# STRATEGY

# 1

P. 25 INTERVIEW WITH THE CHAIRMAN OF THE MANAGEMENT BOARD

P. 30 STRATEGIC POSITIONING OF METRO GROUP

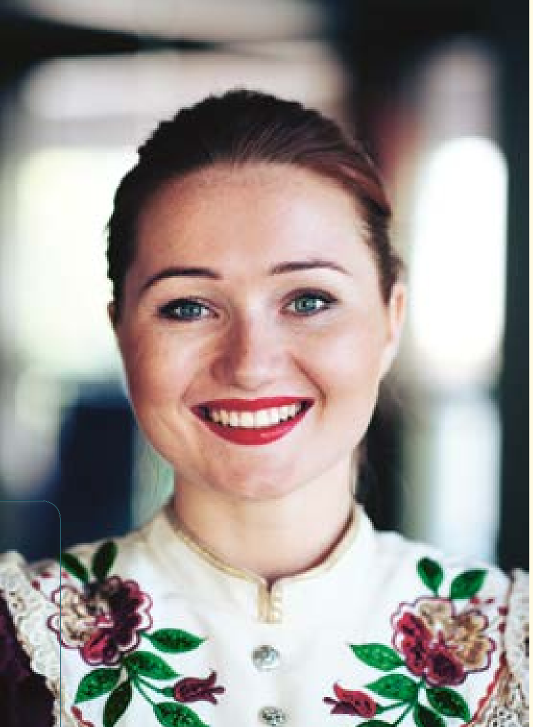
P. 30 METRO GROUP

P. 31 METRO Cash & Carry

P. 36 Media-Saturn

P. 38 Real

P. 42 Galeria Kaufhof



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As a purchasing assistant at the head office of METRO Cash & Carry Russia in Moscow, **JULIA POLOTSEVA** focuses on her customers. In her free time, however, her heart belongs to traditional Russian dance. She feels that music and movement give her soul wings.

RU

Moscow, Russia

Julia Polotseva in the dance studio

**FACTS & FIGURES**

METRO CASH & CARRY
**RUSSIA**

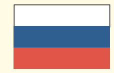
**Market entry**
2001

**Head office**
Moscow

| Number of wholesale stores | Number of employees |
|---|---|
| 73 | 17,669 |

FOCUS MARKET

# RUSSIA



**LAND AREA**
17,098,200 km²

**POPULATION**
142.9 million

**CURRENCY**
Russian rouble [RUB]


## ДОБРЫЙ ДЕНЬ!
[dobry den‘]
> HELLO! <

With over 17 million square kilometres, Russia is the world's largest country in terms of area. It extends from the Baltic Sea across the Urals and on to the Pacific Ocean. This span of almost 10,000 kilometres runs through eleven time zones. Russia is home to nearly 143 million people, most of which live in the cities and the urban industrial areas in the central and southern regions as well as in western Siberia. Moscow and St Petersburg are Russia's major economic and cultural centres. About twelve million people live in the greater Moscow area alone.

## ДО СВИДАНИЯ!
[do svidaniya]
> GOODBYE! <

Learn more about Julia Polotseva and her hobby starting on page 54 of the publication "The World of METRO Cash & Carry" or at reports.metrogroup.de/2013-14/metro-world

# “WE MUST ALWAYS THINK ONE DIMENSION AHEAD.”

In the following interview, Olaf Koch, Chairman of the Management Board of METRO AG, talks about the tremendous strides being made in the transformation process, the normality of undesired events – and ways to reach the hearts of customers and employees.

**Mr Koch, METRO GROUP hit its sales and earnings targets in financial year 2013/14. Is the company's transformation coming along well?**

We have made definite progress in every sales line by systematically focusing on our customer groups in the areas of product range, services and solution expertise. And this progress is reflected in our figures. In financial year 2013/14, the trend improved from quarter to quarter. We also realise that continued progress will not just happen on its own. It requires continuous optimisation. For this reason, one of our core jobs in the years to come will be to not only continue this transformation process, but also to intensify it.

**Where do you see the greatest growth opportunities for METRO GROUP?**

Each of our sales lines has its very own potential and strategic focal points. At METRO Cash & Carry, the systematic focus on our professional core customer groups is a top priority. Other priorities are improving our delivery service as well as expanding our successful franchise concept and own-brand strategy. At Media-Saturn, we are concentrating entirely on the issue of multichannel sales. We also see tremendous opportunities in the areas of service and customer assistance. Other equally important areas are innovative products and product experiences. By this, I mean fun with and enthusiasm for the product range. At Galeria Kaufhof, we have already seen our focus on local target groups pay off. This strategy is reflected not only in the department stores' product ranges, but also in the way we manage our selling space. We will continue to build on this. At Real, our job is to further refine the hypermarket format and to prepare it for the future. Real has tremendous potential, but also a great need for change.

“WE CAN ONLY DEVELOP AN IDEAL ATTITUDE … WE SHOULD ALWAYS BE MOVING FORWARD, THINKING ONE STEP AHEAD AND CREATING ADDED VALUE AS A RESULT.”

**What other challenges is METRO GROUP facing?**

In both economic and capital market terms, our business experienced some very hard times for the third consecutive year. We also faced unexpected regional crises on top of this in 2014. I think we will have to get used to the idea that undesired events have become a normal part of business. This is one challenge. A second one involves our own positioning – particularly in such an environment. As soon as we begin to believe that we have wrapped up our work and can call it a day, we have completely misunderstood something. We have to realise that the state of our business will never be ideal. We can only develop an ideal attitude about it: we should always be moving forward, thinking one step ahead and creating added value as a result.

**That is a high standard. How do you motivate your employees and yourself for this process?**

A company is always measured by its figures. They clearly show whether we have hit our targets or not. But the numbers themselves cannot motivate people over the long run. Rather, the key aim is to find something meaningful in what you do. This is the strongest motivator. Let's use METRO Cash & Carry as an example: with the new brand core and our communication efforts surrounding the brand campaign YOU & METRO, we are reaching both the minds and, increasingly, the hearts of employees and customers. Our goal of making small and medium-sized enterprises successful is not some hollow endeavour. It is actually something that is becoming a bigger reality day after day. And the countries that systematically apply this core philosophy are already profiting the most from it – both in terms of sales and earnings. This makes me especially happy! We are also working hard to change our corporate culture. This is the second critical aspect in regard to motivation. Just as people are the focus of our business transformation, they are also the focus of our company. We do not want to hold back the people with whom we work. Rather, we want to see them grow. More and more people in our company are beginning to understand this.

**It is not just the corporate culture that makes METRO GROUP an attractive employer. It is also its internationality. When do you plan to enter new markets once again?**

Internationality is indeed one of METRO GROUP's greatest achievments. But, in the past, we focused too much on expansion into new countries for a period of time. It almost became something we did by rote. For this reason, we have concentrated over the past three years on bundling both our financial and personnel energies. We have already made major strides in this work. Nonetheless, we are still keeping an eye on new markets and will act if we believe that they present a real opportunity for us.

**This could give your share price a boost. It began the year in a stable position and then came under pressure. What caused this to happen?**

When you talk about our stock's performance, you cannot overlook the political situation, particularly with regard to Ukraine and Russia. Negative developments in an area that is critical to our business operations generally also have negative repercussions on our share price. Our industry has been going through sweeping changes for some time now. The capital market is keeping a close watch to see who takes a systematic and long-range approach to change. Companies that act on impulse or fly by the seat of their pants will not hear any applause from investors. The much more critical question in an investor's evaluation of a company is this: is a turnaround on the horizon, and is it reasonable to believe it will hold this course in the future? For this reason, we are systematically applying our strategy so that we can continue to accomplish the goal that we reached during the past financial year: improving like-for-like sales development. In the end, the capital market will see this as a sign of our company's progressing transformation.

**Among other things, METRO GROUP is once again focusing more closely on innovations …**

… because we are determined to actively shape the direction of the far-reaching change that is sweeping through our industry. To intensely and systematically address the issue of innovation, we set up the Business Innovation department in November 2013 and defined five fields of innovation: store; channel; marketing; logistics, supply chain & delivery; and new products & services. Our sales lines have already begun to test a large number of new ideas in these areas. These include individualised offerings in marketing, express delivery within a three-hour window and apps that offer additional product information and digital shopping lists.

**Another aspect of METRO GROUP's future-driven transformation is creating added value while reducing negative developments. How firmly has sustainability been integrated into the company?**

In 2014, we were again added to the Dow Jones Sustainability Index World and Europe. We have also been listed for the first time on the FTSE4Good Global Index and FTSE4Good Europe Index. This is a tremendous accomplishment. It clearly demonstrates that our activities are paying off and that our commitment is being recognised. But we want something much more: every individual in our company should grasp the importance of sustainability and to bring this attitude to life. Like change, sustainability must become the norm at METRO GROUP, too. To make this happen, we have already taken a number of steps. In one of them, we have linked remuneration of the Management Board and top-level executives to our company's ranking on the Dow Jones Sustainability Index. By doing this, we have intensified our internal discourse about the issue as well as our commitment to it.

**METRO Cash & Carry celebrated its 50th anniversary during this financial year. Did the anniversary produce the boost that you hoped it would?**

Our primary goal was to significantly increase our appeal to customers. We wanted to increase customer frequency, gain new customers and reactivate ones who are idle. Thanks to the activities and special campaigns we undertook during this anniversary year, we were able to take a major step forward in all of these areas. In addition – and this is just as important – we had a great time with our customers and employees and offered them some tremendous deals as a way of rewarding their loyalty. As a result, we are quite pleased about the results of the anniversary year.

**But the German market remains a challenge. In recent months, METRO Cash & Carry has focused much of its time on reworking its product ranges and expanding its customer assistance and services. How satisfied are you with business performance?**

I am very satisfied with the progress. Germany is one of the METRO countries with the most potential for generating strong growth and regaining market share. Our primary goal must be to get even better at reaching customers, to make them more satisfied and to create new growth momentum in the process. We have already taken a number of steps here – not only in terms of the product range and delivery, but also in terms of fine-tuning our price strategy. In recent years, though, we have invested too little in our German business operation. We will now take a back-to-attack approach and intensify our investment in the German market.

**Speaking of back to attack: Media-Saturn is also working intensively on its own transformation in its work to gain or regain market share. Critics frequently say that especially its online business has some catching up to do.**

We have made great progress in our online business in recent years. Now, in the first quarter 2014/15, the online shops of Media Markt and Saturn offer more than 80,000 and about 64,000 products, respectively – and the number continues to grow. Media-Saturn is also working to further expand the purely online business run by Redcoon. But our intensified effort in this area does not mean that we are turning our backs on our stationary business. We intend to link all channels. Our goal is to be everywhere the customer is. Media Markt's new consumer electronics store in Ingolstadt epitomises this concept. Online terminals and department tablets link the store with the online shop. At Saturn, we are also testing digital price tags. With them, prices can be changed at the press of a button. By creating the world's first drive-thru for electronic products and a 24-hour pick-up station, we have taken specific steps to respond to customers' changing shopping habits and service needs. Thanks to our changes, customers can profit from the strengths of our stationary business and also take advantage of our new mobile and online shopping opportunities. This interlinked system puts us a step ahead of companies that only conduct their business online.

“LIKE CHANGE, SUSTAINABILITY MUST BECOME THE NORM AT METRO GROUP, TOO.”

**Much has also changed at Real. The new store in Essen is serving as a blueprint for a sweeping store refurbishment programme. In this financial year alone, 50 hypermarkets were remodelled across Germany.**

And this work has paid off: customer frequency and sales have already begun to rise in the refurbished stores. As a result, we will systematically move ahead with our investments. Next year, we are planning to remodel a large number of other stores on the basis of the Essen concept. Another one of our important jobs will be to inform our customers more clearly about the benefits of shopping at Real. For instance, Real is the only German food retailer to have a butcher's shop in every store. Real's meat department is already well ahead of the ones operated by competitors. We also have a very strong position in other product groups such as fruit and vegetables or fish. We have to bring this tremendous expertise about freshness and variety to life and communicate this better.

**The Galeria Kaufhof sales line also celebrated an anniversary in 2014. But a 135-year tradition alone does not guarantee success in the future.**

Galeria Kaufhof's good commercial position and its promising future are primarily the result of our far-sighted and deliberate management. First, we have always run the business well – even during those years when sales were falling. Second, Galeria Kaufhof has continuously and extensively invested in the format. As a result, its stores are in great shape. And, finally, we have constantly refined the business model. I should add that this work was not simply aimed at getting the next brand and the next product out into the store. The much more critical step was our decision to carefully analyse our target groups, which we have intensively done since 2011. Thanks to this research, we made specific changes in the product range, reorganised selling space and systematically invested in product presentations. All of this hard work is paying off: for seven quarters now, Galeria Kaufhof has generated like-for-like sales growth.

**The new financial year has already begun for METRO GROUP. What are you expecting in 2014/15?**

We have already seen that we have a good foundation for starting the new financial year 2014/15: during the fourth quarter 2013/14, we increased like-for-like sales in every sales line. We can now build on this. We are well prepared and can look optimistically towards the Christmas quarter. We are quite aware of the large amount of volatility in markets created by a broad array of regional crises. But we are confident that we will be able to produce another slight gain in like-for-like sales in 2014/15. We also expect EBIT before special items to rise slightly adjusted for currency effects. The strides that we have already made in the transformation of our business models are paying off here. We intend to make more progress in this regard as we move forward. In addition, we will continue to closely focus on efficient structures and strict cost management.

# STRATEGIC POSITIONING OF METRO GROUP

## METRO GROUP

METRO GROUP, based in Düsseldorf, is a leading international retail company. Worldwide, around 250,000 employees dedicate themselves to optimally fulfilling the expectations of our customers. Our operating business focuses on self-service wholesale trade, consumer electronics stores, hypermarkets, department stores and online trade. In these areas, our four independent sales lines are leaders:

— METRO Cash & Carry is a leading international player in self-service wholesale trade.
— Media-Saturn is number one among consumer electronics stores in Europe.
— Real is one of the leading hypermarket companies in Germany.
— Galeria Kaufhof is the market leader in the department store segment in Germany and Belgium.

With their products and services, our sales lines serve professional and private customers in 31 countries in Europe and Asia. To reach new target groups and establish long-term relationships with customers, the sales lines are tapping new sales channels and increasingly dovetailing their stationary business with online retailing. In addition, Media-Saturn's subsidiaries offer pure online shopping options.

### Focus on customer value

The objective of METRO GROUP's strategy is generating long-range, sustainable growth. First and foremost, our aim is to improve like-for-like sales and earnings. We are also boosting our performance strength and appeal by optimising our cost position and cash flow, improving our margins and reducing our net debt. The prerequisite for METRO GROUP's long-range sustainable growth is our persistent focus on creating value for our customers. Five focal points guide us in this work: transform, grow, improve, expand and innovate. They provide the strategic framework for our business activities and lend a shared direction to our group across all sales lines and companies.

### Transform

Our customers' needs and expectations form the starting point for all our strategic considerations. Which product ranges do they need in their local stores? Can we offer new services to pique the interest of consumers or professional customers in our business models? Which sales channels do we have to develop to meet our customers' increasing demands? Using these questions as our starting point, we have already made significant strides in the areas of multichannel, delivery, franchising and own brands. In this and other areas, we are rigorously forging ahead with the strategic repositioning of our sales lines.

### Grow

Our second focal point is growth in all business segments. We intend to achieve this first and foremost by improving sales per square metre of selling space in existing stores. An absolute focus on the customer and engaging in socially and environmentally responsible business practices are crucial to this effort. We also aim to significantly improve customer satisfaction. To raise our appeal to private and professional customers, we are making targeted investments in new services. In addition, we are selectively adjusting our sales lines' price levels to further bolster their competitive positions. Finally, we are realigning our incentive systems for employees to encourage additional productivity enhancements.

## Improve

A company's competitiveness depends as much on its process performance as on an attractive product and service offering. Our objective is to create streamlined, effective organisational structures. For this reason, we have to continually examine our processes, systematically review our country portfolio and improve our cost structure. In this way, we can improve our cash flow and create headroom for additional investments.

## Expand

Efficient processes, optimised cash flow and sales growth with stable or improved earnings represent the foundation for our further expansion outside our home market of Germany. After all, our mission is to invest in a business model that is customer-oriented, competitive and sustainable. Many countries in which METRO GROUP is active offer excellent opportunities for enhancing our footprint. We are currently focusing our expansion and are seizing new opportunities: by opening new stores in such countries as China, Russia, Turkey and India as well as by enhancing our offering in all other countries.

## Innovate

Creating added value for customers means responding to changing requirements early on or even shaping this change by recognising technological, societal and consumer trends, by identifying their potential relevance to our own business and by devising specific solutions such as optimised processes or new sales concepts. This work begins by firmly anchoring business innovation within our company structure as well as defining innovation focal points that are relevant to our customers and hold growth potential. The key is cultivating a structured network with internal and external experts. This approach forms the foundation of our innovation management.

**For more information about innovation management at METRO GROUP, see the combined management report in chapter 7 Innovation management.**

## Framework for sustainable growth

Our business objectives are aligned with ecological and social requirements. For this reason, we have firmly anchored the principle of sustainability within our corporate strategy. Our sustainability vision serves as a group-wide foundation for the long-term transformation of METRO GROUP: "METRO GROUP. We offer quality of life. For our customers, for our employees, for all who work for us and for society."

**For more information about METRO GROUP's sustainability management, see the combined management report in chapter 8 Sustainability management.**

# METRO Cash & Carry

METRO Cash & Carry is a leading international player in self-service wholesale trade. METRO GROUP's largest sales line, which lent the company its name, celebrated its 50th anniversary in 2014. In 1964, founder Otto Beisheim opened the first METRO Cash & Carry wholesale store in Mülheim an der Ruhr. Its concept was revolutionary at the time: professional customers could select their own purchases all under one roof, pay for them in cash and take the items with them. Over the decades, METRO Cash & Carry has continually expanded this business model, adding new items and services geared to customer needs and local requirements.

## 50 years of METRO Cash & Carry

During the anniversary year of 2014, METRO Cash & Carry celebrated the occasion in every country where our sales line does business, organising numerous events and special activities for customers, employees and partners. Highlights in Germany included a mini-truck tour through approximately 100 cities. During the tour, customer managers from around Germany visited customers at their business locations and presented products from the new Mediterranean product assortment. Customers also stood at the centre of the anniversary campaign "50 Super Deals – the Grand Anniversary Finale" that was launched exactly 50 days before the anniversary of METRO Cash & Carry on 27 October: for seven weeks in 24 different countries, METRO Cash & Carry sold a selected item at a very special price to thank customers for their many years of loyalty to the company.

METRO Cash & Carry's countries also showed their creativity in devising original activities to mark the anniversary year: in Poland, for instance, employees gave an anniversary concert using instruments made from packaging materials. MAKRO Cash & Carry in the Czech Republic released an anniversary cookbook. And METRO Cash & Carry in Pakistan and China celebrated anniversary parties with the slogan "Young and Wild". METRO Cash & Carry Germany invited employees, customers and suppliers to an anniversary party in Berlin. The anniversary was also celebrated in the headquarters of METRO GROUP.

The array of events was rounded out by a website developed especially for the anniversary, www.50yearsmetro.com, the anniversary magazine “Recipes for Success” and the first METRO Start-Up Study.

## New brand positioning YOU & METRO

METRO Cash & Carry also used the anniversary year 2014 as an occasion to reformulate its mission and focus for the future. The key to future success will be long-term, trusting and collaborative relationships with customers, employees, partners and suppliers. METRO Cash & Carry expressed this commitment with a new slogan: YOU & METRO. The sharpened brand profile enables the company to communicate the values for which it stands even more clearly. The wholesaler’s aim is to be the best partner possible for independent entrepreneurs. Using the new brand positioning as a starting point during the reporting period, METRO Cash & Carry also developed a uniform international employer brand based on the YOU & METRO slogan. This effort focuses on the company’s employees. They tell their own personal METRO story and thus bring the company’s brand promise to life.

## Optimised approach to target groups

METRO Cash & Carry operates under the brand names METRO and MAKRO in 28 European and Asian countries. In Germany, the portfolio is complemented by the C+C Schaper brand. Every day, 117,255 employees around the world work to make their customers successful. Hotel and restaurant owners, catering firms, independent retailers, service providers and public authorities particularly value the comprehensive range of products offered by METRO Cash & Carry. For each of these customer groups, our sales line offers customised assortments and services at an excellent value for money. This offer is complemented by specific solutions such as retail concepts and professional consulting services to optimally support professional customers in their respective businesses and make them more successful.

In recent years, our sales line has further honed its approach to addressing target groups to better meet the special requirements of customers and to more systematically focus the product range on their needs. In one reflection of this effort, METRO Cash & Carry Germany is now concentrating on bakers and butchers, whose business fields are changing: Bakeries are taking on the characteristics of restaurants. Butcher shops are adding catering and party services alongside supplemental products and lunch offerings. A systematic review of customer visits and an analysis of sales figures, turnover and market research data have shown that these groups offer a high level of revenue and new customer potential for METRO Cash & Carry. In response, our sales line is making the changes it needs to serve these target groups – including special product ranges of snack food and supplemental items as well as special training for customer managers.

In the Czech Republic, METRO Cash & Carry is also taking an optimised and more focused approach to addressing its target groups: here, our sales line has identified the nearly 80,000 Vietnamese who live in the country as a separate target group. Their culture has been a major influence on the country since the 1970s: restaurants, bars and small businesses that sell a specialised line of products are found throughout the country. In 2010, MAKRO Cash & Carry began to support the approximately 3,000 Vietnamese retailers by offering customised product ranges and targeted training. A 20-member sales team now conducts this business. The work is paying off, too: the target group of these retailers now makes up 30 per cent of the trader business in the Czech Republic. Since 2010, MAKRO Cash & Carry Czech Republic has nearly doubled its sales with Vietnamese retailers.

## Customer feedback as the basis for improvements

Customer satisfaction is a top priority at METRO Cash & Carry. It is a key indicator of how well products and services meet the customers’ expectations. Customer feedback also serves as an important basis for improvements. To measure customer satisfaction, METRO Cash & Carry launched the company-wide Customer Satisfaction Pulse Initiative in November 2013. Since then, an independent market research institute has conducted a quarterly customer survey in more than 750 wholesale stores in all METRO Cash & Carry countries. The key issues addressed in the survey include product assortment, availability, quality, price and employee contact. Drawing on the data, each wholesale store defines specific steps designed to increase customer satisfaction. At the same time, country headquarters devise programmes that can be used on the national level. The data collected in the following quarter are used to measure the success of these efforts. With the Customer Satisfaction Pulse Initiative, METRO Cash & Carry has created a regular process that it can use to fuel customer-focused improvements.

## Customer-specific marketing

METRO Cash & Carry is committed not only to constantly improving its range of products and services, but also to communicating a more individual message to its customers. To this end, our sales line employs new customer communication formats such as targeted 1:1 marketing. The basic idea of this approach is to further develop print and mass communications like the printed publication METRO Post. In this work, METRO Cash & Carry aims to communicate with customers on a more digital and individual basis as well as to more closely dovetail the various channels. In the first element of this marketing program, METRO Cash & Carry has introduced 1:1 couponing on a test basis in Russia, Poland, Germany and the Netherlands. As part of this program, the sales lines identifies customers whose purchases at METRO Cash & Carry have declined. In another part of it, new offerings are created using customer-specific transaction data.

The introduction of 1:1 couponing and the individual METRO Post in additional countries are being prepared at the moment. METRO Cash & Carry is also working to improve its infrastructure and data mining options. As a result, it will be able to send personalised customer communications by e-mail, post and text message.

## Tailored assortments

A broad product range designed to meet the needs of individual target groups, quality, freshness and tailored services – these are the compelling benefits METRO Cash & Carry offers to professional customers in 28 countries around the world. Our sales line markets products from renowned producers as well as own-brand products that combine high quality with attractive prices. The product assortment comprises about 50,000 items. METRO Cash & Carry emphasises local products: up to 90 per cent of its assortment is purchased from local producers and providers.

In financial year 2013/14, our sales line further expanded its assortment of local products. In addition, METRO Cash & Carry added more than 80 Greek and Turkish products to the Mediterranean assortment introduced in Germany in 2013, bringing the total number of products to 450.

## International procurement strategy

METRO Cash & Carry supports independent businesspeople with a broad product range. In particular, the selection and composition of food products are critical to the company. The reason for this is clear: our sales line generates approximately 80 per cent of its sales from these products. To be able to offer a unique and attractive product range to customers in every country where it does business, METRO Cash & Carry employs a company-wide procurement strategy. The main objective of this strategy is to obtain products as directly as possible in order to have the greatest influence on such aspects as quality, price, availability and sustainability. Procurement category teams decide whether a category will be procured on a global or local level. The country organisations themselves handle local procurement. Up to 90 per cent of foods continue to be purchased locally. For products that are produced in a particular region but are sold in a large number of countries, such as Italian cheese and Spanish wine, METRO Cash & Carry bundles demand and purchasing.

To be able to procure goods directly where they are produced, our sales line opened international trading offices (ITO) in 2009. Today, METRO Cash & Carry has six such procurement centres located in Rotterdam, Boston, Concarneau, Valencia, Hong Kong and Düsseldorf. In 2013, the trading office in Valencia procured more than 200,000 tonnes of fruit and vegetables from producers in Spain, Italy, Morocco, Greece, Turkey and countries overseas for combined orders from METRO Cash & Carry countries. METRO Cash & Carry countries benefit from these structures in a number of ways: they lower product costs and result in a better purchase price. Furthermore, uniform quality and traceability standards are applied and a high level of reliability is assured. In financial year 2013/14, METRO Cash & Carry achieved a volume of €1 billion with the joint procurement of foods.

## Strong own brands for professional customers

Since 2009, METRO Cash & Carry has been forging ahead with its own-brand strategy through a focused product portfolio: the six core own brands Aro, H-Line, Horeca Select, Fine Life, Rioba and Sigma offer excellent value for money and thus real added value, particularly for professional customers. The own-brand share of METRO Cash & Carry's total sales rose to 17.0 per cent during the reporting period. This amounts to sales of €5.2 billion.

In particular, the own brand Rioba, which features special product solutions for cafés and bars, represents a success story. The product range includes professional espresso machines and a complete tableware assortment as well as various coffee varieties and baked goods. There are now a number of Rioba cafés that have been set up as part of a partnership between METRO Cash & Carry and coffee shop owners. Launched as complete solutions, the coffee shops exclusively use and sell own-brand products.

## Flexible merchandising concept

From the very beginning, the merchandising concept of METRO Cash & Carry has been one of the strengths of the wholesale store operator: it is so flexible that it can be optimally adapted to meet the specific conditions and needs of the respective countries. METRO Cash & Carry varies its formats, particularly with respect to assortment depth and selling space, which covers anywhere from 2,500 to 22,000 square metres. Most of the stores have a selling space of between 6,500 to 8,500 square metres.

In addition, METRO Cash & Carry is increasingly adding new sales formats to account for different customer groups' expectations and needs. Our sales line has developed a special store format especially for city centre locations in France. These city centre stores have been successfully introduced in Italy and Spain as well. With a selling space of up to 3,000 square metres, these stores systematically address the needs of the key target group of hotels, restaurants and catering firms, and primarily offer fresh foods. Thanks to city centre locations, METRO Cash & Carry can shorten trips made by suppliers and customers. This enables fast and comfortable shopping – and makes it easier for customers to meet urgent needs in a timely and cost-effective manner.

In response to tremendous competitive pressure and aggressive price policies, METRO Cash & Carry in Italy has introduced the new budget concept METRO Piazza Affari as a new format. The first pilot store opened in February 2013 in Abruzzo, a less-prosperous region of Italy. To increase productivity, the store's inventory was reduced: the number of food products being sold was cut by 50 per cent compared with other stores, and the non-food assortment was even reduced by 70 per cent. At the same time, METRO Piazza Affari offers about 2,000 items whose individual prices are more than 10 per cent lower than those at other wholesale stores. The aim is to generate a large volume of sales as a way of gaining market share and generating profitable growth.

## Expanded business model: delivery

Delivering goods to customers contradicted the original cash-and-carry concept for many years. The delivery service is now considered one of the most important successes in the sales concept's transformation. By expanding its business model, METRO Cash & Carry aims to attract new customers, with a particular focus on hotel and restaurant owners as well as catering firms. This option, which was introduced in 2009, has become an integral part of the services offered in all countries where METRO Cash & Carry does business. Around the world, several thousand employees work to process customer orders, package products and then deliver them. With its delivery service, our sales line generated sales of €2.8 billion during financial year 2013/14 – a 13.6 per cent increase over the comparable period in 2012/13.

The delivery service also aims to create customer value: the simple ordering process enables customers to save time shopping. Professional customers can order goods in the same high quality they have come to expect at attractive prices, and they can do so by using a number of channels. Customers typically receive their orders within 24 hours. Additional services such as personalised order forms and pre-commissioning with in-store pick-up round off the sales line's service range. In addition, online shops complement stationary stores in countries such as China, Poland, the Netherlands, Romania and Hungary. Customer service is also provided by the sales line's sales force, which works with customers on site and serves as the first point of contact for customer requests. The aim is to optimise consulting and service options for customers, to better leverage the existing potential for expanding customer business through personal contact, and to generate greater sales. The specially trained sales employees have a unique range of products they can actively offer to their customers.

## Further development: Food Service Distribution (FSD)

To provide even better service to customers and to continue to produce profitable growth, METRO Cash & Carry began to further professionalise and optimise its delivery service during financial year 2013/14. As part of this effort, our sales line is working to apply basic rules such as a focused product range, stable prices and a specialised sales force everywhere.

In China, Germany and Russia, METRO Cash & Carry is also restructuring its logistics operations. The aim is to gradually break away from wholesale store-based deliveries on an individual or national basis and to introduce a professional food service distribution concept. This approach is already being taken in Qingdao, China: in June 2014, METRO Cash & Carry opened a distribution centre in the Chinese port city and expanded the existing delivery service in the process. In the approximately 2,000 square-metre depot, the sales line is warehousing products that specifically meet the needs of local Horeca customers. Based on the success of the new distribution centre in Qingdao, METRO Cash & Carry China plans to introduce the FSD concept in other cities as well.

In Germany, the concept will be rolled out at the store in Weiterstadt. A delivery depot was integrated into the wholesale store in 2010 and was expanded in 2014. In the future, the centre will store fresh and ultra-fresh items, regional products and fast-moving items. For slow-moving products, METRO Cash & Carry will use its central warehouse in Hamm. In years to come, METRO Cash & Carry plans to introduce this concept in other wholesale stores.

During financial year 2013/14, METRO GROUP also acquired a 75 per cent stake in the Spanish food service distribution company MIDBAN. The aim of the transaction is to grow the food service distribution business at METRO Cash & Carry Spain and to sustainably secure the company's excellent market position.

## Network for independent retailers

The support of independent food retailers – especially in emerging markets – is also a key business area for METRO Cash & Carry. For this customer group, our sales line has developed specially tailored programmes. The key aim of these programmes is to bolster the competitiveness of small retailers, protect their independence and establish long-term business relationships with these customers. The programmes comprise country-specific measures that help to professionalise and modernise professional customers' businesses. Together with the customer, METRO Cash & Carry analyses and assesses, for example, specific store parameters and operations. Drawing on the collected data, the sales line's employees develop specific improvement measures with a view, for instance, to assortments, prices, store layout and marketing. In Russia, the Czech Republic and India, METRO Cash & Carry regularly organises seminars to impart specific trade knowledge to independent retailers.

Our sales line has now introduced the Trader Franchise Programme for independent food retailers and kiosks in nine countries. Here, METRO Cash & Carry acts as a kind of franchisor with an individual advertising campaign and offers the companies training, advice on assortments, marketing packages and professional price comparisons. The store owners manage their stores completely independently, but use standardised logos and the joint advertising campaign for their own purposes. METRO Cash & Carry provides the necessary expertise, offers professional support and delivers the products. In turn, retailers agree, among other things, to include a minimum number of own-brand articles and products in their assortments. In addition, the assortment of the small food stores is designed to ensure that consumers find everything to satisfy their daily needs – including fresh fruit and vegetables. More than 6,000 independent retailers have now joined the franchise network.

## Focus on growth regions

METRO Cash & Carry has the largest global footprint of all METRO GROUP sales lines. It operates in 28 countries on two continents and faces different conditions in each individual market. While trade structures in the Western European markets are already fully developed, markets in Eastern Europe and Asia are in different developmental phases – this must be taken into account in the sales line's daily work.

METRO Cash & Carry continued to expand its store network in financial year 2013/14. A total of 17 new wholesale stores were opened. The international share of sales declined from 84.5 per cent to 84.2 per cent. In line with our strategy, we first concentrated on improving like-for-like sales in markets where we already do business and accelerating expansion in selected countries where we already have stores. The focal areas of expansion are the growth regions of Eastern Europe and Asia, particularly China, Russia and Turkey. In financial year 2013/14, we also identified India as another country for the international expansion of METRO Cash & Carry. The aim is to have 50 wholesale stores in India in the year 2020. The company continues to sharpen its focus and is concentrating on stores and regions where market share can be gained. For this reason, METRO GROUP decided to give up its cash-and-carry business in Egypt and Denmark. In addition, an agreement to sell METRO Cash & Carry Vietnam to the Thai retail group Berli Jucker Public Company Limited was concluded.

# Media-Saturn

In terms of sales, Media-Saturn is METRO GROUP's second-largest sales line and number one among consumer electronics stores in Europe. Media Markt, Saturn, the online retailer Redcoon and the Russian online shop 003.ru belong to the group of companies. These sales brands carry out business autonomously in the marketplace. The company 24–7 Entertainment, one of Europe's leading providers of technology for the distribution of digital content, is also part of the sales line. In addition, Media-Saturn holds a stake in Xplace, a technology service provider that is one of the leaders in the European market for interactive customer information, as well as in Flip4New, a leading German platform for purchasing used electronic products.

Since 2010, the two sales brands Media Markt and Saturn have been systematically transforming themselves by employing a clearly defined multichannel strategy in which the stationary business is closely linked to corresponding online shops and mobile offerings. The core competences of attractive prices, large selection, innovation, brand variety, service offers and eye-catching advertising will remain key objectives in the future. This strategy is designed to fuel the continued international growth of Media Markt and Saturn.

Redcoon and 003.ru, on the other hand, are positioned as online providers of discounted electronic products and sell them exclusively via the Internet.

Flip4New purchases used electronic products through Media Markt and Saturn in exchange for vouchers. In Germany, customers can make these transactions on mediamarkt.de and saturn.de as well as in all Saturn stores. Customers in Austria, the Netherlands, Poland, Spain and Sweden can also take advantage of this service. It is to be introduced in Belgium, Italy and Switzerland by the end of 2014.

## Multichannel and dual online strategy

Consumers are increasingly going online to learn about products and to obtain goods and services. The Media-Saturn group of companies has responded to this trend in its dual online strategy. While Media Markt and Saturn increasingly serve customers both at stationary stores and in online shops, Redcoon and 003.ru have exclusively positioned themselves as pure online retailers. The objective is to also lead the European market for online consumer electronics retailing.

A core element of the strategy employed by Media-Saturn is the dovetailing of sales channels. As a result, Media Markt and Saturn customers can choose to purchase products online from home, with their smartphones while on the go or in their local consumer electronics store. Products can be ordered online and, if available, picked up on the same day at the nearest store. If a customer needs additional assistance with the product purchased online, he or she can also get this at a selected Media Markt or Saturn store. In some cases, service packages can also be booked online. To provide customers with even more flexible online shopping options, Media Markt and Saturn are currently testing same-day delivery and scheduled deliveries in a number of cities in Germany. In nearly all countries, Media Markt and Saturn have improved their online offering for smartphones so customers can shop while they are on the go. The multichannel strategy will be systematically expanded. In financial year 2013/14, our Media-Saturn sales line extensively revamped its structures to meet multichannel needs and adapted its internal processes, structures and interfaces to address the requirements of the new strategy. At Media-Saturn E-Business GmbH, all operational areas that were formerly located in various areas of the company were combined in a cross-channel manner. At the end of financial year 2013/14, customers in 13 countries could shop online or on mobile devices at Media Markt and Saturn: in Austria, Belgium, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Russia, Spain, Sweden, Switzerland and Turkey.

Moreover, Media Markt and Saturn are increasingly positioning themselves in the digital entertainment segment. For several years now, they have been offering digital products online – including music and film files, video games, computer programs and e-books. Through a subscription system, the online service JUKE, operated by 24–7 Entertainment GmbH, provides customers with unlimited access to more than 25 million music tracks in a streaming process – via computers, smartphones and tablets as well as selected digital home entertainment systems.

The second core element of the online strategy of Media-Saturn is pure online retailing. The sales brand Redcoon, one of the largest German-language online discounters for televisions, household appliances, computers, notebooks, smartphones, digital cameras and stereos, is represented in a total of eight European countries. With Redcoon, our sales line can target price-conscious consumers who shop online. In Russia, Media-Saturn does business in this segment by way of the company 003.ru.

## A culture of competition

Media Markt, Saturn, Redcoon and 003.ru act as competitors in the marketplace, a fact that fuels their performance. In addition, the individual Media Markt and Saturn consumer electronics stores are generally positioned as independent companies in which the local managing director holds a stake of up to 10 per cent. This organisational structure provides managers with decision-making freedom and facilitates entrepreneurial thinking and actions. It also ensures that each store can flexibly react to local conditions. For example, a large number of customer contacts, advertising campaigns, product selection and personnel planning are managed directly by the individual consumer electronics stores. As part of the multichannel strategy, stores also receive a share of online sales, including for products that are ordered online and then picked up in the store.

## Comprehensive selection and service

Media Markt and Saturn view themselves as industry trendsetters. This fact is reflected in the selection and presentation of products online and in stores as well as store design. The entire assortment in flagship stores – marquee stores in excellent locations – includes up to 100,000 items, particularly small and large electronic devices as well as entertainment electronics and media. In the online shop, consumers can select from approximately 60,000 individual items, and this number is rising sharply. The sales brands also offer services such as financing, warranty extension, repair and disposal of old devices and appliances. Under the umbrella of "Power Service", Media Markt and Saturn provide a number of additional services, including delivery, set-up, data recovery, inspection of built-in units and satellite systems, and maintenance packages. In July 2014, Media Markt and Saturn added their own mobile phone rates.

## Large selection of own brands

In 2010, Media Markt and Saturn began to offer exclusive own brands in Europe: "ok." for the budget price segment and "KOENIC" for high-quality small and large household appliances. Media-Saturn also introduced the "PEAQ" brand for consumer electronics as well as the "ISY" brand for accessories. In 2014, redcoon.de began to sell these brands as well. There are currently about 400 own-brand items available for sale. As a result, the consumer electronics stores cover all price segments and an array of product categories. To assure the highest possible product quality, the sales line works closely with well-known manufacturers. Own-brand products are available in most countries where Media Markt and Saturn operate stores. Media Markt and Saturn are also gradually adding these products to the assortments of their respective national online shops.

## Strong marketing campaigns

Media Markt, Saturn and now Redcoon are known for their unusual advertising campaigns and memorable slogans both in Germany and in other countries. Media Markt and Saturn advertisements are designed to inform, entertain, polarise and attract people at the same time. During the reporting period, the sales brands once again launched marketing campaigns that caught people's attention. One example of this was the Media Markt campaign “Jetzt spart ganz Deutschland die Mehrwertsteuer” (We’re dropping the value added tax across Germany): for three days in July 2014, customers received 19 per cent off their purchases. For its part, Saturn further refined its brand message “Soo! muss Technik” (Technology: the way it has to be!). The campaign with the new character Tech-Nick that was launched in October 2013 was continued in 2014. Under the slogan “Bei Technikfragen Tech-Nick fragen” (For tech questions, ask Tech-Nick), the friendly “store employee” (actor Antoine Monot Jr) advises customers on their purchases. Tech-Nick also shares his thoughts on his own Twitter channel. Media Markt and Saturn have aligned their marketing concepts with the multichannel strategy and are continuously expanding their presence in social media networks. In addition, Saturn regularly publishes the free customer magazine “TURN ON”, which unites print and online media. For its part, Media Markt is increasingly focusing on integrating all media. In the process, the sales brand will fill the various channels with content depending on its needs.

## Expansion and store optimisation

In Europe, Media-Saturn is number one in consumer electronics retailing. As of the end of September 2014, the sales line had 986 stores in 15 countries and operated a pure online sales channel in nine countries. The selling space in the consumer electronics stores ranges from 1,000 to 18,000 square metres.

In the financial year, Media-Saturn had 38 more consumer electronics stores than it had on 30 September 2013. The company will press forward with its expansion as well as continuously expand its online offering. At its existing stores, our sales line is continuously optimising its portfolio and fine-tuning it to address the latest trends and customer needs. This work also includes tests of new formats and space concepts such as Saturn Connect in Poland, a proximity store concept with small shops that specialise in connectivity and mobile products. Another format that Media-Saturn has been testing since May 2013 is Media Depot in Hungary. The concept is based on a simple warehouse atmosphere and a new product mix that includes a large number of white goods and supplemental items for such things as gardening and leisure activities. It is designed in particular for economically weaker countries and regions. With the newly opened Media Markt at the company’s headquarters in Ingolstadt, Media-Saturn has created a modern, multichannel shopping experience that epitomises multichannel retailing. The consumer electronics store’s numerous interactive offers represent the future for the sales line’s other stores. To profit even more from synergies, Media-Saturn in Belgium, the Netherlands, Italy and Turkey is focusing on the Media Markt sales brand. A large majority of Saturn stores were reopened in these countries as Media Markt.

# Real

A comprehensive range of food and non-food products, high-quality fresh items and attractive prices: all this makes Real one of the leading hypermarket companies in Germany. Its aim is to provide customers with the best shopping experience as a result of its product expertise, variety, attractive prices and modern stores. The sales line operates 307 stores across Germany, including two drive-thru grocery stores as well as the Real online shop. Its business in Turkey was acquired by Hacı Duran Beğendik during the reporting period.

Real’s hypermarkets have between 5,000 and 15,000 square metres of selling space. These stores offer customers products that cover all their daily needs under a single roof. Real generates three quarters of its sales with food items. The centrepieces of its product range are fresh foods, including fruits and vegetables, meat, sausage, fish and cheese. Real also offers a wide range of non-food items, including electronic devices, household products and textiles. Up to 80,000 different items are available in every Real hypermarket. In response to customers’ changing shopping habits, Real has more closely dovetailed its stationary retail operations with its online business. As a result, the sales line can interact with customers on a cross-channel basis both in stationary retail and online.

Our sales line continues to systematically employ the strategy it devised at the end of 2012. This strategy addresses every business segment at Real and covers six focal points: customer orientation, marketing efficiency, multichannel operations, supply chain management and purchasing, operational excellence and new organisational structures/corporate culture. Each of the projects described below must make a clear contribution to one of these focal points.

## Successful transformation

In 2014, Real systematically continued to carry out its strategic transformation. In the process, it reinforced and expanded new structures and processes. At the beginning of 2014, all business operations conducted by Zweite real,- SB-Warenhaus GmbH, including the stores, were spun-off and transferred to real,- SB-Warenhaus GmbH. Since then, the 64 stores have been integrated into the Real store network. This step reduced administrative complexity.

To keep the company on its successful course, Real took far-reaching modernisation steps during the reporting period and examined its store network. As part of these considerations, a decision was taken to close 16 stores – partially due to a lack of business opportunities and partially due to expiring leases that contained no extension option. At the same time, Real bolstered its profitable stores: in Göttingen, Kulmbach and Regensburg, METRO PROPERTIES acquired the properties from Redos Real Estate GmbH. In the process, the leases with Real were extended ahead of schedule. Furthermore, METRO GROUP acquired ten stores from the Delek Group of Netanya, Israel. These stores are located in Bremerhaven-Pferdebade, Castrop-Rauxel, Groß-Gerau, Darmstadt, Freiburg (Gundelfinger Straße), Heidenau, Würzburg (Nürnberger Straße), Wetzlar, Raunheim and Wiesbaden (Mainzer Straße). This acquisition will facilitate an orderly structuring and systematic development of the store network.

Far-reaching changes were also made in the entire supply chain operation. As a result of a logistics system that has been adjusted to the inventory turnover of individual product groups and a higher central warehouse share in the dry goods range, incoming deliveries will be sharply cut and costs will be lowered. At the beginning of financial year 2014/15, the transfer of ownership of the warehouse inventory from METRO LOGISTICS to Real took effect. Altogether, the changes will significantly improve product availability in stores. Thanks to lower costs throughout the entire supply chain, efficiency will also be improved. In addition, inventories in the central warehouse and in stores will be significantly reduced.

## Store refurbishment

The new concept implemented at the Real hypermarket that opened in October 2013 in Essen has been a success: between November 2013 and August 2014, sales climbed by more than 15 per cent and the number of customers increased by more than 25 per cent. For this reason, our sales line modernised 30 more stores in the first half of 2014 on the basis of the Essen concept. While the focus of the food section was primarily placed on sales campaigns and seasonal displays in the entryway, new non-food concepts have been designed to set Real apart from its competitors. All product areas have been better geared towards changed customer habits: the layout of product sections and departments is increasingly based on customer behaviour while searching for items. The stores now seem bigger and more clearly organised thanks to wider aisles, an open central corridor and lower shelves. The altered assortment structure and product location as well as new services that include free Wi-Fi significantly increase customer value. Positive feedback and increased customer frequency in the refurbished stores prompted Real to introduce the new concept at 20 other hypermarkets in the fourth quarter of the reporting period. A large number of other stores are scheduled to follow in financial year 2014/15.

New concepts involving fruit, vegetables, textiles and drugstore items are helping to boost the attractiveness of our hypermarkets: the new fruit and vegetable concept "Milano" that has been added to 185 hypermarkets is based on modular components that are broken down by the areas of organic foods, regional products and exotic items. Handwritten product signs evoke the feel of a weekly market. The changes have had a positive impact on the number of customers, average transaction value per customer and thus sales: some stores with restructured fruit and vegetable departments recorded double-digit increases in sales during the first weeks after the changes. By the beginning of 2015, the "Milano" concept is scheduled to be expanded to about 200 fruit and vegetable departments.

With the "textile" concept, our sales line is continuing to tap the high level of differentiation potential offered by one of the most important product groups. Real is striving to become one of the leading sellers of textiles in Germany. By focusing on in-house development, increased direct sales from relevant procurement markets and a consolidation of suppliers, the textile segment is repositioning itself. As part of this effort, our sales line is modernising the product presentation of clothing collections in all hypermarkets. The basis of these changes is a comprehensive analysis of customers. In addition to focusing on proven basics, classic clothing and seasonal trends, Real is concentrating on textiles that can be combined with one another in a number of ways. The concept is unique and is setting new standards. In the drugstore department "Meine Drogerie", Real has developed a new concept that creates a more emotional shopping experience. It has already been introduced in 31 stores and will be used in all other store refurbishments.

With its modern store concepts, Real is underscoring its leading role in Germany's food retail industry. This simplifies working relationships with business partners. For suppliers, Real has become a pacesetter in the addition of innovations to its product mix. Furthermore, Real category management is working closely with manufacturers to develop brand-name products exclusively for Real and is continuously developing its own innovations in the area of customer approach and services.

## Closer to the customer

Another element of this systematic transformation is the sales line's territorial strategy. After completing the pilot phase launched at 32 stores in 2013, Real will introduce it at all 307 hypermarkets across Germany. The objective is to better leverage existing customer potential in the stores' catchment areas. To this end, the sales line analysed each hypermarket's catchment area using data provided by the Customer Information Management (CIM) and Controlling departments. Data about customer groups as well as information regarding competitive influences and purchasing power were also evaluated. These data identify the areas of the store that have the greatest potential: in terms of regaining former customers and attracting new ones through targeted advertising activities, increasing customer frequency and boosting the average consumer transaction value. Using these findings, stores can more precisely address the needs of customers, develop more specific measures and tailor their product ranges. Continuous and accurate controlling of the data generated each day reveals whether decisions were effective or whether the stores must take additional steps.

## Own-brand share continues to grow

With the three own brands "real,- QUALITY", "real,- BIO" and "real,- SELECTION", Real offers its customers an alternative to traditional brand-name products priced in the medium-to-upper segment that is both inexpensive and of equal quality. With "TiP", the sales line also runs one of Germany's most well-known own brands in the budget price segment. In October 2013, another brand was added to the own-brand line-up: the "Marke ohne Namen" (No-name brand) is specifically designed for the customer group whose buying power falls below that of average consumers and offers prices that are lower than the discount level. The slogan "Ohne Schnickschnack. Ohne teuer." (No frills. No extra cost.) sums up the brand promise. The products clearly distinguish themselves from the other own brands sold in food retailing. After starting with 20 products, the range has been expanded to 100 food and non-food items in response to positive customer feedback. As an example of the quality found in the "Marke ohne Namen" line of products, the "MoN fruit-nut mixture, 500 g" won the Salute to Excellence Award as the best own-brand product from the Private Label Manufacturers Association (PLMA) just eight months after its store introduction.

During the reporting period, Real had more than 5,500 own-brand items in its product range. The products that Real sells under its own name help to sharpen the brand's profile. In addition, the margins of own-brand products are frequently better than those of traditional brands. Real also has exclusive own-brand food and non-food products that do not include "Real" in their names. As part of this strategy, Real introduced Sôi, the own-brand line of drugstore products at the beginning of financial year 2014/15.

## Round-the-clock shopping

Real has designed all of its digital projects in a way that will bolster the stores' stationary business. The effort has been running very smoothly ever since our sales line took over the logistics of the online shop in August 2013 and the online operation has been more closely integrated into the stationary business: sales are well above the previous year's level, and the cost structure has been significantly improved. The four hypermarkets in Bochum-Wattenscheid, Wildau, Göttingen and Böblingen-Hulb have assumed the role of master stores: they put together the products ordered online and ship them. Customers can choose to have their purchases delivered to their home, to a Deutsche Post Packstation or to their local hypermarket free of charge. Working people in particular benefit from longer opening hours with the store delivery option. This system creates new incentives for customers to visit our hypermarkets.

In addition to the non-food business, the food segment can profit from the new online solution. In October 2013, Payback coupons were linked to the Real app. The digital coupons are activated by the app, and the customer only has to present the Payback card at the cash register to collect extra points. The app has been found to create an additional buying incentive, something that will promote customer frequency and sales. Each month, customers redeem about one million e-coupons using the Real app. Following the relaunch of the Real app in September 2013, it was the most frequently downloaded app in the lifestyle category of the Apple App Store with 32,000 downloads. By the end of September 2014, the app had been downloaded 750,000 times.

As part of its multichannel operations, Real operates two drive-thru grocery stores in Isernhagen-Altwarmbüchen near Hanover and in Cologne-Porz. Customers can order food and drugstore items online at www.real-drive.de and then pick up the order two hours later at one of the two pick-up stores. In the upcoming financial year, the drive concept is scheduled to be introduced to at least two other stores.

## Turning customers into fans

During the reporting period, Real modified its entire advertising activities to reflect the new, modern marketing concept. The objective is to be authentic and turn customers into true fans. As part of this work, the weekly advertising flyer was completely redesigned in January 2014. The result is a more modern, dynamic and attractive flyer with a high level of brand recognition.

Since March 2014, the new Real advertising campaign has given an authentic, credible and emotional new look to the Real brand. The main characters of the TV commercials are actual Real customers in everyday settings. The four ads broadcast during the reporting period promoting textiles, barbecuing, the World Cup and drugstore items caught people's attention and attracted new customers.

During the entire reporting period, Real exhibited product range expertise with supplemental advertising flyers and the continuation of the gourmet weeks entitled "Das Gute Essen" (Eat good food). Using the slogan "Zu Ostern das Beste genießen" (Enjoying the best at Easter), the sales line offered a large number of culinary specialities for traditional Easter meals and a relaxing Easter brunch. During the final quarter of the financial year, the "Italienwochen" (Italian weeks) were repeated. As is typical for this unique sales promotion, a special selection of high-quality products, some of which were available for only a limited time, were offered.

Real has extended its agreement with its long-time partner Payback until 2020. Our sales line is investing in additional customer services as a way of making shopping easier, faster and less expensive for Payback customers. As a result, Payback customers have been able to digitally collect their points for regular Real loyalty campaigns since mid-February. With this option, which was unique on its launch date in Germany, Real has bolstered its position as a leader in innovation in the German retail industry. In June 2014, Real became the first member of the food retail industry to issue an exclusive reward catalogue containing a large selection of brand-name products. In September 2014, customers were also given the option of redeeming their points in Real's online shop.

To celebrate the World Cup, Real launched many exciting campaigns in its stores and online channels: following "Real Minis", the second major campaign of the year was launched in May 2014 with the collectible cards "Welt Fußball Stars" (World football stars). During the competition itself, the website real.de was filled with World Cup information. A special World Cup section provided users with a live ticker, a schedule that included real-time results and up-to-date information. On the website as well as the app for smartphones and tablets created for this express purpose, users could also put their penalty-kicking skills to the test. They could also use the app to fill in a digital photo album. The special brochure "Kochen wie die Weltmeister" (Cook like a world champion) provided customers with some culinary inspiration from the eight nations whose teams have won the World Cup in the past. The products needed to cook these dishes were presented in an authentic setting in the stores.

## Use of new media

Real has successfully employed new media for marketing and communication purposes. For its digital flyer strategy, the systematic use of individual digital communication channels and its "digital maturity", Real received a rating of "good" on the Digital Readiness Index for Retailing Companies in Germany during the financial year. As a result, it finished in third place. Employing more than 80 evaluation criteria, the strategic consulting firm Neuland analysed the digital strengths and weaknesses of participating companies. The jury expressed particular praise for Real's continuous commitment to the areas of "online", "mobile" and "social".

Real uses social media to maintain its dialogue with customers: the sale line's official Facebook page had more than 423,000 fans as of mid-2014, a total of 63,000 more than a year earlier. Such results make Real the leader among its competitors. In addition, the sales line also informs customers about its products, services, deals and sweepstakes on its own YouTube channel and the microblogging platform Twitter.

## Customer satisfaction rises again

The results of the Customer Barometer 2014 showed that Real made further improvements regarding the quality of meat and cold-cut products as well as in the fruit and vegetable department. In terms of employee friendliness and expertise as well as value for money, our sales line continued to make significant strides regarding customer satisfaction compared with the first survey year. The Customer Barometer is a telephone survey of about 34,000 German consumers that Real conducts once a year, most recently in January and February 2014. The survey questions address service aspects that are very important to Real. These provide the basis for the calculation of a performance index. Furthermore, Real has used additional indices to measure the trust and loyalty of its customers since 2010.

## Responsible business practices

In addition to freshness, product variety, price perception and digitisation, the issues of sustainability and social responsibility play a major role at Real. For this reason, the company has integrated sustainability into its strategy and is expanding its social and environmental commitment throughout its entire value chain. In line with its credo "Handeln aus Verantwortung" (Responsible business practice), Real is carrying out a large number of projects and activities in the areas of product range, environment, employees and customers. In one reflection of this effort, our sales line is continuously increasing the share of socially fairly and environmentally consciously produced goods and regional products in its assortment, systematically investing in energy-saving technology and efficiently using resources at its stores. Social commitment forms another central pillar of Real's sustainability activities. Real plays an active role in a large number of charitable projects and regularly organises local collection drives to support social initiatives. During the reporting period, Real joined its customers in donating more than €800,000.

**For more information about the sustainability activities of Real, see the combined management report in chapter 8 Sustainability management and the METRO GROUP Corporate Responsibility Report 2013/14.**

# Galeria Kaufhof

Galeria Kaufhof is the market leader in the department store segment in Germany and Belgium. The sales line is positioned as a modern retail brand and as a competent multichannel retailer with an unmistakable profile. Its stores are characterised by high-quality, international product ranges. They comprise both well-known manufacturer brands and high-quality own brands. The department stores, which have between 7,000 and 35,000 square metres of selling space, are generally located in prime city centre locations. In Germany, Galeria Kaufhof operates 105 department stores under the names Galeria Kaufhof and Kaufhof as well as 17 sporting goods stores under the names Sportarena and Wanderzeit. In Belgium, the sales line operates 15 stores under the name Galeria Inno. The service company Dinea operates the restaurant section in around 60 department stores in Germany.

## New company structure

In financial year 2013/14, our Galeria Kaufhof sales line was given a new corporate structure. The reason for this change was the dissolution of the real estate segment of METRO AG as of 1 October 2013 and the integration of operational activities into the respective sales lines. As a subsidiary of METRO AG, Galeria Holding GmbH now comprises the operational department store business and the real estate portfolio. Three subsidiaries operate under its umbrella: Galeria Kaufhof GmbH continues to run the operational department store business with all subsidiaries that are part of it. Galeria Immobilienservice GmbH serves, among other things, as the property service provider and as an interim tenant between Galeria Kaufhof GmbH and the real estate companies. Galeria Real Estate Holding GmbH is responsible for the strategic management of the real estate portfolio.

## The core strategy: multichannel

The goal of Galeria Kaufhof is to become Europe's leading multichannel department store. In particular, the company sees growth opportunities in the systematic dovetailing of its outlet and online business; that is, the integrated use of stationary and digital sales channels for customer assistance and sales. In the reporting period, Galeria Kaufhof pushed ahead with its effort to link its online channel, galeria.de, with its store network: in the summer of 2014, our sales line began to use approximately 1,100 tablets in its German stores. In more than 1,000 training sessions, all employees were taught how to use the tablets. The mobile computers give users access to the inventories of all department stores and to galeria.de. With this new service, the stores provide access to products that they do not have in stock or that are not part of their normal lines. The selected articles can be sent either to the address provided by the customer or to the local store. About 160,000 items are currently available in the online shop galeria.de. This product range will be gradually expanded. Our sales line is bolstering its competitive position by closely linking its online channel with its stationary retail network. At the same time, Galeria Kaufhof is creating added value for its customers. They can now experience the Galeria Kaufhof brand on all channels: conveniently at home, on their smartphone or as a shopping experience at the store. In financial year 2013/14, online sales generated by Galeria Kaufhof totalled about €63 million. This amounted to an increase of 64 per cent compared with 2012/13. The aim is for the sales line's online operation to produce about 10 per cent of total sales in about three years.

## Localisation process advances

During the reporting period, Galeria Kaufhof remodelled five stores – without interrupting business. The aim of this refurbishment was to give the department stores an appealing new look and to create a new atmosphere. In addition, the assortment was tailored to meet local needs. After all, the relationship among customers, the local market and local competitors varies from store to store. Customer needs always guide this work – for each business area. By carrying out this localisation process, our sales line is producing added value for its customers and can tap additional potential at its stores.

Regular analyses ensure that Galeria Kaufhof can quickly respond to changes in the local competitive environment or the local market situation at an early stage. Based on such research, our sales line decided in 2013 to close the department stores located in Düsseldorf Berliner Allee (late 2014), Augsburg (mid-2015) and Heilbronn Am Wollhaus (late 2015). These department stores offered no business or strategic potential for profitable operation in the long term. During the reporting period, work began to develop socially fair solutions for affected employees.

In Belgium, Galeria Inno will open a new store in the fashion city of Hasselt in the province of Limburg in November 2014. The department store, which has a prime location in the city centre, has more than 8,000 square metres of selling space. With this new department store, the number of Galeria Inno outlets that the company operates in all major cities across Belgium has risen to 16.

## Website for Chinese customers

With a new Chinese-language website, the sales line has underscored its strong customer orientation. The company launched the website galeria.cn at the beginning of August 2014. At this site, customers in China can learn about the company, its brands and its outlets as well as about special services for international customers before they travel to Germany. Thanks to a tax-free service, customers can easily and conveniently receive a VAT refund for their purchases. Chinese visitors are customers with substantial purchasing power. In the reporting period, tax-free sales generated by Chinese customers at Galeria Kaufhof in Germany rose by 23 per cent compared with the previous year.

## An event-filled anniversary year

In 2014, our Galeria Kaufhof sales division celebrated its 135th anniversary. With the opening of a small textile shop in Stralsund, the businessman Leonhard Tietz laid the foundation for the company on 14 August 1879. At the time, a department store was an innovation. Unique features included the availability of many different products under one roof, the opening of the store to any customer, set prices and cash sales.

Under the slogan of “Wir feiern unser Jubiläumsjahr” (We are celebrating our anniversary), Galeria Kaufhof surprised its customers across Germany with numerous events and special deals. Some stores, for instance, offered huge anniversary cakes and the proceeds from the sales of these treats were donated to charities. For eight traditional stores, our sales line created a touring exhibition that took viewers on an entertaining and interactive journey through the 135 years of the company’s history.