GOALS AND STRATEGY

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METRO

As a leading international specialist in the wholesale and food retail trade, METRO sees itself as a partner committed to its customers' success and satisfaction every day. To ensure that we remain relevant to our customers and successful in the long term, we have set ourselves the goal of taking the food retail and food service sector to a new level. We will take advantage of the unique opportunities arising from the digitisation of the entire industry sector.

METRO essentially consists of the METRO Wholesale and Real segments, which are responsible for our operations. The METRO Wholesale segment comprises the METRO/MAKRO Cash & Carry wholesale stores and the delivery business. It is primarily targeting business customers (B2B) and is characterised by trusting relationships with our approximately 21 million customers in 35 countries. The Real segment focuses on the retail industry in Germany and thus on end consumers (B2C). Real is one of the leading hypermarket companies in 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 hospitality and retail industry.

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.

— **For more information about our innovation strategy, see chapter 2 principles of the group – 2.3 innovation management in the combined management report.**

— **For more information about our sustainability strategy see chapter 2 principles of the group – 2.4 sustainability management in the combined management report.**

Beyond that, more than 150,000 highly motivated employees worldwide also shape our company. They fill our open corporate culture with life and combine passion, a cooperative approach and outstanding performance in our core business. With courage for new ideas they challenge the status quo time and again and drive our business forward.

METRO WHOLESALE

In financial year 2016/17, our METRO Wholesale segment had more than 100,000 employees. As a multichannel supplier, we combine a wide network of modern wholesale stores with extensive food service distribution (FSD). Our customers can choose between shopping in-store, having their purchases delivered or, in France, shopping online via click-and-collect services and picking up the goods at the market. Our wholesale business is also characterised by a strong international presence: we are active in 35 countries in Western Europe, Eastern Europe and Asia. Under the METRO and MAKRO brands, we operate a total of 759 wholesale stores in 25 countries, whereas we only offer delivery services in the remaining 10 countries. The FSD area is reinforced by dedicated delivery specialists whom we acquired in recent years, including Classic Fine Foods, Pro à Pro and Rungis Express.

Focus on customer benefits

Our goal is to improve our customers' competitive advantage to make them more successful. Most of our wholesale customers are small and medium-sized companies and sole traders. We want to help them better master their business challenges by supplying long-term solutions with superior added economic value. To achieve this, we leverage our knowledge, our resources and our global presence. We consistently align our business model with customer value and strengthen our local organisations to establish a closer relationship with our B2B customers.

We summarise our B2B customers in 3 groups: HoReCa, Trader and Service Companies and Offices (SCO). HoReCa includes hotels and hospitality businesses, restaurants, bars and cafés as well as catering companies and canteen operators. The Trader section includes small grocery stores, kiosks, street food retailers, petrol stations and wholesalers. SCO are professional service companies and organisations, such as offices and institutions.

Our markets are divided into core customer groups and regions. Depending on our primary customer focus in each country, we endeavour to offer a customised experience to suit the specific behaviour and needs of our clients. By tailoring our products, services and sales channels to local needs, we ensure that our customers enjoy coming back. This allows us to exploit the local market opportunities as much as possible.

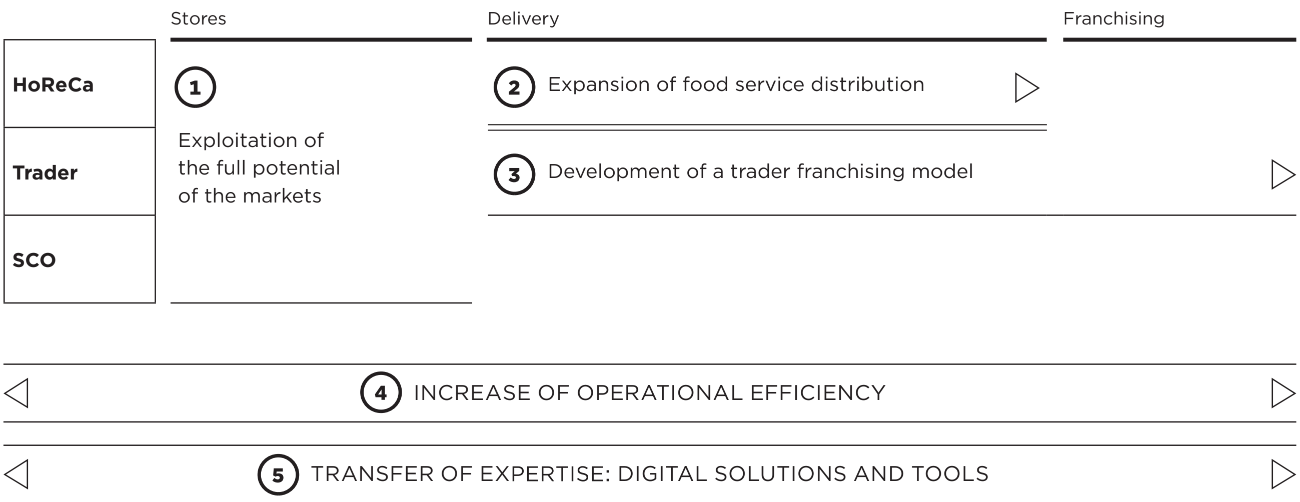
Our METRO Own Business Day exemplifies our idea and implementation of our customer orientation. We have established it to support our HoReCa customers in their most important task: marketing their own services. Our digital platform allows business owners to publish their campaign offers to acquire new customers and advance their business.

Value leverage for the business

Based on our business model, our local companies develop and implement their individual Value Creation Plans that enable transformation and growth according to local conditions. The central organisation supports local value creation and actively manages the portfolio. Based on the country-specific and locally generated Value Creation Plans, we have identified 5 major strategic value enhancers for our wholesale business (see also wholesale strategy chart):

- We exploit the full potential of our markets across all customer groups. We accomplish this by distinguishing the wholesale stores, for example, by designing stores that are specifically tailored to the different customer groups and their respective needs. Moreover, we are replacing our centrally managed, unified growth model, which is based on the opening of new wholesale stores, with a distinguished, sustainable model focused on like-for-like sales growth.
- We continue to expand our Food Service Distribution and the delivery business because they represent an attractive addition to our core business in the wholesale stores. In many of our markets, delivery is an important procurement channel for HoReCa customers. By expanding our delivery services, we strengthen relationships with these customers and their commitment to us.
- We are expanding the trader franchising model in countries such as Poland, Romania and especially Russia. METRO Cash & Carry operates in a similar way as a franchisor with its own brand identity. It provides products and offers additional services to the participating independent grocery stores, such as training courses and assortment consultancy. The expansion of the model helps open up new growth opportunities in relevant markets.
- We are increasing operational capacity to reduce our cost base and focus on managing liquidity in our local companies.
- We pass on our know-how to our customers by offering training programmes, further education, professional advice and more. We also develop digital solutions and tools for our customers, such as the creation of a free website or efficient personnel management. This is how we improve our business processes and make the relationship between us and our customers more efficient.

WHOLESALE STRATEGY



REAL

With more than 34,000 employees and 282 stores, Real is one of Germany's leading hypermarket operators. Real stores offer a wide assortment that includes both food and several non-food product categories.

Real's declared goal is to sustainably increase its customer relevance in the coming years. That's why in financial year 2015/16, Real laid the foundation for a strategic realignment, which it systematically pursued and expanded in 2016/17. Real's overall strategy includes the expansion of promising sales channels, such as the online shop and click-and-collect services, but also the comprehensive optimisation of the existing store network. The strategic realignment also requires for employees and management to think outside the box. Real promotes these cultural changes through the training programme "Werte in Aktion" (values in action), which focuses on the core values positivity, attentiveness and joint commitment for all kinds of cooperation in the company.

Strategic priorities

- **Customer orientation:** Real designs its product range and services with a greater focus on the wishes and needs of its customers. This is accompanied by the modernisation and spatial transformation of hypermarkets to increase productivity per square metre. We also continue to implement our so-called Food Lover concept. This is a new hybrid-store concept that combines the focus on customers with the benefits of large areas and addresses the specific needs of today's and tomorrow's retail customers. As a grocery store operator, our vision is to provide a unique shopping experience at all customer touchpoints, that is, at all possible points of contact between customers and our company. The opening of Markthalle Krefeld in November 2016 has set new standards for the shopping experience of the future. The concept takes into account both emotional and rational customer wishes and was extremely well received by the customers. Therefore, we want to extend the successful concept to other selected markets in the coming years.
- **Selected investments:** Real is making selected investments to establish itself as a multichannel retailer, strengthen its ultra-fresh categories and further expand its procurement partnerships and joint ventures. In April 2017, we established the RTG Retail Trade Group based in Hamburg. The established retail companies Real, Bartels-Langness, Bünting, Netto ApS, Klaas & Kock and Georg Jos. Kaes want to use this to considerably strengthen their competitiveness. The new network is an innovative high-performance platform of independent companies and operates nationwide across all sales formats – store-based and online. In e-commerce, the real.de website constitutes another step forward. In February 2017, we completed the integration of the previous Hitmeister online presence. Since then, the Real online marketplace has been offering customers a vast amount of items in 5,000 categories. External online retailers can also market their products there. In the e-food sector, Real has been testing the online food shop since April 2017, where customers can conveniently order their goods online and pick them up from any one of 10 markets. This also prepares the company for any potential increase in e-food demand.
- **Increase in cost efficiency:** We have streamlined our management structures, leveraged synergies within the group and restructured our core functions. In addition, we are restructuring our administration and consolidating functions within the group. In mid-2016, Real and the Verdi trade union agreed on a future collective agreement. The goal is to create structures that are competitive and offer good working conditions. Real generally accepts the regional collective agreements of the retail industry and is, beyond that, negotiating with Verdi trade union for a new remuneration structure.

— **For more information about the implementation of the sustainability strategy at Real as well as key figures, see chapter 2 principles of the group – 2.4 sustainability management in the combined management report.**