS OF THE ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM AND EXPLANATORY REPORT OF THE MANAGEMENT BOARD

METRO's accounting-related internal control and risk management system employs coordinated instruments and measures for the prevention, early detection, assessment and management of risks. The Corporate Accounting department of METRO AG is responsible for the group-wide implementation of these instruments and measures.

Overarching responsibility for all processes related to the preparation of the consolidated and individual financial statements as well as the combined management report of METRO AG rests with the Board department headed by the Chief Financial Officer of METRO AG, Mr Christian Baier. The actual preparation of the financial statements as well as the combined management report, however, is the legal responsibility of the Management Board of METRO AG. The consolidated and individual financial statements as well as the combined management report are audited and approved by the auditor during and after their preparation. They are then discussed and reviewed by the Supervisory Board of METRO AG. The auditor attends this Supervisory Board meeting. He reports the key findings of his audit and is available for additional questions. Provided the Supervisory Board has no objections, it approves the annual financial statements and the combined management report. The annual financial statements of METRO AG are adopted once the Supervisory Board has issued its approval.

Group-wide framework

Building on the "Internal Control – Integrated Framework" concept of the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the Corporate Accounting department of METRO AG has defined group-wide minimum requirements regarding the design of the accounting-related internal control system of METRO AG, the sales lines and the major service companies. With these requirements, the company particularly wants to ensure adherence to the relevant accounting standards and the respective internal guidelines (for example the IFRS accounting guideline).

Among others, these requirements cover the design and implementation of controls, monitoring the effectiveness of controls and reporting about effectiveness analyses.

- **Design of controls:** Taking a top-down approach, the company has identified the risk of material errors relating to the financial reporting for significant financial and accounting-related processes. In addition, the Corporate Accounting department has stipulated binding group-wide control objectives which the group companies must meet by employing company-specific control activities.
- **Implementation of controls:** The group companies must keep records of the implementation of these controls. These provide the basis for an independent review of the controls' effectiveness by the Group Internal Audit department and the group's auditor.
- **Effectiveness of controls:** The major group companies are obligated to evaluate the effectiveness of controls at the end of each financial year (self-evaluation). In the process, they must apply the uniform, group-wide method stipulated by the Corporate Accounting department. In addition, the effectiveness of controls is reviewed as part of the risk-oriented, independent audits conducted by the Group Internal Audit department.
- **Reporting:** The results of the self-evaluations must be reported to the Corporate Accounting department using a standardised reporting format. The group companies must confirm that their self-evaluations were conducted using the prescribed method. Aside from the control activities, the group companies must also report on the other 4 components of the COSO framework: control environment, risk assessment, information and communication, as well as monitoring. The companies' individual reports are validated by the Corporate Accounting department and compiled in an overall report on METRO accounting-related internal control system. This is reported to the Governance, Risk, and Compliance Committee (GRCC) as well as the Management Board of METRO AG.

As of financial year 2014/15, these 4 phases of the internal control cycle are mapped by all METRO sales lines, the essential service companies and METRO AG itself using the RSA Archer GRC software. The key requirements (for example, the IFRS accounting guideline), accounting processes, individual controls and independent review by the Group Internal Audit department and the auditor are described in detail below.

IFRS accounting guideline

The interim consolidated financial statements and the consolidated financial statements of METRO 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 group-wide application of accounting procedures in accordance with IFRS. The guideline explains IFRS regulations to the group companies and makes stipulations regarding accounting measurements. To monitor compliance with the IFRS accounting guideline, the management of each major group company is obligated to confirm compliance by means of a letter of representation. The IFRS accounting guideline covers all IFRS relevant to METRO AG and does not relate only to certain accounting events. The Corporate Accounting department of METRO AG is responsible for ensuring compliance with this guideline. Amendments to IFRS are continually updated in the IFRS accounting guideline and communicated to all companies included in the consolidated financial statements.

Accounting processes of companies included in the consolidated financial statements

The preparation of the individual financial statements of consolidated companies according to IFRS for consolidation purposes is principally carried out in SAP-based accounting systems (SAP FI). The organisational separation of central and subledger accounting, for example, fixed asset, receivables and payables accounting, provides for clear assignments of individual tasks related to the preparation of the financial statements. It also provides for a functional separation that ensures the efficacy of control processes, such as the 4-eyes principle. These systems are used to prepare the individual financial statements of most group companies on the basis of a centrally managed table of accounts using uniform accounting rules.

The consolidation of financial data for the purpose of group reporting is performed by a centralised consolidation system (CCH Targetik). Without exception, all consolidated METRO companies must work within this system. It provides a uniform accounts table to be used by all consolidated companies in accordance with the IFRS accounting guideline. The accounts tables for the individual IFRS financial statements and the consolidated financial statements are interlinked.

Aside from failure to comply with accounting rules, risks can also arise from failure to observe formal deadlines. An online planning tool was introduced to help avoid these risks and document the obligatory processes required as part of the preparation of individual and consolidated financial statements under IFRS, their chronological order and the responsible persons. This tool is used to monitor content and timing of the processes related to the preparation of the individual and consolidated financial statements under IFRS. It provides for the necessary tracking and tracing systems to ensure that risks incurred by superordinate group units can be detected and eliminated early on.

The planning tool divides the process of preparing the individual financial statements into key milestones, which in turn are divided into individual activities. In terms of content, these milestones and activities are geared towards METRO's IFRS accounting guideline and thus reflect its implemented state. Compliance with additional deadlines and milestones that are centrally provided by the planning tool for the purpose of structuring and coordinating the preparation of the consolidated financial statements is monitored by METRO AG's Corporate Accounting department. The scheduling and monitoring of the milestones and activities required to achieve these group milestones in the preparation of individual financial statements are part of the responsibilities of the respective company's management.

Once they have been transmitted from the individual financial statements under IFRS to the consolidation system, the financial 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 individual financial statements before the data are transmitted to the consolidation facility.

An additional control instrument is the report comparing the most significant balance sheet and income statement positions against the previous period's figures. This report must be submitted to METRO AG by all major group companies at the time of preparing their individual financial statements and must also provide comments on any considerable deviations.

To warrant the security of the group's information technology systems (IT), access to the accounting-related IT systems (SAP FI) is regulated. Each company included in the consolidated financial statements is subject to the regulations concerning IT security. These regulations are summarised in an IT security guideline, with group-wide compliance being monitored by the Group Internal Audit department of METRO AG. This ensures that users only have access to the information and systems needed to fulfil their specific tasks.

Accounting processes for consolidation purposes

The planning tool used to evaluate the accounting processes of the consolidated companies also structures the process of preparing the consolidated financial statements by defining key milestones, activities and deadlines. The typical tasks entailed in the preparation of the consolidated financial statements are defined as specific milestones to be completed. These milestones include, for example, the task of evaluating the completeness of the consolidation group, the evaluation of timely, complete and accurate submission of data, the completion of typical consolidation measures (including revenue elimination as well as the consolidation of expenses, income, debts and capital) and ultimately the completion of the annual report. The respective responsibilities and stand-in arrangements for the aforementioned milestones are documented.

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 the valuation of real estate assets, pension obligations and share-based remuneration.

The consolidation measures required to prepare the consolidated financial statements are subject to various systematic and manual controls. The automated plausibility reviews (validations) used in individual financial statements 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 movements of individual items in the balance sheet and the income statement. Compliance with internal controls covering the preparation and accounting process in the context of the compilation of the consolidated financial statements is regularly monitored by the Group Internal Audit department of METRO AG.

Access regulations for the consolidation system are implemented to ensure adherence to IT security regulations (write/read authorisations). Authorisations to use the consolidation system are managed centrally by METRO AG. The approval is granted only by the Corporate Accounting and Corporate Controlling & Finance departments. This ensures that users only have access to the specific data they require to fulfil their specific tasks.

Independent audit/validation

Group Internal Audit (Group Internal Audit department)

The Group Internal Audit department of METRO AG provides independent and objective audit and consulting services within METRO and supports the Management Board of METRO AG and the management of the group companies in reaching their goals by subjecting the key management and business processes to a potential-oriented evaluation. In consultation with the Management Board and the group companies, the Group Internal Audit department develops a risk-oriented annual audit and project plan.

Based on the described principles, the Group Internal Audit department carries out independent audits of the controls monitoring the process of preparing the consolidated financial statements, the implementation of the IFRS accounting guideline and group accounting processes within METRO. For this purpose, focal topics are defined as part of risk-oriented planning for the annual audit.

External audit

The IFRS accounting guideline is reviewed by the auditor and made available to the auditors of the companies included in the consolidated financial statements. These, in turn, confirm the consistent application of the IFRS accounting guideline by the companies included in the consolidated financial statements.

The respective auditors further evaluate and assess the individual IFRS financial statements prepared by the main group companies for consolidation purposes, as well as the consolidated financial statements and combined management report of METRO AG for compliance with the applicable accounting standards, additional rules and regulations. The auditors review the half-year financial report and conduct an audit of the consolidated financial statements at the end of each year. The auditor’s final opinion on the consolidated financial statements is then represented in an audit certificate, which is published as part of the of the annual report.

3 ECONOMIC REPORT

3.1 MACROECONOMIC AND SECTOR-SPECIFIC PARAMETERS[1]

Global economy

The global economy delivered a better and more harmonious performance in financial year 2016/17 than in the previous year. The economic upswing continued in virtually all Western European countries, with the national economies continuing to benefit from the ongoing low interest rate environment and a moderate inflation rate. The development in Eastern Europe also presented a more harmonious picture: The countries in Central Europe continued their steady growth path. In the Eastern European countries, in particular the Russian economy, signs are pointing to an economic recovery. Turning to Asia, the growth in China continued, albeit at a slightly slower pace than in the previous years. The greater region of Asia nevertheless delivered the strongest growth rate, which was accompanied by abating economic risks. The overall global economic dynamics of the past financial year were more favourable than in the previous year.

Germany

Germany continued its stable growth across all industry sectors in financial year 2016/17. The sustained positive development on the country's labour market bolstered Germany's consumption and trade economy, albeit to a slightly lesser extent than in the previous year. The reinvigorated global trade further bolstered the export economy, which reverberated across the entire national economy.

Western Europe

The growth in Western Europe accelerated in 2016/17, which is in particular attributable to an improved situation within the labour market and a stimulated export activity. Some countries also scaled back their efforts to consolidate their national budgets by way of austerity programmes, which also had a positive flow-on effect on the economy. The retail and wholesale sector benefited of invigorated private consumption at a very moderate inflation rate during the past financial year. The year 2016/17 saw Spain once again spearheading the economic upswing in Western Europe.

[1] The numbers representing the development of gross domestic product in the chapter "macroeconomic parameters" refer to the full years of 2016 and 2017. The 2017 figures are estimates. The qualitative statements in the text refer to the reporting period unless indicated otherwise.

Eastern Europe

The performance of the economies in Eastern Europe in financial year 2016/17 was distinguished by solid growth, which gained track towards the end of the financial year. The Central European countries showed an overall stable development with economic growth particularly in the Eastern European countries. When adjusting the growth rate for inflation, the Russian economy appears to also have returned to at least measured growth. This was made possible by the significant stabilisation of the Russian currency and the resultant lower inflation rate. Retail and wholesale revenues were among the sectors benefiting from the lower inflation rate and stabilisation of the labour market and returned a slight price-adjusted growth in the second half of financial year 2016/17.

Asia

The Asian economy continued to deliver strong growth rates in financial year 2016/17. The economic development in China and India was slightly weaker than in the previous year, but both countries remained on a stable growth trajectory of around 6.5% Japan's economy has recently picked up pace, but growth continues to be subdued. Domestic revenues and growing trade of the Asian countries followed the positive economic output and were assessed as uniformly positive.

	2016[1]	**2017[2]**
World	3.2	**3.6**
Germany	1.9	**2.0**
Western Europe	1.8	**2.0**
Eastern Europe	1.2	**2.8**
Asia	5.3	**5.1**

Source: Feri
[1] The previous year's figures may deviate from the Annual Report 2015/16, as final figures were not yet available at the reporting date and reporting practices shifted to stating figures adjusted for purchasing power.
[2] Forecast.

Sector development self-service wholesale

The revenues generated in the self-service wholesale trade segment have taken a positive overall development, but with differing results across the METRO regions.

Sales revenues in the German self-service wholesale trade business were regressing slightly in financial year 2016/17; the development fell marginally short of matching the overall development in the food retail industry, which once again reported a moderate growth. Revenues in the reporting year were bolstered by growing sales to commercial customers from the HoReCa sector (hospitality operators).

The self-service wholesale trade business in Western Europe mirrored the moderate overall economic growth in these countries. This growth was underpinned by the HoReCa sector, especially in Portugal and Spain.

The overall development in the Central and Eastern European countries was also characterised by moderate growth. The Turkish market has delivered an inflation-adjusted growth in revenues despite being faced with difficulties in the hotel and restaurant industry. Turning to Russia, the industry sector has recovered on the back of a falling interest rate and a general economic upswing. Growth in the Central European countries is characterised by a differentiated economic development.

The economic development in the METRO markets in Asia remained stable, with an especially positive trend in India. Growth in China experienced some moderation in comparison to the growth rates experienced in previous years. The delivery business remains a growth driver.

Real: development in the modern food retail sector

The food retailing business (excl. discounters) was stagnant and reported a slight nominal decline in sales of –0.4% in financial year 2016/17. The last 5 years' biggest winners were supermarkets and consumer outlets with a broad product range followed by organic food outlets. The discounter business model was able to overcome a brief period of weakness, with revenues now back on a growth trajectory. With regards to hypermarkets, the operators of nationwide store networks are continuing the already commenced restructuring process. The small grocery stores are continually losing significance in the overall market.

The online food business continues to only play a minor, yet rapidly growing, role. Online sales accounted for around 1% of total food sales in the year 2016 and delivered an impressive growth of 11% in the previous year.

3.2 ASSET, FINANCIAL AND EARNINGS POSITION

Overall statement by the Management Board of METRO AG on the business development and situation of METRO

In financial year 2016/17, global economic growth was much more solid and improved slightly compared to the previous year. Nevertheless, there are uncertainties regarding future development, especially in the political sphere.

Overall, the Management Board can look back on a good year. The transitional year was completed successfully and business was refocused by dividing up the existing METRO GROUP. The IPO of the new METRO on 13 July marked a milestone. Customer orientation is the top priority for the new METRO. METRO's sustainable business models and digital solutions aim at generating additional value for our customers, which in turn delivers additional value to our shareholders.

Overall, the Management Board is satisfied with the company's performance. As a result, we will once again propose an attractive dividend to our shareholders.

FINANCIAL AND ASSET POSITION

Financial management

Principles and objectives of financial activities

Our financial management ensures the long-term liquidity of the company, reduces financial risks where economically feasible and grants loans to group companies. METRO AG centrally performs and monitors these activities for the group. The objective is to ensure that group companies can cover their funding requirements in a cost-efficient manner and, where possible, via the international capital markets. This applies to operating activities as well as to investments. As a matter of principle, METRO AG bases its selection of financial products on the maturities of the underlying transactions.

Intra-group cash pooling allows the surplus liquidity of individual group companies to be used for providing internal finance to other group companies. This reduces the group's amount of debt and thus its interest expenses. METRO's financial activities are based on a financial budget for the group, which covers all relevant companies.

METRO AG's current long-term investment grade rating of BBB- and short-term rating of A-3 by Standard & Poor's both ensure access to international financial and capital markets. We are utilising this access within the scope of our commercial paper programme as well as our ongoing capital market programme as required.

We support our access to the capital markets by engaging in regular dialogue with credit investors and analysts. Our Creditor Relations Team presents our company to all key European financial markets during its annual roadshow. Moreover, credit investors and analysts can learn about METRO's impressive capabilities in face-to-face meetings and on guided factory tours. The following principles apply to all group-wide financial activities:

FINANCIAL UNITY
METRO presents itself as a coherent financial entity in order to gain access to the most important financial instruments on the financial and capital markets at favourable conditions.

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. In the context of our banking policy, limits have been defined to ensure that the group is able to substitute one financing partner with another at any time.

CENTRALISED FINANCIAL RISK MANAGEMENT
Our financial instruments on the international money and capital markets serve the purpose of ensuring our group's funding requirements. They also serve the purpose of hedging underlying transactions that are exposed to interest rate and currency risks. METRO's entire portfolio of financial instruments is monitored centrally by METRO AG.

CENTRALISED RISK MONITORING
Changes in financial parameters, such as interest rate or exchange rate fluctuations, can impact the funding of METRO. The associated risks are regularly quantified via scenario analyses by METRO AG. Open risk positions, such as financial instruments without an underlying business transaction, may only be incurred if approved by the Management Board of METRO AG.

APPROVED BUSINESS PARTNERS
For financial instruments, only contractual partners that have been approved by METRO AG are considered. The creditworthiness of these business partners is assessed on a daily basis by tracking their ratings and monitoring their credit risk ratios (essentially credit default swap analyses). This also provides the basis for the continual monitoring of compliance with the approved limits by the Treasury Controlling unit of METRO AG.

MANDATORY APPROVAL
As a matter of principle, all transactions involving financial instruments that are conducted by any group company are contractually conducted by METRO AG. In cases where this is not possible for legal reasons, these transactions are concluded on behalf of the group company or directly between the group company and an external contractual partner in coordination with METRO AG.

AUDIT SECURITY

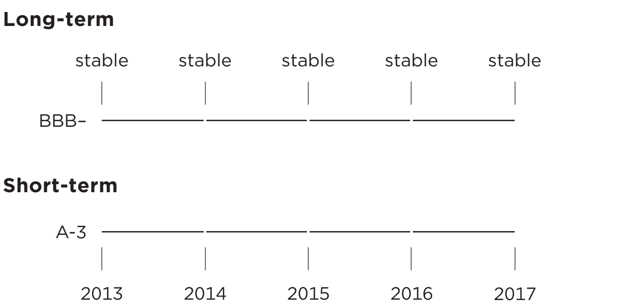
Our company employs the 4-eyes principle. All processes and responsibilities are laid down in groupwide guidelines. The conclusion of transactions involving financial instruments is separated from settlement and controlling in organisational terms.

— **For more information about the risks stemming from financial instruments and hedging relationships, see the notes to the consolidated financial statements in no. 43 – management of financial risks.**

Rating

Ratings provide a standardised evaluation of a company's ability to meet its financial obligations. They document the current creditworthiness of the company to its contractual partners independently and publicly. In addition, ratings can facilitate access to international finance and capital markets and, in turn, the utilisation of the main financial instruments. METRO AG has instructed Standard & Poor's to assess and monitor its credit rating.

RATING DEVELOPMENT AND OUTLOOK



—— **Standard & Poor's**

Standard & Poor's current assessment of METRO's credit rating is as follows:

Category	**2017**
Long-term	BBB-
Short-term	A-3
Outlook	stable

These ratings mean that METRO currently has full access to all financial markets.

Financing measures

The company's medium-term and long-term financing needs are covered by an ongoing capital market bond programme with a maximum volume of €6 billion. On 22 February 2017, the remaining due amount of a maturing bond in the amount of approximately €622 million with a coupon of 4.25% and on 27 July 2017, a maturing bond of €50 million with variable interest were repaid on time. By 30 September 2017, €2.451 billion had been utilised from the ongoing bond issuance programme.

Short-term financing requirements are covered through the Euro Commercial Paper Programme and a commercial paper programme geared especially to French investors. Both programmes have a maximum volume of €2 billion each. The Commercial Paper Programme aimed at French investors was not extended due to lower demand. In financial year 2016/17, only the Euro Commercial Paper Programme was used. On average, the programme was used at €658 million during the reporting period. As of 30 September 2017, the utilisation amounted to €754 million (unused as of 30 September 2016).

Bilateral credit facilities totalling €281 million were used as of 30 September 2017. As a cash reserve, 2 syndicated credit facilities worth €1,750 million and additional multi-year credit facilities worth €250 million were concluded. They were not used at any stage. After the demerger was registered, this cash reserve was adjusted to the volume that will be required in the future.

— **For more information about financing programmes and credit facilities, see the notes to the consolidated financial statements in no. 36 – financial liabilities.**

Aside from the established issuance programmes, the group thus had access to sufficient liquidity at all times. The undrawn credit facilities are shown in note 36 financial liabilities.

Investments/Divestments

In financial year 2016/17, METRO invested €827 million, considerably less than in the previous year. As part of our expansion strategy and concept and modernisation measures, our ongoing capital efficiency programme has saved us investments. At the same time, the acquisition of Pro à Pro has advanced the expansion of our delivery business. Overall, the increased focus of our expansion activities is reflected in a smaller number of 13 store openings in financial year 2016/17 (compared with 22 store openings in financial year 2015/16).

METRO INVESTMENTS

			Change	
€ million	2015/16	**2016/17**	absolute	%
METRO Wholesale	614	**547**	–66	–10.8
Real	260	**131**	–129	–49.6
Others	133	**149**	15	11.4
METRO	1,007	**827**	–180	–17.9

In the METRO Wholesale segment, we invested €547 million in financial year 2016/17, €66 million less than in the previous year's period. Following our acquisition of the delivery specialists Classic Fine Foods (2014/15) and Rungis Express (2015/16) in the previous years, we have once again expanded our delivery network by acquiring Pro à Pro (2016/17). This move strengthens our competencies in the field of food service distribution in the French wholesale industry. Even including the investments for this acquisition, we have been able to optimise our investment processes in the METRO Wholesale segment. Overall, our investment volume has decreased. Our international priorities and the increased efficiency resulting from our ongoing capital efficiency programme, which comprises new, smaller and leaner formats, have made this possible. In financial year 2016/17, our expansion efforts focused on China and France. We added 5 and 3 new METRO Cash & Carry stores, respectively, to the existing store network in these countries. At the same time, we continued our expansion in India by opening 2 new METRO Cash & Carry stores in that country. Our store network in Turkey, Italy and Japan gained 1 new METRO Cash & Carry Markt store each. In Germany, 2 stores closed down; 1 store each closed down in China, India, Serbia and Ukraine.

Real invested €131 million in financial year 2016/17, €129 million less than in the previous year's period. This decline in the investment volume is mainly due to the extension of 4 Real store lease financings during the previous year. As part of a concept conversion/modernisation project, Real opened its Markthalle Krefeld, the first store featuring the new Food Lover concept. Real closed 3 stores in Germany during financial year 2016/17.

Investments in the Others segment totalled €149 million in financial year 2016/17 (2015/16: €133 million). They related mostly to modernisation measures and intangible assets. This primarily refers to investments in digitisation/IT and the modernisation of our German logistics network. It further includes investments in start-ups such as Planday.

Divestments (including disposals of subsidiaries but excluding financial investments) generated cash for METRO in the amount of €221 million (2015/16: €642 million), mainly resulting from the sale of real estate. In the previous year, the sale of the Vietnamese wholesale activities in particular had an effect here.

— **For more information about divestments, see the cash flow statement in the consolidated financial statements as well as the notes to the consolidated financial statements in no. 41 – notes to the cash flow statement.**

Liquidity (cash flow statement)

METRO's liquidity is derivated on the basis of the cash flow statement. The cash flow statement serves to calculate and display the cash flows that METRO generated or employed during the financial year from operating, investing and financing activities. In addition, it shows the changes in cash and cash equivalents between the beginning and end of the financial year.

Cash inflow from operating activities in financial year 2016/17 amounted to €1,027 million (2015/16: €+1,173 million). Investing activities led to cash outflow of €601 million (2015/16: €+512 million). Compared with the previous year's period, this represents a decrease in cash flow before financing activities of €1,259 million to €426 million. Cash outflow from financing activities totalled €438 million (2015/16: €–3,513 million).

— For more information, see the cash flow statement in the consolidated financial statements as well as the notes to the consolidated financial statements in no. 41 – notes to the cash flow statement.

CASH FLOW STATEMENT[1]

€ million	2015/16	**2016/17**
Cash flow from operating activities	1,173	**1,027**
Cash flow from investing activities	512	**–601**
Cash flow before financing activities	1,685	**426**
Cash flow from financing activities	–3,513	**–438**
Total cash flows	**–1,828**	**–12**
Currency effects on cash and cash equivalents	–11	**–25**
Total change in cash and cash equivalents	**–1,839**	**–37**

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

Capital structure

Prior to the effective date of the reclassification and demerger of CECONOMY AG on 12 July 2017, METRO AG was not yet a group within the meaning of IFRS 10. Accordingly, combined financial statements of the MWFS GROUP were prepared for the IPO prospectus of METRO AG. Equity in the combined financial statements was the residual amount from the combined assets and liabilities of the MWFS GROUP. Following the demerger, METRO became an independent group with METRO AG as the listed parent company. Therefore, the equity in the consolidated financial statements is subdivided according to legal requirements. The subscribed capital and the capital reserve were recognised at the carrying amounts from the annual financial statements of METRO AG as of 30 September 2017. For this purpose, a reclassification was made from the equity item "net assets", recognised as of 1 October 2016, attributable to the former METRO GROUP of the combined financial statements of the MWFS GROUP. The remaining negative amount of this equity item was reclassified to reserves retained from earnings. It cannot be traced back to a history of loss. In addition, the measurement of an option to sell held by a minority shareholder, which became effective in the demerger, in the amount of €53 million was recognised in reserves retained from earnings as part of the division of net assets in accordance with the legal structure.

The equity ratio stood at 20.3% (30/9/2016: 18.3%).

€ million	Note no.	30/9/2016	**30/9/2017**
Equity	31	**2,924**	**3,207**
Net assets attributable to former METRO GROUP		3,748	**0**
Other components of equity		–860	**0**
Share capital		0	**363**
Capital reserve		0	**6,118**
Reserves retained from earnings		0	**–3,320**
Non-controlling interests		36	**46**

— **For more information about our equity, see the notes to the consolidated financial statements in the number listed in the table.**

Net debt increased slightly by €0.1 billion and amounted to €3.1 billion as of 30 September 2017 (30/9/2016: €3.1 billion). This is calculated by netting financial liabilities, including finance leases of €4.7 billion (30/9/2016: €4.7 billion), with cash and cash equivalents according to the balance sheet of €1.6 billion (30/9/2016: €1.6 billion) as well as monetary investments of €5 million (30/9/2016: €90 million). In the reporting year, current financial investments decreased as a result of the reallocation of €85 million into the cashpool of METRO AG.

€ million	30/9/2016	**30/9/2017**
Cash and cash equivalents according to the balance sheet	1,599	**1,559**
Short-term financial investments[1]	90	**5**
Financial liabilities (incl. finance leases)	4,740	**4,706**
Net debt	**3,051**	**3,142**

[1] Shown in the balance sheet under other financial and non-financial assets (current).

As of 30 September 2017, non-current liabilities amounted to €4.2 billion (30/9/2016: €5.0 billion). The decline by €0.8 billion was essentially due to lower long-term financial liabilities totalling €3.1 billion (30/9/2016: €3.8 billion) that resulted from the repayment of a bond issuance programme. In addition, provisions for post-employment benefits plans and similar obligations decreased by €89 million to €0.6 billion (30/9/2016: €0.6 billion).

As of 30 September 2017, METRO had current liabilities totalling €8.4 billion (30/9/2016: €8.1 billion). This increase is largely due to a €667 million increase in current financial liabilities to €1.6 billion (30/9/2016: €0.9 billion), resulting from additional liabilities incurred from a commercial paper programme. By contrast, other financial and other liabilities decreased by €0.2 billion to €1.3 billion (30/9/2016: €1.6 billion) This is the result of the previous year, where this item included a liability in connection with the initial liquidity conditions of CECONOMY amounting to €221 million, which was settled in the financial year.

Compared to 30 September 2016, the debt ratio declined by 2.0 percentage points to 79.7%. The share of current liabilities in total liabilities rose to 66.6%, representing a slight increase from 62.1% on 30 September 2016.

— **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 in no. 36 – financial liabilities.**

€ million	Note no.	30/9/2016	30/9/2017
Non-current liabilities		**4,954**	**4,197**
Provisions for pension and similar obligations	32	646	**557**
Other provisions	33	297	**283**
Financial liabilities	34, 36	3,796	**3,095**
Other financial and non-financial liabilities	34, 37	127	**162**
Deferred tax liabilities	24	88	**100**
Current liabilities		**8,114**	**8,376**
Trade liabilities	34, 35	4,892	**4,782**
Provisions	33	559	**456**
Financial liabilities	34, 36	944	**1,611**
Other financial and non-financial liabilities	34, 37	1,591	**1,345**
Income tax liabilities	34	128	**167**
Liabilities related to assets held for sale	30	0	**15**

— **For more information about the development of liabilities, see the notes to the consolidated financial statements in 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 in no. 44 – contingent liabilities and no. 45 – other financial liabilities.**

Asset position

In financial year 2016/17, total assets decreased by €213 million to €15.8 billion (30/9/2016: €16.0 billion).

In financial year 2016/17, non-current assets decreased slightly by €0.2 billion to €9.2 billion (30/9/2016: €9.4 billion).

€ million	Note no.	30/9/2016	30/9/2017
Non-current assets		**9,434**	**9,225**
Goodwill	18	852	**875**
Other intangible assets	19	420	**473**
Property, plant and equipment	20	6,979	**6,822**
Investment properties	21	163	**126**
Financial assets	22	89	**92**
Investments accounted for using the equity method	22	183	**183**
Other financial and miscellaneous non-financial assets	23	239	**217**
Deferred tax assets	24	509	**439**

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

Other current assets remained at the level of the previous year. Increases in trade receivables, mainly from Pro à Pro, and entitlements to income tax refunds were offset by lower other financial assets and cash compared to the previous year.

€ million	Note no.	30/9/2016	30/9/2017
Current assets		**6,558**	**6,554**
Inventories	25	3,063	**3,046**
Trade receivables	26	493	**575**
Financial assets		0	**1**
Other financial and miscellaneous non-financial assets	23	1,280	**1,214**
Entitlements to income tax refunds		123	**148**
Cash and cash equivalents	29	1,599	**1,559**
Assets held for sale	30	0	**11**

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

EARNINGS POSITION

Overview of group business development

Supported by positive currency effects and the acquisition of Pro à Pro, METRO's reported **sales** for financial year 2016/17 increased by 1.6% to €37.1 billion. Sales rose by 1.1% in local currency. Like-for-like sales at METRO climbed by 0.5%. METRO Wholesale underwent particularly positive developments, while the sales of Real decreased after a difficult first half of the year.

The **EBIT before special items** amounted to €1,106 million, reaching the level of the previous year (2015/16: €1,106 million). This figure contains income from the sale of real estate amounting to €175 million (2015/16: €153 million). In 2016/17, the EBIT included 3 material real estate transactions, 2 of which in China (contributing approximately €110 million to the result) and 1 in Germany (approx. €40 million). Adjusted for positive currency effects of €37 million, EBIT before special items was €37 million lower than in the previous year.

Reported **group EBIT** totalled €852 million in financial year 2016/17 (2015/16: €1,219 million). This decrease was due in particular to income from the sale of the activities in Vietnam during the previous year (€446 million). Adjusted for the one-time income gained from the Vietnamese sale in the previous year, the special items are below the previous year's level due to fewer restructuring activities.

Comparison of forecast with actual business developments

There are no forecasts for financial year 2016/17, as the demerger and stock market listing of the METRO shares only took place in mid-July 2017.

Development of group sales by region

At €12.0 billion, reported sales in **Germany** were 2.6% lower than in the previous year. Like-for-like sales decreased by 1.7%. Following a difficult first half of the year during which sales at METRO Wholesale and Real declined considerably, the trend improved significantly during the second half of the year.

The reported sales in the **international business** increased by 3.7% to €25.2 billion. This is especially due to the opening of new stores and the acquisition of Pro à Pro. Currency effects also played a part. International sales rose by 3.0% in local currency. Like-for-like sales increased by 1.6%. The international share of total sales stood at 67.8% (2015/16: 66.4%).

The reported sales in **Western Europe (excl. Germany)** increased by 3.6% to €10.5 billion. This is especially due to the acquisition of Pro à Pro. Like-for-like sales decreased slightly by 0.3%.

The reported sales in **Eastern Europe** increased by 4.5% to €10.3 billion. Especially positive currency effects in Russia influenced this development. Particularly positive sales trends were recorded in Turkey. Sales rose by 1.8% in local currency. Like-for-like sales increased by 2.3%.

The reported sales in **Asia** increased by 2.3%. All countries contributed to this positive development. Sales rose by as much as 4.2% in local currency. Like-for-like sales climbed by 4.7%.

SALES DEVELOPMENT OF METRO

by segments and regions

	2015/16 € million	**2016/17 € million**	Change in % compared with the previous year's period: in group currency (€)	Currency effects in percentage points[1]	in local currency	Like-for-like sales in local currency
METRO Wholesale	29,000	**29,866**	3.0	0.7	2.3	0.9
Real	7,478	**7,247**	–3.1	0.0	–3.1	–1.0
Others	72	**27**	–62.4	–0.3	–62.1	-
METRO	**36,549**	**37,140**	**1.6**	**0.5**	**1.1**	**0.5**
thereof Germany	12,279	**11,962**	–2.6	0.0	–2.6	–1.7
thereof international	24,270	**25,177**	3.7	0.8	3.0	1.6
Western Europe (excl. Germany)	10,173	**10,543**	3.6	0.0	3.6	–0.3
Eastern Europe	9,828	**10,266**	4.5	2.7	1.8	2.3
Asia	4,269	**4,368**	2.3	–1.9	4.2	4.7

[1] The currency effect is calculated by comparing reported sales of the current financial year in euros with sales of the previous period, converted at the average exchange rate of the current financial year.

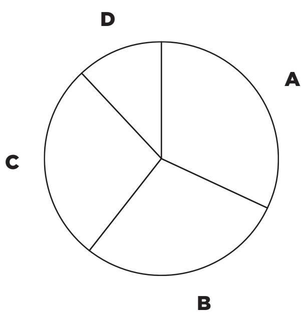
The reconciliation from reported sales to like-for-like sales in local currency is shown in the following:

€ million	2015/16	**2016/17**
Total sales in € (as reported)	36,549	**37,140**
Total sales in local currency[1]	36,735	**37,140**
Sales of stores that were not part of the like-for-like panel in 2016/17[2]	2,356	**2,584**
Like-for-like sales in local currency	**34,378**	34,555

[1] Sales in local currency of the previous year were calculated by converting reported sales of the previous year at the average exchange rate of the current financial year
[2] Not included in the like-for-like panel are, among others, new openings, stores in start-up phase, closures, service companies and major refurbishments.

GROUP SALES OF METRO 2016/17

by regions



A 32.2% Germany
B 28.4% Western Europe (excl. Germany)
C 27.6% Eastern Europe
D 11.8% Asia

DEVELOPMENT OF GROUP EBIT AND EBIT OF THE SEGMENTS

€ million	EBIT[1] 2015/16	**2016/17**
METRO Wholesale	1,048	**1,114**
Real	105	**80**
Others	–43	**–86**
Consolidation	–5	**–1**
METRO	**1,106**	**1,106**

[1] Before special items.

Sales and earnings development of the segments

METRO Wholesale (previously METRO Cash & Carry)

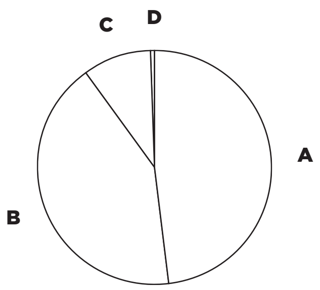
METRO Cash & Carry launched the New Operating Model in financial year 2015/16 to improve its business management. As part of the introduction of the New Operating Model, the METRO Cash & Carry countries were classified into the clusters HoReCa, Multispecialist, Trader and Others.

Supported by positive currency effects among other factors, METRO Wholesale's reported **sales** for financial year 2016/17 increased by 3.0% to €29.9 billion. Since its acquisition in February 2017, Pro à Pro also contributed to the overall sales revenue with approximately €470 million. The company is one of the leading food service distribution providers (FSD) in France. Sales rose by 2.3% in local currency. Like-for-like sales increased by 0.9%. Like-for-like sales increased in all quarters and have now risen in every quarter for 4 years in a row.

The delivery business of METRO Wholesale continued to develop highly dynamically. Sales in financial year 2016/17 rose by more than 25% to more than €4.6 billion. The share of sales attributable to the delivery business for the entire year amounts to 15.6%. The acquisition of Pro à Pro has also contributed to this.

SALES OF METRO WHOLESALE 2016/17

by clusters



A	**48.3%**	HoReCa
B	**41.9%**	Multispecialist
C	**9.7%**	Trader
D	**0.1%**	Others

Reported sales in the **HoReCa** cluster rose by 3.1% in financial year 2016/17. Sales rose by 4.5% in local currency. Like-for-like sales increased slightly by 0.3%. Especially Turkey contributed to the growth in like-for-like sales, while Germany recorded a decline.

In the **Multispecialist** cluster, sales increased by 3.7% in financial year 2016/17. Sales rose by 0.5% in local currency. Like-for-like sales slightly increased by 0.5%. Russia and the Netherlands recorded declining sales, in particular, while China, Pakistan and India achieved significant increases.

In the **Trader** cluster, sales increased by 3.3% in financial year 2016/17. Measured in local currency, sales in the Trader cluster rose by 3.9%. Sales rose by as much as 5.5% like-for-like. With the exception of Poland, like-for-like sales climbed in all countries.

EBIT before special items amounted to €1,114 million (2015/16: €1,048 million), supported by positive currency effects amounting to €37 million. Adjusted for these effects, EBIT before special items improved by €29 million. This particularly includes 2 real estate transactions in China, which contributed approximately €80 million (Q2) and €30 million (Q4) to the result. In the previous year, material real estate transactions only accounted for €34 million. Before these real estate transactions and currency effects, EBIT before special items amounted to €47 million less than the previous year. This decline is in particular attributable to developments in Russia, the Netherlands and Belgium, which could not be offset by earnings improvements in most of the other METRO Cash & Carry companies.

EBIT at METRO Wholesale totalled €1,035 million in financial year 2016/17 (2015/16: €1,271 million). This decrease was due in particular to income from the sale of the activities in Vietnam during the previous year (€446 million). Adjusted for the one-time income gained from the Vietnamese sale in the previous year, the special items are considerably below the previous year's level due to fewer restructuring activities.

On 30 September 2017, METRO Wholesale operated 759 stores located in 25 countries. Of these stores, 104 were in Germany, 239 in Western Europe (excluding Germany), 283 in Eastern Europe and 133 in Asia. Additional countries were covered by the activities of Classic Fine Foods and Rungis Express. Overall, METRO Wholesale has operations in 35 countries.

KEY FIGURES METRO WHOLESALE 2016/17
in year-on-year comparison

			Change in % compared with the previous year's period			
	2015/16 € million	**2016/17 € million**	in group currency (€)	Currency effects in percentage points[1]	in local currency	like-for-like sales in local currency
Sales	29,000	**29,866**	3.0	0.7	2.3	0.9
HoReCa	13,993	**14,429**	3.1	–1.4	4.5	0.3
Multispecialist	12,066	**12,518**	3.7	3.3	0.5	0.5
Trader	2,802	**2,895**	3.3	–0.5	3.9	5.5
Others	138	**23**	–	–	–	–
EBIT[2]	1,048	**1,114**	–	–	–	–
EBIT margin (%)[3]	3.6	**3.7**	–	–	–	–
Locations (number)	752	**759**	–	–	–	–
Selling space (1,000 m²)	5,380	**5,307**	–	–	–	–

[1] The currency effect is calculated by comparing reported sales of the current financial year in euros with sales of the previous period, converted at the average exchange rate of the current financial year.
[2] Before special items.
[3] Before special items; the EBIT margin shows the EBIT/sales ratio.

Real
Compared to the previous year, Real's reported sales declined by 3.1% to €7.2 billion in financial year 2016/17. This was particularly due store disposals. Like-for-like sales decreased by 1.0%. After a difficult first half of the year, the sales trend stabilised over the further course of the financial year: following growth in the 3rd quarter, like-for-like sales increased by 0.6% in the 4th quarter.

Online sales continued to develop very positively. Again, it rose markedly by more than 50% to €105 million in financial year 2016/17. This positive development was driven by the integration of the acquired online shop Hitmeister.

EBIT before special items decreased from €105 million to €80 million. This is due to a decline in sales and increased expenses for advertising and the expansion of the online business. In many food categories, the development was influenced by continuing high competition, while lower personnel costs had the opposite effect.

In financial year 2016/17, **EBIT** totalled €19 million (2015/16: €108 million). This decline is primarily attributable to expenses incurred by the restructuring of the headquarters.

In financial year 2016/17, Real's German store network was reduced by 3 to 282 stores.

KEY FIGURES REAL 2016/17
in year-on-year comparison

	2015/16 € million	**2016/17 € million**	Change in % compared with the previous year's period: in group currency (€)	Currency effects in percentage points	in local currency	like-for-like sales in local currency
Sales	7,478	**7,247**	−3.1	0.0	−3.1	−1.0
Germany	7,478	**7,247**	−3.1	0.0	−3.1	−1.0
EBIT[1]	105	**80**	–	–	–	–
EBIT margin (%)[2]	1.4	**1.1**	–	–	–	–
Locations (number)	285	**282**	–	–	–	–
Selling space (1,000 m²)	1,967	**1,941**	–	–	–	–

[1] Before special items.
[2] Before special items; the EBIT margin shows the EBIT/sales ratio.

Others
The Others segment comprises, among others, METRO AG as the management holding company of METRO group the procurement organisation in Hong Kong, which also operates on behalf of third parties, as well as logistics services and real estate activities of METRO PROPERTIES, which are not attributed to any sales lines. These include, for example, speciality stores, warehouses and head offices.

In financial year 2016/17, **sales** in the Others segment totalled €27 million (2015/16: €72 million). The decline can primarily be attributed to the disposal of 4 Real stores in Romania. Among other things, sales include commissions for third-party business through METRO's procurement organisation in Hong Kong.

EBIT totalled €−201 million in financial year 2016/17 (2015/16: €−156 million). Special items amounted to €115 million (2015/16: €112 million) and primarily related to one-time expenses in connection with the demerger of METRO GROUP. EBIT before special items amounted to €−86 million (2015/16: €−43 million). This development was driven by lower real estate income (€60 million less).

Net financial result and taxes

€ million	2015/16	**2016/17**
Earnings before interest and taxes EBIT	**1,219**	**852**
Earnings share of non-operating companies recognised at equity	3	**0**
Other investment result	−3	**−11**
Interest income/expenses (interest result)	−211	**−156**
Other financial result	−114	**−37**
Financial result	**−325**	**−204**
Earnings before taxes EBT	**894**	**649**
Income taxes	−375	**−304**
Profit or loss for the period	**519**	**345**

Financial result
The net financial result primarily comprises the interest result of €−156 million (2015/16: €−211 million) and the other financial result of €−37 million (2015/16: €−114 million). The interest result improved thanks, in particular, to the lower level of interest. The €77 million improvement in the other financial result is mainly due to negative effects from the deconsolidation of METRO Cash & Carry Vietnam in the previous year and lower negative negative currency effects in the reporting period, primarily from Kazakhstan. In the decreased other investment result, the change mainly reflects the amortisation of the shares in real,- Digital Payment & Technology Services GmbH.

— **For more information about the net financial result, see the notes to the consolidated financial statements in no. 6 – earnings share of operating / non-operating companies recognised at equity, no. 7 other investment result net, no. 8 interest income/interest expenses and no. 9 other financial result.**

Taxes

The reported income tax expenses of €304 million (2015/16: €375 million) are €71 million lower than in the previous year and essentially concern deferred taxes.

€ million	2015/16	**2016/17**
Actual taxes	271	**222**
thereof Germany	(32)	**(27)**
thereof international	(239)	**(195)**
thereof tax expenses/income of current period	(316)	**(217)**
thereof tax expenses/income of previous periods	(–45)	**(5)**
Deferred taxes	104	**82**
thereof Germany	(77)	**(1)**
thereof international	(27)	**(81)**
	375	**304**

The group tax rate in the reporting period amounted to 46.9% (2015/16: 42.0%). The comparatively low tax rate of the previous year is mainly due to the sale of METRO Cash & Carry Vietnam. Before special items, the tax rate amounted to 34.9% (2015/16: 38.7%). Adjusted for deferred tax income from the reversal of deferred tax liabilities in connection with the reallocation of goodwill, the tax rate before special items in the reporting period was 39.8%. The group tax rate represents the relationship between recognised income tax expenses and earnings before taxes.

— **For more information about income taxes, see the notes to the consolidated financial statements in no. 11 – income taxes.**

Profit or loss for the period and earnings per share

Profit for the period in financial year 2016/17 totalled €345 million, a decline of €174 million compared with the previous year's figure (2015/16: €519 million).

Net of non-controlling interests, profit for the period attributable to the shareholders of METRO AG totalled €325 million (2015/16: €506 million). This corresponds to a decline of €181 million.

In financial year 2016/17, METRO recorded earnings per share of €0.89 (2015/16: €1.39). The calculation was based on a weighted number of 363,097,253 shares. Profit for the period attributable to the shareholders of METRO AG of €325 million was distributed according to this number of shares. There was no dilution from so-called potential shares in financial year 2016/17 or in the previous year.

At €1.55, earnings per share before special items are €0.22 higher than in the previous year (2015/16: €1.33). This result forms the basis for the dividend recommendation.

				Change	
		2015/16	**2016/17**	absolute	%
Profit or loss for the period	€ million	519	**345**	–174	–33.5
Profit or loss for the period attributable to non-controlling interests	€ million	13	**20**	7	53.9
Profit or loss for the period attributable to the shareholders of METRO AG	€ million	506	**325**	–181	–35.8
Earnings per share (basic = diluted)[1]	€	1.39[2]	**0.89**	–0.50	–36.0
Earnings per share before special items[1]	€	1.33[2]	**1.55**	0.22	16.5

[1] After non-controlling interests.
[2] Pro forma disclosure of combined financial statements.

Special items[1]

SPECIAL ITEMS

by segments

€ 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	**1,918**	**1,611**	**–127**	**199**	**1,791**	**1,810**
thereof METRO Wholesale	1,700	**1,528**	–236	**25**	1,464	**1,553**
Real	250	**159**	–3	**60**	247	**219**
Others	–23	**–73**	112	**115**	89	**41**
Consolidation	–9	**–3**	0	**0**	–9	**–3**
EBIT	**1,219**	**852**	**–113**	**254**	**1,106**	**1,106**
thereof METRO Wholesale	1,271	**1,035**	–222	**79**	1,048	**1,114**
Real	108	**19**	–3	**61**	105	**80**
Others	–156	**–201**	112	**115**	–43	**–86**
Consolidation	–5	**–1**	0	**0**	–5	**–1**
Financial result	–325	**–204**	27	**–7**	–298	**–210**
EBT	**894**	**649**	**–86**	**247**	**808**	**896**
Income taxes	–375	**–304**	63	**–9**	–313	**–313**
Profit or loss for the period	**519**	**345**	**–23**	**239**	**495**	**583**
Profit or loss for the period attributable to non-controlling interests	13	**20**	0	**0**	13	**20**
Profit or loss for the period attributable to the shareholders of METRO AG	506	**325**	–23	**238**	483	**563**
Earnings per share in € (basic = diluted)	**1.39[2]**	**0.89**	**–0.06**	**0.66**	**1.33[2]**	**1.55**

[1] For an explanation of special items, see chapter 2 principles of the group – 2.2 Management system.
[2] Pro forma disclosure of combined financial statements.

SPECIAL ITEMS

by regions

€ 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	**1,918**	**1,611**	**–127**	**199**	**1,791**	**1,810**
thereof Germany	151	**167**	169	**162**	320	**329**
Western Europe (excl. Germany)	380	**464**	106	**–4**	487	**460**
Eastern Europe	738	**698**	42	**35**	780	**733**
Asia	650	**273**	–445	**6**	205	**279**
Consolidation	–1	**9**	0	**0**	–1	**9**
EBIT	**1,219**	**852**	**–113**	**254**	**1,106**	**1,106**
thereof Germany	–182	**–165**	170	**164**	–12	**–1**
Western Europe (excl. Germany)	258	**291**	114	**33**	372	**324**
Eastern Europe	561	**527**	48	**39**	610	**566**
Asia	582	**190**	–445	**18**	137	**208**
Consolidation	–1	**9**	0	**0**	–1	**9**
Financial result	–325	**–204**	27	**–7**	–298	**–210**
EBT	**894**	**649**	**–86**	**247**	**808**	**896**
Income taxes	–375	**–304**	63	**–9**	–313	**–313**
Profit or loss for the period	**519**	**345**	**–23**	**239**	**495**	**583**
Profit or loss for the period attributable to non-controlling interests	13	**20**	0	**0**	13	**20**
Profit or loss for the period attributable to the shareholders of METRO AG	506	**325**	–23	**238**	483	**563**
Earnings per share in € (basic = diluted)	**1.39**[1]	**0.89**	**–0.06**	**0.66**	**1.33**[1]	**1.55**

[1] Pro forma disclosure of combined financial statements.

2015/16		Special items				
€ million	as reported	Portfolio measures	Restructuring and efficiency-enhancing measures	Risk provisions and impairment losses on goodwill	Other special items	before special items
EBITDA	**1,918**	**–454**	**283**	**–**	**45**	**1,791**
EBIT	**1,219**	**–454**	**296**		**45**	**1,106**
Financial result	–325	27	–	–	–	–298
EBT	**894**	**–427**	**296**		**45**	**808**
Income taxes	–375	78	–12	–	–3	–313
Profit or loss for the period	**519**	**–349**	**284**		**42**	**495**
Profit or loss for the period attributable to non-controlling interests	13	–	–	–	–	13
Profit or loss for the period attributable to the shareholders of METRO AG	506	–349	284	–	42	483

2016/17		**Special items**				
€ million	**as reported**	**Portfolio measures**	**Restructuring and efficiency-enhancing measures**	**Risk provisions and impairment losses on goodwill**	**Other special items**	**before special items**
EBITDA	**1,611**	**6**	**88**	**–**	**105**	**1,810**
EBIT	**852**	**6**	**124**	**19**	**104**	**1,106**
Financial result	**–204**	–7	–	–	–	**–210**
EBT	**649**	**–1**	**124**	**19**	**104**	**896**
Income taxes	**–304**	1	-9	–	–1	**–313**
Profit or loss for the period	**345**	**0**	**116**	**19**	**103**	**583**
Profit or loss for the period attributable to non-controlling interests	**20**	–	–	–	–	**20**
Profit or loss for the period attributable to the shareholders of METRO AG	**325**	0	116	19	103	**563**

Value-based management

METRO's strength is reflected, among other things, in its ability to continuously increase the company's value through growth and operational efficiency as well as optimal capital deployment. In order to ensure sustained value creation, we have been using value-oriented key figures for group management for many years.

The use of performance metrics generally enables METRO to focus on the key drivers of the operating business that management can influence: value-adding growth, increases in operational earnings strength and the optimisation of capital employed. Value-adding growth is achieved through our strategy of focusing on like-for-like sales growth in the company's existing markets, complementing the store-based business through targeted new sales channels such as delivery services and online retail as well as continuing the company's expansion in select countries. In this context, we further strengthened our delivery business in financial year 2016/17, for example, through the acquisition of Pro à Pro.

Our customers are always at the core of our thoughts and actions. For example, we are enhancing customer value for our target customer groups HoReCa, Trader and SCO by offering customised digital and operational solutions. Among other things, a customer-oriented product group management that is geared towards their specific needs with regard to assortment, price groups, packaging and marketing plays an important role in this context. In addition, we continue to implement measures to ensure operational and administrative efficiency and are forging ahead with the optimisation of capital deployment. We accomplish this by, for example, country-specific investment strategies, the needs-oriented design of our market formats and cooperation in purchasing and administrative functions.

To assess the operating business performance, the metric return on capital employed (RoCE) is used, among others. RoCE measures the return on capital employed in a given period, thus enabling an assessment of the business performance of the various segments. For the purpose of comparing these segments, capital employed also includes cash rental values to account for the different ownership structures of real estate assets. We base the calculation of RoCE on EBIT before special items because it adequately reflects the units' operational earnings strength independent of special effects. Like capital employed, EBIT is also adjusted for the financing component of rents.

RoCE = EBIT[1] / capital employed

[1] EBIT before special items.

Capital employed represents interest-carrying assets. It comprises segment assets plus cash and cash equivalents less trade liabilities as well as other operational liabilities and deferred income. Hereby, we use an average capital employed that is calculated from quarterly financial statements in order to also consider developments in capital employed that occur during the relevant period.

Once the RoCE is established, it is contrasted with the segment-specific cost of capital before taxes as the latter represents a market-oriented minimum rate of interest on capital employed based on capital market models.

Another important application for value-oriented key figures at METRO is the assessment of planned and completed investments. In addition to the discounted cash flow method, we are using the key figure of Economic Value Added (EVA) and liquidity-oriented key figures such as the amortisation period for investment decisions.

As the group continued to position itself for value-adding growth, so-called Value Creation Plans were implemented as a key instrument in financial year 2015/16. These plans provide the management with binding long-term benchmarks regarding strategy, key value drivers and the derived financial targets at the level of individual countries and also serve as a reference point in the context of the remuneration system. In the past financial year, the units of the various countries continued to push ahead with the implementation of the adopted Value Creation Plans.

4 REPORT ON EVENTS AFTER THE CLOSING DATE AND OUTLOOK

REPORT ON EVENTS AFTER THE CLOSING DATE

Events after the balance sheet date

No events subject to mandatory disclosure occurred between the closing date (30 September 2017) and the date of preparing the annual financial statements (30 November 2017).

OUTLOOK

The outlook prepared by METRO considers relevant facts and events that were known at the time of preparing the consolidated financial statements and that may impact the future development of our business. Nevertheless, it is possible that unknown risks, uncertainty and other factors may cause actual market and industry developments to differ from those set forth in this section. The outlook on economic parameters is based on an analysis of primary data used to derive forecasts. Feri Trust is the main source of the data used to forecast anticipated business conditions. The following conclusions reflect a mid-range scenario of expectations. All descriptions in this section are forward-looking statements.

Macroeconomic parameters

Global economy

The global economy in financial year 2016/17 was characterised by a significantly more stable and pronounced growth than in the preceding years. This economic recovery is expected to continue in financial year 2017/18, with the United States and important emerging countries, such as Russia and Brazil, returning to an economic growth trajectory on the back of a recovering oil price. These countries will continue to drive growth in financial year 2017/18. The economies in the European countries also delivered a more stable performance and benefited from the European Central Bank (ECB) taking a very gradual approach in reducing its bond purchasing programme (quantitative easing) in combination with a very moderate increase in the inflation rate. The future development will nevertheless be shaped by numerous economic and political factors that could potentially also have a negative impact on the global economy growth. Among these uncertain factors are: the withdrawal of the United Kingdom from the European Union, continuing sanctions against Russia stemming from the Russia/Ukraine conflict, unpredictable economic and trade politics in the United States, China's economy losing steam, as well as political unrest worldwide.

On balance, we expect the inflation-adjusted global economic growth for the year 2018 to resemble growth in the year 2017 with a growth rate of approximately 3.7%.

Germany

The sound development of the German economy will continue in financial year 2016/17. As the current economic upswing is supported by a variety of factors that are unlikely to change significantly, we only expect a slight drop in the growth rate to +1.8% for the year 2018. The continued positive development on the German labour market continues to invigorate private consumption. The growth trend in retail sales in Germany is expected to retreat slightly in 2018, so realistically growth will be just under 2%. This is due to an assumed rise in the inflation rate, which could possibly result in declining real wages.

Western Europe

In Western Europe, financial year 2016/17 was characterised by a beginning economic recovery. For 2018, we expect 1.8% of growth and thus anticipate another year of stable growth, as the labour market recovery and strong consumer confidence should continue. Spain and Italy are however exposed to other political risks that could potentially subdue the expected growth rates. The most recent monetary policy decisions by the ECB appear to indicate a very slow return to higher interest rates, which continue to drive growth in the European economies at their relatively low current levels. Retail sales are expected to experience a similar growth as in the previous year, which should be positive after adjustment for inflation.

Eastern Europe

The performance of the economies in Eastern Europe in financial year 2016/17 was distinguished by solid growth, especially in the later months of the financial year. This positive trend will be sustained in the year 2018 and we expect an inflation-adjusted economic and sales growth of +2.7% for this region. Our outlook for the Russian economy is a continued economic recovery and sustained growth in 2018. We also expect the economy in Ukraine to pick up, whereas the Turkish economy will not quite reach the level of the positive development of 2017 in 2018 due to the political situation and increasing isolation. The economic performance of the Central European countries was slightly divergent, but the consistently positive development on the labour markets in these countries results in a positive outlook for 2018.

Asia

The Asian economies continued their dynamic growth trajectory in financial year 2016/17. The Chinese economy reported solid growth rates. Signs for an economic recovery were also observed in Japan. We expect this region to deliver an inflation-adjusted economic growth of just over 5% in the year 2018, a similar level as in the previous year. With a growth rate of close to 8%, we expect India to be among the drivers of economic growth in the region. While retail sales will also grow in 2018, their development may still lag behind the overall economic growth.

Future sector trends

Cash-and-Carry wholesale trade business

The global development of the cash-and-carry wholesale trade business in financial year 2016/17 was satisfactory and varied across the regions. This will also be the case in financial year 2017/18.

In comparison to the reporting period, we expect financial year 2017/18 to only deliver a slight growth in revenues for companies operating in this industry sector in Germany. We do however still see potential for additional growth in the food delivery segment. Another year of strong sales is expected for the HoReCa business segment, which is an important customer group for METRO Cash & Carry.

Following a slight growth in financial year 2016/17, the cash-and-carry wholesale trade business is expected to experience a more pronounced nominal growth in financial year 2017/18, which will be slightly lower than in the METRO Cash & Carry countries. The positive outlook for Western Europe is in particular supported by the continued stable macroeconomic situation in important countries, as well as the expected better or at least stable development in the hotel and restaurant industries, for example, in France and Portugal.

The cash-and-carry wholesale trade business segment in Central and Eastern Europe is expected to enjoy a stable positive development throughout financial year 2017/18, with growth rates anticipated to exceed those in Western Europe. Sales revenues are expected to track the significantly improved economic situation in a number of Central European countries, in particular in the Russian and Ukrainian markets.

The cash-and-carry wholesale trade markets in Asia, in particular India, but also in China and Pakistan, are forecasted to deliver a stable economic development in financial year 2017/18. The delivery business remains to be one of the most significant growth drivers in this region.

Food retail business

According to Feri Trust, real consumer expenditure by private households in Germany will increase by 1.8% in the year 2018. Private consumption therefore continues to support the positive macroeconomic development. In combination with sustained economic growth, falling unemployment rates and increasing disposable income, private consumption remains an important economic driver in Germany. The retail industry will also benefit of rising consumer expenditure and deliver an inflation-adjusted growth in line with private consumption expenditure in 2018. Planet Retail expects the food retail sector to deliver a growth of 2.5% in the year 2018.

Earnings outlook: Outlook for METRO

The outlook is based on the assumption of stable exchange rates without portfolio adjustments. In an effort to further improve the transparency of its operative performance, METRO will in the future report its earnings in the form of EBITDA excluding earnings contributions from real estate transactions. As the restructuring measures stemming from the transformation of the group have been completed to the greatest extent, our future reporting will no longer include special items. Our reporting will also assume a continuously complex geopolitical situation.

Sales

For financial year 2017/18, METRO expects to see a slight rise in overall sales, despite the persistently challenging economic environment. We aim for our growth rate to at least match the 1.1% growth achieved in financial year 2016/17. The main growth driver will be METRO Wholesale.

METRO expects the like-for-like sales development to slightly surpass the 0.5% growth delivered in the reporting year 2016/17. METRO Wholesale is expected to make a significant contribution to this growth.

Earnings

METRO is confident of its ability to significantly improve earnings. We expect EBITDA excluding earnings contributions from real estate transactions to increase by approximately 10% compared to the previous year's result (€1,436 million) with both segments contributing to the increased earnings.

5 RISK AND OPPORTUNITY REPORT

Risk and opportunity management system

In a dynamic market environment, the early identification and systematic exploitation of opportunities is a fundamental entrepreneurial task. This is an essential prerequisite for our company's long-term success. We are continuously exposed to risks that can impede the realisation of our short-term and medium-term objectives as well as the implementation of long-term strategies. In some cases, we must consciously take manageable risks 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 achievements that extend beyond the defined objectives and can thus facilitate and drive our business development. We consider risks and opportunities as inextricably linked. Risks can, for example, 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 understand our company's risk and opportunity management system as a tool that helps us to achieve our corporate goals. It is a systematic process that encompasses the entire group. It helps the company's management to identify, classify and control risks and opportunities. As such, risk and opportunity management form a unity. Our risk management identifies developments and events that could potentially prevent us from reaching our business targets at an early stage and analyses their implications. This allows us to put the necessary countermeasures into place in a timely manner. At the same time, this forecasting process allows us to systematically exploit emerging opportunities.

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 METRO AG with the decentralised operating responsibility of the individual sales lines.

It is the responsibility and a legal obligation of the Management Board of METRO AG to organise a governance system for METRO. We regard the risk management system, the internal control system, the compliance management system as well as internal auditing to be components of the governance, risk and compliance system (GRC system). This organisational structure is based on the governance elements identified in § 107 Section 3 of the German Stock Corporation Act (AktG) as well as the German Corporate Governance Code. The fundamental principles of the GRC system are defined and documented in our governance, risk and compliance guideline. This guideline is intended to render structures and processes more transparent and to harmonise the procedural-organisational framework for the subsystems. This is the foundation for our efforts to increase the overall efficiency of the GRC system and to continuously enhance its effectiveness.

The group committee for governance, risk and compliance (GRC Committee) is chaired by the CFO of METRO AG and regularly discusses methods and new developments of the GRC subsystems. The committee also conducts regular reviews of the current risk and opportunity situation. Permanent members include representatives of Corporate Accounting (including Risk Management, Internal Control Finance and Internal Control Operations), Corporate Legal Affairs & Compliance and Group Internal Audit. The committee meetings are also attended by Corporate Controlling & Finance, Corporate Treasury, Group Strategy and Corporate Communications and Public Policy. Experts are invited to attend the events as required.

Risk management

The Management Board of METRO AG assumes overall responsibility for the effectiveness of the risk management system as part of the GRC system. The group companies are responsible for identifying, assessing and managing financial risks. Key elements of internal monitoring include effectiveness checks in the form of self-assessments by the management teams as well as internal audits.

The Supervisory Board of METRO AG also oversees the effectiveness of risk management. In compliance with the provisions of the German Corporate Sector Supervision and Transparency Act (KonTraG), the external auditor subjects the company's risk warning system as part of the risk management system to a periodic audit. The results of this audit are presented to the Management Board and Supervisory Board.

Our Corporate Risk Management unit is responsible for managing and developing our risk management system. This unit is part of the Group Governance department of METRO AG. It determines the company's risk management approaches, methods and standards in consultation with the GRC Committee. The Corporate Risk Management unit coordinates the underlying process, ensures information is shared within the company and supports the further development of risk management across all group companies and central business units.

In this context, the GRC Committee keeps the Management Board of METRO AG continuously updated on the essential developments concerning risk management.

The risk management system is organised as a closed-loop system to ensure the design's effectiveness with respect to the defined risk management rules. This also allows us to guarantee effective implementation and continuous improvement of the system based on results and experiences.

— **For more information, see chapter 2 principles of the group – 2.6 characteristics of the accounting-related internal control and risk management system.**

Opportunity management

The systematic identification and communication of opportunities is an integral part of the management and controlling system of METRO. Opportunities include internal or external events and developments that can have a beneficial impact on our business development. In principle, we strive to balance opportunities and risks.

We conduct macroeconomic analyses, study relevant trends and evaluate market, competition and locality analyses. We also analyse the critical success factors of our business models and the relevant cost drivers of our company. The Management Board of METRO 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. It does so by seeking to engage in a regular dialogue with the management of the group companies and units at the central holding company. 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

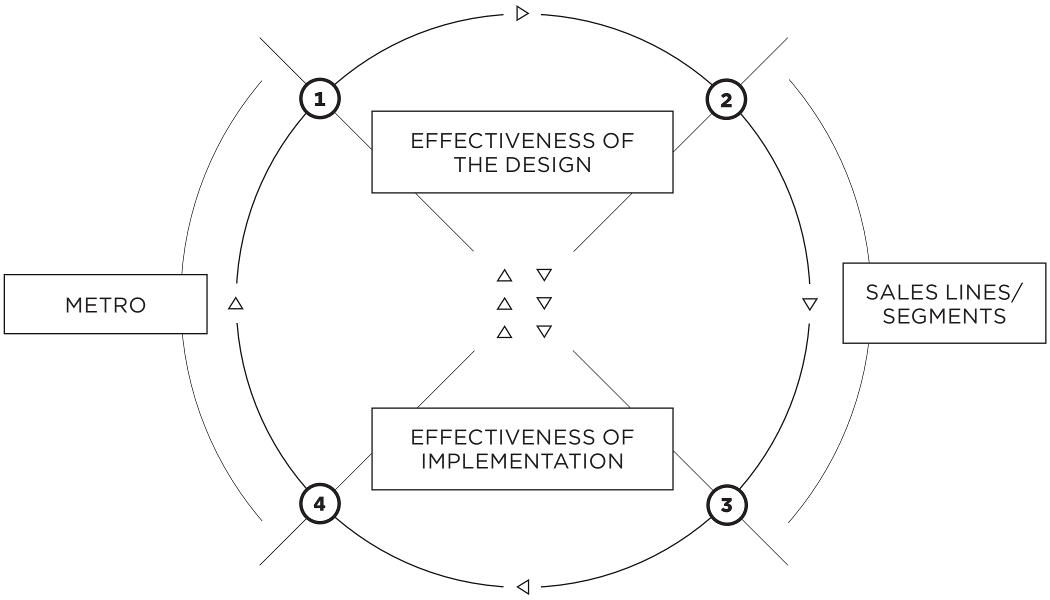
Group reporting is the central element of our internal risk and opportunity communications. It is complemented by the risk and opportunity management reporting. The objective is to allow for a structured and continuous monitoring of risks and opportunities, which is documented in accordance with legal and regulatory stipulations.

We ascertain our group's risk inventory on an annual basis by systematically mapping and assessing all significant group-wide risks based on quantitative and qualitative indicators and uniform criteria relating to the loss potential and the probability of occurrence. The results of the risk inventory and the risk portfolio are updated on a regular basis.

The topically responsible risk coordinators, for example those responsible for procurement, sales or administrative functions, validate the results reported by the group companies and central business units. In a second step, they summarise these results in a functional risk profile accompanied by a detailed description of significant individual risks. Important issues are then validated in direct consultation with the GRC Committee and specific action for an improved spreading of risks is developed.

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

RISK MANAGEMENT AS A CLOSED LOOP SYSTEM



1 Defining rules
- Definition of principles and strategic approach
- Derivation of risk areas from target and control system
- Definition of processes and organisation
- Provision of training materials
- Group reporting

2 Introduction and implementation
- Introduction of a risk management system
- Implementation of processes
- Preparation of risk reports by the units and responsible persons
- Organisation of training measures and knowledge transfer

3 Monitoring/audit (decentralised)
- Self-assessment of effectiveness of risk management
- Internal risk management controls
- Confirmation by management

4 Monitoring/audit (centralised)
- Validation of the risk inventory
- Effectiveness assessment by the internal audit unit
- Internal risk management system controls

The overarching risk and opportunity portfolio at METRO that emerges from these findings enables us to gain a very good overall understanding of the company's risk and opportunity situation. The so-called GRC report describes the current situation and includes recommendations for risk management and measures to improve the effectiveness of the GRC subsystems.

The Management Board regularly informs the Supervisory Board and the Audit Committee about issues relating to the management of risks and opportunities. Once a year, the Supervisory Board is furnished with a comprehensive written report on the organisation and direction of our 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 compiled in the previous year.

We also use an emergency notification system in the case of unexpected serious risks arising for our asset, financial and earnings position. In this case, the Management Board of METRO AG directly and promptly receives the necessary information.

Strict risk policy principles

METRO will only assume commercial risks if they are manageable and if the associated opportunities promise a reasonable increase in our value.

We bear the risks incurred in conjunction with the core wholesaling and retailing processes ourselves. These 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 mitigated within the group or, to the extent expedient, transferred to third parties. We generally do not assume risks that are not related to core processes or support processes. Risks that are likely to materialise are included in our business plans and our outlook.

Risk management details clearly defined

We ensure the coordinated application of risk management tools by setting out all relevant facts in our corporate regulation. These include the Articles of Association and by-laws of group companies, internal group guidelines and our group-wide risk management guideline, which defines

- the risk management framework (terms, basic structure, strategy, principles),
- the risk management organisation (roles and responsibilities, risk units),
- processes (risk identification, assessment and management),
- risk reporting as well as
- monitoring and controlling the effectiveness of risk management.

Based on the internationally recognised COSO II standard, the risk management framework addresses the 3 levels of risk management: corporate objectives, processes and organisation.

The first level of risk management relates to the clustering of corporate objectives. METRO has defined the following clusters:

- Strategic objectives related to safeguarding the company's future economic viability (strategy cluster)
- Operational objectives related to the attainment of set key performance metrics (operations cluster)
- Corporate management objectives related to compliance with laws, regulations, internal guidelines and specified procedures (governance cluster)
- Objectives related to appropriate preparations to mitigate event risks such as breakdowns, business interruptions and other crisis events (events cluster)

On the second risk management level – the process level – the definition of objectives also serves as the starting point for risk mapping. In this context, we identify, classify and manage risks that would jeopardise or inhibit the achievement of our objectives, should they materialise. We also work with a list of standardised risks which must be assessed by the risk units. This ensures that all typical operational risks that apply to our business operations are validated. As a rule, we consider all external and internal risks.

On the third level, clusters are delineated in terms of functional categories based on the group's organisational structures, such as procurement, sales, human resources or real estate. We generally assess risks over a prospective 1-year period, strategic risks cover at least the medium-term planning horizon (3 years). METRO monitors and assesses longer-term risks and opportunities, for example related to climate change, using its issues management system. The Corporate Public Policy department's Issues Management unit continuously monitors and identifies topics of special interest and media issues of relevance to the group. This enables us to address the public debate with swift, clear and uniform statements. The group's issues management and risk management systems are closely interconnected.

Risk classification

All identified risks are classified based on uniform standards and quantitative and qualitative indicators with regard to the potential extent of damages (detrimental effects on our corporate objectives, the key performance indicator is currently EBIT, to be switched to EBITDA in the future) and probability of occurrence. We break risks down into the following 4 risk categories:

Loss potential	
Material	> €300 million
Significant	> €100–300 million
Moderate	> €50–100 million
Slight	≤ €50 million
Probability of occurrence	
Likely	> 50%
Possible	> 25–50%
Low	≥ 10–25%
Unlikely	< 10%

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, meaning before the implementation of risk-limitation measures).

Risk units

On the organisational level, we determine the corporate units responsible for setting objectives in a clearly defined area as well as for identifying, classifying and managing risks. METRO's risk management defines these areas in line with the corporate organisation using independent risk units – generally companies – as well as in terms of function using categories that are responsible for a certain operational function or administrative task. The risk units cover all essential entities of the consolidation group included in the consolidated financial statements.

Presentation of the risk position

We have allocated the entire METRO risk portfolio to risk groups. In addition to general risks, the Management Board of METRO AG identified and assessed the particularly relevant risks (gross risks) METRO was exposed to during the reporting period. These are listed in the following overview.

Risk group		No.	Particularly relevant risks 2016/17	Potential extent of damages	Probability of occurrence
Risks related to the business environment		1	Macroeconomic and political risks	Significant	Low
		2	Interruption of business activities	Significant	Low
Specific industry sector risks	Risks related to the retail business	3	Challenges in the business model	Material	Possible
	Real estate risks	4	Deficient rental cover	Minor	Likely
Economic performance risks	Supplier and product risks	5	Quality risks	Significant	Low
Financial risks		6	Planning reliability	Significant	Possible
Other risks	Strategic risks	7	Risks associated with the demerger	Significant	Unlikely
	Human resources risks	8	Development of employee numbers and attractiveness as an employer	Moderate	Possible
		9	Failed collective bargaining negotiations at Real	Significant	Possible
		10	More stringent regulation on subsequent benefits	Moderate	Possible
	Legal and tax risks	11	Tax risks	Moderate	Possible

Transition of the reporting from the former METRO GROUP to the new METRO

Due to the thematic proximity and conceptual association, we have included the following risks reported in the previous year for the former METRO GROUP in risk no. 3 “challenges in the business model”: “insufficient implementation of the strategy and strategic projects”, “non-profitable use of selling space”, “insufficient or ineffective internal controls with regard to investment and costs related to expansion and construction as well as in operational processes” and “impairment of goodwill and assets”.

The risk “geopolitical situation in Russia / Ukraine” reported in the previous year has now been included in risk no. 1 “macro-economic and political risks”.

The risks bearing relevance in their own right are the following risks reported in the previous year: “interruption of business activities” (see risk no. 2), “budget and forecast reliability” (see risk no. 6 “reliability of planning”), “insufficient development and maintenance of talent pool” (see risk no. 8 “development of employee numbers and attractiveness as an employer”) and “more stringent regulation pertaining to deferred compensation” (see risk no. 10).

Judging by the current market environment, we believe that there is only a low probability of Standard & Poor’s lowering their current METRO credit ranking (BBB–) by 2 levels to BB. We have therefore assessed the associated risks as bearing little relevance. A separate representation as in the previous year (risk “rating downgrade METRO AG”) is therefore obsolete. The relevance of the risk “infringements against antitrust law” represented in the previous year has diminished and has therefore also been omitted.

The following sections outline the risks bearing particular relevance and the essential risk control measures. In principle, all group segments are affected.

Risks related to the business environment

MACROECONOMIC AND POLITICAL RISKS (RISK 1)

As a company with global operations, METRO depends on the political and economic situation in the countries in which it operates. The fundamental business environment can change rapidly. Changes in political leadership, civil unrest, terrorist attacks or natural disasters can jeopardise METRO’s business. For the reporting year 2016/17, the political and economic situations in Russia, Ukraine, China and Turkey were of particular relevance. The potential risks include the loss of property and real estate assets, changes in the exchange rate, trade restrictions, capital controls and regulatory restrictions. The stand-off between North Korea and the United States as well as the UK's withdrawal from the European Union (Brexit) are further threatening the entire global economy. A continuous monitoring of the economic and political developments and a review of our strategic objectives allow us to respond to these challenges in a timely and appropriate fashion. Our international presence comes with the advantage of being able to balance the economic, legal and political risks as well as fluctuations in demand between the countries.

— **For more information about our assessment of the development of the economic environment, see chapter 4 report on events after the closing date and outlook.**

INTERRUPTION OF BUSINESS ACTIVITIES (RISK 2)

Our business operations could, for example, be interrupted by a failure of IT systems, natural disasters, pandemics or terrorist attacks. Important business processes such as purchasing/product ordering, marketing and sales have used IT systems for many years. Systems for online retailing must be continuously available, as these systems are a prerequisite for unlimited access outside normal store hours. As a result, the continuous availability of the infrastructure is a critical factor in the development and implementation of our IT solutions. 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 case of partial network failures, they can automatically reroute data or switch to redundant routes. Modern technologies such as remote server management and cloud computing allow us to use our hardware efficiently. In addition, our centralised IT systems can be quickly restored in the event of one or several servers failing. We operate several central IT centres, which enables us to compensate for major business interruptions or limit their duration to the absolute minimum. We also have a contingency plan to restore IT centres in Germany after extended outages (that is outages caused by fire, natural disasters or criminal actions). We also prepare ourselves for the risk of an interruption of our business activities by employing a comprehensive business continuity management system. A professional crisis management allows for a rapid crisis response and thereby ensures the protection of our employees and customers. This includes evacuation plans, training measures and specific instructions. We insure ourselves against the loss of tangible assets and any impending loss of revenues or profits resultant from business interruptions wherever it is possible and serves the purpose.

Specific industry sector risks

RISKS RELATED TO THE RETAIL BUSINESS

CHALLENGES IN THE BUSINESS MODEL (RISK 3)

The retail and wholesale trade in the saturated markets of Western Europe is characterised by rapid changes and fierce competition. A fundamental risk is consumers' fluctuating propensity to consume. Changes in consumer behaviour and customer expectations pose additional risks, among others, in the face of demographic change, rising competition and increasing digitisation. A failure to adequately address our customers' needs and price developments, or if we miss trends with regard to our assortments or appropriate sales formats and new sales channels, could potentially impede the development of our sales and income and also jeopardise our objectives in terms of growth and profitability. We address these risks by developing country-specific customer-focused Value Creation Plans. The operating partners and international working groups (federations) monitor and support the implementation and achievement of objectives. We are, for example, expanding our range of regionally traded products in all sales lines and are progressively gearing our assortments to meet our customers' increasing demands with regard to environmental, social and health considerations. We are also expanding our sales channels by employing a multi-channel strategy to grow our delivery business and online activities. Franchise concepts are used to develop new store locations. At the same time, we are monitoring our competitors even more closely. Our various strategic projects aim at further optimising our purchasing and sales processes and to create additional value for our customers. We aim at achieving sustainable growth in our revenues and income and to ensure the recoverability of assets and thereby master the challenges faced by our business model. As a wholesale and food specialist, we want to further increase our customer focus, accelerate our growth, simplify our structures and increase the implementation speed, thereby improving our overall operational performance. Decisions on new store locations are subject to an extensive assessment. As we continually monitor the profitability of our store network, we can identify adverse developments at individual stores or retail outlets at an early stage and respond quickly. In the event our measures fail to secure success and it appears to be unlikely that the situation will change in a sustainable way, we dispose of the respective outlet. This allows us to continually optimise our store network.

REAL ESTATE RISKS

DEFICIENT RENTAL COVER
(RISK 4)
Loss of rental income caused by insolvencies of third-party tenants and the risk of vacant and unused sales floor entail the risk of a deficient rental cover or an impairment of the underlying asset. We counter these risks with our strategic and operational real estate management and anticipatory investment planning. Our active real estate management is primarily designed to increase the value of our entire real estate portfolio and is based on continuous market monitoring, transparent profitability audits and strategic decisions. We counteract the risk of rent losses by continuously monitoring rent payments and renegotiating leases at an early stage. In addition, we drive the search for new tenants with good credit histories and the development of new usage concepts for our real estate.

Economic performance risks

SUPPLIER AND PRODUCT RISKS

QUALITY RISKS
(RISK 5)
As a wholesale and retail company, METRO depends on external producers and service providers. We select our suppliers very carefully, especially for our own-brand products. We place a particularly high priority on the reliability of our own-brand suppliers with regard to product quality and compliance with safety and social standards as well as suppliers' own compliance efforts. Defective or unsafe products, exploitation of the natural environment, inhumane working conditions or infringements against our compliance standards could potentially cause major damage to the reputation of METRO and pose a lasting threat to the company's success. We therefore continuously audit our own-brand suppliers to assess their adherence to METRO's stringent procurement and compliance standards. These include the food safety and quality standards recognised by the Global Food Safety Initiative (GFSI), such as the International Food Safety Standard and the GLOBALGAP certification for agricultural products. The standards help to ensure the safety of foods on all cultivation, production and sales levels. Own-brand suppliers without a recognised and valid audit certificate may qualify for preliminary inclusion in METRO's supplier base by undergoing and passing a special assessment (METRO Assessment Solution) conducted by an accredited certification body. Violations of conditions can lead to exclusion from our supplier network or, in the case of unacceptable production methods, to a product being blacklisted. Should a quality incident occur despite these measures, the process steps for resolving interruptions and incidents described in our manual will set out the procedure to resolve the incident in the interest of our customers. We additionally evaluate potential improvements to our quality assurance systems.

We are not the only ones who have these concerns. Our customers place priority on quality and safety and are becoming increasingly interested in the environmental and social sustainability of the products sold in our stores and of the processes used to produce these products. For this purpose, METRO adopted a group-wide purchasing policy for a sustainable supply chain and procurement management that applies to all products. One of our focal points is promoting humane working conditions at our suppliers, for which we have implemented numerous measures. For example, our own-brand suppliers are required to uphold fundamental human rights and to guarantee fair working conditions. Our supplier contracts stipulate for compliance to be established in the form of an audit based on the BSCI (Business Social Compliance Initiative) standards or equivalent standards. This requirement applies to all suppliers of own-brand non-food products who manufacture end products in high-risk countries defined by the BSCI. We assist our suppliers in creating fair and humane working conditions by offering them targeted training programmes. As a signatory to the Bangladesh Accord on Fire and Building Safety, we are working to increase safety in the factories of all our suppliers producing in Bangladesh. Our effort to minimise our ecological footprint is exemplified in METRO's membership in the Roundtable on Sustainable Palm Oil (RSPO). We have committed ourselves to only using certified sustainable palm oil in our own-brand products from 2020 onward. For products made from timber or paper, we use supplier certifications to ensure that the timber was sourced from sustainable forestry rather than illegal logging.

— **For more information about our social responsibility and environmental protection activities, see chapter 2 principles of the group – 2.4 sustainability management.**

Financial risks

PLANNING RELIABILITY
(RISK 6)
Unexpected deviations from the budget or the forecast could potentially result in METRO missing its budget targets and making wrong business decisions.

We therefore place a high priority on measures designed to mitigate these risks. We do so by consistently implementing strategic measures that are directed at improving our income position. We support the operational units in their pro-active implementation of the strategy by providing them with value creation plans. We also mitigate risks by conducting effective internal controls, a closer interlocking of strategic planning and the budgeting process as well as a greater involvement of the supervisory bodies. The fact that our financial year differs from the calendar year allows us a high degree of planning certainty at an early stage, with the highly profitable Christmas quarter being the first quarter of our financial year. The forecast report offers insights into our expectations for the development of our business in the coming financial year.

— **For more information about financial risks and their management, see the notes to the consolidated financial statements in no. 43 – management of financial risks.**

Other risks

STRATEGIC RISKS

RISKS ASSOCIATED WITH THE DEMERGER
(RISK 7)
The demerger of METRO GROUP was concluded on 13 July 2017 with the initial listing of METRO AG shares on the stock exchange. The former METRO GROUP has split into a wholesale and food specialist (new METRO AG) and a company focused on consumer electronics and services (CECONOMY AG, formerly METRO AG). The demerger may incur additional legal risks adding to the tax risks inherent in the implementation. in particular, these risks are: Prospectus liability, meaning shareholder claims stemming from share trading with insufficient information, continuing liability for all liabilities of CECONOMY AG existing as of the effective date of the demerger/split for a period of 5 years, and liability risks stemming from legal claims by shareholders of the former METRO AG in relation to the demerger. METRO AG has given an undertaking to absorb these costs under the demerger agreement. We are preparing for any potential complaints by way of legal defence strategies. Potential claims resulting from prospectus liability are covered by a prospectus insurance policy. We are continuously monitoring the financial position of CECONOMY AG.

Human resources risks

DEVELOPMENT OF EMPLOYEE NUMBERS AND ATTRACTIVENESS AS AN EMPLOYER
(RISK 8)
The expertise, dedication and motivation of our employees are crucial success factors for METRO's success in a competitive market. One prerequisite for achieving our strategic goals are highly qualified experts and managers. It is an ongoing challenge to recruit and retain these valuable employees for the group, in particular in the face of demographic change and fierce competition for the best talent. Intra-company programmes for the continued qualification of employees and the strengthening of corporate culture are also indispensable. Variable, performance-based remuneration components based on company targets and personal goals are designed to stimulate our employees' performance. We also conduct annual performance reviews with our employees to assess the past year and agree on future measures for professional development. Targeted training programmes, which we implement in cooperation with various partners, allow us to attract young people to start their career at METRO and to foster their development with an eye on their individual personal strengths. In Germany in particular, METRO companies place great value on in-house training and apprenticeship programmes. We ensure the success of our succession planning by offering tailor-made career and professional development plans, in particular on senior management level.

FAILED COLLECTIVE BARGAINING NEGOTIATIONS AT REAL
(RISK 9)
The potential failure of the collective bargaining negotiations would incur a risk for our Real sales line. In the event no new collective arrangement has been agreed by March 2018, the parties to the future collective agreement have a right to terminate the negotiations. If this happens and the parties walk away from the negotiating table, the current arrangement of a temporary reduction of the holiday and Christmas allowances would cease. At the same time, the adjustment to match the regional collective agreement for the retail industry will be different than in the case of a future collective agreement. This situation and the circumstance that no new and competitive salary structure is available to newly hired employees would result in a significant increase of personnel expenses and would also manifest the existing competitive disadvantage that Real currently suffers, contrary to retailers who are not bound by a collective agreement. A group of experts, chaired by the general management of Real, developed measures and alternatives to mitigate the risk of excessive personnel expenses in the case the future collective agreement is terminated.

— **For more information about METRO's human resources policy, see chapter 2 principles of the group – 2.5 employees.**

Legal and tax risks

MORE STRINGENT REGULATION ON SUBSEQUENT BENEFITS
(RISK 10)
In addition to purchase price agreements, we also enter into agreements on so-called subsequent benefits with the suppliers of merchandise for our wholesale and retail operations. These agreements are concerned with purchasing terms and conditions, such as product-specific deferred discounts, reimbursement of expenses or remuneration for services, such as advertising or other marketing-related services.

We have observed tendencies to subject agreements on subsequent benefits between buyers and suppliers to increased regulatory restrictions. This is mainly the case in the Eastern European countries, but has also been observed in other METRO countries, including in the EU. Some of these restrictions go as far as prohibiting certain contractual terms. Antitrust law is at the same time utilised to counter a presumed relative market power by introducing regulation that interferes with terms in a way that entails unilateral impediments for retailers and wholesalers.

We continuously and systematically monitor the risks stemming from increasing regulation. We address these tendencies to excessive regulation in a preventative approach by continually adjusting our contractual relationships with suppliers in the concerned jurisdictions, with the aim of ensuring any subsequent benefit arrangement complies with the applicable laws at all times. We also take care to appropriately provide for the respective limitation periods under civil law. We analyse the historical structures of supplier terms and conditions in the context of a transformation programme spanning over a number of years and modernise the terms as required. Without active management, there would be a risk that added value in the form of subsequent benefits in selected product groups and/or countries could no longer or only partially be collected as a result of changes to the regulatory framework. This would have corresponding results on the total comprehensive income.

— **For more information about legal affairs, please see notes to the consolidated financial statements in no. 46 – remaining legal issues.**

TAX RISKS
(RISK 11)
Tax risks can primarily arise in relation to the evaluation of financial matters by the financial administration (including transfer price issues). Additional risks may result from differing interpretations of sales tax (VAT) regulations. The Corporate Group Tax department of METRO AG has established appropriate guidelines to ensure early detection and minimisation of tax risks. These risks are regularly and systematically examined. The resultant risk mitigation measures are then coordinated between all persons involved.

Presentation of opportunities

METRO has numerous opportunities to ensure a sustainable positive development of its business. These opportunities mainly arise from our efforts to align our business to the needs of consumers and commercial customers. Our key goal is to create additional value for our customers. We do so by developing new sales channels and by seizing the opportunities resultant from demographic trends and the increasing differentiation of the mature markets in Western Europe, as well as population growth in developing and emerging countries. We analyse the relevant global and national trends and make decisions aimed at systematically seizing future opportunities and to carve out competitive advantages.

Opportunities from the development of business and political conditions

An unexpected improvement of the economic and political framework conditions in one of the METRO countries or on global scale could potentially improve sales, costs and income performance. METRO operates in a large number of markets where we could potentially benefit from this development. Opportunities could arise from a sustained positive geopolitical and macroeconomic development in Southern Europe and the Russia/Ukraine region – for example in the form of a recovery of foreign exchange rates.

Opportunities from increases in value

Significant potential for additional increases in value may arise from the acquisition of selected companies, particularly in business segments of strategic importance. We see opportunities in the further development of our delivery business and in reinforcing our B2B e-commerce activities.

The existing minority interests held by METRO – for example in start-up companies – offer the opportunity for additional increases in value if those companies were to develop faster and better than expected. We also intend to solidify and expand the leading position our company has already attained in numerous markets. Weaker market players in countries where the macroeconomic situation has deteriorated, for example in Russia or Ukraine, have retreated from the market. We aim to fill the resultant gaps in these markets or acquire individual local outlets where expedient for our purposes. The fact that competitors are retreating from the market may also result in METRO increasing its own market share.

We see additional potential for value increases in possible development projects for our existing real estate assets and an optimised facility management.

Innovations and the digitisation are areas with excellent potentials for realising increases in value. We are convinced that the consistent implementation of innovative ideas relating to the progressing digitisation will increasingly shape the future of the wholesale and retail industry. This may give rise to new business models, which in turn may present a variety of opportunities.

By establishing the HoReCa Digital business unit, we have prepared ourselves for taking advantage of significant opportunities arising from a potentially faster than expected digitisation in the HoReCa segment and other business segments. Our METRO Accelerator programme powered by Techstars is a cooperation project with US-based company Techstars and allows us to monitor trends worldwide and to promote digital solutions for the hospitality, wholesale and retail segments offered by innovative start-up companies.

Opportunities from efficiency improvements

The expansion of joint ventures and cooperation projects could potentially result in reduced operational expenses. An unexpected positive development of our cost base (by reduced energy costs) could deliver further cost savings. In addition to the resolute exploitation of cost reduction potentials, continuous process optimisation measures could potentially have a positive effect on the development of our business if they are implemented in a time frame shorter than expected.

Management's overall assessment of opportunities and risks

The Management Board and the Supervisory Board of METRO AG are regularly informed about the company's risk and opportunities situation. Our assessment of the company's current situation went beyond an evaluation of isolated risks and opportunities. We have also analysed interdependencies and assessed them in terms of their likelihood of occurrence and implications. Our assessment indicates that the overall risks are manageable. The identified individual and cumulative risks do not present risks that could possibly compromise the continuity of the company due to illiquidity or excessive indebtedness within a period of at least 1 year. We are confident that METRO's earnings performance offers a solid foundation for the sustainable positive development of our business and the utilisation of numerous opportunities. Our assessment is also reflected in the credit rankings assigned to METRO. The Management Board of METRO AG currently does not expect any fundamental change in the risk and opportunities situation.

6 REMUNERATION REPORT

The Remuneration Report describes the remuneration system for the Management Board and the Supervisory Board in accordance with the statutory provisions of the German Commercial Code and the recommendations of the German Corporate Governance Code and establishes the remuneration amount of the members of the Management Board and the Supervisory Board in individualised form and according to remuneration components.

The Supervisory Board of METRO AG decides on the remuneration system for the Management Board and reviews it on a regular basis. The Presidential Committee, chaired by the Chairman of the Supervisory Board, prepares the proposed resolutions for the full Supervisory Board. The remuneration system underlying financial year 2016/17 was approved by the Supervisory Board on 2 March 2017 and confirmed on 31 August 2017.

The remuneration system for members of the Management Board

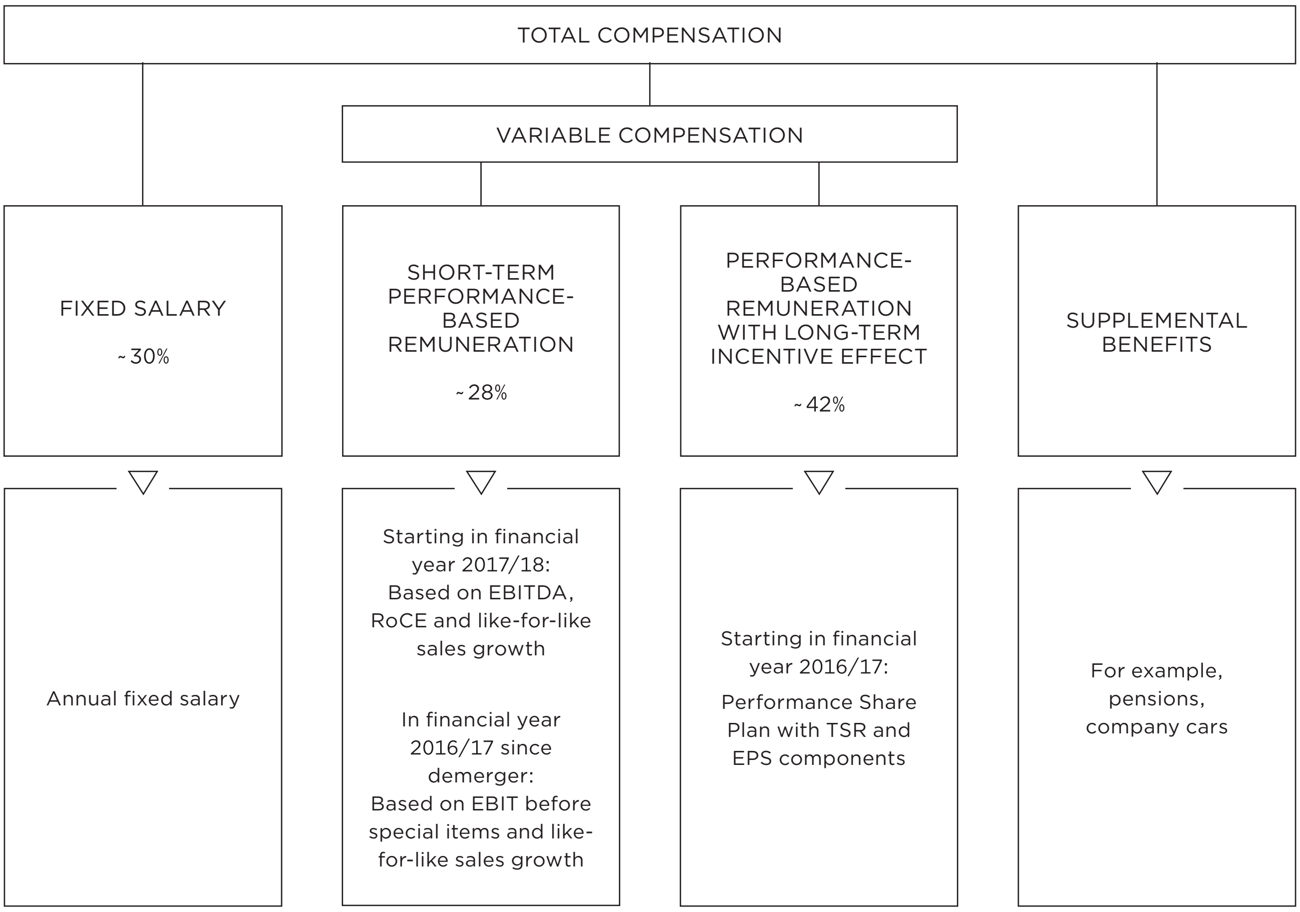
Mr Koch, Mr Boone and Mr Hutmacher were appointed as members of the Management Board of METRO AG with effect from 2 March 2017 (Mr Koch was simultaneously appointed as Chairman of the Management Board) and Mr Baier with effect from 11 November 2016.

The service contracts of Mr Koch, Mr Boone and Mr Hutmacher came into force with effect from 13 July 2017, which is the day the demerger entered into force; Mr Baier's service contract already came into force on 2 March 2017.

The agreed remuneration of the members of the Management Board is made up of

- a fixed salary,
- a short-term performance-based compensation,
- a performance-based remuneration with long-term incentive effect,
- a post-employment benefits plan as well as
- non-monetary and supplemental benefits.

THE REMUNERATION SYSTEM FOR MEMBERS OF THE MANAGEMENT BOARD[1]



[1] Schematic diagram – percentage of the target values of fixed and variable remuneration.

Total compensation and the individual compensation components are geared appropriately to the responsibilities of each individual member of the Management Board, his or her personal performance and the company's economic situation and fulfil legal stipulations regarding customary remuneration. The performance-based variable remuneration serves as an incentive for the Management Board to increase the company's value and is designed to generate sustainable, long-term corporate development.

According to the recommendation of the German Corporate Governance Code, the compensation for each member of the Management Board is limited in individual amounts; in each case with regard to the individual compensation components and also in total (total disbursement cap). The upper threshold of remuneration for the financial year amounts to €8,034,800 for Mr Koch, €4,048,600 for Mr Baier, €6,043,600 for Mr Boone and €6,123,600 for Mr Hutmacher.

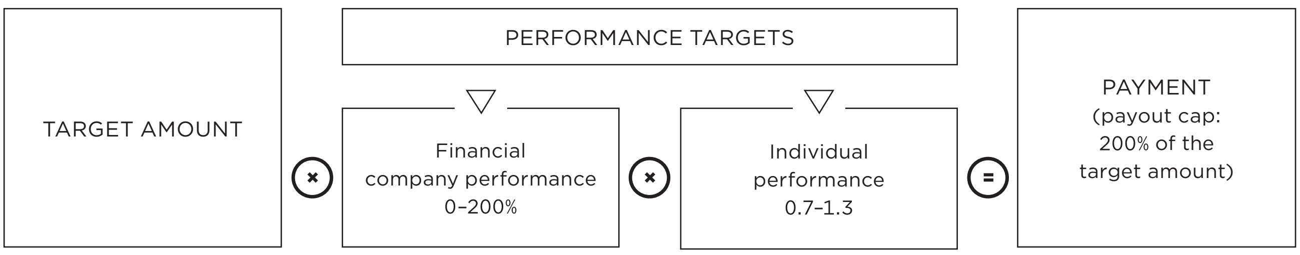
Insofar as a member of the Management Board negligently or intentionally violates his duties and the company incurs damage as a result of it, the Supervisory Board has the right to withhold payment of the remuneration of this member of the Management Board in full or in part. A so-called clawback clause (repayment agreement), which in the event of a negative development provides for the recovery of payments made in the past from variable remuneration components, was not agreed with the members of the Management Board, since payments from the short-term performance-based remuneration and the performance-based remuneration with a long-term incentive effect only take place after fulfilment of the performance targets and termination of the performance period. Without prejudice to this, a reduction of future payments to be paid in the event of a deterioration of the company's position according to § 87 Section 2 of the German Stock Corporation Act (AktG) remains.

Fixed salary
The fixed salary is contractually set and is paid in monthly instalments.

Short-term performance-based remuneration (short-term incentive/STI)
The short-term incentive remunerates the company's operating performance on the basis of financial performance targets pertaining to that specific 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 the factor of overall goal achievement. This, in turn, is calculated by determining the goal achievement factors for each of the financial performance targets. The weighted arithmetic mean of the individual factors results in the overall goal achievement factor. The overall goal achievement is limited to a factor of 2.0.

SHORT-TERM INCENTIVE



Schematic diagram.

The short-term incentive for financial year 2016/17 for the period from 13 July 2017 to 30 September 2017 for Mr Koch, Mr Baier, Mr Boone and Mr Hutmacher is based on the following parameters of the group:

- like-for-like sales development (sales growth in local currency on a comparable area or with respect to a comparable group of locations or merchandising concepts such as delivery and online business) at 50%,
- exchange rate – adjusted earnings before interest and taxes (EBIT) before special items at 50%,

in each case based on the target amount.

The thresholds for target achievement were determined by the Supervisory Board on the basis of quarterly targets and taking into account the budget planning of the group.

The short-term incentive for Mr Baier is based on the following parameters of METRO Cash & Carry (Wholesale) for financial year 2016/17 for the period from 2 March 2017 to 12 July 2017 (effective date of the demerger):

- like-for-like sales development (sales growth in local currency on a comparable area or with respect to a comparable group of locations or merchandising concepts such as delivery and online business) at 30%,
- exchange rate – adjusted earnings before interest and taxes (EBIT) before special items at 30%,
- Cash flow at 30%,

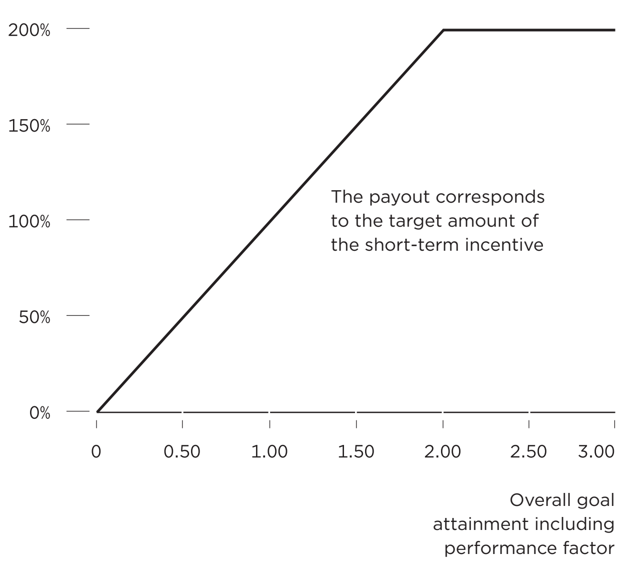
- Customer satisfaction (Customer Satisfaction Pulse) at 10%, in each case based on the target amount.

The thresholds for goal achievement were set by the Supervisory Board, taking into account the budget planning of the group for METRO Cash & Carry.

To determine whether a goal has been achieved, a lower threshold/barrier of entry and a target value of 100% goal achievement were defined for each performance target. A factor is allocated to the specific degree of goal achievement for each performance target:
- If the degree of goal achievement is 100%, the factor is 1.0.
- If the degree of goal achievement is lower or equal to the barrier of entry, then the factor is 0.0.
- In the case of intermediate values and values over 100%, the factor for goal achievement is calculated using linear interpolation and/or extrapolation.

To ensure the individual performance orientation of Management Board remuneration, the Supervisory Board of METRO AG reserves the general right to reduce or increase the weight of the individual short-term incentive by up to 30%. The basis for this are goals that were agreed individually with the respective members of the Management Board as well as overlapping strategic goals for all members of the Management Board, such as customer satisfaction, employee satisfaction and sustainability.

SHORT-TERM INCENTIVE – DISBURSEMENT CALCULATION



The payout amount of the short-term incentive is limited to a maximum of 200% of the individually determined target value (payout cap).

In addition, the Supervisory Board may grant special bonuses to members of the Management Board for exceptional performance. In the reporting year, no special bonuses were granted to the members of the Management Board.

The short-term incentive of the members of the Management Board is payable 4 months after the end of the financial year, but not before approval of the annual and consolidated financial statements for the incentivised financial year.

Performance-based remuneration with long-term incentive effect (long-term incentive, LTI)

The performance-based remuneration with long-term incentive effect incentivises the company's long-term and sustainable corporate development, taking into account the internal and external value development as well as the concerns of the shareholders and the other stakeholders associated with the company.

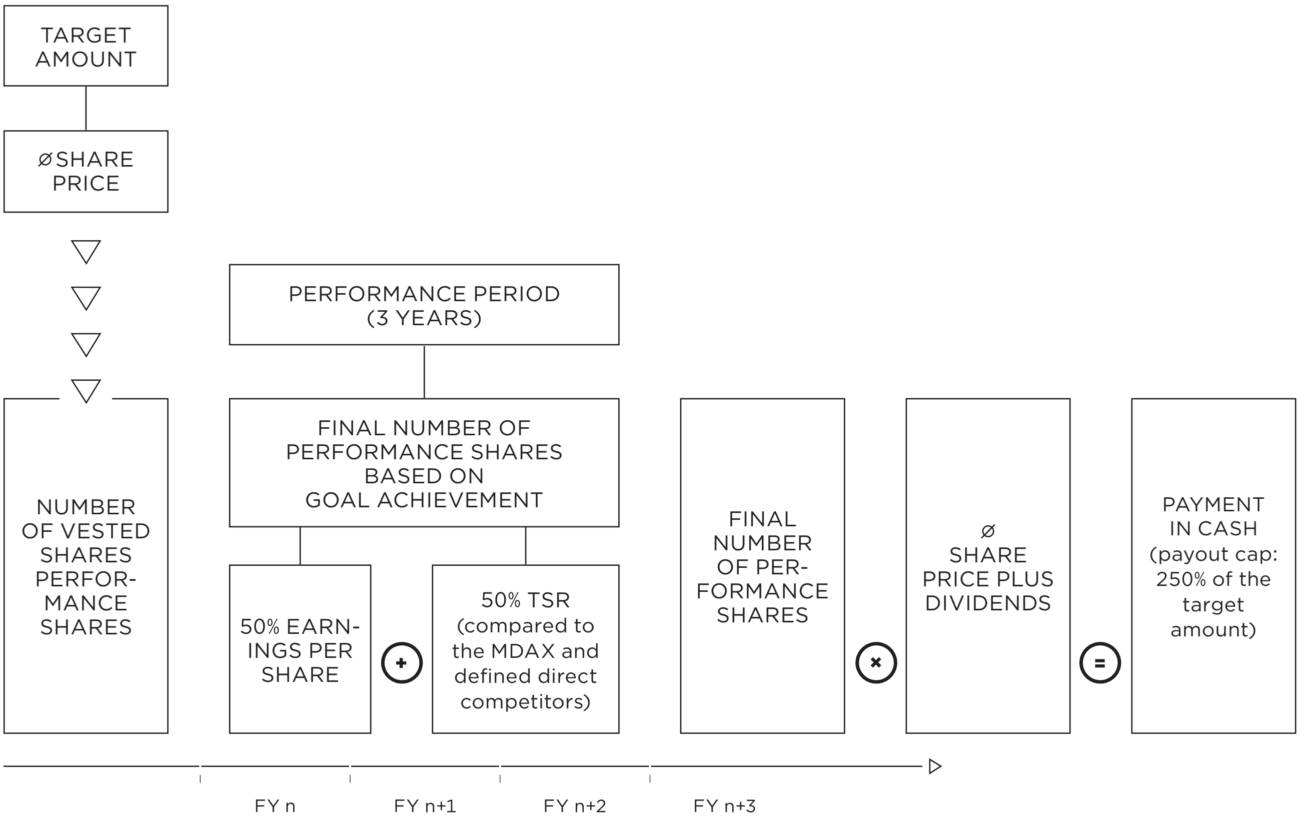
PERFORMANCE SHARE PLAN
(FROM FINANCIAL YEAR 2016/17)

The annual tranches of the so-called performance share plan and their associated performance targets generally have a multi-year assessment basis. The performance period is usually 3 years. The payout amount is limited to a maximum of 250% of the individually determined target value (payout cap). In case of employment termination, separate rules for the payout of the tranches have been agreed upon.

Each member of the Management Board is initially allocated conditional performance shares, the amount of which corresponds to the quotient of the individual target amount and the average of the share price of the company's ordinary share upon allocation. The decisive factor here are the average Xetra closing prices of the company's ordinary share over a period of 40 consecutive stock exchange trading days immediately after the Annual General Meeting of the company in the year of the allocation. An exception to this is the 2016/17 tranche of the performance share plan, which is based on the average Xetra closing prices of the company's ordinary share over a period of 40 consecutive stock exchange trading days beginning on 13 July 2017, the initial listing date of the share.

The performance period ends after the 40th stock exchange trading day following the ordinary Annual General Meeting of the third financial year following the issuance of the tranche. After the performance period of a tranche, the final number of performance shares is determined, which depends on the achievement of 2 performance targets, which are weighted equally in the target amount of the performance share plan:
- reported earnings per share (EPS),
- total shareholder return (TSR).

LONG-TERM INCENTIVE

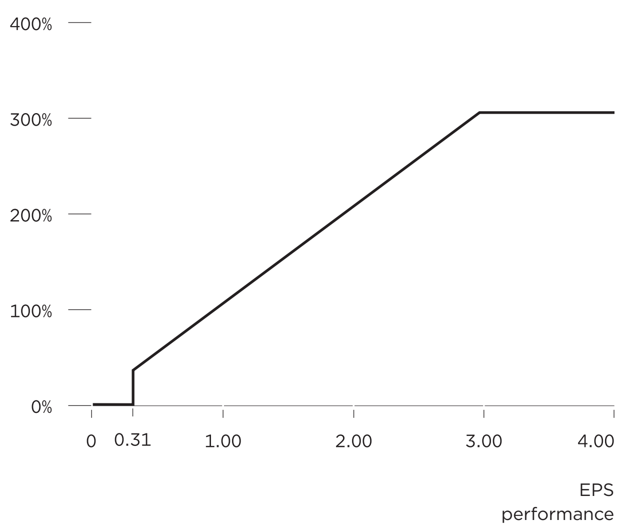


Schematic diagram.

For the **EPS component,** the Supervisory Board generally decides at the beginning of the financial year in which the tranche of the performance share plan is allocated on a lower threshold/barrier of entry for goal achievement and an EPS target value for 100% target performance for the third financial year of the performance period. A factor is allocated to the specific degree of goal achievement:

- If the degree of goal achievement at the end of the performance period is 100%, the factor is 1.0.
- If the degree of goal achievement is lower or equal to the barrier of entry, then the factor is 0.0. The barrier of entry for the respective tranches is determined by the Supervisory Board. For the tranche granted in financial year 2016/17, the entry barrier amounts to 31% of the goal achievement.
- In the case of intermediate values and values over 100% up to a maximum of 300%, the factor for goal achievement is calculated using linear interpolation and/or extrapolation.

DETERMINING THE GOAL ACHIEVEMENT OF THE EPS COMPONENT



The goal achievement factor of the **TSR component** is measured by how the total shareholder return of the company's ordinary share develops in the performance period relative to a defined benchmark index and to a defined comparison group. Indeed, it develops at half the rate compared to the development of the MDAX TSR over the same period and the development of the average TSR of a defined comparison group of direct competitors over the same period as the TSR of the company. The TSR value of the comparison group of the direct competitors is determined individually for the members of the comparison group and then the arithmetic average is established. The comparison group of direct competitors consists of the following companies: Bid Corp, Bizim Toptan, Marr, Eurocash Group, Performance Food Group, US Foods, Sysco and Sligro. Only companies that are listed for the entire performance period are included in this group. If TSR values are available for less than 6 companies in this comparison group, then the METRO TSR will be fully compared with the MDAX TSR and no comparison with the group of direct competitors will be made.

For the TSR component, the Supervisory Board also usually establishes a lower threshold/barrier of entry and a TSR target value for the 100% target achievement at the beginning of the financial year in which the tranche of the performance share plan is granted.

To determine the goal achievement, the Xetra closing prices of the company's ordinary share are determined over a period of 40 consecutive stock exchange trading days immediately after the Annual General Meeting of the company in the year of the allocation of the tranche. This is used to establish the average, which is known as the starting share price. The performance period for the respective tranche will begin on the 41st trading day following the Annual General Meeting, or for the 2016/17 tranche on the 41st stock exchange trading day following the initial listing of the ordinary share of the company. 3 years after the starting share price has been determined and the tranche has been issued, the Xetra closing prices of the ordinary share of the company will be determined over a period of 40 consecutive stock exchange trading days immediately following the Annual General Meeting. This is used again to establish the average, 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 share price and the total amount of hypothetically reinvested dividends throughout the performance period in relation to the starting share prices as a percentage.

The resulting TSR of the company is compared to the equally determined TSR of the 2 comparison groups in the performance period. A factor is allocated to the specific degree of goal achievement:

- If the degree of goal achievement at the end of the performance period is 100%, the factor is 1.0. This requires an outperformance of 5% points versus the comparison group.
- If the degree of goal achievement is lower or equal to the barrier of entry, then the factor is 0.0.
- In the case of intermediate values and values over 100% up to a maximum of 300%, the factor for goal achievement is calculated using linear interpolation and/or extrapolation.

The target achievement factors of the EPS and TSR components are used to form the arithmetic mean that establishes the overall target achievement factor. This is used to determine the target number of performance shares, which results in a cash payment in euros at the end of the performance period of the tranche:

- If the total goal achievement factor for both components is 1.0, then the target number of performance shares equals the number of conditionally allocated performance shares.
- If the total goal achievement factor is 0.0, then the number of performance shares decreases to zero.
- For all other goal achievements, the target number of performance shares is determined by means of linear interpolation or extrapolation.

The target number of performance shares is limited to a maximum of 300% of the conditionally allocated number of performance shares.

The payout amount is calculated per performance share as follows: again, 3 years after the starting share price has been determined and the tranche has been issued, the Xetra closing prices of the ordinary share of the company will be determined over a period of 40 consecutive stock exchange trading days immediately following the Annual General Meeting. This again is used to form the average and all the dividends paid during the performance period for the ordinary share of the company are added to it. This so-called share factor is multiplied by the number of calculated performance shares and establishes the gross payment amount.

The payout amount is limited to a maximum of 250% of the individually determined target value (payout cap).

The tranches of the performance share plan will be paid no later than 4 months after the Annual General Meeting that decides on the appropriation of the balance sheet profit of the last financial year of the performance period, but not before the approval of all annual and consolidated financial statements for the financial years of the performance period.

SHARE OWNERSHIP GUIDELINES

The performance share plan simultaneously introduces the so-called share ownership guidelines. As a prerequisite for the payment of performance shares in cash, the members of the Management Board are obligated for each tranche to develop a self-financed investment in ordinary shares of the company by the end of February in the third year of the performance period. The amount to be invested per tranche for the Chairman of the Management Board is two thirds of his gross annual fixed salary and for a full member of the Management Board 50% of his or her gross annual fixed salary. The plan aims to ensure that, after no more than 5 years of service, the Chairman of the Management Board has invested 200% and a full member of the Management Board 150% of his or her gross fixed salary in ordinary shares of the company, based on the notional purchase price for the respective shares. The purchase price and therefore the number of ordinary shares to be acquired is based on the average price of the Xetra closing prices of the company's ordinary share over the 40 consecutive stock exchange trading days immediately after the balance sheet press conference, which takes place before February in the third year of the performance period. It corresponds to the quotient of the amount to be invested, which results from the gross annual fixed salary and the determined average price. If the self-financed investment in ordinary shares of the company is not, or not fully, met on the relevant closing date, the payout amount will initially be paid out in cash, but with the obligation to invest it in ordinary shares of the company until the share ownership guidelines are met.

Transfer of long-term incentives in connection with the demerger

Irrespective of the performance share plan, the members of the Management Board were granted 2 long-term incentive tranches in financial year 2016/17. Of the 2014/15 and 2015/16 tranches of the sustainable performance plan version 2014, which were granted by the former METRO AG (now: CECONOMY AG) prior to the demerger, the remaining target amounts for the period from the day after the demerger took effect were transferred to today's METRO AG until the end of the performance period. The goal achievement of the former 2014/15 tranche was linked to the parameter return on capital employed before special items (RoCE) related to financial year 2016/17 and the target achievement of the former 2015/16 tranche in the earnings per share (EPS) parameter for financial year 2017/18. In order to determine the goal achievement, the Supervisory Board set thresholds for both tranches: a lower threshold/barrier of entry for each and a target value of 100% for target achievement. The goal achievement of the respective tranche is used to determine the factor which, multiplied by the individual target amount, results in a cash payment in euros at the end of the performance period of the tranche:

- If the degree of goal achievement at the end of the performance period is 100%, the factor is 1.0.
- If the degree of goal achievement is lower or equal to the barrier of entry, then the factor is 0.0.
- In the case of intermediate values and values over 100%, the factor for goal achievement is calculated using linear interpolation and/or extrapolation.

The payout amount is limited to a maximum of 250% of the individually determined target value (payout cap).

The performance period of the tranche linked to the RoCE performance target ends after the 40th stock exchange trading day after the Annual General Meeting of the company in 2018. The performance period of the tranche linked to the EPS performance target has been reduced from the original 4-year term to 3 years and ends after the 40th stock exchange trading day after the Annual General Meeting of the company in 2019.

Post-employment benefits plans

The members of the Management Board receive post-employment benefits plans in the form of employer's commitments. The commitment of the former METRO AG (now: CECONOMY AG) to the post-employment benefits plans was transferred with all rights and obligations to today's METRO AG and continued unchanged. The financing is provided jointly by the Management Board and the company. This is based on an apportionment of "7 + 14". When a member of the Management Board makes a contribution of 7% of his or her defined basis for assessment, the company will contribute twice the amount. The assessment is based on the amount of the fixed salary and the target amount of the short-term incentive. When a member of the Management Board leaves the company before retirement age, the contributions retain the level they have reached. This 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.

Entitlement to pension plans exists

- if the employment ends with or after reaching the statutory retirement age in the German statutory pension insurance,
- if the employment ends after the age of 60 or after the age of 62 for pension commitments granted after 31 December 2011 and before reaching the regular retirement age,
- in the event of disability or death, provided that the relevant conditions of eligibility are 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 10 years, but limited to the point when the individual turns 60, will be added to the benefits balance. This component is not reinsured, but will be provided directly by the company when the benefit case occurs.

Furthermore, 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 post-employment benefits plans with Hamburger Pensionsrückdeckungskasse VVaG as part of a tax-privileged compensation conversion scheme.

The members of the Management Board have no further pension commitments beyond the described retirement benefits. In particular, no retirement payments will be granted.

Further benefits in case of an end to employment

Severance payments in cases of premature terminations of management roles with no urgent reason are limited to 2 annual remunerations (severance cap) and must not exceed the remuneration that would be paid for the remaining term of the employment contract. The recommendation by the German Corporate Governance Code is observed.

In the event of a change of control, the members of the Management Board may exercise their right to resign from their office, within 6 months after the change of control, for good cause at the end of each month by giving 3 months prior notice. They may also terminate their management contract with effect on the same date (extraordinary termination right).

The contractual provisions assume a change of control if either a single shareholder or a number of jointly acting shareholders have acquired a controlling interest in the meaning of § 29 of the German Securities Acquisition and Takeover Act (WpÜG) by way of holding at least 30% of the voting rights and the change of control significantly interferes with the responsibilities of a member of the Management Board.

If the extraordinary termination right is exercised, or if the service contract is terminated on the basis of an amicable agreement within 6 months from the change of control, the respective member of the Management Board shall be entitled to a lump sum compensation for his contractual entitlements during the remaining term of the member's management contract. The recommendation by the German Corporate Governance Code is observed with the amount of the severance payment being limited to 150% of the severance payment cap. The entitlement to a severance payment lapses if the employment was terminated by the company for good cause pursuant to § 626 of the German Civil Code (BGB).

In addition, the service contracts of the members of the Management Board generally provide for a post-contractual non-compete clause. They are prohibited from providing services to or for a competitor for a period of 12 months after termination of the service contract. For this purpose, compensation for non-competition has been agreed which corresponds to the target salary consisting of the fixed salary, short-term incentive and long-term incentive for the duration of the post-contractual non-compete clause and is paid in monthly instalments. These payments will be credited with other compensation earned by the other use of the workforce. The company has the option of waiving the post-contractual non-compete clause prior to or upon termination of the service contract, while observing cancellation periods.

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 6 months.

Supplemental benefits

The supplemental benefits granted to members of the Management Board include non-cash benefits and expense allowances (for example, company cars).

REMUNERATION OF THE MANAGEMENT BOARD IN FINANCIAL YEAR 2016/17[1]

					Performance-based remuneration with long-term incentive effect			
€1,000	Financial year	Fixed salary	Supplemental benefits	Short-term performance-based remuneration	Value of the granted tranches[4]	(Payment from tranches granted in the past)	Total[5]	(Effective salary[6])
Olaf Koch[2]	2015/16	–	–	–	–	–	–	–
	2016/17	**261**	**4**	**323**	**1,303**	**(0)**	**1,891**	**(588)**
Christian Baier[3]	2015/16	–	–	–	–	–	–	–
	2016/17	**406**	**7**	**334**	**660**	**(0)**	**1,407**	**(747)**
Pieter C. Boone[2]	2015/16	–	–	–	–	–	–	–
	2016/17	**196**	**4**	**220**	**782**	**(0)**	**1,202**	**(420)**
Heiko Hutmacher[2]	2015/16	–	–	–	–	–	–	–
	2016/17	**196**	**4**	**220**	**977**	**(0)**	**1,397**	**(420)**
Total	**2015/16**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2016/17	**1,059**	**19**	**1,097**	**3,722**	**(0)**	**5,897**	**(2,175)**

[1] Statements pursuant to § 285 Sentence 1 No. 9 a and § 314 Section 1 No. 6 a of the German Commercial Code (HGB) (excluding provisions for post-employment benefits plans).
[2] Service contract with the company since 13 July 2017.
[3] Service contract with the company since 2 March 2017.
[4] Shown here is the fair value at the time of granting the tranche 2016/17 of the performance share plan; no information on the transferred LTI tranches, which according to German Accounting Standards (DRS 17) may not be disclosed as a non-equity-based LTI until the claims have been fully settled.
[5] Total of the columns fixed salary, supplemental benefits, short-term incentive and value of the granted tranche of the long-term incentive.
[6] Total of the columns fixed salary, supplemental benefits, short-term incentive and payout from the tranches of the long-term incentive granted in the past.

Pursuant to the German Corporate Governance Code, the remuneration received by the Management Board is as follows, according to the tables "benefits granted" and "accruals":

BENEFITS GRANTED

	Olaf Koch[1]				Christian Baier[2]			
	Chairman of the Management Board member of the Management Board since 2/3/2017				Chief Financial Officer member of the Management Board since 11/11/2016			
	2015/16	**2016/17**	**2016/17**	**2016/17**	2015/16	**2016/17**	**2016/17**	**2016/17**
€1,000			**Minimum value**	**Maximum value**			**Minimum value**	**Maximum value**
Fixed salary	–	**261**	**261**	**261**	–	**406**	**406**	**406**
Supplemental benefits	–	**4**	**4**	**15**	–	**7**	**7**	**41**
Total	**–**	**265**	**265**	**276**	**–**	**413**	**413**	**447**
1-year variable remuneration	–	**244**	**0**	**488**	–	**314**	**0**	**628**
Multi-year variable remuneration								
Transferred LTI with performance target RoCE (allocation 13/7/2017, end of performance period after the 40th trading day following the Annual General Meeting 2018)	–	**413**	**0**	**1,033**	–	**43**	**0**	**107**
Transferred LTI with performance target EPS (allocation 13/7/2017, end of performance period after the 40th trading day following the Annual General Meeting 2019)	–	**1,108**	**0**	**2,770**	–	**381**	**0**	**952**
Performance share plan[3] (allocation 7/9/2017, end of performance period after the 40th trading day following the Annual General Meeting 3 years after the issuance of the tranche)	–	**1,303**	**0**	**4,000**	–	**660**	**0**	**2,025**
Total	**–**	**3,333**	**265**	**8,567**	**–**	**1,811**	**413**	**4,159**
Pension expenditure	–	**71**	**71**	**71**	–	**101**	**101**	**101**
Total remuneration	**–**	**3,404**	**336**	**8,638**	**–**	**1,912**	**514**	**4,260**

[1] Service contract with the company since 13 July 2017.
[2] Service contract with the company since 2 March 2017.
[3] Shown here is the fair value at the time of granting the tranche.

Pieter C. Boone[1]				Heiko Hutmacher[1]			
Chief Operating Officer member of the Management Board since 2/3/2017				Chief Human Resources Officer and Labour Director member of the Management Board since 2/3/2017			
2015/16	**2016/17**	**2016/17**	**2016/17**	2015/16	**2016/17**	**2016/17**	**2016/17**
		Minimum value	**Maximum value**			**Minimum value**	**Maximum value**
–	**196**	**196**	**196**	–	**196**	**196**	**196**
–	**4**	**4**	**15**	–	**4**	**4**	**33**
–	**200**	**200**	**211**	**–**	**200**	**200**	**229**
–	**183**	**0**	**366**	–	**183**	**0**	**366**
–	**43**	**0**	**107**	–	**310**	**0**	**775**
–	**665**	**0**	**1,662**	–	**831**	**0**	**2,078**
–	**782**	**0**	**2,400**	–	**977**	**0**	**3,000**
–	**1,873**	**200**	**4,746**	**–**	**2,501**	**200**	**6,448**
–	**55**	**55**	**55**	–	**53**	**53**	**53**
–	**1,928**	**255**	**4,801**	**–**	**2,554**	**253**	**6,501**

ACCRUALS

€1,000	Olaf Koch[1] Chairman of the Management Board member of the Management Board since 2/3/2017 2016/17	2015/16	Christian Baier[2] Chief Financial Officer member of the Management Board since 11/11/2016 2016/17	2015/16	Pieter C. Boone[1] Chief Operating Officer member of the Management Board since 2/3/2017 2016/17	2015/16	Heiko Hutmacher[1] Chief Human Resources Officer and Labour Director member of the Management Board since 2/3/2017 2016/17	2015/16
Fixed salary	**261**	–	**406**	–	**196**	–	**196**	–
Supplemental benefits	**4**	–	**7**	–	**4**	–	**4**	–
Total	**265**	**–**	**413**	**–**	**200**	**–**	**200**	**–**
1-year variable remuneration	**323**	–	**334**	–	**220**	–	**220**	–
Multi-year variable remuneration	**0**	–	**0**	–	**0**	–	**0**	–
Other	**0**	–	**0**	–	**0**	–	**0**	–
Total	**588**	**–**	**747**	**–**	**420**	**–**	**420**	**–**
Pension expenditure	**71**	–	**101**	–	**55**	–	**53**	–
Total remuneration	**659**	**–**	**848**	**–**	**475**	**–**	**473**	**–**

[1] Service contract with the company since 13 July 2017.
[2] Service contract with the company since 2 March 2017.

Long-term incentive (performance share plan) in financial year 2016/17

For the tranche of the performance share plan granted in financial year 2016/17, the target amount for Mr Koch is €1.6 million, for Mr Baier €0.81 million, for Mr Boone €0.96 million and for Mr Hutmacher €1.2 million.

The number of performance shares (initially vested) distributed amounts to 93,349 for Mr Koch, 47,258 for Mr Baier, 56,010 for Mr Boone and 70,012 for Mr Hutmacher.

The value of the tranche distributed in financial year 2016/17 as part of the performance share plan was calculated at the time of granting by external experts using recognised financial-mathematical methods.

PERFORMANCE SHARE PLAN

Tranche	End of the performance period	Starting price for the TSR component	Target amount Management Board as of 30/9/2017
2016/17	after the 40th trading day following the Annual General Meeting 3 years after issuance of the tranche	€17.14	€4,570,000

In financial year 2016/17, the expenses for the company relating to the ongoing tranches of share- and performance-based payment programmes with a long-term incentive effect consisted of €0.27 million for Mr Koch, €0.14 million for Mr Baier, €0.16 million for Mr Boone and €0.2 million for Mr Hutmacher.

As of 30 September 2017, the provisions for the members of the Management Board totalled €0.77 million.

Post-employment benefits in financial year 2016/17 (including provisions for post-employment benefits plans)
In financial year 2016/17, a total of €0.28 million according to International Financial Reporting Standards (IFRS) and €0.29 million according to the German Commercial Code (HGB) was used for the remuneration of the active members of the Management Board of METRO AG for benefits to be provided after the end of their employment. Of this total, according to IFRS, approximately €0.07 million accounted for pension plans for Mr Koch, approximately €0.1 million for Mr Baier, approximately €0.06 million for Mr Boone and approximately €0.05 million for Mr Hutmacher.

For post-employment benefits plans according to the German Commercial Code (HGB), approximately €0.07 million was allocated to Mr Koch, approximately €0.1 million to Mr Baier, approximately €0.06 million to Mr Boone and approximately €0.05 million to Mr Hutmacher.

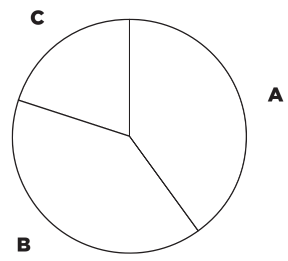
Provisions according to IFRS and the German Commercial Code (HGB) amount to approximately €0.007 million for Mr Koch, approximately €0.004 million for Mr Baier and approximately €0.091 million for Mr Boone according to IFRS and approximately €0.095 million according to HGB. There is no need to establish provisions for Mr Hutmacher. The present value of the commitment volume according to IFRS and the German Commercial Code (HGB) amount to approximately €2.8 million for Mr Koch, approximately €0.5 million for Mr Baier, approximately €0.7 million for Mr Boone and approximately €1.9 million for Mr Hutmacher. With the exception of the provisions listed in the last paragraph, the present value of the commitment volume is offset by assets.

Changes in the remuneration system starting in financial year 2017/18

Short-term performance-based remuneration (Short-term incentive)
Starting in financial year 2017/18, the financial performance targets of the members of the Management Board are based on the following parameters of the group while maintaining the system of the short-term incentive:

- like-for-like sales development (sales growth in local currency on a comparable area or with respect to a comparable group of locations or merchandising concepts such as delivery and online business) at 40%
- exchange-rate adjusted earnings before deduction of interest, taxes, depreciation/amortisation/impairment losses/reversals of impairment losses on property, plant and equipment, intangible assets and investment property (EBITDA) at 40%
- exchange-rate adjusted return on capital employed (RoCE) at 20%

PARAMETERS OF THE SHORT-TERM INCENTIVE



A	**40%**	Like-for-like sales growth
B	**40%**	EBITDA
C	**20%**	RoCE

A target value in € is set for each member of the Management Board. The payout amount is calculated by multiplying the target value by the factor of overall goal achievement. This, in turn, is calculated by determining the goal achievement factors for each of the financial performance targets. The weighted arithmetic mean of the factors results in the overall goal achievement factor. The overall goal achievement is limited to a factor of 2.0.

In general, performance targets are set by the Supervisory Board for each of the 3 parameters before the beginning of the financial year. The basis for determining the goals is the budget plan, which requires the approval of the Supervisory Board. To determine whether a goal has been achieved, the Supervisory Board defines a lower threshold/barrier of entry for each performance target and a target value for 100% goal achievement. A factor is allocated to the specific degree of goal achievement for each performance target:

- If the degree of goal achievement is 100%, the factor is 1.0.
- If the degree of goal achievement is lower or equal to the barrier of entry, then the factor is 0.0.
- In the case of intermediate values and values over 100%, the factor for goal achievement is calculated using linear interpolation and/or extrapolation.

To determine whether an EBITDA goal has been achieved, the Supervisory Board is authorised to adjust the EBITDA for any possible impairment losses on goodwill.

To ensure the individual performance orientation of Management Board remuneration, the Supervisory Board of METRO AG reserves the general right to reduce or increase the weight of the individual short-term incentive by up to 30%. The basis for this are goals that were agreed individually with the respective members of the Management Board as well as overlapping strategic goals for all members of the Management Board, such as customer satisfaction, employee satisfaction and sustainability.

The payout amount is limited to a maximum of 200% of the individually determined target value (payout cap).

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

The short-term incentive of the members of the Management Board is payable 4 months after the end of the financial year, but not before approval of the annual and consolidated financial statements for the incentivised financial year.

Compensation of members of the Supervisory Board

Until 21 February 2017, the Supervisory Board of METRO AG (formerly trading under METRO Wholesale & Food Specialist AG) consisted of 3 members, namely Mr Michael Bouscheljong, Mr Hans-Dieter Hinker and Mr Harald Sachs. They were employees of the former METRO AG (now: CECONOMY AG) and are now employees of today's METRO AG. In accordance with the formerly valid Articles of Association of the company, these members of the Supervisory Board did not receive any remuneration for their membership on the Supervisory Board.

With effect on 21 February 2017, the Supervisory Board was augmented to 20 members, now consisting of completely new personnel.

In accordance with § 13 of METRO AG's Articles of Association, the members of the Supervisory Board receive a fixed yearly remuneration amount. It amounts to €80,000 for each individual member.

Against the background of the division of the group, the members of the Supervisory Board, who are or were also members of the Supervisory Board of CECONOMY AG (formerly METRO AG), waived compensation for the period between the effective date of their appointment (21 February 2017) and the effective date of the demerger (12 July 2017).

The value added tax payable to the respective compensation is reimbursed to the members of the Supervisory Board in accordance with § 13 Section 5 of METRO AG's Articles of Association.

The individual amount of Supervisory Board remuneration takes into account the duties and responsibilities of the individual members of the Supervisory Board by considering special assignments. The compensation of the Chairman of the Supervisory Board is 3 times higher than that of an ordinary member of the Supervisory Board; that of the Vice Chairman and the chairpersons of the committees is twice as high; and that of the other members of the committees is 1.5 times higher. The remuneration for membership or chairmanship of a committee will be paid only if at least 2 meetings or other resolutions took place during the respective financial year. A member of the Supervisory Board who holds several offices at once receives compensation for only 1 office; in the case of different levels of remuneration, the member is compensated for the most highly paid office.

Remuneration factors	
Chairman of the Supervisory Board	●●●
Vice Chairman	●●
Committee chairpersons[1]	●●
Committee members[1]	●◖
Members of the Supervisory Board	●

[1] With a minimum of 2 meetings/resolutions.

The relevant individual amounts for financial year 2016/17 are as follows:

REMUNERATION OF MEMBERS OF THE SUPERVISORY BOARD FOR FINANCIAL YEAR 2016/17 PURSUANT TO § 13 OF THE ARTICLES OF ASSOCIATION[1]

€	Financial year	Multiplier	Fixed salary
Jürgen B. Steinemann, Chairman	2016/17	●●●	60,000
Werner Klockhaus, Vice Chairman	2016/17	●●	40,000
Gwyn Burr	2016/17	●	20,000
Thomas Dommel	2016/17	●	20,000
Prof. Dr Edgar Ernst	2016/17	●●	100,000
Dr Florian Funck	2016/17	●◖	30,000
Michael Heider	2016/17	●	53,333
Andreas Herwarth	2016/17	●◖	30,000
Peter Küpfer	2016/17	●	20,000
Susanne Meister	2016/17	●	20,000
Dr Angela Pilkmann	2016/17	●	20,000
Mattheus P. M. (Theo) de Raad	2016/17	●	20,000
Dr Fredy Raas	2016/17	●◖	30,000
Xaver Schiller	2016/17	●◖	30,000
Eva-Lotta Sjöstedt	2016/17	●	53,333
Dr. Liliana Solomon	2016/17	●◖	76,667
Alexandra Soto	2016/17	●	53,333
Angelika Will	2016/17	●	20,000
Manfred Wirsch	2016/17	●	53,333
Silke Zimmer	2016/17	●	53,333
Total	**2016/17**		**803,332**

[1] Plus potentially applicable value added tax in accordance with § 13 Section 5 of the Articles of Association.

In financial year 2016/17, individual members of the Supervisory Board of METRO AG also received compensation from the group companies 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	2016/17	9,300
Michael Bouscheljong[2]	2016/17	9,200
Thomas Dommel	2016/17	4,500
Michael Heider	2016/17	6,000
Harald Sachs[2]	2016/17	6,200
Xaver Schiller	2016/17	9,000
Manfred Wirsch	2016/17	6,000
Total	**2016/17**	**50,200**

[1] Plus potentially applicable value added tax.
[2] This compensation of the Supervisory Board will be credited against the salary paid by METRO AG.

Until the demerger took effect, today’s CECONOMY AG was the parent company of today's METRO AG, which was formerly trading under METRO Wholesale & Food Specialist AG. The following compensation for individual members of the Supervisory Board of METRO AG was granted by CECONOMY AG for members of the Supervisory Board of CECONOMY AG:

COMPENSATION FOR THE MEMBERS OF THE SUPERVISORY BOARD PAID BY CECONOMY AG FOR FINANCIAL YEAR 2016/17[1]

€	Financial year	
Gwyn Burr	2016/17	66,667
Thomas Dommel	2016/17	66,667
Dr Florian Funck	2016/17	120,000
Andreas Herwarth	2016/17	100,000
Werner Klockhaus	2016/17	133,333
Peter Küpfer	2016/17	90,000
Susanne Meister	2016/17	66,667
Dr Angela Pilkmann	2016/17	66,667
Mattheus P. M. (Theo) de Raad	2016/17	66,667
Dr Fredy Raas	2016/17	113,333
Xaver Schiller	2016/17	100,000
Jürgen B. Steinemann	2016/17	200,000
Angelika Will	2016/17	80,000
Total	**2016/17**	**1,270,001**

[1] Plus potentially applicable value added tax.

Beyond this, the members of the Supervisory Board were not granted any remuneration or benefits for work performed, in particular consulting and brokerage services, on behalf of companies of METRO in the sense of Subsection 5.4.6 of the German Corporate Governance Code.

7 NOTES PURSUANT TO § 315 SECTION 4 AND § 289 SECTION 4 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT OF THE MANAGEMENT BOARD

Capital structure (§ 315 Section 4 No. 1 and § 289 Section 4 No. 1 of the German Commercial Code)

On 30 September 2017, the share capital of METRO AG totalled €363,097,253. It is divided into a total of 360,121,736 ordinary no-par value bearer shares (proportional value of the share capital: €360,121,736, circa 99.18%) as well as 2,975,517 preference no-par bearer shares (proportional value of the share capital: €2,975,517, circa 0.82%). Each no-par share in the company has a notional interest of €1.00 in the share capital.

Each ordinary share is entitled to a single vote at the company's Annual General Meeting. The ordinary shares carry full dividend rights. In contrast to ordinary shares, preference shares do not carry voting rights but confer a preferential entitlement to profits as stipulated in § 21 of the Articles of Association of METRO AG, which state:

"(1) Holders of non-voting preference shares will receive a preliminary dividend from the annual balance sheet profit in the amount of €0.17 for each preference share.

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

(3) Following distribution of the preliminary dividends, the holders of ordinary shares will be paid a dividend of €0.17 for each ordinary share. Subsequently, a non-cumulative extra dividend per share will be paid to the holders of non-voting preference shares. The extra dividend shall amount to 10% of the dividend paid to the holders of ordinary shares taking into account Section 4, provided such dividend equals or exceeds €1.02 per ordinary share.

(4) The holders of non-voting preference shares and those holding ordinary shares will equally share in any additional profit distribution in the proportion corresponding to the number of shares held by them in the share capital."

Other rights associated with ordinary and preference shares include in particular the right to attend the Annual General Meeting (§ 118 Section 1 of the German Stock Corporation Act), the right to information (§ 131 of the German Stock Corporation Act) and the right to file a legal challenge or a complaint for nullity (§§ 245 Nos. 1–3, 246, 249 of the German Stock Corporation Act). In addition to the previously mentioned right to receive dividends, shareholders principally have a subscription right when the share capital is increased (§ 186 Section 1 of the German Stock Corporation Act), claims to liquidation proceeds after the closure of the company (§ 271 of the German Stock Corporation Act) and to compensation and settlements as a result of certain structural measures, particularly pursuant to §§ 304 ff., 320 b, 327 b of the German Stock Corporation Act.

Limitations to voting rights (§ 315 Section 4 No. 2 and § 289 Section 4 No. 2 of the German Commercial Code)

To the best knowledge of the Management Board, the following agreements exist or existed during financial year 2016/17, which may be construed as restrictions within the meaning of § 315 Section 4 No. 2 and § 289 Section 4 No. 2 of the German Commercial Code:

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

In connection with the demerger of the former METRO AG, CECONOMY AG (formerly operating under the name of METRO AG) as well as each of its 3 major shareholders – the Haniel shareholder group, the Schmidt-Ruthenbeck shareholder group and the Beisheim shareholder group – have entered into temporary lock-up agreements at normal market conditions with CECONOMY AG with regard to its shares in METRO and the shares in the acquiring entity, which the major shareholders of CECONOMY AG have received in the context of the demerger.

In addition, legal restrictions on voting rights may apply, for example pursuant to § 136 of the German Stock Corporation Act or, if the company holds own shares, pursuant to § 71 b of the German Stock Corporation Act.

Shares held in capital (§ 315 Section 4 No. 3 and § 289 Section 4 No. 3 of the German Commercial Code)

The following direct and indirect capital interests entitle their respective holders to more than 10% of the voting rights:

Name/company	Direct/indirect capital interest entitling to more than 10% 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 information above is in particular based on notifications issued under § 21 ff. of the German Securities Trading Act that were received and published by METRO AG.

— **Voting rights notifications published by METRO AG can be found on the website www.metroag.de in the section Media Centre – Legal Announcements.**

Owners of shares with special rights and type of voting rights control where capital interests are held by employees (§ 315 Section 4 Nos. 4 and 5 and § 289 Section 4 Nos. 4 and 5 of the German Commercial Code)

The company has not issued any shares with special rights pursuant to § 315 Section 4 No. 4 and § 289 Section 4 No. 4 of the German Commercial Code. No capital interests are held by employees pursuant to § 315 Section 4 No. 5 and § 289 Section 4 No. 5 of the German Commercial Code.

Provisions governing the appointment and dismissal of members of the Management Board and changes to the Articles of Association (§ 315 Section 4 No. 6 and § 289 Section 4 No. 6 of the German Commercial Code)

In instances where members of the Management Board of METRO AG are appointed and removed, legal regulations laid down in §§ 84, 85 of the German Stock Corporation Act and §§ 30, 31, 33 of the German Co-determination Act apply. § 5 of the Articles of Association of METRO AG stipulates that the Management Board shall comprise at least 2 members and that the actual number of members of the Management Board is determined by the Supervisory Board.

Changes to the Articles of Association of METRO AG are determined principally in accordance with §§ 179, 181, 133 of the German Stock Corporation Act. There are numerous other sections of the German Stock Corporation Act that could possibly govern a change to the Articles of Association, and that may amend or supersede the previously mentioned regulations, for example §§ 182 ff. of the German Stock Corporation Act in the case of capital increases, §§ 222 ff. of the German Stock Corporation Act in the case of capital reductions or § 262 of the German Stock Corporation Act in the case of the public limited company ("AG") being dissolved. Pursuant to § 14 Section 1 of the Articles of Association of METRO AG, the Supervisory Board may resolve to change the wording of the Articles of Association without a resolution passed by the Annual General Meeting.

Authority of the Management Board (§ 315 Section 4 No. 7 and § 289 Section 4 No. 7 of the German Commercial Code)

Authorities to issue new shares

The Annual General Meeting on 11 April 2017 authorised the Management Board to increase the share capital, subject to the consent of the Supervisory Board, by issuing new ordinary bearer shares against cash or non-cash contributions in one or several tranches for a total maximum of €181,000,000 by 28 February 2022 (authorised capital).

Existing shareholders may exercise their subscription rights. The newly issued shares may also be acquired by banks or similarly situated companies selected by the Management Board pursuant to § 186 Section 5 Sentence 1 of the German Stock Corporation Act, given these institutions agree to tender such shares to the shareholders.

However, subject to the consent of the Supervisory Board, the Management Board is authorised to exclude shareholder subscription rights in the following cases:

- to balance fractional amounts;
- if shares are issued in exchange for non-cash contributions for the purpose of corporate mergers, for the acquisition of companies, for the purchase of parts of companies or shares in companies;
- in the event of a capital increase in exchange for cash capital contributions to the extent necessary to grant subscription rights to new ordinary shares to the holders of warrant or convertible bearer bonds issued by METRO AG and affiliates thereof in which METRO AG holds at least 90% of shares, directly or indirectly, in the extent to which they would be entitled upon exercise of the warrant or conversion rights or performance of the warrant or conversion obligations or upon exercise of METRO AG's right to substitute as shareholder;

- in the event of capital increases in exchange for cash capital contributions if the aggregate par value of such capital increases does not exceed 10% of the company's share capital and the issue price of the new ordinary shares is not substantially lower than the listed stock exchange price of existing ordinary shares of the same class. The limit of 10% of the company's share capital is diminished by the proportion 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 corresponding application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act 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 corresponding application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act. The proportional share capital attributable to shares issued under this authority and under exclusion of the shareholders' subscription rights in exchange for cash or non-cash capital contributions must not exceed 20% of the company's share capital.

The Management Board is authorised to define further details of the capital increases, subject to the consent of the Supervisory Board. To date, the authorised capital has not been fully utilised.

Authorities to issue warrant bonds and/or convertible bonds

The Annual General Meeting on 11 April 2017 authorised the Management Board to issue, in each case with the consent of the Supervisory Board, warrant bonds or convertible bearer bonds (collectively referred to as "bonds") with an aggregate par value of €1,500,000,000 prior to 28 February 2022 on one or several occasions, and to grant the holders of warrant bonds or convertible bearer bonds warrant or conversion rights or impose warrant or conversion obligations upon them for ordinary bearer shares in METRO AG representing up to €16,339,376 of the share capital in accordance with the terms of the warrant bonds or convertible bearer bonds. This authority results in contingent capital of up to €16,339,376 pursuant to § 4 Section 8 of the METRO AG Articles of Association.

The bonds may also be issued by a METRO AG subsidiary in the meaning of § 18 of the German Stock Corporation Act in which METRO AG holds a direct or indirect interest of at least 90%. 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 METRO AG and grant their holders warrant or conversion rights to ordinary bearer shares in METRO AG or impose warrant or conversion obligations upon them.

Shareholders will be granted their statutory subscription rights by way of the bonds being acquired by a bank or syndicate of banks with an undertaking to offer such bonds to the shareholders. If bonds are issued by a METRO AG subsidiary in accordance with § 18 of the German Stock Corporation Act in which METRO AG holds a direct or indirect interest of at least 90%, METRO AG must ensure that statutory subscription rights are granted to the shareholders of METRO AG in accordance with the preceding sentence.

Subject to the consent of the Supervisory Board, the Management Board is however authorised to exclude 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 exercising the warrant or conversion right or performance of the warrant or conversion obligation.

Subject to the consent of the Supervisory Board, the Management Board is also authorised to entirely exclude shareholder subscription rights to bonds issued in exchange for cash payment carrying warrant or conversion rights or warrant or conversion 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 issued with warrant or conversion rights or warrant or conversion obligations to ordinary shares comprising no more than 10% of the share capital at the time the authority takes effect or, if this figure is lower, at the time the authorisation is exercised. The limit of 10% of the share capital is reduced by the pro rata amount of share capital represented by any shares issued (i) during the effective period of this authority under exclusion of subscription rights according to § 186 Section 3 Sentence 4 of the German Stock Corporation Act, or (ii) to service warrant or convertible bearer bonds providing for warrant or conversion rights or obligations, insofar as such bonds were issued during the effective period of this authorisation under exclusion of subscription rights by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis.

If bonds carrying warrant or conversion rights or obligations are issued, the warrant or conversion price is determined based on the rules in § 4 Section 8 of METRO AG's Articles of Association.

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 bonds' terms 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, third parties gaining a controlling interest). In the case of a third party gaining a controlling interest, the bonds' terms may provide for adjustment of the warrant or conversion price to reflect market conditions. Furthermore, the terms of the bonds may provide for a variable conversion ratio and/or variable warrant and conversion price, whereby the warrant or conversion price is determined within a range to be determined on the basis of the share price development during the term. The minimum issue price based on the stipulations of § 4 Section 8 of METRO AG's Articles of Association may not be undercut.

The terms of the bonds may grant METRO 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 METRO 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 is to be determined by the Management Board. The terms of the bonds may also state that the warrant or convertible bonds may, at METRO AG's option, be converted into existing ordinary shares in METRO 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 METRO AG to grant bond holders ordinary shares in METRO 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 METRO AG issued upon the exercise of warrant or conversion rights must not exceed the par value of the bonds. §§ 9 Section 1, 199 Section 2 of the German Stock Corporation Act 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 corporate bodies of the affiliate of METRO AG which issues the warrant or convertible bonds in accordance with § 18 of the German Stock Corporation Act.

To date, the authority to issue warrant and/or convertible bearer bonds has not been exercised.

Authorities to repurchase own shares

The company is authorised to buy back its own shares in accordance with § 71 of the German Stock Corporation Act. Pursuant to § 71 Section 1 No. 8 of the German Stock Corporation Act, the Annual General Meeting on 11 April 2017 authorised the company to acquire own shares of any class until 28 February 2022. The authority is limited to the repurchase of shares collectively representing a maximum of 10% of the share capital issued as of the date the Annual General Meeting resolution is passed or – if this figure is lower – at the time the authority is exercised. The shares transferred under this authority, together with any own shares acquired for other reasons and held by the company or attributable to it pursuant to §§ 71 a ff. of the German Stock Corporation Act, shall collectively not exceed a pro rata proportion of 10% in the share capital at any time.

Shares may be acquired on the stock exchange or by way of a tender offer aimed at all shareholders. In the process, the authorisation includes specifications regarding the purchase price and procedures to be followed in case a public offering is oversubscribed.

The Management Board is authorised to use the shares in the company acquired based on the above authorisation for the following purposes in particular:

- Disposal of shares in the company on the stock exchange or by means of a purchase offer expressed to all shareholders;
- Listing of shares in the company on foreign stock exchanges where they were not hitherto admitted for trading, whereby the authorisation includes stipulations regarding the initial listing price;
- Transfer of shares in the company to third parties for non-cash consideration in connection with corporate mergers or the acquisition of other companies, divisions of other companies, businesses or interests in other companies or other assets;
- Disposal of shares in the company outside of the stock exchange or via a purchase offer expressed 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. This authority is limited to the sale of shares collectively representing a maximum of 10% of the share capital at the time the authority takes effect or – if this figure is lower – at the time the authority is exercised. The maximum limit of 10% of the share capital is reduced by the pro rata amount of share capital represented by any shares issued (i) during the effective period of this authority under exclusion of subscription rights according to § 186 Section 3 Sentence 4 of the German Stock Corporation Act, or (ii) to service warrant or convertible bearer bonds providing for warrant or conversion rights or obligations, insofar as such bonds were issued during the effective period of this authority under exclusion of subscription rights by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis;
- Delivery of shares to holders of warrant or convertible bonds of the company or its affiliates, in accordance with § 18 of the German Stock Corporation Act 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 bonds of the company or any of its affiliates in accordance with § 18 of the German Stock Corporation Act to the same extent that holders of such warrant or convertible 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 under this authority shall collectively not exceed a pro rata proportion of 10% of the share capital at the time the authority takes effect or – if this figure is lower – at the time the authorisation is exercised, insofar as such shares were issued to service warrant or conversion rights or warrant or conversion obligations granted or imposed in application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis. The maximum limit of 10% 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 authority by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis;
- Distribution of a stock dividend (scrip dividend), whereby company shares are used (also partially and selectively) to service dividend rights of shareholders;
- Redemption of shares in the company, without the need for any further resolution by the Annual General Meeting. Such redemption may also be accomplished without a capital reduction by increasing the proportional value of the remaining no-par-value shares in the share capital of the company. In this case, the Management Board is authorised to adjust the number of no-par-value shares stipulated 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 several occasions, individually or collectively by the company or its affiliates in accordance with § 18 of the German Stock Corporation Act or by third parties acting for their account or for the account of the company. The above authorities may be exercised for the acquisition and use of ordinary shares as well as preference shares or only for the acquisition and use of ordinary shares or for preference shares only.

Using own shares in accordance with the 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 own shares are used for any of the purposes authorised above, with exception of the authority to sell the company's shares by making a purchase offer to all shareholders, the authority to distribute dividends in the form of a scrip dividend and the authority to redeem 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 own shares are used in accordance with the authority to sell the company's shares by making a purchase offer to all shareholders in compliance with the principle of equal treatment stipulated in § 53 a of the German Stock Corporation Act. The Management Board is further authorised to exclude shareholder subscription rights if own shares are used to distribute dividends in the form of a scrip dividend.

To date, the authorisation to repurchase the company's own shares has not been exercised.

Fundamental agreements related to the conditions of a takeover (§ 315 Section 4 No. 8 and § 289 Section 4 No. 8 of the German Commercial Code)

METRO AG is currently a borrower under 2 syndicated loan agreements, which the lender may cancel in the case of a change of control, provided that, additionally and as a result of the change of control, the credit rating of METRO AG deteriorates to a certain degree as defined in respective agreements. The requirements of a change of control are, first, that the shareholders who controlled METRO AG at the time at which each contract was signed lose control over METRO AG. The second requirement is the assumption of control of METRO AG by one or several parties. The lending banks may cancel the contract and demand the return of the loan only if the change of control and a resulting drop in the credit rating occur cumulatively. The arrangements described are common market practice and serve the purpose of protecting creditors. None of these loans were drawn in financial year 2016/17.

Compensation agreements in case of a takeover (§ 315 Section 4 No. 9 and § 289 Section 4 No. 9 of the German Commercial Code)

The company has entered into compensation agreements with the members of the Management Board to provide for the case of a takeover bid. In the event of a change of control, the members of the Management Board may exercise their right to resign from their office, within 6 months after the change of control, for good cause at the end of each month by giving 3 months prior notice. They may also terminate their management contract with effect on the same date (extraordinary termination right).

The contractual provisions assume a change of control if either a single shareholder or a number of jointly acting shareholders have acquired a controlling interest in the meaning of § 29 of the German Securities Acquisition and Takeover Act (WpÜG) by way of holding at least 30% of the voting rights and the change of control significantly interferes with the responsibilities of a member of the Management Board.

If the extraordinary termination right is exercised, or if the service contract is terminated on the basis of an amicable agreement within 6 months from the change of control, the respective member of the Management Board shall be entitled to a lump sum compensation for his contractual entitlements during the remaining term of the member's management contract. The recommendation by the German Corporate Governance Code is observed with the amount of the severance payment being limited to 150% of the severance payment cap. The entitlement to a severance payment lapses if the employment was terminated by the company for good cause pursuant to § 626 of the German Civil Code (BGB).

No compensation agreements with employees have been concluded with a view to takeover offers, however.

8 SUPPLEMENTARY NOTES FOR METRO AG (PURSUANT TO THE GERMAN COMMERCIAL CODE)

Overview of financial year 2016/17 and outlook of METRO AG

As the management holding company of METRO, METRO AG is highly dependent on the development of METRO 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 performance indicator for METRO 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 METRO AG

The business development of METRO AG is primarily characterised by the development and dividend distributions of its investments. METRO AG's annual financial statements prepared under German commercial law serve as the basis for dividend distribution. The income statement and balance sheet of METRO AG prepared in accordance with the regulations stipulated by the German Commercial Code (HGB) in the German Accounting Directive Implementation Act (BilRUG) version are outlined below.

The financial figures of METRO AG for financial year 2016/17 have to a large extent been shaped by the transactions (demerger and spin off) associated with the demerger of the former METRO GROUP (now: CECONOMY AG) into 2 independent listed companies. A comparison of these financial figures with the previous year's figures for the former METRO Wholesale & Food Specialist GmbH, which has transformed into a public limited company in November 2016, as the absorbing entity (now: METRO AG), is therefore of limited meaningfulness. For the sake of facilitating the comparability, benchmarking information on the balance sheet items and income statement items are provided. This information represents the business segment acquired as a result of the demerger and spin off.

Application of the BilRUG commenced with financial year 2016/17 and predominantly affects the annual financial statements of METRO AG by extending the definition of sales revenues. This resulted in a partial reallocation of other operating income to sales revenues, which are now recognised in the income statement for the first time. In the previous year, MWFS GmbH did not generate any sales revenues that would fall under the definition of the German Accounting Directive Implementation Act.

Earnings position of METRO AG and profit appropriation

INCOME STATEMENT FOR THE FINANCIAL YEAR FROM 1 OCTOBER 2016 TO 30 SEPTEMBER 2017 PURSUANT TO THE GERMAN COMMERCIAL CODE

€ million	2015/16	**2016/17**
Sales revenues	0	**427**
Other operating income	9	**288**
Cost of services purchased	0	**–47**
Personnel expenses	0	**–147**
Depreciation/impairment losses on intangible and tangible assets	0	**–49**
Other operating expenses	–9	**–532**
Investment result	–7	**254**
Financial result	0	**–44**
Income taxes	–3	**–18**
Earnings after taxes	**–10**	**132**
Other taxes	0	**–2**
Profits transferred in the previous year under a profit transfer agreement	0	**0**
Net profit or loss (previous year: net losses)	**–10**	**130**
Losses carried forward from prev. year	–3,290	**0**
Withdrawals from reserves retained from earnings	2	**0**
Withdrawals from capital reserves	3,748	**0**
Dividend paid from capital reserves	–450	**0**
Income from capital decrease	0	**172**
Balance sheet profit	**0**	**302**

Under the transfer pricing system, METRO AG essentially serves as a licensor and service provider for the operational national subsidiaries of the METRO Wholesale segment.

The key services provided in this context include various operational services (consulting services), holding company services as well as services related to the development and operation of various in-house IT solutions. In order to be able to render these services, the company purchases IT services from subcontractors within the group as well as from third-party providers, in particular, which leads to higher expenses for service purchased, other expenses and write-downs. METRO AG acts as a centralised licensor for its subsidiaries with respect to its METRO and MAKRO brands as well as its own-brand products.

Services are billed at arm's-length prices. Under the transfer pricing model, the national and international companies of the METRO Wholesale segment were billed approximately €541 million in licensing and service fees in financial year 2016/17.

The introduction of the German Accounting Directive Implementation Act (BilRUG) resulted in the recognition of €427 million in settlement amounts of METRO AG that fall under the extended definition of sales revenues for the first time in the reporting year. These positions amount to €334 million concerning settlement amounts received in the form of license fees for the METRO and MAKRO brands, as well as €93million relating to IT and business services rendered to the wholesale subsidiaries.

The item other operating income consists mainly of settlement amounts from subsidiaries that are not classified as sales revenues.

To perform its function as a central management holding company, METRO AG has subcontracted service performances, which predominantly related to costs of marketing and IT services, to subsidiaries as well as third-party companies. To the extent such expenses are related to settlement payments recognised in the sales revenues item, the corresponding amounts have been recognised in the item costs of services purchased.

On average during the 4 quarters of financial year 2016/17, METRO AG employed 914 people. Part-time employees and temporary workers were converted into full-time equivalents. The personnel expenses include special payments in the amount of €11 million. The personnel expenditure incurred in the business segments acquired in the context of the demerger have remained on the same level as in the previous year.

Depreciation expenses in the amount of €40 million resulted predominately from scheduled depreciation on the usufructuary rights to the METRO and MAKRO brands.

For financial year 2016/17, METRO AG posted investment income of €254 million. Profit and loss transfer agreements with other group companies accounted for earnings in the amount of €381 million and assumption of losses in the amount of €–159 million. The income from investments without profit and loss transfer agreements amounted to €66 million in financial year 2016/17, which were predominantly attributable to the group's real estate companies and the foreign subsidiaries of the METRO wholesale segment. The increase was essentially caused by the release of reserves received from an indirectly held subsidiary. Expenses from loss absorption are essentially attributable to the Real sales line. Domestic investments held by the Real sales line were depreciated in the amount of €8 million in the reporting year. Losses from the disposal of a foreign service company were recognised in the amount of €26 million. On the basis of the current post-demerger shareholding structure, the comparable return on investment in the previous year amounted to €68 million.

The net financial result amounted to €–44 million.

The net profit amounts to €130 million.

Including revenue from capital reduction in the amount of €172 million, the company's balance sheet profit amounted to €302 million.

Concerning the appropriation of the balance sheet profit for 2016/17, the Management Board of METRO AG proposes to the Annual General Meeting to distribute a dividend in the amount of €0.70 per ordinary share and €0.70 per preference share – that is, a total of €254 million – from the reported balance sheet profit of €302 million and to carry forward the remaining amount to the new account.

Financial position of METRO AG

Cash flows

As of the closing date, cash on hand amounted to €305 million. This item essentially includes bank deposits through cash pool income from the sales lines towards the end of the reporting period. No significant liquid funds have been acquired in the context of the demerger.

Capital structure

EQUITY AND LIABILITIES

€ million	30/9/2016	30/9/2017
Equity		
Share capital	205	**363**
Capital reserve	189	**6,118**
Balance sheet profit	0	**302**
	394	**6,783**
Provisions	**3**	**401**
Liabilities		
Bonds	0	**2,505**
Liabilities to banks	0	**70**
Liabilities to affiliated companies	7,138	**7,900**
Miscellaneous liabilities	0	**72**
	7,138	**10,547**
Deferred income	**0**	**6**
	7,535	**17,737**

Liabilities consist of equity of €6,783 million and provisions, liabilities and deferred income of €10,954 million. As of the closing date, the equity ratio amounted to 38.2%. Provisions as of the reporting date totalled €401 million. Liabilities consist of €2,505 million in bonds and €70 million in liabilities to credit institutions. Liabilities to affiliated companies amounted to €7,900 million. These essentially consist of structuring measures under corporate law in the amount of €7,447 million and liabilities from short-term financial investments of METRO group companies.

Asset position of METRO AG

ASSETS

€ million	30/9/2016	30/9/2017
Non-current assets		
Intangible assets	0	**1,018**
Tangible assets	0	**2**
Financial assets	7,495	**15,270**
	7,495	**16,290**
Current assets		
Receivables and other assets	40	**1,129**
Cash on hand, bank deposits and cheques	0	**305**
	40	**1,434**
Deferred expenses	**0**	**13**
	7,535	**17,737**

As of the closing date, assets totalled €17,737 million and were mostly comprised of financial assets in the amount of €15,270 million, receivables from affiliated companies at €1,116 million and the usufructuary brand rights to the METRO/MAKRO brand, which was recognised as an intangible asset during the financial year (€963 million). Cash on hand, bank deposits and cheques amounts to €305 million. The financial assets predominantly consist of shares held in affiliated companies in the amount of €15,223 million, which are essentially comprised of shares in the intermediate holding company for companies that come under the segment METRO Wholesale (€6,348 million) and shares in METRO Gross- und Lebensmitteleinzelhandel Holding GmbH (€6,118 million). This item also contains shares in METRO Dienstleistungs-Holding GmbH recognised at a carrying amount of €802 million, in the intermediate holding company for companies that come under the sales line Real (€645 million), as well as the limited partnership interest in METRO PROPERTIES GmbH & Co. KG (€713 million). The demerger has resulted in the addition of financial assets with a carrying amount of €7,869 million. The financial assets now constitute 86.1% of the total assets. Receivables from affiliated companies amount to €1,116 million. This item reflects the group companies' short-term financing requirements as of the closing date and corresponds to 6.3% of total assets.

Risk situation of METRO AG

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

Forecast of METRO AG

The business development of METRO AG as the management holding company essentially depends on the development and dividend distributions of its investments. Assuming a normalised cost structure at the holding company level without additional expenses, we expect that in the next financial year 2017/18, the company's net profit will reach a level that will be twice as high as in financial year 2016/17.

Planned investments of METRO AG

In the context of the METRO's investment activities, METRO 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 pursuant to § 289 a of the German Commercial Code (HGB) and § 315 Section 5 of the German Commercial Code (HGB) is permanently and publicly available on the company's website (www.metroag.de) in the section Company – Corporate Governance.

Declaration pursuant to § 312 of the German Stock Corporation Act (AktG)

Pursuant to § 312 of the German Stock Corporation Act (AktG), the Management Board of METRO AG has issued a report about its relationships to its dependent companies for financial year 2016/17 and issued the following final declaration:

"The Management Board of METRO AG declares that, according to the circumstances known to it at the time the legal transactions were conducted or measures were taken, the company received a compensation at arm's length for each legal transaction conducted during the reporting period and was not put at a disadvantage as a result of said measures. No other measures subject to mandatory disclosure were taken in the reporting period from 1 October 2016 to 12 July 2017."