47

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

Overview of financial year 2015/16 and outlook

Earnings position

- Like-for-like sales at METRO GROUP climbed by 0.2 per cent in financial year 2015/16
- Due to negative currency and portfolio effects, reported sales for financial year 2015/16 decreased by 1.4 per cent to €58.4 billion (in local currency: +0.4 per cent)
- EBIT from continuing operations before special items: €1,560 million (2014/15: €1,511 million) in spite of negative currency effects of €70 million
- Profit for the period before special items: €727 million (2014/15: €688 million)
- Earnings per share before special items improved to €1.96 (2014/15: €1.91)

Financial and asset position

- Net debt declined by €0.2 billion to €2.3 billion (30/9/2015: €2.5 billion)
- Investments totalled €1.4 billion (2014/15: €1.4 billion)
- Cash flow from operating activities reached €1.6 billion (2014/15: €1.8 billion)
- Total assets amounted to €25.0 billion (30/9/2015: €27.7 billion)
- Equity: €5.3 billion (30/9/2015: €5.2 billion); equity ratio: 21.4 per cent (30/9/2015: 18.7 per cent)
- Long-term rating of BBB– (Standard & Poor's)

Outlook of METRO GROUP

The outlook is based on the current group structure and adjusted for currency effects. In addition, it is based on the assumption of a continuously complex geopolitical situation.

The outlook will be adjusted if the planned demerger of the group into two independent companies with a clear focus on the wholesale and food retail business on the one hand, and consumer electronics retailing on the other, is approved by the Annual General Meeting on 6 February 2017, as expected, and implemented, as scheduled, during financial year 2016/17.

Sales
For financial year 2016/17, METRO GROUP expects to see a slight rise in overall sales, despite the persistently challenging economic environment. The Real sales line is expected to generate slightly better performance compared with financial year 2015/16.

In like-for-like sales, METRO GROUP foresees another slight increase that will follow the reporting period's rise of 0.2 per cent. The METRO Cash & Carry and Media-Saturn sales lines in particular are expected to contribute to this development. The Real sales line is expected to generate slightly better performance compared with financial year 2015/16.

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Earnings

In financial year 2016/17, earnings development will also be shaped by the persistently challenging economic environment, with political developments adding to economic challenges.

Nonetheless, METRO GROUP expects to achieve another slight improvement in earnings. Aside from operational improvements, METRO GROUP will again closely focus on efficient structures and strict cost management in this context. These measures are expected to result in special items for the last time, marking the successful conclusion of METRO GROUP's transformation.

For these reasons, we expect EBIT before special items to rise slightly above the €1,560 million achieved in financial year 2015/16, although this figure will include slightly lower income from real estate sales than in the previous year. METRO Cash & Carry and Media-Saturn are expected to contribute to the slight earnings improvement.

— PRINCIPLES OF THE GROUP

Group business model

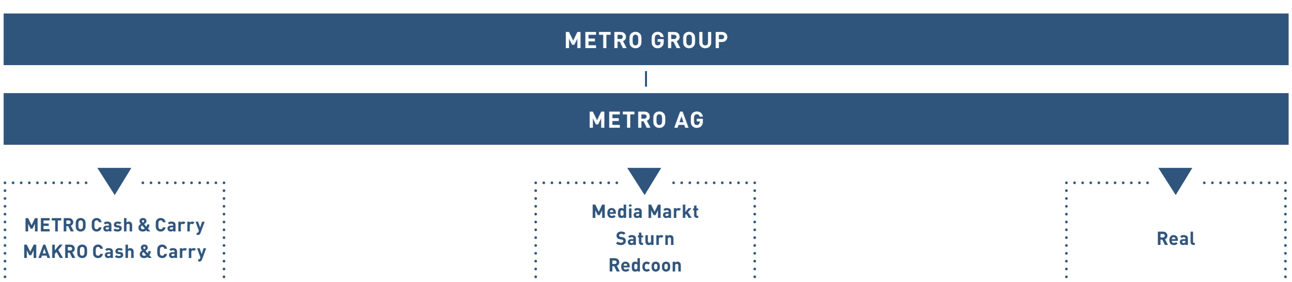
METRO GROUP's corporate structure is characterised by a clear division of responsibilities. The group is headed by METRO AG. As a central management holding company, it oversees group management functions, including, in particular, Finance, Controlling, Legal and Compliance. The central management and administrative functions for METRO Cash & Carry are formally anchored within METRO AG.

The group's operational business is handled by our three sales lines. In some cases, the sales lines operate in the market with several sales brands or through subsidiaries, depending on the respective strategy, segment and specific competitive environment.

METRO Cash & Carry is responsible for the group's wholesale business, Media-Saturn for consumer electronics retailing and Real for hypermarkets. All sales lines have full responsibility for their entire value chain.

Service companies support all METRO GROUP sales lines with services in such areas as real estate, logistics, information technology and advertising. Together with METRO AG as the management holding, they are recognised under "Others".

Overview of METRO GROUP



CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Overview of METRO GROUP

METRO Cash & Carry is a leading international player in self-service wholesale trade. Its brands METRO and MAKRO operate in 25 countries throughout Europe and Asia. The wholesale stores offer products and services tailored to the specific needs of professional customers, such as hotels and restaurants, catering firms, independent retailers, service providers and public authorities. Aside from the cash-and-carry business, the sale line is also active in the food service distribution (FSD) are, among others through the Classic Fine Foods group (CFF), which has been part of the company since August 2015 and operates in 25 major cities in 14 mainly Asian countries. It supplies premium hotels, restaurants and catering firms. In financial year 2015/16, METRO GROUP reinforced this business field through additional acquisitions in Europe: in April 2016, it concluded the acquisition of Rungis Express, a Germany-based premium food supplier and parent company of Swiss premium food supplier Fideco. In July 2016, METRO GROUP signed the contract for the acquisition of Pro à Pro, a French food supplier for commercial customers. The transaction has yet to be closed. The sale of the wholesale activities in Vietnam, which had been initiated in financial year 2013/14, was successfully concluded in January 2016.

Media-Saturn is the European leader in consumer electronics retailing and related services. The group of companies regards itself as a responsible and sustainable partner, daily companion and navigator for consumers in an increasingly digitised world. With its portfolio of formats and brands, Media-Saturn flexibly addresses the requirements of different customer groups and countries: the company includes the Media Markt and Saturn brands, which are dovetailing their more than 1,000 physical stores with online sales platforms. In addition, the group of companies operates pure online retail platforms such as Redcoon and iBOOD as well as the digital entertainment platform Juke.

Real is one of the leading hypermarket operators in Germany, where it is active both in store-based and online retail. All Real hypermarkets are characterised by a large proportion of high-quality fresh produce, a wide range of non-food articles and attractive prices offering good value for money. In March 2016, Real acquired the shopping portal Hitmeister, thereby pushing the growth of its online business.

Store network by countries and segments

	METRO Cash & Carry[1]		Media-Saturn		Real		METRO GROUP	
	2015	2016	2015	2016	2015	2016	2015	2016
Germany	**107**	**106**	**417**	**424**	**293**	**285**	**817**	**815**
Austria	12	**12**	48	**49**			60	**61**
Belgium	15	**16**	23	**23**			38	**39**
France	93	**94**					93	**94**
Italy	48	**49**	110	**111**			158	**160**
Luxembourg			2	**2**			2	**2**
Netherlands	17	**17**	49	**49**			66	**66**
Portugal	10	**10**	9	**9**			19	**19**
Spain	37	**37**	77	**79**			114	**116**
Sweden			27	**27**			27	**27**
Switzerland			27	**28**			27	**28**
Western Europe (excl. Germany)	**232**	**235**	**372**	**377**			**604**	**612**
Bulgaria	11	**11**					11	**11**
Croatia	8	**9**					8	**9**
Czech Republic	13	**13**					13	**13**
Greece			10	**11**			10	**11**
Hungary	13	**13**	21	**22**			34	**35**
Kazakhstan	7	**6**					7	**6**
Moldova	3	**3**					3	**3**
Poland	41	**30**	79	**83**			120	**113**
Romania	31	**30**					35[2]	**34[2]**
Russia	84	**89**	67	**61**			151	**150**
Serbia	10	**10**					10	**10**
Slovakia	6	**6**					6	**6**
Turkey	29	**32**	41	**45**			70	**77**
Ukraine	32	**32**					32	**32**
Eastern Europe	**288**	**284**	**218**	**222**			**510[2]**	**510[2]**
China	82	**86**					82	**86**
India	18	**23**					18	**23**
Japan	9	**9**					9	**9**
Pakistan	9	**9**					9	**9**
Vietnam	19	**0**					19	**0**
Asia	**137**	**127**					**137**	**127**
International	**657**	**646**	**590**	**599**			**1,251[2]**	**1,249[2]**
METRO GROUP	**764**	**752**	**1,007**	**1,023**	**293**	**285**	**2,068[2]**	**2,064[2]**

[1] The METRO Cash & Carry segment also includes the business of the Classic Fine Foods group in China (including Hong Kong), France, Indonesia, Japan, Korea, Macau, Malaysia, the Philippines, Singapore, Thailand, the United Arab Emirates, the United Kingdom and Vietnam. The locations and countries of the Classic Fine Foods group are not shown in the table as they relate to distribution centres and warehouses whereas this table only covers sales locations.
[2] Including four stores in the Others segment

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Management system

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

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

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

Please note that, in line with the formal specifications of German Accounting Standard No. 20 (GAS 20), only the most meaningful key performance indicators (sales growth as well as EBIT before special items) are part of the outlook and the comparison with actual business developments in the following year that is based on this outlook. The outlook regularly applies to the current group structure on the date the forecast is issued.

Key performance indicators: earnings position

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

Sales growth adjusted for selling space, reflecting sales growth in local currency on a comparable area or with respect to a comparable group of locations or sales concepts such as online and delivery. The figure only includes sales of locations with a comparable history of at least one year. This means that locations affected by openings, closures or material refurbishments during the reporting period or comparable year are excluded.

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

The second key performance indicator is **EBIT before special items. EBITDA before special items** is also used as a key performance indicator. It is calculated from EBIT plus depreciation/amortisation/impairment losses. Adjustment for special items reflects a focus on operational developments and serves to enhance comparisons between the reporting periods.

Business transactions or a number of uniform business transactions that do not recur regularly, that are reflected in the income statement and that have a significant impact on business activities are classified as special items. As a result, the presentation of special items better reflects ordinary business performance and contributes to a better understanding of the earnings position.

For more information on the key performance indicators, see the economic report – asset, financial and earnings position – earnings position.

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

For more information on these key performance indicators, see the economic report – asset, financial and earnings position – earnings position.

Performance metrics: financial and asset position

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

For more information on the financial and asset position, see the economic report – asset, financial and earnings position – financial and asset position.

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

Aside from the focus on investments, regular **net working capital** analyses are carried out to maintain a focus on operations and optimised capital deployment. Changes in net working capital result from changes in inventories, trade receivables and receivables due from suppliers included in the item other financial and non-financial assets, credit card receivables and prepayments made on inventories. In addition, the item includes changes in trade liabilities and liabilities to customers, deferred sales related to vouchers, customer loyalty programmes, provisions for customer loyalty programmes and rights of return as well as prepayments made on orders.

For more information about the composition of net working capital, see the notes to the consolidated financial statements in no. 42 – notes to the cash flow statement.

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

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

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

Value-oriented performance metrics

As METRO GROUP's management system is strongly focused on value creation for the company, it also comprises value-oriented key performance indicators such as **EBIT after cost of capital (EBITaC)** and **return on capital employed (RoCE),** which are based on the above-mentioned operational key performance indicators.

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

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Innovation management

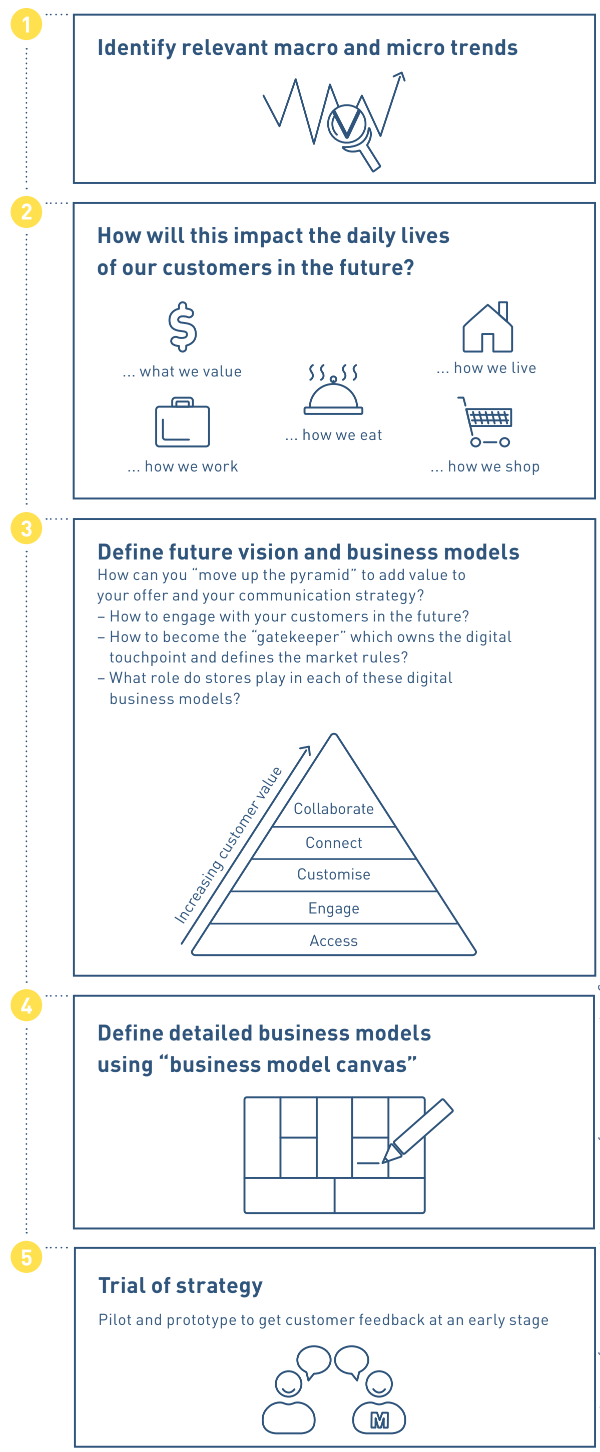
As a retail company, METRO GROUP does not make its own products and therefore does not conduct research and development in the strict sense of the term. When it comes to innovation management, we concentrate more on pursuing the objective of fuelling our transformation within a world that is constantly reinventing itself.

Both our sector and our customers currently find themselves in a profound transformation process which is being driven in particular by megatrends such as digitisation and social change. These trends have a great impact on the way our customers live, work and consume. Our aim is to support our customers in this change process and remain a relevant partner for them. We are thereby faced with the challenge of changing ourselves, because as retailers, we can no longer be satisfied with simply providing access to products for our customers – both online and offline. In order to successfully shape the retail of the future, we want to offer our customers added value and involve them more closely beyond the transaction itself. To achieve this, we need new business models that enable us to generate added value and offer it to our customers. To that end, METRO GROUP is working together with the sales lines on a customer-centred process that is designed to optimally support everyone involved and that is adjusted with an eye to the customer groups of the various sales lines.

In the course of this process, digitisation, social change, urbanisation and sustainability were identified as the most important trends that will most strongly influence our customers. On the basis of these analyses, we ask the following questions: How do we ensure that we add value for our customers every day? How can we fully align our processes with the needs of our customers? How can we help to relieve our customers of everyday worries and to organise their daily routine so that it is more enjoyable?

In order to systematically increase customer value through innovation, METRO GROUP has set itself three overriding goals. First, we want to add significant value with our innovation projects, for example by contributing to the development of new business models and store formats. Second, METRO GROUP aims to be an attractive partner for start-ups and innovative businesses. Third, the group aims to establish a culture of innovation across the group.

Innovation strategy planning process



Source: David L. Rogers, The network is your customer, Yale University Press, 2010

Realising innovation projects

In financial year 2015/16, METRO GROUP implemented numerous innovation projects in close cooperation with its sales lines. Selected examples are outlined below.

As part of the cooperation between METRO Cash & Carry and the Berlin-based start-up Infarm, which began to work together in 2015, a high-tech cultivation area for sprouts, seedlings, herbs and lettuce was installed in the wholesale store in the Friedrichshain district of Berlin in February 2016, marking the first time this has been done in Europe. So-called vertical farming allows plants to be cultivated indoors – without the use of pesticides, while reducing water use by up to 90 per cent. As a result of the success in Berlin, there are already numerous initiatives to establish vertical farming in other wholesale stores and in countries in which METRO Cash & Carry is active. In August 2016, another facility of this kind was opened in Antwerp. METRO GROUP is the world's first retail group to become a member of the Association for Vertical Farming and actively supports the development of the vertical farming industry through this organisation.

Express delivery and delivery at a time of the customer's choice are a firm feature among the Media-Saturn range of services. In order to optimise the delivery experience for customers, the sales line launched a pilot project in July 2016 using self-driving delivery robots built by the tech start-up company Starship Technologies. The robots, which deliver parcels and groceries within a radius of five kilometres, are part of a global development programme at the start-up company.

Through its apps, the Real sales line now makes the shopping process easier for more than 1 million users. The digital services of the hypermarket operator support the customer from shopping preparation – through access to the large recipe database and current offers, for example – right through to store purchases using the "one-scan checkout" system. The new process digitalises previously analogue-based services and ensures more customer service and convenience through a faster checkout procedure. The "one-scan checkout" makes it possible to accumulate payback points using a mobile phone app; to redeem digital coupons; to collect Real loyalty stamps; to have an online version of a standard checkout receipt sent to your mobile phone; and even to pay via your mobile phone. Real is the first food retailer in Germany to offer this full service.

Horeca Digital

In 2015, METRO GROUP established the new business unit Horeca Digital to better support a core target group of the cash-and-carry business – independent companies in the hotel, restaurant and catering (Horeca) sector – and to specifically contribute to their business success through innovative solutions. The internationally active team pursues this goal through four key initiatives:

- First, the team focuses on creating a better understanding of how to optimally operate independent companies in the Horeca sector.
- Second, the METRO Accelerator powered by Techstars fosters the development of new ideas as well as their external funding and success in the market through professional preparations.
- Third, Horeca Digital activates METRO GROUP resources to support the creation of efficient sales channels for start-ups.
- Fourth, Horeca Digital invests in relevant start-up companies, applying the same standards as professional financial investors.

Improving independent Horeca companies
Horeca Digital promotes an exchange of experiences and community building in the Horeca sector through the cooperation with Ecole hôtelière de Lausanne (EHL), which was started in February 2016 with the establishment of the chair for digital innovation in the hotel, restaurant and catering sector. The aim of the "METRO Chair of Innovation" is to research the digitisation in the restaurant, hotel and catering sector in key markets like France, Italy, Spain, Germany and Japan as well as strengthen academic teaching in this area. In addition, Horeca Digital pursues systematic social media activities – for example, for the finalists of the METRO Accelerator powered by Techstars, to strengthen the company's online reputation and help advance digital solutions for the food service and hospitality sectors. Horeca Digital has also started to explore the international digital Horeca environment. Key aspects that have been researched include the question of the geographic markets that are particularly attractive to innovative start-ups.

Supporting innovative companies
Together with the US company Techstars, METRO GROUP organises and supports the development of innovative digital services for independent companies in the Horeca sector. The

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

aim of the Accelerator initiative is to support innovative start-ups in this environment, for example by helping them to improve their potential access to growth capital from professional investors. Ten international teams take part in the three-month programme in Berlin. They are supported by about 100 mentors from the start-up and investor communities as well as from the food service sector. During its second round, the METRO Accelerator powered by Techstars has increasingly evolved into a networking platform that brings the various players in the sector closer together. As before, the companies' degree of maturity played a key role in the selection process for the Accelerator in 2016. Many of the teams have successfully established products in the market.

The business idea developed by Lunchio proved promising. The participant of the first Accelerator programme has developed an app that allows users to order and pay for their lunch online. Directly following Demo Day, the young company started a financing round which it successfully completed in May 2016. Flowtify, another first-round participant, also further expanded its business relationship with METRO Cash & Carry. Flowtify supports complete and proper implementation of HACCP self-documentation and other repetitive tasks and has already been tested in the restaurants of the METRO Cash & Carry wholesale stores in Germany.

In line with market standards, METRO GROUP invests small sums in the companies that participate in the Accelerator programme. METRO GROUP's partner Techstars supports the group in the selection of participants and in its investment decisions. In the future, lasting successes can be expected as well as companies dropping out of the portfolio due to competition – as is the case with any professionally managed investment portfolio for innovative, very young and young companies.

Creating efficient sales channels

In another field of action, Horeca Digital supports the creation of efficient sales channels. In this way, Horeca Digital helps start-ups to provide suitable, usually digital solutions to independent companies from the food service and hospitality sectors. The aim is to offer Horeca customers operational support through successfully tested digital solutions customised to individual entrepreneurs' specific needs. This process can also help METRO Cash & Carry establish contact with new customers and expand existing customer relationships. In order to find out which digital products and functions are particularly helpful and how they can help to significantly improve customers' daily operations, Horeca Digital launched pilot projects in several restaurants in Berlin, Paris and Vienna. These projects are used to offer start-ups insight into user behaviour and preferences as well as connect them with potential future customers.

Investments in innovative companies

In order to accelerate the digitisation of the Horeca industry, METRO GROUP consistently works on making appropriate products and services more easily available to the target groups. In the process, the objective is to participate in the increase in value of companies in the Horeca sector through shareholdings, often in cooperation with other professional investors. The goal of the activity is not, therefore, to acquire and integrate companies in order to transform the core business. Managing these investments is the responsibility of a team consisting of experienced investors who make decisions with the support of an investment committee, which is separate from the cash-and-carry business. The investment strategy focuses on the value creation potential, independent of METRO GROUP. Wherever it is possible and helpful, any other possibilities for value creation – through sales access, for example – are developed by utilising METRO resources.

In financial year 2015/16, METRO GROUP made investments in Berlin-based start-up Orderbird as well as Munich-based start-up Shore, among others. Orderbird is the leading iPad POS system for restaurants in the German-speaking area. Shore supports small and medium-sized businesses as well as service providers with cloud-based software that allows them to digitally manage their business processes. The investments represent another building block in METRO GROUP's efforts to advance digital business models for its customers.

Supporting networking and exchange

One aspect of innovation management is positioning METRO GROUP as an interesting and reliable partner for start-up businesses and making active use of its strengths for this purpose. The aim is to strengthen collaboration with business founders and young entrepreneurs as well as to strengthen and support start-up structures in general. Against this background, METRO GROUP initiated and supported several events during financial year 2015/16.

One example of this is a series of events entitled "Innovation in Retail" Meetup, through which we have created a platform for exchange between innovative business start-ups in the retail and food service sectors and METRO GROUP and its sales lines.

This platform is now used by more than 800 members. At the gatherings, business founders present their ideas and business models and then network with other founders, experts and representatives of METRO GROUP. Here, valuable contacts are established, which result in start-up businesses being able to implement pilot projects within the METRO GROUP sales lines. METRO GROUP's intensive cooperation efforts during financial year 2015/16 have been recognised repeatedly. For example, the German federal state of North Rhine-Westphalia honoured METRO GROUP as a pioneer of digital transformation with its DWNRW award. The European Commission awarded the retail group its "Europe's 25 Corporate Startup Stars" prize in 2016 in recognition of METRO GROUP's work with start-up businesses at an international level.

Driving cultural change

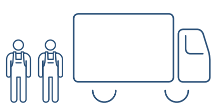
Innovation management also has an impact on the process of cultural change within the company. The emphasis in this case is on fostering the understanding that the company must constantly and ever more quickly reinvent itself in the digital age. At the same time, it is necessary to impart in the employees the joy that comes with constant change and the knowledge gained from it. In order to promote methodical expertise specifically, an appropriate series of workshops was initiated in 2015 for employees at the company location in Düsseldorf. The format that has since been further developed serves to present innovations and, together with the participants, to work out how these innovations can be applied within the company.

In order to advance the cultural change associated with innovations, METRO GROUP held an Innovation Day in June 2016 for the first time. The goal of the event was to present innovations. For example, a panel discussion took place with the human-like robot Geminoid HI-4; the self-driving shopping cart wiiGo was presented; and the Starship delivery robot, which Media Markt has been trialling in a pilot project since October 2016, handled its first delivery. At the same time, the Innovation Day served to familiarise employees with, among other things, methodical expertise through workshops. The Innovation Day ended with the so-called "Fuck Up Night". The global movement, which originated in Mexico in 2012, serves to promote a culture of error tolerance and to speak openly about corporate failure and the lessons learned from it. "Fuck Up Night" was organised exclusively for employees in 2016 for the first time. Internal and external speakers shared their experiences with the audience, explaining how they learned from mistakes.

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Sustainability management

METRO GROUP views itself as a member of society that contributes to social value creation. Our company's responsibility to align economic goals with social requirements and the demands of customers, employees, investors and partners extends beyond compliance with legal stipulations. We must respect the limits placed on us by the environment. By taking this approach, we act today for the good of tomorrow. Accordingly, our business activities are designed to create added value while reducing negative effects. This makes all aspects of our business sustainable.

We become sustainable in all that we do ...		Areas of responsibility
... for our employees, ... 	... by respecting, protecting and helping them to grow professionally at all times, and by building trusting relationships with them. And by enabling them to systematically make sustainability a part of their work. This is how we create an attractive working environment which enables our employees to offer our customers sustainable solutions that optimally serve their needs.	**Commitment to our employees**
... for the environment, ... 	... by using resources responsibly in our own operations and avoiding waste. This is how we minimise our effect on the climate and protect the environment. And by contributing to the long-term availability of resources through sustainable procurement and assortment design. This is how we help to create a sound foundation for the retail of tomorrow.	**Sustainable operations and sustainable procurement and assortment**
... for the people who work for us, ... 	... through fair and responsible business practices and by providing fair living and working conditions. This is how we demonstrate responsibility in the supply chain.	**Sustainable procurement and assortment**
... for our consumers, ... 	... by providing them with safe, quality products around the world through sustainable procurement and assortment design. And with products that are produced, processed and recycled in a socially responsible, environmentally sound and resource-friendly manner. This is how we secure our future and promote sustainable consumption.	**Sustainable consumption**
... for society, ... 	... by aligning our business with the needs of society through a stakeholder dialogue based on mutual trust and by contributing to our local communities wherever we operate. This is how we work on solutions to global challenges and contribute to sustainable development.	**Social engagement**

Embedding sustainability

The strategic integration of sustainability into our core business operations is an essential aspect of our work to carry out our sustainability vision. We use a number of channels to ensure that this happens. These channels include our Sustainability Board and its committees as well as modifications of relevant business processes and decision-making procedures along with systematic communication with our employees. The goal of this is that all individuals acknowledge the significance of sustainability with respect to both themselves and their professional environment, and that they conduct themselves accordingly. The issue can be encouraged from the top down, but it must be carried out by everyone.

For more information about sustainability-related employee communication, see our online METRO GROUP Corporate Responsibility Report 2015/16 at www.metrogroup.de/materiality. For general information about the topic of employees, see the chapter "employees" in this METRO GROUP Annual Report.

EMBEDDING SUSTAINABILITY

SUSTAINABILITY STRATEGY

PROCESSES	TRAINING PROGRAMMES	BEHAVIOUR
Integration of sustainability into standard processes	**Integration of sustainability into training sessions and materials on management and employee level**	**Consideration of sustainability at work and in daily life**

RESULT

Norm in daily business and in decision-making processes

SUSTAINABILITY MANAGEMENT

Topic	Goals	Status of goal achievement	Measures	Status of measures
EMBEDDING SUSTAINABILITY WITHIN THE COMPANY	METRO GROUP is systematically making sustainability part of its work.		In a first step, sustainability was integrated into all the key business processes by 2016 by identifying the key processes and their link to the topic on the basis of a materiality analysis. In a second step, we will continuously implement the topic within our business processes, for example through guidelines.	
			Sharpen employees' understanding of sustainable behaviour. Developed a sustainability campaign. — Developed and distributed internal and external communication materials on the topic of "METRO and sustainability". — Conducted workshops on the topic of sustainability within METRO GROUP, particularly in the Cash & Carry country organisations. — Also successfully organised several sustainability events such as a Sustainability Day at headquarters and in 13 countries. Included a dedicated question on sustainability in the annual employee opinion survey, METRO Voice. The survey is conducted at METRO Cash & Carry and in the service companies.	
			Integration of the topic of sustainability into existing training programmes completed and in progress. Establishment of a programme for management development for the specific purpose of boosting sustainability awareness.	

You will find annotations to the symbols on page 69

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Sustainability management

Sustainability management is designed to facilitate the integration of sustainability into our core business operations and to consider the interdependencies between economic, environmental and social aspects in an efficient, solution-driven manner. It is closely tied to risk and opportunity management at METRO GROUP. In this process, the company's management is supported in its work to systematically identify, assess and manage possible deviations from the sustainability goals – that is, risks and opportunities.

For more information about risk and opportunity management, see the chapter "risk and opportunity report" in the combined management report.

As a corporate body of METRO GROUP, the Sustainability Board ensures that the strategic objectives regarding the group's sustainability performance are defined and that fundamental issues are reflected in corresponding goals.

The roundtable on corporate responsibility serves as the interface between the strategic and operational aspects of sustainability. This body lays the groundwork for decisions taken by the Sustainability Board and helps to carry them out.

On the operational level, the sales lines are charged with defining specific goals and programmes, putting them into practice in their daily business operations and ensuring that the objectives are reached. They report their progress to the Sustainability Board through the roundtable.

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

In financial year 2015/16, METRO GROUP again qualified for inclusion in the group of global retail companies with the most sustainable business practices. The company is listed as the leading company in its sector in the internationally renowned sustainability indices Dow Jones Sustainability World and Europe. METRO GROUP had already been named Industry Leader in the category of Food & Staples Retailing in 2015. The group's total score increased to 84 points from 77 points in financial year 2014/15, reflecting another improvement in METRO GROUP's sustainability performance.

Assessment of relevant sustainability indices and rankings

Index/ranking	Rating/score	Scale	Year
Dow Jones Sustainability Index (DJSI) World/Europe	**84 Industry Group Leader Food & Staples Retailing**	0 to 100	2016
Oekom Corporate Rating	**C+ Prime Status**	D– to A+	2014
CDP Climate Scoring	**A– Sector Leader Consumer Staples (DACH Region) Index Leader MDAX**	F to A	2016
CDP Water Scoring	**C**	F to A	2016
FTSE4Good Global/Europe Index	**3.4**	0 to 5	2015

SUSTAINABILITY BOARD

MANAGING DIRECTORS OF THE SALES LINES UNDER THE LEADERSHIP OF THE MEMBER OF THE MANAGEMENT BOARD RESPONSIBLE FOR SUSTAINABILITY, SUSTAINABILITY OFFICERS OF THE SALES LINES AND METRO AG

defines METRO GROUP's sustainability strategy.

ROUND TABLE ON CORPORATE RESPONSIBILITY

SUSTAINABILITY OFFICERS OF THE SALES LINES AND METRO AG

bundles sustainability know-how, supports the Sustainability Board and the sales lines at the operational level.

SALES LINES

METRO · makro · MediaMarkt · SATURN · redcoon.de · real,-

are responsible for their own sustainability management and its operational implementation, assign experts to project groups.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Areas of responsibility

When it comes to defining our responsibilities and key areas of focus, we do not just rely on our own internal perspective. By participating in economic and socio-political dialogue and working together with external stakeholders, we can identify their expectations and requirements with respect to our actions at an early stage. We select the areas and issues relevant to our commitment to sustainability based on both the internal and the external points of view. In this way, we create a basis for determining strategic objectives and developing specific measures. For the first time ever, we also conducted a stakeholder survey, which also helps us to confirm the relevance of the issues we have identified. It was part of this year's materiality analysis.

For more information about stakeholder relationships and our materiality analysis, see our online METRO GROUP Corporate Responsibility Report 2015/16 www.metrogroup.de/materiality.

We focus on segments of the value chain and our interaction with society where our influence is the greatest. We have identified the following areas of responsibility for our company:
- Commitment to our employees
- Sustainable operations
- Sustainable procurement and assortment
- Sustainable consumption
- Social engagement

In the following, we will provide an overview of the focus topics of our different areas of responsibility. Integration of the concept of sustainability into our sales lines' strategy process has resulted in additional specific focal areas at the operating level. These are presented in detail in the METRO GROUP Corporate Responsibility Report 2015/16.

For more details and key figures on the topic of sustainability at the level of METRO GROUP and our sales lines, see our online METRO GROUP Corporate Responsibility Report 2015/16 at www.metrogroup.de/materiality.

Commitment to our employees

Our 219,678 employees stand for the success of METRO GROUP and its sales lines. It is their commitment and the decisions they make on a day-to-day basis that ensure we create value for our customers and society. In terms of our sustainable corporate governance, we see it as our duty to create and maintain an attractive, fair and safe working environment. As such, our objective is to value the individuality of our employees, encourage their diversity and strengthen their personal responsibility. In this way, we support them in implementing our strategy successfully and sustainably.

For a complete overview of our commitment to our employees and METRO GROUP's human resources policy as well as the related key figures, see the chapter "employees". In addition, we publish sustainability-related employee figures in our online METRO GROUP Corporate Responsibility Report 2015/16 at www.metrogroup.de/materiality.

Sustainable operations

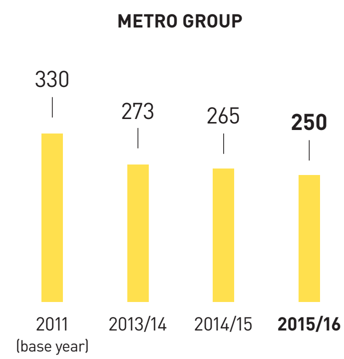
We need energy and natural resources to successfully operate our core business and to meet our customers' needs. This deployment of resources increases our operating costs and has negative environmental impacts. As a result, we strive to reduce the greenhouse gas emissions of our operations and our resource consumption. To this end, we focus on intelligent energy use and investments in order to increase our energy efficiency. Adopting targeted measures enables us to reduce both energy consumption and costs. In the course of financial year 2015/16, we invested €24.3 million within the framework of programmes such as METRO Cash & Carry's Energy Saving Programme – in particular, to install LED and other energy-efficient lighting systems, as well as closed refrigeration units in the wholesale stores. This is expected to lead to savings of more than €6 million annually. We are also committed to responsible resource management, for example in the areas of logistics fleets, refrigerating agents and paper, and to sustainable building management.

Further key elements of our sustainable operations are the prevention of waste, the recycling of resources and their recovery by means of recycling. In particular, the reduction of food waste is of considerable importance to our METRO Cash & Carry and Real sales lines. Every food product that is not eaten but sorted out or thrown away represents in equal parts economic, social and environmental waste. For this reason, within the framework of the Consumer Goods Forum's resolution on food waste, METRO GROUP has committed to reducing food waste in its retail operations by 50 per cent by 2025.

Status of climate protection target

From October 2015 to September 2016, METRO GROUP generated 250 kilograms of CO_2 equivalent per square metre of selling space. This figure is down from 265 kilograms in the previous year's period. Our goal is to reduce these emissions to 165 kilograms by 2030. The significant decrease in emission levels compared with 2014/15 is primarily attributable to two factors: first, measures to reduce energy consumption and decrease coolant losses, and second, the general technical and scientific developments that are reflected in the emission factors for calculating CO_2 consumption equivalents. In addition, changes in the store portfolio are having an impact. Our greenhouse gas emissions also decreased in absolute terms compared with the previous year. In the coming years, we intend to continue working to protect the environment and reducing our greenhouse gas emissions even further.

Status climate protection target
greenhouse gas emissions in kg CO_2 (CO_2 equivalent) per m² of selling space



Topic	Goals	Status of goal achievement	Measures	Status of measures
SUSTAINABLE OPERATIONS	METRO GROUP reduces its greenhouse gas emissions by 50 per cent from 330 kg of CO_2e/m² in 2011 to 165 kg of CO_2e/m² in 2030.		Energy Saving Programme: investments to increase energy efficiency and renewable energies. Energy Awareness Programme: strengthen awareness of responsible use of energy. F-Gas Exit programme: investments to reduce the emissions of refrigeration equipment.	

You will find annotations to the symbols on page 69

Sustainable procurement and assortment

In our procurement activities, we strive to purchase high-quality and safe products with sound social and economic credentials. This allows for responsible assortment design. In addition, as a retail group, we depend on the long-term availability of resources because we need these raw materials to produce and package our products. We take these aspects into account by following our group-wide purchasing policy for sustainable procurement across all our products. In this policy, we have laid down the fundamental requirements for sustainable supply chain and procurement management. At the same time, our purchasing policy forms the framework for various guidelines that address specific issues related to individual product and raw material categories. By developing and implementing such guidelines for sustainable purchasing, we are strengthening our procurement channels and help to improve the sustainability of our products and thus our assortment.

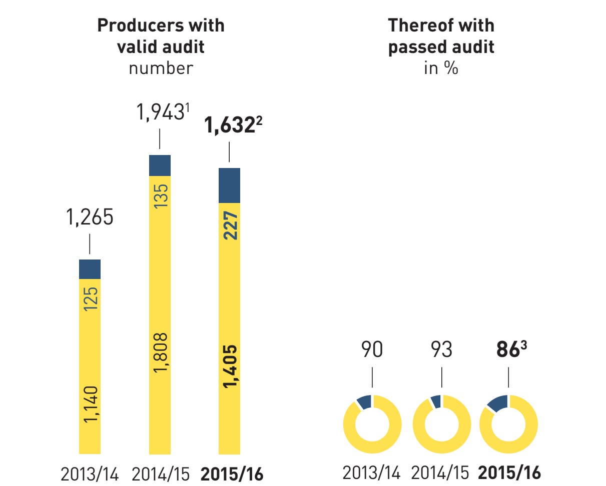
CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Topic	Goals	Status of goal achievement	Measures	Status of measures
SUSTAINABLE PROCUREMENT AND ASSORTMENT	By 2015, we will have defined processes with which to assess the sustainability impact of the own-brand products of METRO GROUP sales lines. By continuously carrying out our general METRO GROUP purchasing policy on sustainable procurement, we will work on all product categories relevant to aspects of sustainability.	✓	Assessment of the social impacts of METRO Cash & Carry's own-brand portfolio and its effects on the environment along the supply chain has been completed. The assessment was performed at the levels of raw materials, products and product groups and follows the standard international assessment criteria for social and ecological impacts. The purpose of the process was to establish basic requirements and to design supply chain and procurement management to be more sustainable in the relevant categories. We have implemented this through our guidelines. Assessing the product portfolio, defining minimum standards and establishing specific KPIs enables METRO Cash & Carry to fulfil the requirements for a more sustainable assortment.	

You will find annotations to the symbols on page 69

To ensure socially acceptable working conditions within our sourcing channels, a systematic approach to achieving social standards is an integral part of the process, as well as an important tool. It enables us to take effective action against any risks from violations. Irresponsible practices within the supply chain damage confidence in our conduct and, consequently, also our business. Our goal is therefore that all of our producers in defined risk countries (based on the assessment of the Business Social Compliance Initiative, BSCI) in which MGB Hong Kong manufactures goods for import as well as our producers that manufacture their own labels or their own imports of clothing, shoes, toys or hardware for METRO GROUP's sales lines undergo audits conducted in accordance with BSCI or equivalent standards. As of 30 September 2016, 1,632 producers have been audited. Of that group, 86 per cent (1,405 producers) passed the audit. Producers who fail to pass the audit have twelve months to provide proof of improvement through a follow-up audit. Should these improvements not be made, the production site will receive no more orders from 1 January 2018 until it can demonstrate that it has sustainably improved its organisational processes.

Social audits of own imports through MGB Hong Kong and non-food own brands of the METRO GROUP sales lines
as of closing date 30/9



Producers with passed audit

Producers that have passed the audit can demonstrate their successful compliance with the BSCI standard or an equivalent social standard system by presenting a certificate awarded by an independent third party.

[1] Adjustment of the 2014/15 figures for social audits at producers relating to own imports through MGB Hong Kong; in addition, the 2014/15 figures include producers relating to non-food own brands of the METRO GROUP sales lines

[2] Adjustment of the 2015/16 figures due to the sale of the former METRO GROUP sales line Galeria Kaufhof

[3] From 2015, adjustment of BSCI rating system from three rating categories (good/improvements needed/non-compliant) to five rating categories (A/B/C/D/E). The result "improvements needed" was understood as a passed audit. Under the new measurement system, a portion of the previous "improvements needed" results was assigned to the categories "C" (passed audit) and "D" (failed audit). This adjustment resulted in a lower share of producers with a passed audit in the last financial year.

Topic	Goals	Status of goal achievement	Measures	Status of measures
SUSTAINABLE PROCUREMENT AND ASSORTMENT	METRO GROUP intensifies its commitment to fair working conditions at its suppliers.		Continued inclusion of all non-food own brand producers[1] in a valid BSCI or equivalent social standard system and increase in the share of valid audits for products manufactured in a risk country[2]. Tighten requirements of suppliers with the consequence that all used producers[1] must at least be able to provide acceptable audit results by 1 January 2019.	

[1] This includes merchandise producers (non-food own brands and own non-food imports) that carry out the final significant and value-creating production step.
[2] BSCI definition of risk country
You will find annotations to the symbols on page 69

Sustainable consumption

The specific product mixes of our sales lines are designed in such a way that they optimally meet the wide range of needs of our private and professional customers. These products and services must not just meet quality and safety requirements. Increasingly, they must also fulfil critical social and environmental requirements – from production and procurement to usage and disposal. For this reason, we focus firmly on measures that enable us to influence these product features. Our guidelines for sustainable purchasing provide the basis for this. The aim is to procure products based on environmental, social and economic considerations. Moreover, direct relationships with our business partners ensure transparency with regard to the resources used and the procurement of products, as does our harmonised international traceability system. This system is open to all market participants and was developed in cooperation with other retailers, well-known partners and the standardisation organisation GS1 Germany. It enables us to gather relevant data electronically – for example, about products and suppliers – and store it on a single software platform. This makes access to this information much easier and more reliable, both for customers and for other users.

Furthermore, we offer our customers greater transparency by using product labels that indicate our compliance with certain sustainability standards. We also label our own brands accordingly. In addition, we provide complementary, specially prepared information in our stores such as flyers and customer brochures and engage in dialogue with our customers. By doing so, we support and encourage responsible consumption by our customers.

Our sales lines' assortments include fair trade products as well as foods that bear the European organic symbol. In financial year 2015/16, METRO Cash & Carry and Real generated sales of nearly €12 million in Germany from fair trade products. That figure includes all articles bearing a Fairtrade or GEPA label. In the same period, our sales lines generated a total of €130 million in Germany-wide sales of products certified in accordance with the EU regulation on organic farming. Our stores also offer products from sustainable fishing and aquaculture such as products carrying the seal of the Marine Stewardship Council (MSC), the Aquaculture Stewardship Council (ASC) or the EU organic label. In financial year 2015/16, METRO Cash & Carry and Real generated sales of more than €86 million (previous year: €80 million) from their sustainable fish assortment in Germany. The Real sales line generated sales of nearly €367 million from regional products during the past financial year. The sales line increasingly offers its customers products from sustainable forestry. Sales of products bearing either the FSC® (Forest Stewardship Council®) or the PEFC (Programme for the Endorsement of Forest Certification) label amounted to more than €13 million. Media-Saturn generated sales of more than €3 billion from energy-efficient electronic devices across the group. Given our customers' increasing interest in more sustainable products and the resulting potential for our business, we continue to work on increasing the share of more sustainable products in our assortment. Specifically, Real, for example, has decided to raise the share of more sustainable products in its assortment to 30 per cent by 2019. To achieve this, Real will focus on regional products, fruit and vegetables from permaculture as well as projects in the animal welfare area.

Even responsible consumption involves the use and consumption of resources and we are committed to minimising the resulting waste. We place great importance on promoting innovative manufacturing and recycling technologies and on thinking in terms of cycles. Since products and packaging find themselves in the hands of consumers when they reach the end of their useful lives, we also advise customers about disposal: at selected locations, we provide our customers with information about resources, encourage them to avoid waste and create incentives and opportunities for correct disposal. In this manner, we do our part to ensure that waste materials can once again be used as raw materials.

Topic	Goals	Status of goal achievement	Measures	Status of measures
SUSTAINABLE PROCUREMENT AND ASSORTMENT / SUSTAINABLE CONSUMPTION	METRO GROUP initiates and supports the development of an international, intersectoral and product-spanning technical solution for traceability.		Following successful implementation of the traceability solution PRO TRACE for fish and meat product categories at METRO Cash & Carry Germany, we started to introduce the solution to other countries at the beginning of 2015. At present, the project involves ten countries as well as our international trading offices; Hungary, Spain, France, the Czech Republic and Turkey have already successfully launched the pilot phase. Another four countries are currently making preparations for the pilot phase. Additional countries as well as other interested suppliers from selected assortment areas will be included in the project at the international level in 2017. METRO Cash & Carry Germany has successfully completed the pilot project in the fruit and vegetable category.	

You will find annotations to the symbols on page 69

Social engagement

METRO GROUP views its commitment to society and the environment as a form of value creation since it plays a role in addressing social challenges. With our diverse activities we thus aim to foster an intercultural dialogue, support our locations and their local communities as well as systematically help people in need.

Community investments

€1,000	2014/15	2015/16
Donations to charity	2,450	1,400
Social investments	1,949	2,815
Commercial initiatives	3,574	3,326
Total	**7,973**	**7,541**

Topic	Goals	Status of goal achievement	Measures	Status of measures
SOCIAL ENGAGEMENT	METRO GROUP is expanding its projects involving food donations to international food bank initiatives from the current 15 METRO Cash & Carry countries to at least 17 countries.		METRO Cash & Carry cooperates with food bank initiatives in 15 of the 25 countries in which it is represented. In the remaining countries, external circumstances such as political and tax-related factors make collaboration difficult. At present, METRO Cash & Carry is holding talks with local relief organisations and political legislators for the purpose of enabling cooperation in those countries in which extraneous circumstances hinder collaboration.	
	METRO GROUP's Community Involvment Programme was launched at the start of financial year 2015/16. Its purpose is to provide unbureaucratic assistance and acute emergency relief and to contribute to the integration of refugees. The Management Board of METRO AG has set aside a total of €1 million for this purpose. Group employees may request a one-time sum of €10,000 per employee for projects they are interested in pursuing. This offers motivated employees the opportunity to take action in their immediate environment. We want our employees to become personally involved. Our goal is to have expended the sum of €1 million for refugee assistance projects in Europe by the end of financial year 2015/16. We have thus increased the budget for social investment (corporate citizenship) by €1 million.		The programme is being rolled out and promoted within the group. Online or offline, we want to inspire as many of our employees as possible to become involved. In financial year 2015/16, we received 119 applications from six countries which enabled us to help about 33,000 people.	
	Due to the great success of the Community Involvement Programme, the Management Board has decided to continue the programme in financial year 2016/17. In 2017, all subsidiaries of the Wholesale & Food Specialist Company created from the planned demerger of METRO GROUP can apply for financial support for their personal endeavours. All types of voluntary projects are welcome.		The new programme is being rolled out and promoted within the group. Online or offline, we want to inspire as many of our employees as possible to become involved.	
	The METRO GROUP Marathon has been held in Düsseldorf every year since 2005. One of the reasons for sponsoring the marathon is to foster employee loyalty. Participation not only increases team spirit but also promotes the health of participants. On average, nearly 700 co-workers take part each year. In 2016, this number was expected to increase to 800; with 775 employees, the goal was nearly reached. As a result, we continue to work on increasing the number of participants.		Step up promotion of the METRO GROUP Marathon via the group's social intranet both within Germany and abroad.	

Degree of goal achievement

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

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Employees

Sustainable human resource policies

It is the goal of our company to ensure that it produces long-term growth in sales and earnings. To achieve this goal, we need dedicated employees who bring our strategy to life in their everyday work and create added value for our customers. One thing is certain: METRO GROUP can only grow if we support our employees. Our human resource strategy focuses on two key aspects: on human resource management, which includes employee recruitment, retention and development, and on occupational safety and health management. Our objective is to attract the very best employees, to support them in accordance with their drive and abilities, and to strengthen their long-term connection to our company. By taking this approach, we strive to be the employer of choice among current and future employees.

Recruiting employees

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

Vocational training at METRO GROUP

	2014/15	2015/16
Number of trainees in Germany	5,370	**4,694**[1]
Number of trainees internationally	1,697	**1,681**
Newly employed trainees in Germany	1,829	**1,772**
Trainee ratio (incl. interns and students) in Germany	7.6%	**6.6%**[1]
Share of examination candidates who have achieved a training qualification	95.8%	**93.7%**
Share of qualified trainees with follow-up contract	63.8%	**63.8%**

[1] Due to a changed calculation basis in Germany, the figures for 2015/16 cannot be compared with the figures for previous years

In Germany, we focus on needs-based training with the aim of hiring a large portion of trainees at the end of the programme. Management and the Group Works Council have signed an agreement stating that trainees who complete the programme with a positive aptitude assessment will generally be hired for permanent, full-time positions. The individual companies of METRO GROUP in Germany have defined their own specific requirements and possible exceptions.

The organisation and implementation of training, as well as the content specifications, are the responsibility of the sales lines. They offer various projects and programmes for their junior employees. In 2016, for example, Media-Saturn conducted a theatre project for 20 trainees in their second year. At various workshops, topics were discussed such as appearance, expression, debate, conduct and cooperation within a team. In the second part of the project, the participants worked with their trainer on a stage play, which was performed on the campus in Ingolstadt in October 2016.

The Saturn sales brand responds to the changing learning behaviour by offering trainee camps, and places a stronger emphasis on self-determined learning. The concept of the trainee camps is arranged in such a way that the participants can structure many areas themselves. In every camp, there are five learning stations with different topics and objectives. These learning stations are developed independently by trainees in small teams, guided by several trainers. The participants can visit any learning station and explore the topics of other groups. Finally, the trainees provide feedback on each learning station. During the reporting period, Saturn conducted 20 camps, with 100 learning stations at seven locations. More than 950 trainees, as well as 97 instructors and trainers from the relevant stores, took part in the events.

Real focuses more on competence- and action-based learning when conveying the training content. In this way, the trainees develop complex and integrated subject areas within the project framework. The training content is linked to general retail topics or social engagement as part of the process. One example is the trainee project "Customer focus – Get to know us better!" In this project, trainee groups each develop a customer initiative that gives the customer a better understanding of Real's service offerings and diverse range of products. More than 35 stores across Germany implemented about 150 trainee initiatives, where topics such as regional products, healthy eating, social engagement and services were presented. Another example is the project "Fresh from Young Talent", where about 25 trainees from one region take over for one week as managers of a store's fresh-food department, selling meat, sausage and cheese. This project allows the trainees to become familiar with management functions already during their training. Apart from these national or regional projects, individual Real stores also initiate relevant projects for their trainees.

One example is the Real store in Göttingen, which the German food industry magazine Lebensmittel Praxis awarded first place in its "Trainer of the Year 2016" competition in the hypermarket category for Real's wide-ranging trainee initiatives, integrated approach to learning, and numerous social engagement activities.

In addition to traditional training content, METRO GROUP also teaches its young employees how to quickly take on responsibility and become involved in social causes. One example is the Good Deeds Day, which was held in June 2016 for a second time. As part of this project, about 550 trainees from our sales lines and service companies were active, in cooperation with the German Red Cross Youth, at more than 100 locations across Germany. Numerous initiatives were implemented at charity organisations under the slogan "We are setting an example for more humanity!" and monetary donations were collected for non-profit projects. As a result of the donation efforts, more than €11,000 were raised to support local community projects.

A trainee group from METRO Cash & Carry Germany initiated the project "Sport and Fun for Refugees": The junior staff collected donations and staged a one-day event for 50 refugee children in a fitness centre in Düsseldorf. For their efforts, the food industry magazine Lebensmittel Zeitung elected them "Trainee Team of the Year 2016" as part of the "Supermarket Stars 2016" awards.

In addition to dual vocational training, we offer young people the opportunity to attend a dual course of study with practical modules. In financial year 2015/16, 198 students were registered in Germany.

Talent development

Since October 2014, METRO Cash & Carry has been offering the METRO Potentials programme in all countries in which the sales line does business. The programme targets the best university graduates and young professionals worldwide who have two to three years of work experience. The aim is to build a sufficient pool of future managers and managing directors. During the two-year trainee programme, participants broaden their knowledge in various hands-on projects. They are also coached by their local mentor, a member of the responsible country management. The trainees complete various stations in their own country and abroad as well as at headquarters in Düsseldorf. After completing the programme, they are able to assume a management position, such as store manager. But the career path can go far beyond that, up to a position in country management.

For its junior employees, Media-Saturn conducts special trainee programmes with a focus on finance, IT and multichannel marketing. An example of this is the specially developed programme "connect!", which promotes self-reliance in the trainees and simultaneously offers individual creative freedom with regard to procedure, programme design and personal development.

Employer brand and human resource marketing

In order to strengthen the METRO GROUP employer brand specifically among trainees and (young) professionals, we joined forces with the Ecole hôtelière de Lausanne (EHL) at the beginning of the year to establish a professorship for digital innovation in the hotel, restaurant and catering (Horeca) business. The aim of the "METRO Chair of Innovation" is to research the digitisation in the restaurant, hotel and catering sector in key markets like France, Italy, Spain, Germany and Japan as well as strengthen academic teaching in this area. In financial year 2015/16, we also participated again in the employer initiative Fair Company. Within the framework of the initiative, we specifically enable interns, working students, career starters and trainees to directly enter the labour market. Furthermore, we are building up and expanding the social media activities of METRO GROUP and its service companies in order to strengthen the employer brand and to approach new talents specifically.

Our sales lines are also implementing numerous measures as part of human resource marketing. In financial year 2015/16, METRO Cash & Carry Germany focused its personnel marketing and recruiting activities towards lateral entrants in particular. In this regard, the focus was mostly on trainees and professionals from the food service industry and the food trade. For this purpose, the company uses networks such as Kununu and Xing, as well as the careers blog METRO BACKSTAGE. In addition, the cooperation with employment website Indeed was expanded.

Another example are the career information events that Real offers at schools. The hypermarkets also take part in national campaign days such as Girls'Day and Boys'Day: in financial year 2015/16, about 350 young people took a look behind the scenes at the company for an entire day and learned about various training opportunities. In order to approach new talent, Real also relies on other formats, including training information on

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

own-brand products, contributions on the sales line's careers page on Facebook, information stands at vocational training fairs and school events, as well as information sharing by trainees and banners on online platforms focusing on career choices.

Media-Saturn relies especially on direct dialogue in the various activities in order to gain junior staff. In financial year 2015/16, our sales line was at selected universities, trade fairs, workshops and lectures in the field and also presented itself in a sporty way: at the Summer Challenge of the WFI Ingolstadt School of Management, more than 1,000 students from the most prestigious business schools in German-speaking countries had the opportunity to ask company representatives personally about entry-level career opportunities at Media-Saturn.

In order to reach IT specialists as well as the so-called Generations Y and Z – meaning the age groups of those people who are today aged 35 or younger – Media-Saturn supplemented the social media career channels with contributions and insights into the working environment. In IT recruiting, the selection process was extended to include so-called touchpoint interviews in order to validate cultural and personal circumstances, in addition to professional requirements. In these interviews, the applicants meet two line managers as well as two colleagues, enabling them to get a better insight into the potential working environment.

The Greek subsidiary of Media-Saturn was honoured with the "HR Excellence Award" 2016 in the "Recruiting & Onboarding" category for its focused and standardised recruitment process. This prize is conferred by the Hellenic Association, Athens, each year.

Employer of choice
Independent rankings confirm METRO GROUP's appeal as an employer both domestically and abroad. In 2016, the METRO/MAKRO Cash & Carry subsidiaries in Belgium, France, Italy, Portugal and Spain received the "Top Employer Europe" award again; the Croatian subsidiary received this award for the first time. In addition, MAKRO Cash & Carry Spain and METRO Cash & Carry India were awarded the "Great Place to Work" seal once again. MAKRO Cash & Carry Belgium was honoured with the "Best Traineeship Benelux" award for the third time.

Media-Saturn's Ingolstadt location was given the distinction "Fair Company" by the online portal Karriere.de. The Belgian subsidiary finished ninth among about 150 participants in the national "Great Place to Work" competition in 2016.

Remuneration models and succession planning

Our remuneration models provide incentives for employees and managers to perform and to carry out their work in accordance with our guiding principles. Our systematic succession planning enables our skilled employees and managers to develop attractive careers within METRO GROUP.

Performance-based compensation for executives
Our PERFORM & REWARD remuneration system comprises a fixed monthly base salary and one-year as well as multi-year variable compensation components whose total amount is essentially tied to our company's business performance. In addition, our one-year variable compensation considers individual achievements, the generation of customer value as well as the implementation of our management principles on the job. Among other things, the multi-year variable compensation incorporates a sustainability component.

Remuneration principles
The remuneration model for the approximately 500 top executives of METRO GROUP worldwide is based on the following four principles:
— Fair and internally consistent compensation
— Performance-based pay
— Market-driven and appropriate salaries
— Encouragement of role model behaviour

In the reporting period, the focus of METRO GROUP's remuneration system continued to be on sustainability. Since financial year 2014/15, customer satisfaction has been a relevant performance indicator that METRO Cash & Carry uses as a key figure to determine annual variable remuneration for the executives. As part of the multi-year variable remuneration (long-term incentive, LTI), METRO GROUP's top executives are still entitled to participate in the sustainable performance plan version 2014, just as members of the Management Board are. Deviating from this, a new LTI based specifically on METRO Cash & Carry's new organisational model – whose focus is on value creation – was developed and granted to METRO Cash & Carry's executives. The key indicator of sustainability is used in both plans as a binding element. Within the framework of METRO GROUP's Green Car Policy, the carbon emission limits were lowered in the bonus-malus system, while plug-in, hybrid and electric vehicles were allowed as company cars. Furthermore, the unused leasing budget for cars can continue to be converted into pension expenses in Germany. In addition, we provide our executives with a company pension scheme that includes both contribution-based and performance-based components.

In financial year 2015/16, we began to apply these remuneration principles to the compensation of other groups of employees. Within the management holding company METRO AG, we began to apply them in the context of the specialist career model introduced in 2015. In financial year 2015/16, we continued the systematic roll-out of this model to our international subsidiaries. Apart from remuneration, it also contains employee development programmes.

For more information about the remuneration system, see the remuneration report.

Performance reviews and succession planning

At METRO GROUP, systematic executive development is a central responsibility of the companies' general management teams as well as of the strategic management holding company, METRO AG. By taking this approach, we ensure that the skills and abilities of our managers are consistently aligned with the requirements and strategic objectives of our company. It also allows us to systematically offer international career paths to our executives – regardless of the sales line or company in which they work. Moreover, our career planning processes enable us to identify and support suitable candidates for key positions in the company. As a result, we can fill vacancies from our own ranks. In the reporting period, the in-house succession rate for the senior management level – in particular the managing directors of group companies as well as divisional heads of METRO GROUP – was 76.4 per cent.

Individual job performance reviews

Once a year, we conduct individual job performance reviews for all our sales lines with the exception of Media-Saturn as part of the RESULTS & GROWTH process. The objective of these reviews is to better measure progress and abilities as well as to create a culture of feedback that focuses on individual job performance and personal development. Priorities are defined for this at the beginning of every financial year; these can be re-examined and adjusted if necessary as part of a mid-year performance review. The job performance review is held at the end of each financial year. It focuses on the realisation of priorities and adherence to leadership principles as well as the respective employee's role-specific performance.

In financial year 2015/16, Media-Saturn supplemented its competency model "Passion for the Customer" by an online-based 360-degree feedback instrument and introduced it to high-potential managers. This instrument can be applied flexibly and can also be used for 180-degree feedback.

Systematic succession planning

As part of the Leadership Talent Review (LTR) process, succession planning is conducted for our key positions once a year. During this review, we examine the skills, abilities and experience of every potential succession candidate and rate these individuals according to the particular responsibilities of their respective positions. The process ensures that we identify and support suitable candidates for key positions at an early stage. Working together, employees and their supervisors then create a career development plan and determine targeted measures. As a result, the Leadership Talent Review serves as a long-term development process for candidates for top positions in our company. This process is supported through other methods such as 360-degree feedback meetings.

At Media-Saturn-Holding, the Advanced Management Programme (AMP) began in the spring of 2016 after the pilot phase was completed. The objective is to prepare highly qualified employees for tasks in their professional and management careers by giving them their first leadership experience. Programme items include, for example, performing within a management team, enhancing communication skills as well as developing leadership capabilities. In addition, the programme should also encourage the participants to take an active role in implementing processes of change within the Media-Saturn group of companies. The AMP bridges the gap between the development programme for specialists and leaders at the level of department manager and manager (Foundation Management Programme), and the development of top management. Therefore, Media-Saturn-Holding has a consistent set of selection and development tools for all professional and leadership levels.

Executive development

With the goal of supporting the personal development of our employees, talented employees with the potential for leadership positions can be nominated for the development centre, where their strengths and areas for improvement are assessed. Based on this assessment, they are asked to create their own development plan.

We select the candidates for the “Excellence”, “Impact” and “Connect” programmes for executive development according to the decisions made during the systematic succession planning process. Each of these programmes is designed to address the varying needs of the groups of participants. Some of the facilitators are members of our top management. We also bring in well-known international trainers in order to ensure that our instruction and discussions reflect the latest developments and case studies. These external partners come from the world’s leading business schools, among others, the Business School for the World (INSEAD) in France and Ashridge Business School in England. During the reporting period, about 100 future and current top executives took part in these programmes.

Pushing ahead with the group-wide focus on sustainability, METRO GROUP launched the “METRO Sustainable Leadership Programme” for young managers for the second time in financial year 2015/16. In the context of this programme, 24 international participants complete a 1.5-year programme cycle focusing on the development of in-house sustainability projects. The projects in such areas as procurement, people and recycling are scheduled to be implemented by mid-2017. During the reporting period, METRO Cash & Carry again conducted the “Crossing Borders” initiative, which is specifically aimed at young executives. In the process, 20 participants traded jobs for 60 days. As part of a practice-oriented project, employees from the country headquarters, for example, worked in a store in another country in order to learn about operations there. Conversely, store employees gained insights into conceptual and strategic activities through service in the administration division. The practical change of perspective in a host country gave participants the opportunity to further develop on a personal and professional level while sharing their own expertise with the team there.

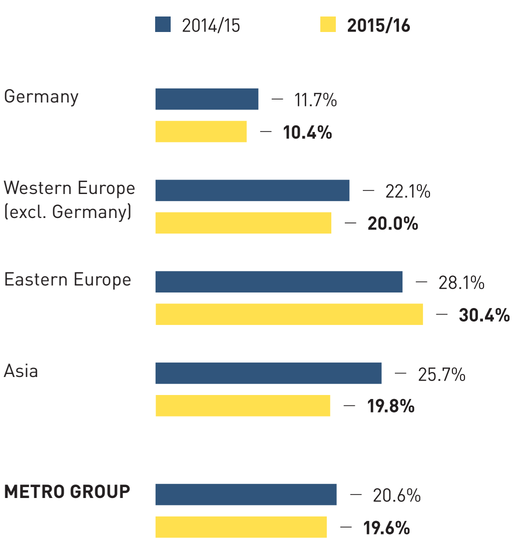
To foster the informal exchange beyond hierarchical and functional boundaries, we offer our employees of the METRO GROUP companies at the Düsseldorf location the opportunity to participate in a mentoring programme. In financial year 2015/16, this programme led to the formation of 36 mentor pairs.

The German subsidiary of Media-Saturn is taking new paths to prepare the company and its employees for Working World 4.0. Under the heading “Ambidexterity”, managers are trained with a view to current and future challenges. Organisational ambidexterity describes the ability of organisations to be efficient and flexible at the same time. Two sources served as a basis for the individual preparation of workshop content: management’s new vision for the future, and 360-degree feedback on Media-Saturn’s competency model. With the help of peer coaching, the participants are additionally trained in self-reliance and problem-solving skills.

Employee turnover rate

During the reporting period, average job tenure rose to 9.2 years (2014/15: 8.9 years). Turnover rates varied widely according to region. The development of the fluctuation rates by region is shown in the graphic for comparison.

METRO GROUP turnover rate
by region



Further training for employees

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

The House of Learning department provides customised personnel development measures, learning solutions and services for the METRO AG management holding company as well as the METRO Cash & Carry sales line. The focus is on employees and executives in the store operations, sales force, delivery, offer management, marketing and finance departments. The training content targets the implementation of corporate strategy and guiding principles as well as the promotion of decision-making skills and personal development. Thanks to a sophisticated cascading process, all training programmes can be translated, adapted to local circumstances and – in the case of seminars and on-the-job training courses – delivered by internal full-time and part-time trainers.

Training courses at METRO Cash & Carry and METRO AG

	E-learning module	Seminars and on-the-job training	Total
Number	449,570	22,473	472,043
Participants	443,619	207,331	650,950
Participant hours	394,989	2,085,091	2,480,081
Training costs (€/participant)	3.15	102.13	34.68

At Real, a total of 37,095 participants were trained using e-learning modules during the reporting period. This corresponds to 18,948 hours of study. Furthermore, a total of 4,715 employees, excluding trainees, were trained over a period of 46,522 programme hours in the form of seminars.

In the reporting period, the digitisation of study arrangements and training administration was expedited further. Through our open learning platform on the social intranet, we offer access to digital study content for all employees in the METRO Cash & Carry sales line and the management holding company METRO AG. This content includes e-learning modules, moderated expert and study groups, thematically arranged online-learning sources, a digital library for summaries of business literature, and internally developed online courses on company-specific topics. Through this platform, we actively promote self-paced learning, independent of time and place, as well as an exchange of information between our employees. Furthermore, we have also provided system-integrated course units for customers.

With the help of the global learning management system SAP Learning Solution, we further increased the number of online and offline course units during the reporting period. We also set up a comprehensive strategic reporting system in addition to the one for operational reporting. While operational reporting releases detailed key figures in real time for training administration in day-to-day business, strategic reporting aggregates meaningful indicators on advanced training. These key indicators are linked to other SAP HR systems, thus supporting the long-term planning and monitoring of internal advanced training.

In financial year 2015/16, advanced training options were conceived and implemented for METRO Cash & Carry. Their content-based focus is closely linked with the company's strategy. They include, among other things, qualification initiatives on the topics of food service delivery and Horeca customer service, as well as for the interdisciplinary understanding of financial context.

A central focus for advanced training in all sales lines is the digitisation of the workplace. At METRO Cash & Carry Germany, this topic is the focus of the trainee project "Trainees as Digital Ambassadors". This initiative began with the first "METRO trainee camp". A total of 835 trainees from all training years, 241 accompanying persons and the management of METRO Cash & Carry Germany camped together on a scout training site in northern Hesse. In various workshops and challenge activities, the trainees grappled with the digital world, in the form of an app-based quiz and a competition on Instagram, for example.

In October 2015, Media-Saturn staged the event "Digital@Campus" for a second time, involving all employees from its office location in Ingolstadt as well as selected international colleagues from the international subsidiaries, in order to promote the company's digital transformation. The programme included more than 30 lectures on the topics "Internet of Things & Living Tomorrow", "Smart & Digital Retail" and "Start-ups, Digital Culture & Collaboration". Furthermore, the employees were again able to try out the latest digital products and to participate in workshops and panel discussions. As part of the event, start-up companies competed for a place in the Media-Saturn Spacelab programme. The "Digital Fit" initiative, launched in 2014, was also continued successfully. Within the framework of this seminar series for an international group of participants, the monthly programme included topics such as big data and smart analytics, crowdsourcing as well as virtual and augmented reality.

With a view to the digitisation of commerce, Media-Saturn's German subsidiary developed a new concept for Media Markt and Saturn. It is based on the so-called blended-learning approach. The e-learning platforms "Saturn Online Akademie" and "Fit mit Media Markt" are becoming the core of all advanced training activities in the process. The objective is to combine online learning, information exchange and experience in the seminar room with the practical experience of the participant's working environment. Under the slogan "Digital First", Saturn in Germany has been providing every employee with information on products and technology, organisation as well as innovations and sales techniques, on its e-learning platform since the end of 2015. Media Markt has also been following this approach since 2016. Steadily rising user numbers prove its success. Trained learning companions and on-site trainers in the stores are an important part of this strategy. Together with managers, they ensure that training content is transferred to the workplace.

The Greek subsidiary of Media-Saturn developed and introduced the "Internal Trainers Programme" in financial year 2015/16. As part of this programme, 31 selected store employees were trained and qualified as experts during the reporting period in order to promote company initiatives, such as the Media Markt Club, and to develop the necessary skills as trainers in areas such as multichannel marketing, customer relationship management and tablet use.

Our Real sales line also follows the blended-learning approach for training. During the reporting period, the individual seminar modules within the training programme were therefore linked to prepared and evaluated e-learning units, so that the trainees could broaden their knowledge not only by attending seminars, but also by using digital media.

Embedding management principles and change in corporate culture

During the reporting period, the process of cultural transformation was advanced in particular by METRO Cash & Carry. The goal is to increase value for customers. The effort is based on the guiding principles developed in 2012:

— Customer centricity
— Global entrepreneurship
— Success through excellence
— Trust in our people
— Authentic leadership
— Sustainability

During the reporting period, these guiding principles were further integrated into personnel programmes and processes as part of employee development. The aim is to establish a corporate culture that is characterised by increased diversity, stronger networking, mutual integration and support, cooperation on an equal footing and by the responsibility of the individual.

By now, nearly all employees in the countries in which METRO Cash & Carry operates have completed the "Leadership for Growth" workshop. This has been the first step in the change process. The aim of "Leadership for Growth" is to hone the ability of each individual employee to manage himself or herself and in turn to create the necessary conditions for cultural change. During the reporting period, about 8,900 executives from 25 national subsidiaries of METRO Cash & Carry participated in the follow-on workshop "Leadership for Growth 2" for managers in administrative positions and stores. The workshop focuses on developing management skills that sustainably improve cross-departmental collaboration.

Media-Saturn launched the "Leadership for Change" programme in financial year 2015/16. The aim of the programme is to accelerate the transformation process and cultural change as well as drive the process of digitisation and customer orientation. A series of events has been held to prepare the top 100 executives for the imminent change. Starting in autumn 2016, the process will be extended to all multipliers (country and store managing directors as well as the heads and department managers at the holding company). In addition, a large number of measures have been initiated at the national subsidiaries to raise awareness for customer orientation among store employees in particular. In the process, HR provides national-level training for store management teams in particular, teaching them to derive measures from the net promoter score, an optimised metric used to measure customer retention; in addition, HR conducts covert test purchases and broadly based sales trainings.

Employee engagement

A key instrument to determine the engagement of the workforce and their loyalty to the company is our global employee survey, METRO Voice. We conduct it regularly in the countries in which METRO Cash & Carry operates, both at the service companies and at METRO AG. Under the slogan "Your opinion. Our dialogue", about 106,000 employees were invited to participate in the survey during the reporting period. 88 per cent of employees at the participating company units took part in the survey. The level of engagement – which indicates the degree of solidarity, pride in the company, loyalty and motivation – reached the 75 per cent mark again during the reporting period and as such markedly exceeds the score of Aon Hewitt's Global Retail Benchmark (60 per cent). This positive development can be attributed, on the one hand, to an intensive follow-up process: managers receive detailed insight into the survey results and discuss these together with their teams to develop suitable measures to raise the level of engagement. On the other hand, we established group-wide initiatives that we use to increasingly promote a focus on innovative ideas and encourage the appreciation and recognition of our staff.

In order to integrate the experiences, the knowledge and the creativity of its employees, Media-Saturn launched the ideas management programme "Ideas4Us" in July 2014. Since then, more than 800 ideas have been submitted. Regular activities are conducted to motivate employees to submit ideas. In addition, employees can use the platform to assess ideas or learn more about their implementation in the idea blog.

Occupational safety and health management

METRO GROUP places high priority on ensuring fair working conditions for all employees. Occupational safety and health management are fundamental to this effort. In a personnel-intensive sector such as retail, prevention, safety and health are essential, and their importance continues to grow as a result of demographic change. We respond to these requirements with circumspect and structured activities. This is reflected in our accident reporting, among others, which covers more than 95 per cent of METRO GROUP employees. Real, METRO Cash & Carry as well as METRO AG, METRO SYSTEMS and METRO PROPERTIES have implemented a system that allows for an evaluation of the causes of accidents and the identification of areas with high accident rates as well as especially vulnerable employee groups. This enables us to identify hazard spots and define targeted countermeasures. For METRO GROUP companies in Germany, an increase in accidents was recorded during the reporting period compared with the same period of the previous year. The 1,000-person rate was 22.6 for financial year 2015/16 (2014/15: 21.9). This figure denotes the relative accident frequency for every 1,000 full-time employees and corresponds to 1,691 reported accidents (2014/15: 1,655). Assuming a minimum absentee rate of just three days per reportable accident, the average loss of productivity therefore increased from about €934,200 to about €946,100.

To avoid accidents, we continue to focus on occupational safety training. For this reason, we continued to promote the development of our own training library in financial year 2015/16 as well. One training programme developed by METRO LOGISTICS for handling forklift trucks was prepared in such a way that it can be used internationally.

In order to raise awareness that ensuring occupational safety is a duty of all employees, we participated in the initiative of the International Labour Organization (ILO): on 28 April 2016, we staged our first international World Day for Safety and Health at Work in eight METRO Cash & Carry national subsidiaries. As part of a competition, our employees demonstrated their understanding of occupational safety and health management. This measure was accompanied by the adoption of a binding standard process description for METRO Cash & Carry, METRO AG, METRO PROPERTIES, METRO LOGISTICS and METRO SYSTEMS. This description outlines the structure

↓ CONSOLIDATED FINANCIAL STATEMENTS
↓ SERVICE

and area of activity for occupational safety, an active health management system as well as clear responsibilities, and sets minimum standards.

Also at the national and local levels, our companies implemented numerous projects on the subject of occupational safety and health management during financial year 2015/16. In cooperation with the BGHW – the German employers' liability insurance association for trade and logistics – Real concluded the project "Healthy Work in Retail" with a focus on psychological stress. During the reporting period, practical procedures and instruments were developed for implementation in the stores. These included the PegA expert check, a psychological-stress inspection protocol for managers, as well as the PegA team instrument, an instrument for on-site employee participation in the form of health workshops. In financial year 2015/16, the health workshop was conducted in ten Real stores. Real's occupational safety focus is still on reducing the number of accidents. The objective is to remain 25 per cent below the average figure in the hazard class for retail on an ongoing basis.

After qualification of the local safety specialists, METRO Cash & Carry Germany carried out the risk assessment for psychological stress with the "Short Procedure on Psychological Burden" in all stores and in the headquarter. The results will now be evaluated with the support of the occupational health office and used to identify action areas and develop specific solutions. As a preventive measure, METRO Cash & Carry Germany is also conducting the risk assessment to identify stress on the musculoskeletal system. After successful testing of the key indicator method used for this, the procedure will be adopted in all stores and the related action planning will be continued.

Other examples of local initiatives include the introduction of mindfulness seminars at METRO Cash & Carry Belgium as a response to stress-related illnesses, and the implementation of a stress test at METRO Cash & Carry Japan.

METRO AG as well as several METRO GROUP companies based at METRO AG's headquarters in Düsseldorf offer employee support programmes. In total, around 3,500 employees have the opportunity to receive psychological counselling. In work-related conflict situations, but also in the event of private troubles, external experts are available who offer support in finding solutions.

Media-Saturn's Greek subsidiary received the "HR & Health Award" for "Excellence in Workplace Wellbeing" in October 2015. Aside from first-aid classes and safety courses on fire prevention and firefighting, the programme also includes an offer of psychological support from trained psychologists and life coaches.

Diversity management

	2014/15	2015/16
Average age of the workforce (years)	38.5	**38.9**
Recruitment of employees in the 50-plus age group in Germany	678	**618**
Recruitment of employees in the 50-plus age group at international level	996	**946**
Share of employees in the 50-plus age group as a proportion of the total workforce in Germany	33.6%	**34.1%**
Share of employees in the 50-plus age group as a proportion of the total workforce at international level	10.3%	**11.2%**
Employees with recognised severe disability or equivalent persons in Germany	4,885	**4,829**
Employees with recognised severe disability or equivalent persons at international level	1,906	**1,835**

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

During the reporting period, METRO GROUP continued to rigorously implement its strategy for promoting inclusion and diversity. For example, the "Inclusion for Growth" programme to raise awareness for the topic of diversity was developed to drive broad-based cultural change within the company. Workshops and an e-learning module were designed to sensitise employees in all countries and at all hierarchical levels to the issue of inclusion and diversity. Implementation of the programme at METRO AG as well as at METRO Cash & Carry began last year. Furthermore, this topic will be included in a global leadership curriculum which will be implemented from 2017. METRO GROUP has been represented on the board of directors of Charta der Vielfalt e. V. (Charter of Diversity) since 2013. To mark the fourth German Diversity Day, we organised a joint event under the slogan "Vielfalt statt Einfalt – Kulturelle Kompetenz für wirtschaftlichen Erfolg" ("Diversity versus simple-mindedness – Cultural competence for business success") with the Diversity Network Rhine-Ruhr in June 2016. About 100 executives from the member companies were invited to explore the many facets of the topic and its significance for their leadership tasks.

METRO GROUP currently employs two full-time employees with responsibility for inclusion and diversity with a budget of €200,000. METRO GROUP has pledged to focus on the following dimensions of diversity in order to build a more balanced workforce and thus become an employer of choice:

— Gender, for example through more women in management positions (see next section). The Women in Trade (WiT) employee network now has about 290 members. The network intends to help to raise the share of women in management positions, to promote internal and external dialogue and to create better working conditions for women in the company. The network has an international orientation.
— Cultural background and religion, for example through the representation of a greater number of different nationalities and more cultural diversity in the executive boards of METRO Cash & Carry's national subsidiaries. During the reporting year, people from 169 countries worked for METRO GROUP.
— Age, for example by intensifying an open-minded relationship between younger and older employees and by promoting a mindset that prefers rationality to seniority.
— Employees with special needs, for example through employment of people with disabilities that goes beyond legal minimum requirements. The proportion of employees with a recognised severe disability or equivalent persons in METRO GROUP is above the legal minimum requirement of 5 per cent.
— Sexual orientation, for example by further promoting open-minded interaction with people having a different sexual orientation. Founded in 2015, the LSBTI network for lesbians, gays, bisexuals, transsexuals and intersexuals has set itself the objective of raising awareness of the topic of sexual orientation and identity. During the Campus Days in June 2016, METRO PRIDE launched an ambassador programme as part of a workshop on the topic of sexual orientation and identity.

Our Real sales line has also directed its attention to young people who have been unable to find a vocational training position or are not fully prepared to assume such a position, who have learning difficulties or are socially disadvantaged. They are given the opportunity to take part in the company initial qualification programme Einstiegsqualifizierung, EQ. This is a national occupational orientation programme in Germany that

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

is part of the Nationaler Pakt für Ausbildung und Fachkräftenachwuchs (National Pact for Career Training and Skilled Manpower Development). The young people become acquainted with working life over a period of six to twelve months. The initial qualification programme serves to open doors to a training position or job. During the reporting period, more than 20 young people at Real took part in the programme. About 40 per cent began an apprenticeship position after completing the programme. Real received the "Inclusion Award 2015" in the "large companies" category for its multifaceted initiatives and its engagement in employing people with disabilities. This annual award is presented by the UnternehmensForum to companies that have demonstrated outstanding commitment to inclusion in the workplace and sponsored by the Federal Ministry of Labour and Social Affairs.

Equal opportunities

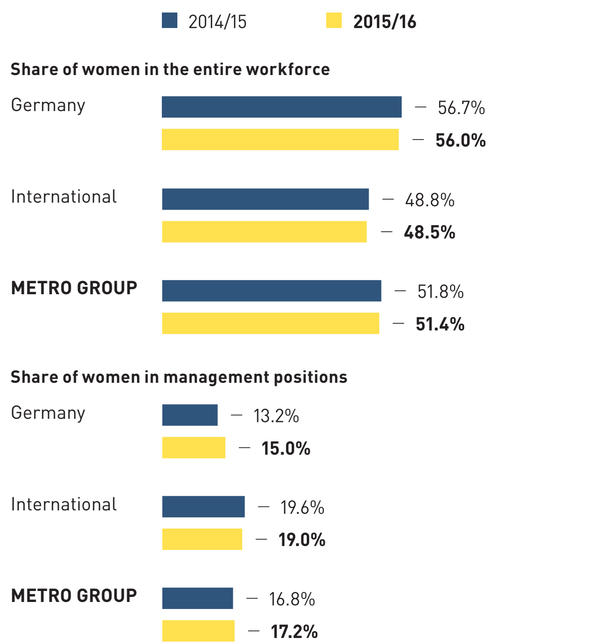
As part of our diversity management, we promote equal professional opportunities for men and women. In 2011, together with other listed German companies, METRO GROUP voluntarily pledged to increase the share of women in management levels one to three. During financial year 2013/14, METRO GROUP renewed its voluntary pledge to increase the share of women in management positions. By 2017, the share of women in management positions (levels one to three) is to reach 25 per cent company-wide. At METRO AG, the share of women in the first two management levels below the Management Board should also amount to 25 per cent by 2017. We will consider these goals in succession planning and recruitment. They correspond to the goals which the Supervisory Board sets for the Management Board.

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

Work-life balance programmes based on phases of life

Our headquarters in Düsseldorf has three day care centres with 242 full-time slots for children from the age of four months. The staff speak German and English to the children.

Share of women METRO GROUP



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

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

The share of part-time employees at METRO GROUP rose slightly to 27.2 per cent compared with the previous year's period (2014/15: 26.6 per cent). In Germany, 43.2 per cent (2014/15: 43.7 per cent) of our employees worked part-time; the international share of part-time employees was 17.2 per cent (2014/15: 16.5 per cent). METRO GROUP wants to support employees in all phases of life – and that includes the care of loved ones. Employees can obtain advice on all aspects of this issue from an external service provider with whom we have been cooperating since 2014.

Employer-employee relationships

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

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

Based on reviews conducted in Turkey, Poland and Austria, we launched the next project during the reporting period aimed at an extended review of fair working conditions and social partnership in our stores and offices in the METRO GROUP countries. This extended review is based on the UN Guiding Principles on Business and Human Rights and, in addition to METRO GROUP's seven global principles on fair working conditions and social partnership, also comprises employee data protection. The project was piloted at METRO Cash & Carry Ukraine in October 2016. Reviews in another six METRO Cash & Carry countries will follow in 2017.

METRO GROUP actively participates in the annual UNI Global METRO Alliance meeting. In November 2015, employee representatives met with management representatives in Berlin to discuss their views regarding developments within METRO GROUP in the various countries.

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

METRO GROUP has also continued its social dialogue with works councils and unions on national level. This resulted in several collective labour agreements at the business unit, country or store level, depending on local laws and customary practices.

Development of staff numbers

During the reporting period, METRO GROUP employed an average of 196,540 (2014/15: 203,773) full-time equivalents. This is a decrease of 3.5 per cent from the same period of the previous year. The majority of our employees work outside of our home market of Germany. In Western Europe (excluding Germany), Eastern Europe and Asia, we had 125,705 full-time equivalents, 5.5 per cent less than during the same period of the previous year. This decline is primarily due to METRO Cash & Carry's withdrawal from Vietnam. In Germany, the number of full-time equivalents increased slightly to 70,835 (2014/15: 70,815).

During the reporting period, our METRO Cash & Carry sales line had an average of 101,380 full-time equivalents. This is a decrease of 6.3 per cent from the same period of the previous year. Media-Saturn employed an average of 58,396 full-time equivalents in the reporting period, an increase of 0.8 per cent over the same period of the previous year. At Real, the number of full-time equivalents fell by 2.8 per cent to 27,281. The number of full-time equivalents in the Others segment decreased by 0.4 per cent to 9,483.

Development of employee numbers of METRO GROUP
annual average

Workforce by headcount

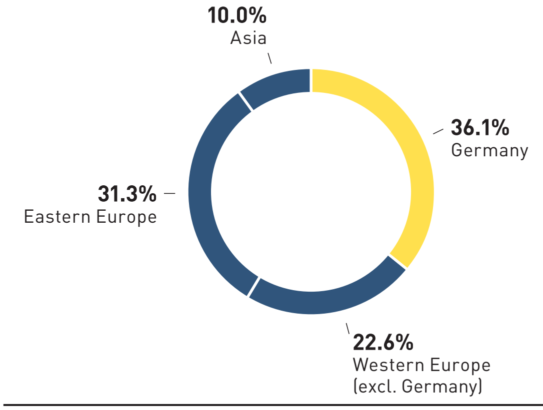
	Germany	International	Total
2014/15	84,398	142,497	226,895
2015/16	**84,329**	**135,349**	**219,678** (–3.2%)

Workforce by full-time equivalents

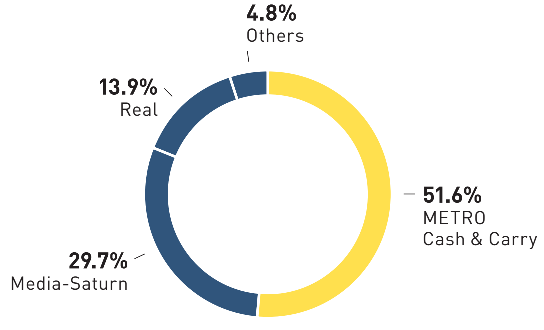
	Germany	International	Total
2014/15	70,815	132,958	203,773
2015/16	**70,835**	**125,705**	**196,540** (–3.5%)

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Employees by region
full-time equivalents



Employees by segment
full-time equivalents



Development of personnel expenses

Our personnel expenses increased by 0.1 per cent to €6.5 billion compared with the same period of the previous year (2014/15: €6.5 billion). Of that amount, €5.3 billion (2014/15: €5.3 billion) was attributable to wages and salaries, including income taxes and employee contributions to social insurance programmes. The rest was attributable to social welfare contributions, pension expenses and employee benefits.

We encourage our staff to set up their own private pension accounts. Our group-wide future package provides them with voluntary benefits that exceed the collective bargaining standards generally seen in the industry. During the reporting year, 36,476 employees in Germany took advantage of these benefits (2014/15: 38,160 employees). This represents a share of 46.4 per cent (2014/15: 47.6 per cent).

For more information about personnel expenses, see the notes to the consolidated financial statements in no. 17 – personnel expenses.

Development of employee numbers by countries and segments
full-time equivalents as of closing date of 30/9[1]

	METRO Cash & Carry		Media-Saturn		Real		Others		METRO GROUP	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Germany	**12,640**	**12,697**	**24,317**	**25,202**	**27,849**	**27,087**	**5,831**	**5,729**	**70,637**	**70,714**
Austria	1,920	**1,915**	2,410	**2,381**					4,330	**4,295**
Belgium	2,581	**2,601**	1,535	**1,564**					4,116	**4,165**
Denmark			33	**37**					33	**37**
France	8,229	**8,192**							8,229	**8,192**
Italy	3,832	**3,702**	5,237	**5,219**					9,069	**8,921**
Luxembourg			139	**128**					139	**128**
Netherlands	2,533	**2,162**	3,636	**3,691**			11	**11**	6,180	**5,863**
Portugal	899	**899**	486	**540**					1,385	**1,439**
Spain	3,396	**3,323**	5,401	**5,447**					8,796	**8,770**
Sweden			1,014	**916**					1,014	**916**
Switzerland	0	**78**	1,103	**1,087**			77	**73**	1,180	**1,239**
United Kingdom			0	**2**					0	**2**
Western Europe (excl. Germany)	**23,390**	**22,871**	**20,994**	**21,012**			**88**	**84**	**44,470**	**43,966**
Bulgaria	2,203	**2,235**							2,203	**2,235**
Croatia	1,125	**1,077**							1,125	**1,077**
Czech Republic	3,235	**3,227**							3,235	**3,227**
Greece			746	**793**					746	**793**
Hungary	2,508	**2,549**	1,167	**1,294**			6	**5**	3,681	**3,848**
Kazakhstan	881	**820**							881	**820**
Moldova	598	**609**							598	**609**
Poland	5,771	**4,877**	4,986	**5,023**			293	**368**	11,049	**10,268**
Romania	4,300	**3,874**					1,451	**1,444**	5,751	**5,318**
Russia	17,693	**16,671**	3,454	**2,985**			582	**649**	21,730	**20,304**
Serbia	1,241	**1,229**							1,241	**1,229**
Slovakia	1,184	**1,245**							1,184	**1,245**
Turkey	4,399	**4,149**	1,981	**1,930**			104	**86**	6,483	**6,165**
Ukraine	3,382	**2,782**							3,382	**2,782**
Eastern Europe	**48,520**	**45,345**	**12,333**	**12,024**			**2,437**	**2,551**	**63,289**	**59,919**
China[2]	11,899	**12,137**	14	**14**			497	**379**	12,410	**12,530**
India	3,585	**4,610**					649	**686**	4,234	**5,296**
Japan	777	**826**							777	**826**
Pakistan	1,703	**1,813**							1,703	**1,813**
Vietnam	3,304	**0**							3,304	**0**
Asia	**21,267**	**19,386**	**14**	**14**			**1,146**	**1,065**	**22,427**	**20,465**
USA[3]	5	**5**							5	**5**
International	**93,181**	**87,606**	**33,341**	**33,050**			**3,670**	**3,700**	**130,192**	**124,355**
METRO GROUP	**105,822**	**100,302**	**57,658**	**58,251**	**27,849**	**27,087**	**9,501**	**9,429**	**200,830**	**195,069**

[1] Rounding differences may occur
[2] All employees of the Classic Fine Foods group are attributed to the Asia (China) region
[3] US employees are employees of the Boston Trading Office (BTO). The trading office is responsible for seafood procurement.

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Development of employee numbers by countries and segments
by headcount as of closing date of 30/9

	METRO Cash & Carry		Media-Saturn		Real		Others		METRO GROUP	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Germany	**14,647**	**14,656**	**27,304**	**28,284**	**36,063**	**35,121**	**5,935**	**5,842**	**83,949**	**83,903**
Austria	2,116	**2,101**	2,861	**2,834**					4,977	**4,935**
Belgium	3,026	**3,072**	1,623	**1,642**					4,649	**4,714**
Denmark			33	**37**					33	**37**
France	8,539	**8,493**							8,539	**8,493**
Italy	4,375	**4,233**	5,826	**5,877**					10,201	**10,110**
Luxembourg			122	**132**					122	**132**
Netherlands	4,414	**3,660**	4,796	**4,842**			11	**11**	9,221	**8,513**
Portugal	944	**939**	546	**604**					1,490	**1,543**
Spain	3,744	**3,690**	6,508	**6,613**					10,252	**10,303**
Sweden			1,511	**1,364**					1,511	**1,364**
Switzerland	0	**80**	1,295	**1,272**			82	**78**	1,377	**1,430**
United Kingdom			0	**2**					0	**2**
Western Europe (excl. Germany)	**27,158**	**26,268**	**25,121**	**25,219**			**93**	**89**	**52,372**	**51,576**
Bulgaria	2,208	**2,240**							2,208	**2,240**
Croatia	1,142	**1,085**							1,142	**1,085**
Czech Republic	3,466	**3,464**							3,466	**3,464**
Greece			813	**859**					813	**859**
Hungary	2,547	**2,587**	1,185	**1,312**			6	**5**	3,738	**3,904**
Kazakhstan	887	**827**							887	**827**
Moldova	598	**609**							598	**609**
Poland	5,981	**5,521**	5,035	**5,070**			294	**370**	11,310	**10,961**
Romania	4,349	**3,906**					1,459	**1,450**	5,808	**5,356**
Russia	17,800	**16,917**	3,481	**3,008**			586	**656**	21,867	**20,581**
Serbia	1,241	**1,229**							1,241	**1,229**
Slovakia	1,188	**1,257**							1,188	**1,257**
Turkey	4,555	**4,294**	1,982	**1,930**			104	**86**	6,641	**6,310**
Ukraine	3,426	**2,828**							3,426	**2,828**
Eastern Europe	**49,388**	**46,764**	**12,496**	**12,179**			**2,449**	**2,567**	**64,333**	**61,510**
China[1]	11,899	**12,142**	14	**14**			501	**383**	12,414	**12,539**
India	3,598	**4,624**					650	**687**	4,248	**5,311**
Japan	1,063	**1,137**							1,063	**1,137**
Pakistan	1,715	**1,837**							1,715	**1,837**
Vietnam	3,363	**0**							3,363	**0**
Asia	**21,638**	**19,740**	**14**	**14**			**1,151**	**1,070**	**22,803**	**20,824**
USA[2]	5	**5**							5	**5**
International	**98,189**	**92,777**	**37,631**	**37,412**			**3,693**	**3,726**	**139,513**	**133,915**
METRO GROUP	**112,836**	**107,433**	**64,935**	**65,696**	**36,063**	**35,121**	**9,628**	**9,568**	**223,462**	**217,818**

[1] All employees of the Classic Fine Foods group are attributed to the Asia (China) region
[2] US employees are employees of the Boston Trading Office (BTO). The trading office is responsible for seafood procurement.

Characteristics of the accounting-related internal control and risk management system and explanatory report of the Management Board

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

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

Group-wide framework

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

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

- Design of controls: Taking a top-down approach, the company has identified the risk of material errors with regard to financial reporting for 13 financial and accounting processes. In addition, the Corporate Accounting department has stipulated binding group-wide control objectives which the key group companies must meet through company-specific control activities.
- Implementation of controls: The group companies must keep records of the implementation of these controls. These provide the basis for an independent review of the effectiveness of controls by the Group Internal Audit department and the group's auditor.
- Effectiveness of controls: The major group companies are obliged to evaluate the effectiveness of controls at the end of each financial year (self-evaluation). In the process, they must apply the uniform, group-wide method stipulated by the Corporate Accounting department. In addition, the effectiveness of controls is reviewed as part of the risk-oriented, independent audits conducted by the Group Internal Audit department.
- Reporting: The results of the self-evaluations must be reported to the Corporate Accounting department using a standardised reporting format. The group companies must confirm that their self-evaluations were conducted using the stipulated method. Aside from the control activities, the group companies must also report on the other four components of the COSO framework: control environment, risk assessment, information and communication as well as monitoring. Companies' individual reports are validated by the Corporate Accounting department and compiled in an overall report on METRO GROUP's accounting-related internal control system. This is reported to the Governance, Risk, and Compliance Committee (GRCC) as well as the Management Board of METRO AG.

As of financial year 2014/15, these four phases of the internal control cycle are mapped using the RSA Archer GRC software. This was initially introduced only in the METRO Cash & Carry countries as well as in the service centres in Pune, India, and Szczecin, Poland. In financial year 2015/16, the software was also rolled out across the other sales lines, at METRO AG and at the key service companies.

The key requirements (for example, the IFRS accounting guideline), accounting processes, individual controls and

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

independent review by the Group Internal Audit department and the auditor are described in detail below.

IFRS accounting guideline

The interim consolidated financial statements and the consolidated financial statements of METRO AG are prepared in accordance with the International Financial Reporting Standards (IFRS) as they are to be applied in the European Union. A group-wide IFRS accounting guideline that is compulsory for all companies included in the consolidated financial statements ensures the uniform group-wide application of accounting procedures in accordance with IFRS. The guideline explains IFRS regulations to group companies and makes stipulations regarding accounting measurements. To monitor compliance with the IFRS accounting guideline, the management of each group company is obliged to confirm compliance by means of a letter of representation. The IFRS accounting guideline covers all IFRS relevant to METRO AG and does not relate only to certain accounting events. The Corporate Accounting department of METRO AG is responsible for ensuring compliance with this guideline. Amendments to IFRS are continually included in the IFRS accounting guideline and communicated to all companies included in the consolidated financial statements.

Accounting processes of companies included in the consolidated financial statements

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

The consolidation of financial data in the context of group reporting is carried out by means of a centralised, SAP-based consolidation system (SAP EC-CS). Without exception, all consolidated METRO GROUP companies are linked into this system. This system provides for a uniform accounts table used by all consolidated companies in accordance with the IFRS accounting guideline. The accounts tables for the individual IFRS financial statements and the consolidated financial statements are interlinked.

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

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

Once they have been transmitted from the individual financial statements under IFRS to the SAP-based consolidation system, the financial data are subjected to an automated plausibility review in relation to accounting-specific contexts and dependencies. Any errors or warning messages generated by the system during this validation process must be addressed by the person responsible for the individual financial statements before the data are transmitted to the consolidation facility.

The report in which all essential group companies provide a comparison of key items of the balance sheet and the income statement with prior-year figures as well as relevant comments represents another monitoring instrument. Every essential group company must provide this report to METRO AG in the context of the preparation of individual financial statements.

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

Accounting processes in the context of consolidation

The planning tool also divides the process of preparing the consolidated financial statements into key milestones, activities and deadlines. In the process, the completion of typical consolidation measures – including sales elimination as well as expense, income, liability and capital consolidation – represents specific milestones in the preparation of the consolidated financial statements. Personnel responsibilities for the consolidation measures mentioned above are documented in consideration of stand-in arrangements.

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

The consolidation measures required to prepare the consolidated financial statements are subject to various systematic and manual controls. The automated plausibility reviews (validations) used in individual financial statements data also apply to the consolidation measures. Additional monitoring mechanisms at group level include target-performance comparisons as well as analyses dealing with the composition and changes of individual items in the balance sheet and the income statement. Compliance with internal controls covering the preparation and accounting process in the context of the compilation of the consolidated financial statements is regularly monitored by the Group Internal Audit department of METRO AG.

Access regulations for the consolidation system SAP EC-CS are implemented to ensure adherence to IT security regulations (writing and reading authorisations). Authorisations to use the consolidation system are managed centrally by METRO AG. The approval is given only by the Corporate Accounting and Corporate Planning & Controlling departments. This ensures that users only have access to data they require to fulfil their specific tasks.

Independent audit/control

Group Internal Audit

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

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

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

External audit

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

In addition, the respective auditors review and monitor the individual IFRS financial statements prepared by the group companies for consolidation purposes as well as the consolidated financial statements and combined management report of METRO AG for compliance with applicable accounting standards as well as with additional rules and regulations. The half-year financial report undergoes an auditor's review and the full-year consolidated statements are audited. The final auditor's opinion on the consolidated financial statements is published as an auditor's report in the annual report.

— ECONOMIC REPORT

Macroeconomic and sector-specific parameters[1]

The global economy continued to weaken in financial year 2015/16 compared with the previous year. Overall, it has not yet returned to a path of sustainable economic growth following the financial and sovereign debt crisis. Once again, the overall picture was one of considerable divergence among the different economies.

Following a particularly weak spell at the start of 2016, economic momentum in the United States increased only slightly over the course of the year, resulting in distinctly slower overall growth compared with the previous two years. The Western European economy, in turn, continued its moderate recovery. As before, growth was fuelled by lower oil prices – which, however, rose over the course of the year – and low interest rates. In spite of continued high public indebtedness and persistently weak investment activity, the region recorded positive growth, supported by overall solid private consumption. Developments in Eastern Europe remained divided, with generally stable growth in Central European countries on the one hand, and Eastern European countries whose economic developments remained overshadowed by the Russia/Ukraine conflict and the recession in Russia on the other. In Asia, Chinese economic growth continued to slow while the Japanese economy expanded only slightly. However, as a whole, the region continued to record the strongest growth rates of all regions in which METRO GROUP is active. At just over 2 per cent, overall global economic growth in 2016 fell short of the already weak growth rate of 2.5 per cent recorded in the previous year.

[1] The numbers indicating the development of gross domestic product in the chapter "macroeconomic and sector-specific parameters" represent the entire years of 2015 and 2016. As such, the figures for 2016 represent projections. Unless otherwise indicated, the qualitative statements in the text refer to the reporting period.

In terms of political developments, financial year 2015/16 was overshadowed by an increase in terrorist attacks, particularly in Turkey, Belgium and France. In Turkey, the attempted military coup in July 2016 caused the government to declare a state of emergency. Since mid-June 2016, the United Kingdom's vote to leave the European Union (Brexit) has dominated the political debate. The specific economic impact of Brexit will essentially depend on the outcome of the negotiations between the European Union and the United Kingdom over the coming years. Outside of the United Kingdom, the economic impact was very limited during the past financial year.

Over the course of financial year 2015/16, the euro stabilised against the US dollar following the strong devaluation in 2014/15. After appreciating over the first half of the year, the euro initially declined in response to the Brexit vote, but subsequently recovered slightly. In the reporting period, the Japanese yen is the only major currency of any METRO GROUP country that has appreciated substantially versus the euro. The Kazakhstani tenge, in turn, weakened significantly. The Russian rouble, the Ukrainian hryvnia and the Turkish lira also depreciated strongly again. As a result of the currency devaluations, the consumer prices in these countries rose markedly. Following gradual exchange rate stabilisation in Russia and Ukraine, inflation also began to subside in both countries. Meanwhile, prices were once again more or less stable across the rest of Europe as energy prices remained low and global demand failed to pick up. At less than 1 per cent, the increase in food prices was also moderate, but slightly higher than the overall increase in consumer prices.

In terms of the regions in which METRO GROUP is active, economic growth in Germany and Western Europe was largely unchanged from the previous year's level in financial year 2015/16. As a whole, Eastern Europe returned to a slightly stronger growth path during this period. This was largely due to base effects in Russia. Following the abrupt downswing in 2015, economic output only shrank slightly until September 2016. Due to their strong ties to the Western European economies, the countries of Central Europe, in turn, recorded stable growth of just under 3 per cent in financial year 2015/16, only slightly below the level of financial year 2014/15. In spite of the declining momentum in China, Asian emerging markets grew once again faster than any other global region in financial year 2015/16.

↓ CONSOLIDATED FINANCIAL STATEMENTS
↓ SERVICE

Development of gross domestic product in key global regions and Germany
Percentage change year-on-year

	2015[1]	2016[2]
World	2.5	**2.1**
Germany	1.7	**1.8**
Western Europe (excl. Germany)	1.6	**1.5**
Eastern Europe	0.1	**1.2**
Asia	3.7	**3.7**

Source: Feri
[1] Previous year's figures may deviate from the Annual Report 2014/15 since final figures were not yet available at the reporting date
[2] Forecast

Solid development in consumer goods retailing at a moderate level

Because of divergent economic development in the regions in which METRO GROUP operates, developments in the retail business were also mixed. In Western Europe, the continued economic recovery was reflected in robust retail sales. At just over 1.5 per cent, nominal growth was slightly higher than a year earlier in financial year 2015/16. In Eastern and Central Europe, mixed retail sales developments reflected divergent economic developments. While the Central European countries reported robust growth, price-adjusted retail sales in Russia and Ukraine fell markedly. Despite a slight slowdown, the emerging countries of Asia once again enjoyed the highest growth rates.

Germany
Retail sales in Germany remained stable in the reporting period. The continued decline in unemployment and higher disposable incomes in particular boosted private consumption and retail sales, which in turn supported overall economic growth. In price-adjusted terms, grocery sales recorded a slightly stronger increase than non-food retail sales. At the same time, online retail continued to grow and once again expanded its market share.

Western Europe
In Western Europe, growth was supported by low oil prices and lower interest rates. However, uncertainty related to the United Kingdom's exit from the European Union and a series of terrorist attacks weighed on economic sentiment in the Western European countries. Public indebtedness also remained on the agenda. Overall, though, the Eurozone countries continued their modest recovery with growth of about 1.5 per cent in 2016. Thanks to the economic recovery, unemployment fell slowly but surely, supporting retail, which recorded nominal growth of just over 1.5 per cent. Growth was unchanged in price-adjusted terms due to lower inflation. In both Sweden and Spain, economic output and retail sales recorded above-average growth in excess of 3 per cent. The picture in Portugal was mixed with below-average economic growth but overall robust retail sales. On the other hand, Italy, Belgium and the Netherlands lagged in terms of both economic growth and retail sales development.

Eastern Europe
The Eastern European economies remained under pressure from economic weakness in Russia and the ongoing Russia/Ukraine conflict. As in the previous year, both countries recorded negative economic growth. However, overall economic output did not decline further towards the end of the financial year. The weak economy also depressed retail sales in financial year 2015/16. While above-average price increases resulted in slightly higher nominal retail sales, price-adjusted retail sales were sharply lower. Meanwhile, the Central European economies generally proved robust. As a result, retail sales also showed positive increases of more than 3 per cent in nominal terms in Poland, the Czech Republic and Hungary as well as in Bulgaria and Romania. Despite overall positive economic trends, retail sales growth was somewhat slower in Slovakia. Greece suffered another year of declining retail sales. In Turkey, terrorist attacks and an attempted coup resulted in significant domestic political tension, but only had relatively limited impact on economic growth and retail sales. Other sectors such as tourism and restaurants have felt the increased uncertainty more strongly.

Asia
The emerging economies of Asia once again posted the strongest growth in financial year 2015/16. However, overall growth in China has weakened. Meanwhile, India remained on its strong growth path, recording growth rates above 7 per cent for the second year in a row. Retail sales in both countries recorded nearly double-digit nominal growth during the reporting period. In India, however, higher prices account for half of this increase, although inflation moderated distinctly towards the end of the financial year. Despite continued expansionary monetary and fiscal policy, Japan's economy failed to improve on the previous year's subdued growth trend. As a result, retail sales also declined slightly.

Development of gross domestic product in METRO GROUP countries
Percentage change year-on-year

	2015[1]	2016[2]
India	7.2	**7.3**
China	6.9	**6.5**
Pakistan	4.2	**4.8**
Romania	3.8	**4.1**
Luxembourg	4.9	**3.5**
Slovakia	3.6	**3.4**
Spain	3.2	**3.1**
Sweden	4.2	**3.0**
Poland	3.7	**2.9**
Bulgaria	3.0	**2.7**
Turkey	4.0	**2.7**
Serbia	0.7	**2.4**
Czech Republic	4.6	**2.3**
Croatia	1.6	**2.1**
Germany	1.7	**1.8**
Hungary	2.9	**1.6**
Switzerland	0.8	**1.5**
Netherlands	2.0	**1.3**
Belgium	1.4	**1.3**
Austria	1.0	**1.3**
France	1.2	**1.2**
Portugal	1.5	**1.0**
Italy	0.6	**0.8**
Japan	0.6	**0.6**
Moldova	−0.5	**0.5**
Kazakhstan	1.2	**0.1**
Ukraine	−9.9	**−0.1**
Greece	−0.2	**−0.8**
Russia	−3.7	**−0.9**

Source: Feri
[1] Previous year's figures may deviate from the Annual Report 2014/15 since final figures were not yet available at the reporting date
[2] Forecast

METRO Cash & Carry: sector development in the cash-and-carry business

In terms of sales, METRO Cash & Carry is the global market leader in self-service wholesale. The sales line benefits from an unrivalled international presence with stores in 25 countries and another ten countries covered by Classic Fine Foods (CFF).

In financial year 2015/16, sales in the cash-and-carry segment in Germany fell slightly short of the previous year's level. Self-service wholesale recorded somewhat weaker sales than food retail, which continued its positive trend. At just over 1 per cent, food price increases remained below average. Delivery wholesale continued its strong momentum.

In Western Europe, the positive trend in self-service wholesale continued in financial year 2015/16 with an increase in sales over the previous year. The combination of a moderate economic recovery and stagnant or only slightly rising prices supported sales in self-service wholesale. This could be observed in Spain and Portugal in particular. Moreover, in Spain, the tourism and restaurant sectors – two key Horeca customers – benefited from record tourist arrivals as geopolitical tension caused holidaymakers to avoid other Mediterranean destinations such as North Africa and Turkey. As a result, the major Horeca countries of Western Europe contributed to growth of self-service wholesale in the Horeca cluster. In addition, the cluster benefited from the positive development of self-service wholesale in Japan and Turkey in financial year 2015/16.

Delivery sales in Western Europe were stable as well.

In Eastern Europe, sales in self-service wholesale grew more strongly than a year earlier. However, divergent economic and political parameters continued to produce a mixed picture. The Central European countries showed stable developments and positive sales trends, while the ongoing conflict and the persistently challenging economic environment continued to weigh on retail and wholesale in Ukraine and Russia. Self-service wholesale recorded a price-induced increase in sales, with sales continuing their downward trend in price-adjusted terms. However, the negative trend subsided during the second half of 2016. While the situation in Ukraine also weighed on overall developments in the traders segment, the latter recorded higher self-service wholesale sales thanks partly to

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

solid developments in Poland, Romania and Moldova. In import-dependent Kazakhstan, both self-service wholesale and retail sales suffered severely from the devaluation of the Kazakhstani tenge as well as from uncertainty regarding future developments among consumers. Despite the difficult political situation, Turkey recorded relatively strong nominal growth in self-service wholesale, although food prices also rose markedly. The increase in terrorist attacks and developments in the aftermath of the attempted military coup impacted the tourism and restaurant sectors, causing sales trends to weaken over the course of 2016.

Self-service wholesale in Asia continued its strong momentum in financial year 2015/16. The region led the growth rankings again even though the Chinese economy slowed markedly. India and Pakistan were the region's key growth drivers as both countries recorded higher nominal and real sales. The Asian food supply landscape is dominated by traditional retail structures, which continue to offer strong growth potential to the cash-and-carry segment. In addition, growing demand for delivery services across Asia creates new opportunities for food wholesale.

The Asian markets were the key drivers of growth in the multi-specialists segment although growth in this segment was weakened somewhat by below-average sales growth in the saturated Western European markets of Belgium and the Netherlands as well as the challenging economic environment in Russia and Kazakhstan.

Media-Saturn: sector development in consumer electronics retailing

Sales in German consumer electronics retailing stagnated in financial year 2015/16 (–0.4 per cent). Media-Saturn did not benefit from any positive growth impulses, for example from product innovation, during the reporting period.

Losses in individual market segments in Germany such as IT and photography were compensated in particular by robust growth in the small electrical appliances area. Following a weak spell in late 2015 and early 2016, the important smartphone sub-market recovered and recorded higher sales in financial year 2015/16.

In the Southern European consumer electronics market, Spain recorded positive growth, although growth slowed compared to the previous year. Meanwhile, the already positive trend in Italy accelerated further in financial year 2015/16.

Trends in Eastern Europe were mixed. Poland and Hungary recorded sizeable growth rates, while the Russian market declined markedly due to the persistently challenging economic environment and low average oil prices over the course of financial year 2015/16. Turkey again recorded double-digit growth. The economic recovery in Greece was derailed again due partly to the elimination of state subsidies in the IT and telecommunication sectors.

Switzerland has not yet recovered from its move to unpeg the Swiss franc from the euro. Consumer electronics retailing continued its distinctly negative development in 2015/16.

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

Overall, the Media-Saturn group of companies continued to expand its market share in financial year 2015/16, raising its total market share across all countries to 13.4 per cent from 13.2 per cent.

Real: sector development in the food retail business

With growth of about 2 per cent, German food retail mirrored the overall positive development of the German retail sector in financial year 2015/16. As food prices increased only slightly over the year, food retail also recorded price-induced growth of about 1 per cent, with the continuously favourable economic environment and above-average growth of private consumption also bolstering the sector. At the same time, the strong inflow of immigrants is leading to higher demand for food.

In store-based retail, small supermarkets with a selling space from 1,000 to 2,500 square metres again recorded the strongest growth. Large supermarkets registered sales growth in line with overall food retail. While the e-commerce-business continues to play a subordinated role in food retail, it is growing at double-digit rates.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Asset, financial and earnings position

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

METRO GROUP continued to face challenges in financial year 2015/16 that were caused largely by geopolitical events. Nonetheless, the Management Board can look back at a successful year overall. METRO GROUP successfully continued its transformation. In this context, the planned demerger into two independent, high-performing retail groups represents the next logical step to achieving greater customer orientation and entrepreneurial action as well as greater shareholder value.

Overall, the Management Board is satisfied with the company's performance, especially because all communicated financial goals for METRO GROUP were achieved. As a result, we will once again propose an attractive dividend to our shareholders.

Financial and asset position

Financial management

Principles and objectives of financial activities

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

Cash pooling allows the surplus liquidity of individual group companies to be used for internal funding of group companies that participate in cash pooling. This reduces the group's debt volume and thus its interest expenses. METRO GROUP's financial activities are based on a financial budget for the group, which covers all relevant companies and is updated monthly. In addition, METRO AG provides a 14-day liquidity plan.

METRO AG's current long-term investment grade rating of BBB– and short-term rating of A-3 by Standard & Poor's support access to capital markets.

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

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

Financial unity

By presenting a single face to the financial markets, the group obtains better terms on financial markets.

Financial scope

In our relationships with banks and other business partners in the financial arena, we consistently maintain our scope of action in order to remain independent. In the context of our bank policy, limits have been defined to ensure that the group can replace one financing partner with another at any time.

Centralised risk management

We conduct financial transactions to cover our financing requirements and hedge risks related to underlying business transactions. METRO GROUP's total financial portfolio is centrally controlled by METRO AG.

Centralised risk monitoring

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

Exclusively authorised contractual partners

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

Approval requirement

As a matter of principle, all financial transactions of METRO GROUP companies are conducted with METRO AG. In cases where this is not possible for legal reasons, these transactions are concluded on behalf of the group company or directly between the group company and an external financial partner in coordination with METRO AG.

Audit security

The two-signature principle applies within our company. All processes and responsibilities are laid down in group-wide guidelines. The conclusion of financial transactions is separated from settlement and controlling in organisational terms.

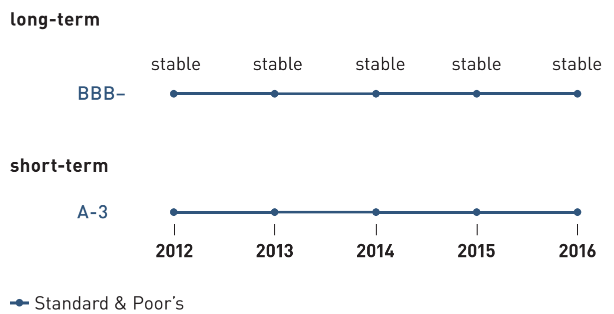
For more information about the risks stemming from financial instruments and hedge accounting, see the notes to the consolidated financial statements in no. 44 – management of financial risks.

Ratings

Ratings evaluate the ability of a company to meet its financial obligations. They communicate the creditworthiness of a company to potential debt capital providers. In addition, ratings facilitate access to international capital markets. METRO AG has commissioned Standard & Poor's – a leading international rating agency – to continuously analyse METRO GROUP's creditworthiness.

The development of METRO GROUP's long-term and short-term ratings over the past five years is depicted in the following graph:

Rating development and outlook



The current METRO GROUP rating awarded by Standard & Poor's is as follows:

Category	2016
Non-current	BBB–
Current	A-3
Outlook	stable

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

Financing measures

The company's medium-term and long-term financing needs are covered by an ongoing capital market issuance programme with a maximum volume of €6 billion. The €50 million bond with a coupon of 3.1 per cent that was due on 25 January 2016 and the €60 million bond with a coupon of 3 per cent that was due on 1 February 2016 were repaid on time, as was the CHF 225 million bond with a coupon of 1.875 per cent that was due on 2 May 2016. In addition, an early repayment of €128 million from a €750 million bond with a coupon of 4.25 per cent maturing on 22 February 2017 was made in September 2016.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

By 30 September 2016, €3.1 billion had been utilised from the ongoing issuance programme.

In addition, promissory note loans totalling €158 million and €134 million, respectively, were repaid on time on 21 December 2015 and 14 March 2016, respectively, and promissory note loans totalling €55 million were partially repaid early in September 2016.

Short-term financing requirements are covered through the Euro Commercial Paper Programme and a commercial paper programme geared especially to French investors. Both programmes have a maximum volume of €2 billion each. The average amount utilised from both programmes during the reporting period was €334 million. As of 30 September 2016, no use was made of these programmes (30/9/2015: €941 million).

In addition, METRO GROUP used bilateral credit facilities totalling €276 million as of 30 September 2016. Existing syndicated credit facilities totalling €2,525 million were not utilised.

For more information about financing programmes and credit facilities, see the notes to the consolidated financial statements in no. 37 – financial liabilities.

Aside from the established issuance programmes, the group had access to sufficient liquidity via comprehensive, generally multi-year credit facilities at all times. These are listed in the following table.

Unutilised credit facilities of METRO GROUP

	30/9/2015			30/9/2016		
		Remaining term			Remaining term	
€ million	Total	up to 1 year	over 1 year	Total	up to 1 year	over 1 year
Bilateral credit facilities	1,719	962	757	**681**	**437**	**244**
Utilisation	–1,189	–932	–257	**–276**	**–132**	**–144**
Unutilised bilateral credit facilities	530	30	500	**405**	**305**	**100**
Syndicated credit facilities	2,525	0	2,525	**2,525**	**0**	**2,525**
Utilisation	0	0	0	**0**	**0**	**0**
Unutilised syndicated credit facilities	2,525	0	2,525	**2,525**	**0**	**2,525**
Total credit facilities	4,244	962	3,282	**3,206**	**437**	**2,769**
Total utilisation	–1,189	–932	–257	**–276**	**–132**	**–144**
Total undrawn credit facilities	**3,055**	**30**	**3,025**	**2,930**	**305**	**2,625**

Investments/divestments

In financial year 2015/16, METRO GROUP invested €1,413 million, approximately the same amount as in the previous year. While the group further scaled back its expansion activities, it continued to strengthen its delivery business with the acquisition of Rungis Express and added new after-sales services to Media-Saturn's offering with the acquisition of the repair and maintenance service provider RTS. Investments in lease extensions and concept and modernisation measures also increased. In this context, digital price tags were introduced in the German Media Markt and Saturn stores to advance digitisation at the point of sale. Overall, the reduced expansion activities are reflected in a smaller number of 55 store openings compared with 58 store openings in the previous year's period.

Investments of METRO GROUP

€ million	2014/15	2015/16	Change absolute	Change %
METRO Cash & Carry	750	**614**	−136	−18.2
Media-Saturn	256	**406**	150	58.6
Real	241	**260**	20	8.1
Others	165	**133**	−31	−19.0
METRO GROUP	**1,411**	**1,413**	**2**	**0.1**

In financial year 2015/16, **METRO Cash & Carry** invested €614 million and thus €136 million less than in the previous year's period. The sales line further strengthened its delivery business in financial year 2015/16 by acquiring Rungis Express, a leading premium food supplier. The decline in investments compared with the previous year is primarily due to the acquisition of the Classic Fine Foods group in financial year 2014/15. Investments in concept and modernisation measures increased while investments in expansion were slightly lower. The expansion activities continued to focus on Russia and China where 5 and 4 new METRO Cash & Carry stores, respectively, were added to the existing store network. At the same time, METRO Cash & Carry continued its expansion in India by opening 5 new stores in that country. In addition, METRO Cash & Carry opened 3 new stores in Turkey, 2 in Croatia and 1 each in France, Italy and Belgium. In the context of a portfolio optimisation initiative, 11 stores were closed in Poland. The sales line closed 1 store each in Germany, Kazakhstan, Croatia and Romania. As announced, 19 stores in Vietnam were sold.

In financial year 2015/16, investments of **Media-Saturn** amounted to €406 million, €150 million more than in the previous year's period. The increase primarily stems from the Germany-wide implementation of electronic shelf labels in Media Markt and Saturn stores as well as the acquisition of RTS. While the pace of expansion remained unchanged, investments in concept and modernisation measures increased. Media-Saturn continued its selective expansion (including new small formats) in Europe during the reporting period, opening 33 stores (previous year: 36) across the continent. The sales line opened 17 consumer electronics stores in Eastern Europe: 8 in Turkey, 5 in Poland, 2 in Russia and 1 each in Greece and Hungary. 8 new stores were added in Western Europe (excluding Germany), including 4 in Italy, 2 in Spain and 1 each in Austria and Switzerland. 8 stores were opened in Germany. As part of its portfolio optimisation efforts, Media-Saturn closed 17 stores during the financial year: 8 stores in Russia, 4 stores in Turkey, 3 stores in Italy and 1 store each in Germany and Poland.

Real invested €260 million in financial year 2015/16, €20 million more than in the previous year's period. This increase is primarily due to lease extensions which more than offset the decline in investments in modernisation and concept changes. In the previous year, the latter had resulted from the refurbishment and modernisation of 57 stores across Germany in particular. As planned, Real closed 8 stores in Germany during financial year 2015/16.

Investments in the **Others** segment totalled €133 million in financial year 2015/16 (2014/15: €165 million) and related mostly to concept and modernisation measures as well as intangible assets. In addition, METRO GROUP's investments in the start-up companies Orderbird and Shore are included in this segment.

Aside from the obligations resulting from the signing of the purchase contract for Pro à Pro, the obligations incurred for the acquisition of property, plant and equipment and intangible assets amount to €149 million.

For additional information, see the notes to the consolidated financial statements in no. 20 – other intangible assets and no. 21 – property, plant and equipment.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

From divestments (including sales of subsidiaries as well as discontinued operations), METRO GROUP received cash and cash equivalents amounting to €1,080 million, which stemmed from the disposal of METRO Cash & Carry Vietnam, among others.

For more information about divestments, see the cash flow statement in the consolidated financial statements as well as the notes to the consolidated financial statements in no. 42 – notes to the cash flow statement.

Liquidity (cash flow statement)

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

Cash inflow from operating activities in financial year 2015/16 amounted to €1,552 million (2014/15: €+1,846 million). Investing activities led to cash outflow of €4 million (2014/15: €+785 million). Compared with the previous year's period, this represents a decrease in cash flow before financing activities of €1,083 million to €1,548 million. Cash outflow from financing activities totalled €3,584 million (2014/15: €–597 million).

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

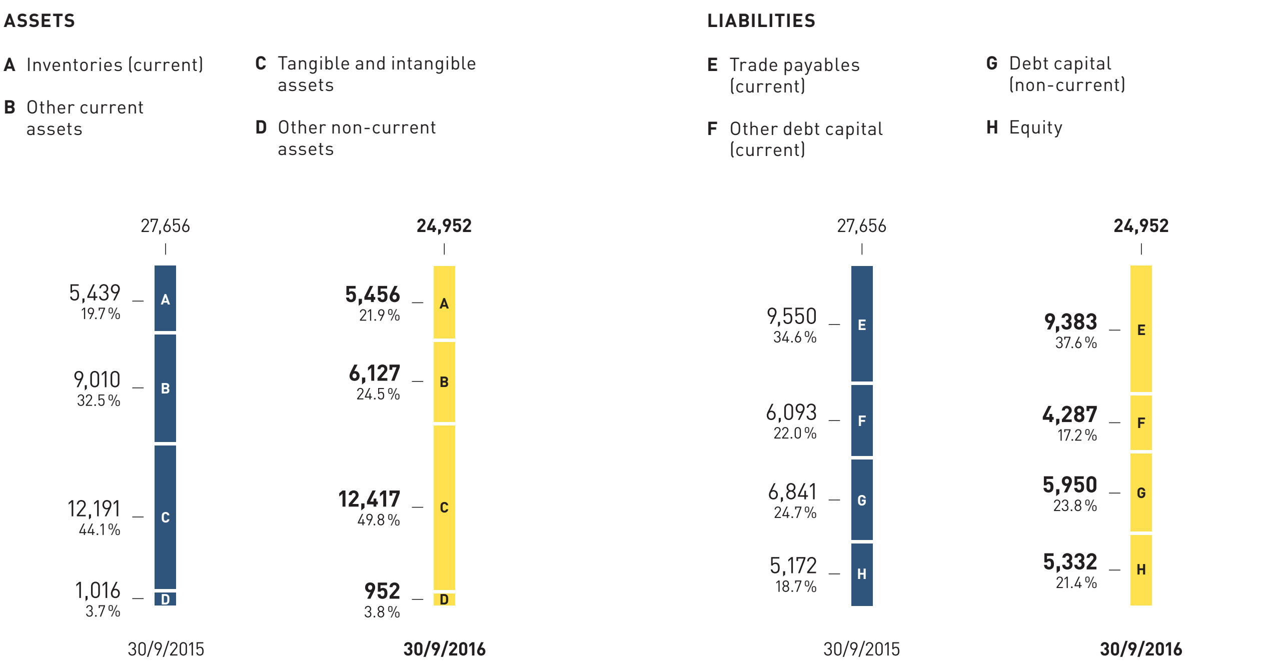
Cash flow statement[1]

€ million	2014/15	2015/16
Cash flow from operating activities of continuing operations	1,595	**1,569**
Cash flow from operating activities of discontinued operations	251	**–17**
Cash flow from operating activities	**1,846**	**1,552**
Cash flow from investing activities of continuing operations	–1,187	**–224**
Cash flow from investing activities of discontinued operations	1,972	**220**
Cash flow from investing activities	**785**	**–4**
Cash flow before financing activities of continuing operations	408	**1,345**
Cash flow before financing activities of discontined operations	2,223	**203**
Cash flow before financing activities	**2,631**	**1,548**
Cash flow from financing activities of continuing operations	–718	**–3,584**
Cash flow from financing activities of discontinued operations	121	**0**
Cash flow from financing activities	**–597**	**–3,584**
Total cash flows	**2,034**	**–2,036**
Currency effects on cash and cash equivalents	–25	**–13**
Total change in cash and cash equivalents	**2,009**	**–2,049**

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

Capital structure

Capital structure of METRO GROUP
€ million



As of 30 September 2016, METRO GROUP's balance sheet showed equity of €5.3 billion (30/9/2015: €5.2 billion). The increase is primarily due to the change in reserves retained from earnings which increased by €141 million compared with 30 September 2015. The increase in other reserves retained from earnings, which largely stemmed from profit for the period attributable to the shareholders of METRO AG, had a positive impact. In contrast, effects from the remeasurement of defined benefit plans and dividends paid reduced reserves retained from earnings.

The equity ratio stood at 21.4 per cent (30/9/2015: 18.7 per cent). The share of reserves retained from earnings in equity totalled 36.3 per cent compared with 34.7 per cent on 30 September 2015.

€ million	Note no.	30/9/2015	30/9/2016
Equity	32	**5,172**	**5,332**
Share capital		835	**835**
Capital reserve		2,551	**2,551**
Reserves retained from earnings		1,793	**1,934**
Non-controlling interests		−7	**12**

Net debt was reduced further by €0.2 billion and amounted to €2.3 billion as of 30 September 2016 (30/9/2015: €2.5 billion). This is calculated by netting financial liabilities, including finance leases of €4.8 billion (30/9/2015: €7.4 billion), with cash and cash equivalents according to the balance sheet of €2.4 billion (30/9/2015: €4.4 billion) as well as monetary investments of €90 million (30/9/2015: €424 million). In the reporting period, cash outflow from cash and cash equivalents as well as short-term financial investments essentially relates to the decline in financial liabilities (including finance leases), that is from bond redemptions, partial redemptions of promissory note loans and the reduction of liabilities to banks. As of 30 September 2015,

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

cash and cash equivalents as well as short-term financial investments had included cash inflow from the sale of the Galeria Kaufhof group in Germany and Belgium including the associated real estate assets.

€ million	30/9/2015	30/9/2016
Cash and cash equivalents according to the balance sheet	4,415	**2,368**
Short-term financial investments[1]	424	**90**
Financial liabilities (incl. finance leases)	7,366	**4,759**
Net debt	**2,527**	**2,301**

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

As of 30 September 2016, non-current liabilities amounted to €6.0 billion (30/9/2015: €6.8 billion). The decline by €0.8 billion was essentially due to lower long-term financial liabilities totalling €3.8 billion (30/9/2015: €4.7 billion). The opposite effect was produced by the €144 million increase in provisions for post-employment benefits plans and similar obligations to €1.4 billion (30/9/2015: €1.3 billion). This is essentially due to the markedly lower actuarial interest rate.

As of 30 September 2016, METRO GROUP had current liabilities totalling €13.7 billion (30/9/2015: €15.6 billion). This reduction is primarily attributable to the decline in short-term financial liabilities by €1.7 billion (30/9/2016: €0.9 billion; 30/9/2015: €2.6 billion) stemming from bond redemptions, the partial repayment of promissory note loans and lower liabilities to banks.

Compared with 30 September 2015, the debt ratio declined by 2.7 percentage points to 78.6 per cent. At 69.7 per cent, the share of current liabilities in total liabilities was virtually unchanged after 69.6 per cent on 30 September 2015.

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

€ million	Note no.	30/9/2015	30/9/2016
Non-current liabilities		**6,841**	**5,950**
Provisions for post-employment benefits plans and similar obligations	33	1,270	**1,414**
Other provisions	34	492	**383**
Financial liabilities	35, 37	4,731	**3,812**
Other financial and non-financial liabilities	35, 38	206	**191**
Deferred tax liabilities	25	142	**150**
Current liabilities		**15,643**	**13,670**
Trade liabilities	35, 36	9,550	**9,383**
Provisions	34	628	**705**
Financial liabilities	35, 37	2,635	**947**
Other financial and non-financial liabilities	35, 38	2,488	**2,465**
Income tax liabilities	35	148	**170**
Liabilities related to assets held for sale	31	194	**0**

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

Asset position

In financial year 2015/16, total assets decreased by €2,704 million to €25.0 billion (30/9/2015: €27.7 billion).

In financial year 2015/16, non-current assets increased slightly from €0.2 billion to €13.4 billion.

€ million	Note no.	30/9/2015	30/9/2016
Non-current assets		**13,207**	**13,369**
Goodwill	19	3,301	**3,361**
Other intangible assets	20	464	**497**
Property, plant and equipment	21	7,955	**8,141**
Investment properties	22	170	**126**
Financial assets	23	117	**104**
Investments accounted for using the equity method	23	184	**188**
Other financial and non-financial assets	24	292	**289**
Deferred tax assets	25	724	**663**

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

Current assets fell by €2.9 billion to €11.6 billion. This decline is largely due to the €–2 billion decrease in the item cash and cash equivalents (30/9/2016: €2.4 billion; 30/9/2015: €4.4 billion), which primarily results from the fact that the previous year's figure includes cash inflows from the sale of the Galeria Kaufhof group that were essentially used to reduce financial liabilities. Other financial and non-financial assets decreased by €0.7 billion to €2.7 billion (30/9/2015: €3.4 billion). This decline was essentially due to the decline in other financial assets, which primarily resulted from lower receivables from other financial transactions (30/9/2016: €100 million; 30/9/2015: €479 million) and lower receivables from METRO Unterstützungskasse e. V. (30/9/2016: €6 million; 30/9/2015: €221 million).

€ million	Note no.	30/9/2015	30/9/2016
Current assets		**14,449**	**11,583**
Inventories	26	5,439	**5,456**
Trade receivables	27	702	**808**
Financial assets		6	**1**
Other financial and non-financial assets	24	3,435	**2,734**
Entitlements to income tax refunds		202	**216**
Cash and cash equivalents	30	4,415	**2,368**
Assets held for sale	31	250	**0**

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

Earnings position

Overview of group business development

In financial year 2015/16, like-for-like sales at METRO GROUP grew by 0.2 per cent. This increase can be attributed mostly to positive developments at METRO Cash & Carry, while sales declined at Real. At €58.4 billion, reported sales were 1.4 per cent lower than a year earlier due to negative currency and portfolio effects. However, sales rose by 0.4 per cent in local currency.

EBIT before special items amounted to €1,560 million (2014/15: €1,511 million). This figure contains income from the sale of real estate amounting to €162 million (2014/15: €154 million) and income from the dissolution of obligations for post-employment benefits plans of €42 million. Adjusted for negative currency effects of €70 million, EBIT before special items was €119 million higher than in the previous year. Reported consolidated EBIT totalled €1,513 million in financial year 2015/16, more than double the amount registered in the previous year (2014/15: €711 million). This strong increase was due in particular to non-cash impairment losses on goodwill at Real in the previous year (€446 million) as well as income from the sale of the activities in Vietnam during the reporting period (€446 million).

Comparison of forecast with actual business developments

Sales

METRO GROUP had forecast slight sales growth adjusted for currency effects for financial year 2015/16. With an increase of 0.4 per cent in local currency, METRO GROUP met this target.

METRO GROUP had expected like-for-like sales growth (in local currency) to increase slightly. With a 0.2 per cent increase in like-for-like sales, this target was also met.

EBIT

METRO GROUP had expected EBIT before special items adjusted for currency effects to rise slightly above the €1,511 million achieved in financial year 2014/15, including income from real estate sales. Adjusted for negative currency effects of €70 million, METRO GROUP's EBIT before special items was €119 million higher than in the previous year. METRO GROUP thus met its forecast.

Sales lines

Among the sales lines, both METRO Cash & Carry and Media-Saturn were expected to contribute to total and like-for-like sales adjusted for currency effects. Adjusted for currency effects, both sales lines met this target. Sales at METRO Cash & Carry increased by 0.4 per cent in local currency and by 0.6 per cent in like-for-like terms. At Media-Saturn, sales rose by 1.6 per cent adjusted for currency effects and by 0.1 per cent in like-for-like terms. Sales at Real declined although the sales line had also been expected to increase its sales compared with the previous year. The drop in sales by 3.3 per cent was largely due to store closures, but like-for-like sales at Real also declined by 1.1 per cent (previous year: decline of 0.8 per cent).

Both METRO Cash & Carry and Media-Saturn were expected to contribute to an increase in EBIT. At €1,043 million, METRO Cash & Carry recorded slightly lower EBIT before special items in the reporting period (2014/15: €1,050 million) including negative currency effects of €65 million. However, adjusted for currency effects, EBIT before special items at METRO Cash & Carry increased noticeably. With EBIT before special items of €454 million, Media-Saturn also slightly exceeded the previous year's figure and thus met the forecast. At Real, the EBIT forecast was made contingent on the successful implementation of the measures that have been initiated. Indeed these measures had a very positive impact on EBIT. Despite lower sales, EBIT before special items increased from €88 million to €100 million.

Development of group sales by region

Like-for-like sales in **Germany** rose by 0.2 per cent. Reported sales even grew by 0.6 per cent to €22.6 billion thanks to positive contributions from METRO Cash & Carry and Media-Saturn in particular. In contrast, sales at Real declined largely as a result of store closures.

Like-for-like sales in the **international business** increased by 0.2 per cent. International sales rose slightly by 0.2 per cent in local currency. Reported sales fell by 2.5 per cent to €35.8 billion due mostly to currency effects as well as store disposals and closures.

The international share of total sales stood at 61.3 per cent (2014/15: 62.0 per cent).

In **Western Europe (excluding Germany),** like-for-like sales declined by 0.7 per cent. Sales declined slightly by 0.2 per cent in local currency. Reported sales also declined by 0.2 per cent to €19.1 billion, which can be attributed mostly to the negative sales trend in Italy and Switzerland. In contrast, Spain and Belgium registered very positive sales developments.

Like-for-like sales in **Eastern Europe** increased by 0.8 per cent. Adjusted for currency effects, sales improved by 1.2 per cent. However, due to the adverse currency movements, reported sales fell by 6.4 per cent to €12.5 billion, with negative currency effects in Russia and Poland in particular weighing on sales. Positive sales trends were recorded in Hungary, Turkey, Serbia and Bulgaria in particular.

Like-for-like sales in **Asia** increased by 2.4 per cent. Sales fell slightly by 0.8 per cent in local currency. Reported sales declined by 1.2 per cent. This decline was exclusively due to the sale of the activities in Vietnam as their sales contribution was only included in the figures for the first quarter of 2015/16. Without Vietnam, sales in Asia would have increased markedly by 8.9 per cent thanks partly to the acquisition of Classic Fine Foods and very positive sales developments in India.

Development of group sales
by sales line and region

			Change in % compared with the previous year's period			
	2014/15 € million	2015/16 € million	in group currency (€)	Currency effects in percentage points[1]	in local currency	like-for-like sales in local currency
METRO Cash & Carry	29,690	**28,999**	−2.3	−2.7	0.4	0.6
Media-Saturn	21,737	**21,869**	0.6	−1.0	1.6	0.1
Real	7,735	**7,478**	−3.3	0.0	−3.3	−1.1
Others	56	**72**	–	–	–	–
METRO GROUP	**59,219**	**58,417**	**−1.4**	**−1.7**	**0.4**	**0.2**
thereof Germany	22,490	**22,622**	0.6	0.0	0.6	0.2
thereof international	36,728	**35,795**	−2.5	−2.8	0.2	0.2
Western Europe (excl. Germany)	19,090	**19,054**	−0.2	0.0	−0.2	−0.7
Eastern Europe	13,318	**12,472**	−6.4	−7.6	1.2	0.8
Asia	4,319	**4,269**	−1.2	−0.4	−0.8	2.4

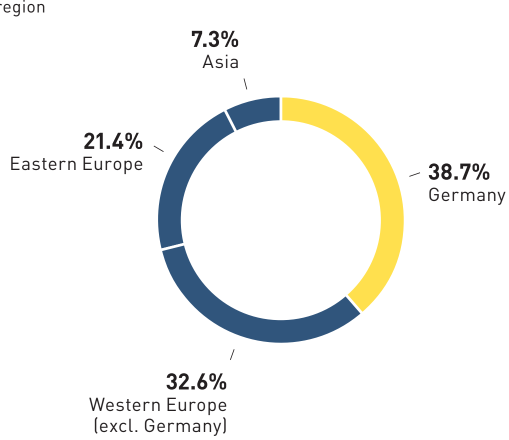
[1] The currency effect is calculated by comparing reported sales of the current financial year in euros with sales of the previous period, converted at the average exchange rate of the current financial year

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

€ million	2014/15	2015/16
Total sales in € (as reported)	59,219	**58,417**
Total sales in local currency[1]	58,209	**58,417**
Sales of stores that were not part of the like-for-like panel in 2015/16[2]	2,830	**2,935**
Like-for-like sales in local currency	55,379	**55,482**

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

Group sales of METRO GROUP 2015/16
by region



Development of group EBIT and EBIT of the sales lines

	EBIT[1]	
€ million	2014/15	2015/16
METRO Cash & Carry	1,050	**1,043**
Media-Saturn	442	**454**
Real	88	**100**
Others	−63	**−33**
Consolidation	−5	**−5**
METRO GROUP	**1,511**	**1,560**

[1] Before special items

Sales and earnings development of the sales lines

METRO Cash & Carry

METRO Cash & Carry launched the New Operating Model in financial year 2015/16 to improve its business management. In the context of the introduction of the new management model, the individual METRO Cash & Carry countries were divided into the following segments:

- Horeca: focusing on hotels, restaurants, catering firms
- Multispecialists: focusing on Horeca, traders and SCO (service, companies and offices)
- Traders: focusing on independent resellers such as kiosk operators, bakers and butchers
- Others: trading offices (procurement offices) and countries from which METRO Cash & Carry has withdrawn

Since the first quarter of 2015/16, sales and earnings of METRO Cash & Carry have been reported based on this new structure. The new segments thus replace the previous reporting regions of Germany, Western Europe, Eastern Europe and Asia. The Horeca cluster includes France, Germany, Italy, Japan, Portugal, Spain, Turkey and Classic Fine Foods. Multispecialists include Austria, Belgium, Bulgaria, China, Croatia, India, Kazakhstan, the Netherlands, Pakistan, Russia, Serbia, Slovakia, the Czech Republic and Hungary. The traders segment includes Moldova, Poland, Romania and Ukraine.

Like-for-like **sales** of METRO Cash & Carry increased by 0.6 per cent in financial year 2015/16, with consistent quarterly sales growth meaning that the sales line has now recorded sales increases in each quarter for more than three consecutive years. Sales rose by 0.4 per cent in local currency. However, exchange rate developments – particularly relating to the Russian rouble – and portfolio effects caused reported sales to decline by 2.3 per cent to €29.0 billion.

Sales in the delivery business continued their strong momentum, rising by 20.4 per cent in local currency. Reported sales increased by 17.9 per cent to €3.7 billion (2014/15: €3.1 billion). The acquisition of Classic Fine Foods also contributed to this positive development. The share of the delivery business in total sales climbed to 12.8 per cent (2014/15: 10.6 per cent).

Like-for-like sales in the **Horeca** segment rose by 0.9 per cent in financial year 2015/16. In Germany, like-for-like sales were slightly higher than a year earlier, while like-for-like sales in France – due also to the effects of the terror attacks and

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

strikes – fell slightly short of the previous year's figure. Conversely, Turkey, Spain and Italy, in particular, contributed to the growth in like-for-like sales. Sales in local currency in the Horeca segment increased by 3.3 per cent. Reported sales rose by 2.6 per cent.

Like-for-like sales in the **multispecialists** segment declined slightly by 0.2 per cent in financial year 2015/16. Here, Belgium and the Netherlands, in particular, recorded distinctly lower sales. Although like-for-like sales in Russia continued their decline, the trend reversed over the course of the year. In contrast, sales in India registered strong growth. Measured in local currency, sales in the multispecialists segment rose by 1.2 per cent. Reported sales, in turn, declined by just 3.4 per cent due to currency effects.

Like-for-like sales in the **traders** segment rose by 2.6 per cent in financial year 2015/16. With the exception of Poland, like-for-like sales climbed in all countries. Measured in local currency, sales in the traders segment rose by 1.5 per cent. Reported sales, in turn, declined by 3.6 per cent due to currency effects.

In financial year 2015/16, the share of international business in the total sales of METRO Cash & Carry fell slightly from 84.0 per cent to 83.6 per cent as a result of currency effects.

EBIT at METRO Cash & Carry totalled €1,259 million in financial year 2015/16 (2014/15: €975 million). This figure includes positive special items from the sale of the activities in Vietnam (€446 million) and expenses for restructuring and efficiency-enhancing measures. The net balance of these special items is positive at €216 million (2014/15: expenses of €75 million).

EBIT before special items amounted to €1,043 million (2014/15: €1,050 million), almost matching the previous year's figure despite negative currency effects of €65 million. Adjusted for these effects, EBIT before special items improved by €58 million.

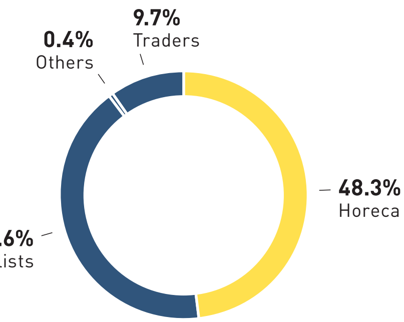
On 30 September 2016, METRO Cash & Carry operated 752 stores located in 25 countries. Of these stores, 106 were in Germany, 235 in Western Europe (excluding Germany), 284 in Eastern Europe and 127 in Asia. Additional countries were covered by the activities of Classic Fine Foods and Rungis Express. Overall, METRO Cash & Carry has operations in 36 countries.

Key figures METRO Cash & Carry 2015/16
in year-on-year comparison

			Change in % compared with the previous year's period			
	2014/15 € million	2015/16 € million	in group currency (€)	Currency effects in percentage points[1]	in local currency	like-for-like sales in local currency
Sales	29,690	**28,999**	−2.3	−2.7	0.4	0.6
Horeca	13,642	**13,993**	2.6	−0.7	3.3	0.9
Multi-specialists	12,496	**12,065**	−3.4	−4.6	1.2	−0.2
Traders	2,906	**2,802**	−3.6	−5.0	1.5	2.6
Others	646	**138**	–	–	–	–
EBIT[2]	1,050	**1,043**	–	–	–	–
EBIT margin (%)[3]	3.5	**3.6**	–	–	–	–
Locations (number)	764	**752**	–	–	–	–
Selling space (1,000 m²)	5,468	**5,380**	–	–	–	–

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

Sales of METRO Cash & Carry 2015/16
by segment



Media-Saturn

Like-for-like **sales** of Media-Saturn increased by 0.1 per cent in financial year 2015/16. Sales in local currency rose by 1.6 per cent while reported sales grew by 0.6 per cent to €21.9 billion.

Online retail maintained its strong momentum: The Media Markt and Saturn brands boosted their online sales by about 35 per cent to €1.6 billion. In contrast, the pure online business that is not linked to the sales line's store-based business declined mostly as a result of the closure of selected unprofitable wholesale businesses at Redcoon. All in all, online sales (including in-store pick-up by customers) increased by about 11 per cent to €2.0 billion. As a result, online retail now accounts for nearly 9 per cent of Media-Saturn's total sales, a new record.

Like-for-like sales in **Germany** increased by 1.2 per cent. Reported sales rose by 3.3 per cent to €10.3 billion, enabling Media-Saturn to continue to strengthen its market position in Germany.

In **Western Europe (excluding Germany),** like-for-like sales declined by 1.0 per cent. Like-for-like sales declined in Switzerland and Italy in particular, but increased in Spain and the Netherlands. Sales in local currency improved by 0.4 per cent. Reported sales also rose by 0.4 per cent to €8.9 billion.

Like-for-like sales in **Eastern Europe** fell slightly by 0.6 per cent due mostly to the negative trend in Russia and Poland. In contrast, sales increased in Turkey and Hungary. Sales in Eastern Europe declined by 0.9 per cent in local currency. Due mostly to negative currency effects, reported sales decreased by 8.1 per cent.

The international share of sales declined from 53.9 per cent to 52.7 per cent in financial year 2015/16.

EBIT at Media-Saturn fell to €300 million in financial year 2015/16 (2014/15: €336 million). This figure includes higher special items of €154 million (2014/15: €107 million). These items involved numerous restructuring and efficiency-enhancing measures. EBIT before special items climbed from €442 million to €454 million.

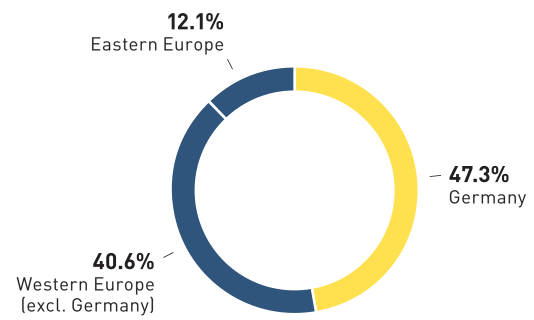
On 30 September 2016, Media-Saturn had 1,023 consumer electronics stores in 15 countries, including 424 in Germany, 377 in Western Europe (excluding Germany) and 222 in Eastern Europe.

Key figures Media-Saturn 2015/16
in year-on-year comparison

			Change in % compared with the previous year's period			
	2014/15 € million	2015/16 € million	in group currency (€)	Currency effects in percentage points[1]	in local currency	like-for-like sales in local currency
Sales	21,737	**21,869**	0.6	−1.0	1.6	0.1
Germany	10,016	**10,344**	3.3	0.0	3.3	1.2
Western Europe (excl. Germany)	8,843	**8,881**	0.4	0.0	0.4	−1.0
Eastern Europe	2,878	**2,644**	−8.1	−7.2	−0.9	−0.6
EBIT[2]	442	**454**	–	–	–	–
EBIT margin (%)[3]	2.0	**2.1**	–	–	–	–
Locations (number)	1,007	**1,023**	–	–	–	–
Selling space (1,000 m²)	3,034	**2,976**	–	–	–	–

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

Sales of Media-Saturn 2015/16
by region



CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Real

Real's like-for-like **sales** declined by 1.1 per cent in financial year 2015/16. Due mostly to store closures, reported sales fell by 3.3 per cent to €7.5 billion. The competitive environment in German food retail remains very tenuous and deflationary trends in a large number of product groups are weighing on sales development.

At the beginning of June 2016, Real and its collective bargaining partners agreed on the heads of terms of a new bargaining contract and thus created a good foundation for the future.

Online sales continued to develop very positively, again rising markedly by nearly 50 per cent to €68 million in financial year 2015/16.

EBIT at Real totalled €103 million in financial year 2015/16 (2014/15: €–441 million). EBIT in the previous year still included special items for non-cash impairment losses on goodwill and store closures in particular.

EBIT before special items climbed from €88 million to €100 million. This improvement, which was achieved despite the decline in sales, was partly due to improved purchasing terms, the successful conclusion of collective bargaining negotiations and closures of loss-making stores.

In financial year 2015/16, Real's German store network was reduced by 8 to 285 stores.

Key figures Real 2015/16
in year-on-year comparison

			Change in % compared with the previous year's period			
	2014/15 € million	2015/16 € million	in group currency (€)	Currency effects in percentage points	in local currency	like-for-like sales in local currency
Sales	7,735	**7,478**	–3.3	0.0	–3.3	–1.1
Germany	7,735	**7,478**	–3.3	0.0	–3.3	–1.1
EBIT[1]	88	**100**	–	–	–	–
EBIT margin (%)[2]	1.1	**1.3**	–	–	–	–
Locations (number)	293	**285**	–	–	–	–
Selling space (1,000 m²)	2,031	**1,967**	–	–	–	–

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

Others

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

In financial year 2015/16, **sales** in the Others segment totalled €72 million (2014/15: €56 million). Among other things, sales include commissions for third-party business through METRO GROUP's procurement organisation in Hong Kong as well as the 4 Real stores in Romania since 1 October 2014.

EBIT totalled €–145 million in financial year 2015/16 (2014/15: €–152 million). Special items amounted to €113 million (2014/15: €89 million) and primarily relate to one-time expenses in connection with the demerger of METRO GROUP as well as restructuring measures at METRO AG and in the logistics area. EBIT before special items amounted to €–33 million (2014/15: €–63 million). Aside from income from real estate, this figure also includes income from the dissolution of obligations for post-employment benefits plans in the amount of €35 million.

Discontinued operations

In financial year 2015/16, lagging effects from the sale of the department store business in profit or loss for the period from discontinued operations resulted in income of €49 million. It comprises gains from the dissolution of provisions for risks related to the sale of the department store business as well as gains from the disposal of minority stakes in several real estate companies of the department store business to its buyer.

Net financial result and taxes

€ million	2014/15	2015/16
Earnings before interest and taxes EBIT	**711**	**1,513**
Earnings share of non-operating companies recognised at equity	2	**3**
Other investment result	0	**–4**
Interest income/expenses (interest result)	–282	**–221**
Other financial result	–172	**–124**
Net financial result	**–452**	**–346**
Earnings before taxes EBT	**259**	**1,167**
Income taxes	–480	**–559**
Profit or loss for the period from continuing operations	**–221**	**608**
Profit or loss for the period from discontinued operations after taxes	935	**49**
Profit or loss for the period	**714**	**657**

Net financial result

The net financial result primarily comprises the interest result of €–221 million (2014/15: €–282 million) and the other financial result of €–124 million (2014/15: €–172 million). The interest result improved thanks, in particular, to the lower level of interest rates, declining debt and interest income from tax refunds relating to other periods. The positive change in other financial result of €48 million essentially resulted from lower negative currency effects, particularly in Russia and Kazakhstan, compared with the previous year.

For more information about the net financial result, see the notes to the consolidated financial statements in nos. 6 to 9 – earnings share of operating / non-operating companies recognised at equity, other investment result net, interest income/interest expenses and other financial result.

Taxes

At €559 million (2014/15: €480 million), reported income tax expenses are €79 million higher than in the previous year and essentially concern deferred taxes.

€ million	2014/15	2015/16
Actual taxes	444	**449**
thereof Germany	(118)	**(151)**
thereof international	(326)	**(298)**
thereof tax expenses/income of current period	(454)	**(488)**
thereof tax expenses/income of previous periods	(–10)	**(–39)**
Deferred taxes	36	**110**
thereof Germany	(34)	**(55)**
thereof international	(2)	**(55)**
	480	**559**

In the reporting period, the group tax rate from continuing operations stood at 47.9 per cent (2014/15: 185.5 per cent). The high group tax rate in the previous year is essentially due to the deconsolidation of the department store business. Before special items, the rate amounted to 41.5 per cent (2014/15: 48.6 per cent). The group tax rate represents the relationship between recognised income tax expenses and earnings before taxes. Including discontinued operations, the group tax rate stood at 46.0 per cent (2014/15: 42.0 per cent). Before special items, the group tax rate including discontinued operations amounted to 41.5 per cent (2014/15: 43.7 per cent).

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

Profit or loss for the period and earnings per share

Profit for the period in financial year 2015/16 totalled €657 million, a decline of €57 million compared with the previous year's figure (2014/15: €714 million). Profit for the period from continuing operations, in turn, rose by €829 million (2015/16: €608 million; 2014/15: €–221 million).

Net of non-controlling interests, profit for the period attributable to the shareholders of METRO AG totalled €599 million (2014/15: €672 million). This corresponds to a decline of €73 million.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

In financial year 2015/16, METRO GROUP recorded earnings per share of €1.83 (2014/15: €2.06). The calculation for the reporting period continued to be based on a weighted number of 326,787,529 shares. Profit for the period attributable to the shareholders of METRO AG of €599 million was distributed according to this number of shares. There was no dilution from so-called potential shares in financial year 2015/16 or in the previous year.

At €1.96, earnings per share before special items are €0.05 higher than in the previous year (2014/15: €1.91). This result forms the basis for the dividend recommendation.

				Change	
		2014/15	2015/16	absolute	%
Profit or loss for the period from continuing operations	€ million	−221	**608**	829	–
Profit or loss for the period from discontinued operations after tax	€ million	935	**49**	886	–
Profit or loss for the period	€ million	714	**657**	−57	−8.0
Profit or loss for the period attributable to non-controlling interests	€ million	42	**58**	16	39.7
from continuing operations	€ million	42	**58**	16	39.7
from discontinued operations	€ million	0	**0**	0	–
Profit or loss for the period attributable to the shareholders of METRO AG	€ million	672	**599**	−73	−11.0
from continuing operations	€ million	−263	**550**	813	–
from discontinued operations	€ million	935	**49**	−886	–
Earnings per share (basic = diluted)[1]	€	2.06	**1.83**	−0.23	−11.0
from continuing operations	€	−0.80	**1.68**	2.48	–
from discontinued operations	€	2.86	**0.15**	−2.71	–
Earnings per share before special items[1]	€	1.91	**1.96**	0.05	2.4
from continuing operations	€	1.48	**1.96**	0.48	31.8
from discontinued operations	€	0.43	**0.00**	−0.43	–

[1] After non-controlling interests

Value-based management

METRO GROUP's strength is reflected, among other things, in its ability to continuously increase the company's value through growth and operational efficiency as well as optimal capital deployment. Since 2000, METRO GROUP has also been using value-oriented performance metrics which draw on operational key performance indicators to ensure the company's sustained value creation. In this regard, METRO GROUP focuses on earnings metrics in consideration of capital costs such as EBITaC. Under the EBITaC concept, a positive value contribution is achieved when earnings before interest and taxes exceed the cost of capital needed to finance the average capital employed.

EBITaC = EBIT[1] – cost of capital
= EBIT[1] – (capital employed x WACC[2])

[1] Special items generally periodised over four years
[2] WACC = weighted average cost of capital

As tax aspects influence decision-making, assessments of investment projects are based on the discounted cash flow method as well as the key figure EVA. In addition, liquidity-oriented key figures such as the amortisation period for investment decisions are used.

The use of performance metrics generally enables METRO GROUP to focus on the key drivers of the operating business that management can influence: value-creating growth, increases in operational earnings strength and the optimisation of capital employed. Value-adding growth is achieved through our strategy of focusing on like-for-like sales growth in the company's existing markets, complementing the store-based business through targeted new sales channels such as online retail and delivery services as well as accelerating the company's expansion in select countries. In this context, METRO GROUP also strengthened its position through targeted acquisitions in the delivery business over the past financial year. In addition, customer value was increased through the expansion of digital solutions. In consumer electronics retail, METRO GROUP also focuses on expansion through special formats tailored to local customer needs. In each case, our customers are at the core of our thinking and acting. In addition, we continue to implement measures to ensure operational and administrative efficiency and are forging ahead with the optimisation of capital deployment. We are achieving this latter goal by taking such steps as offering tailored solutions for our customer target groups Horeca, traders and SCO. In this context, customer-focused product group management based on specific needs in terms of product range, price groups, packaging and marketing plays a key role.

The cost of capital reflects the expected remuneration of investors for the capital they provide and for their investment risk. It is calculated by multiplying the average capital employed by the weighted average cost of capital (WACC).

The cost of capital is calculated on the basis of capital market models. It corresponds to the minimum return on capital demanded by capital providers. As such, it reflects the total cost of capital employed and thus consists of equity and debt capital costs. In financial year 2015/16, METRO GROUP's cost of capital before taxes amounted to 8.0 per cent. This is calculated on the basis of an aggregation of segment-specific cost of capital.

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

€ million	2014/15[1]	2015/16	Delta
EBIT before special items	1,511	**1,560**	49
EBIT after periodisation of special items[2]	1,125	**1,163**	38
Capital employed	10,763	**10,992**	229
WACC before taxes	8.0%	**8.0%**	
Cost of capital	–856	**–874**	–18
EBITaC	269	**289**	20

[1] Previous year adjusted for comparability reasons
[2] The effect of the special items is spread over four years

EBIT 2015/16 from continuing operations after periodisation of special items from previous years (2012/13: €297 million, 2013/14: €454 million, 2014/15: €343 million) and periodised one-time expenses from 2015/16 totalling €493 million amounted to €1,163 million in financial year 2015/16. The figure for the reporting period was adjusted for special items from the sale of METRO Cash & Carry Vietnam and subsequent income from the sale of Galeria Kaufhof in the previous year. Given an average capital employed of €10,992 million, the cost of capital amounted to €874 million. To provide for better comparability, impairment losses on goodwill effected over the course of financial year 2014/15 were considered in all quarters in the calculation of capital employed of the comparable period. In a challenging economic environment, METRO GROUP successfully deployed its capital in financial year 2015/16 and generated economic value added of €289 million.

As an additional metric, the metric return on capital employed (RoCE) is used for the purpose of better comparability of the individual segments. RoCE measures the return on business assets deployed during the review period. For the purpose of this segment comparison, business assets also include cash rental values to account for the different ownership structures of real estate assets. METRO GROUP bases its calculation of RoCE on EBIT before special items because it adequately reflects the units' operational earnings strength independent of special effects. Like capital employed, EBIT is also adjusted for the financing component of rents.

RoCE = EBIT[1] / capital employed
[1] EBIT before special items

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

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

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Special items[1]

Special items
by sales line

€ million	2014/15 as reported	2015/16 as reported	2014/15 special items	2015/16 special items	2014/15 before special items	2015/16 before special items
EBITDA from continuing operations	**2,177**	**2,530**	**281**	**–21**	**2,458**	**2,509**
thereof METRO Cash & Carry	1,424	**1,693**	33	**–230**	1,457	**1,463**
Media-Saturn	595	**607**	90	**100**	685	**708**
Real	142	**250**	80	**–3**	222	**247**
Others	25	**–12**	77	**113**	103	**100**
Consolidation	–10	**–9**	1	**0**	–9	**–9**
EBITDA from discontinued operations	**1,103**	**36**	**–840**	**–36**	**263**	**0**
thereof gains from the disposal of Galeria Kaufhof	841	**36**	–841	**–36**	0	**0**
EBIT from continuing operations	**711**	**1,513**	**800**	**47**	**1,511**	**1,560**
thereof METRO Cash & Carry	975	**1,259**	75	**–216**	1,050	**1,043**
Media-Saturn	336	**300**	107	**154**	442	**454**
Real	–441	**103**	529	**–3**	88	**100**
Others	–152	**–145**	89	**113**	–63	**–33**
Consolidation	–6	**–5**	1	**0**	–5	**–5**
EBIT from discontinued operations	**1,015**	**36**	**–840**	**–36**	**175**	**0**
thereof gains from the disposal of Galeria Kaufhof	841	**36**	–841	**–36**	0	**0**
Net financial result[2]	–452	**–346**	8	**27**	–444	**–318**
EBT[2]	**259**	**1,167**	**808**	**74**	**1,067**	**1,242**
Income taxes[2]	–480	**–559**	–38	**45**	–518	**–515**
Profit or loss for the period from continuing operations	**–221**	**608**	**770**	**119**	**549**	**727**
Profit or loss for the period from discontinued operations after taxes	**935**	**49**	**–796**	**–49**	**139**	**0**
Profit or loss for the period	**714**	**657**	**–26**	**70**	**688**	**727**
Profit or loss for the period attributable to non-controlling interests	42	**58**	21	**30**	63	**88**
from continuing operations	42	**58**	21	**30**	63	**88**
from discontinued operations	0	**0**	0	**0**	0	**0**
Profit or loss for the period attributable to the shareholders of METRO AG	672	**599**	–47	**40**	625	**639**
from continuing operations	–263	**550**	749	**89**	486	**639**
from discontinued operations	935	**49**	–796	**–49**	139	**0**
Earnings per share in € (basic = diluted)	**2.06**	**1.83**	**–0.15**	**0.13**	**1.91**	**1.96**
from continuing operations	–0.80	**1.68**	2.28	**0.28**	1.48	**1.96**
from discontinued operations	2.86	**0.15**	–2.43	**–0.15**	0.43	**0.00**

[1] For an explanation of special items, see the chapter "principles of the group - management system"
[2] From continuing operations

2014/15		Special items				
€ million	as reported	Portfolio measures	Restructuring and efficiency-enhancing measures	Risk provisions including impairment losses on goodwill	other special items	before special items
EBITDA	**2,177**	**−25**	**237**	**14**	**56**	**2,458**
EBIT	**711**	**−23**	**285**	**472**	**66**	**1,511**
Net financial result	−452	8	–	–	–	−444
EBT	**259**	**−15**	**285**	**472**	**66**	**1,067**
Tax expenses	−480	2	−26	–	−15	−518
Profit or loss for the period from continuing operations	**−221**	**−13**	**259**	**472**	**51**	**549**
Profit or loss for the period from discontinued operations after taxes	**935**	**−796**	**–**	**–**	**–**	**139**
Profit or loss for the period	**714**	**−809**	**259**	**472**	**51**	**688**
Profit or loss for the period attributable to non-controlling interests	42	–	21	–	–	63
from continuing operations	42	–	21	–	–	63
from discontinued operations	0	–	–	–	–	0
Profit or loss for the period attributable to the shareholders of METRO AG	672	−809	238	472	51	625
from continuing operations	−263	−13	238	472	51	486
from discontinued operations	935	−796	–	–	–	139

2015/16		Special items				
€ million	as reported	Portfolio measures	Restructuring and efficiency-enhancing measures	Risk provisions including impairment losses on goodwill	other special items	before special items
EBITDA	**2,530**	**−443**	**340**	**–**	**82**	**2,509**
EBIT	**1,513**	**−442**	**408**	**–**	**82**	**1,560**
Net financial result	**−346**	**27**	**–**	**–**	**–**	**−318**
EBT	**1,167**	**−415**	**408**	**–**	**82**	**1,242**
Tax expenses	**−559**	**78**	**−31**	**–**	**−3**	**−515**
Profit or loss for the period from continuing operations	**608**	**−337**	**377**	**–**	**79**	**727**
Profit or loss for the period from discontinued operations after taxes	**49**	**−49**	**–**	**–**	**–**	**0**
Profit or loss for the period	**657**	**−386**	**377**	**–**	**79**	**727**
Profit or loss for the period attributable to non-controlling interests	**58**	**–**	**30**	**–**	**–**	**88**
from continuing operations	**58**	**–**	**30**	**–**	**–**	**88**
from discontinued operations	**0**	**–**	**–**	**–**	**–**	**0**
Profit or loss for the period attributable to the shareholders of METRO AG	**599**	**−386**	**347**	**–**	**79**	**639**
from continuing operations	**550**	**−337**	**347**	**–**	**79**	**639**
from discontinued operations	**49**	**−49**	**–**	**–**	**–**	**0**

— REPORT ON EVENTS AFTER THE CLOSING DATE AND OUTLOOK

Report on events after the closing date

Events after the closing date

Between the balance sheet date (30 September 2016) and the date of presentation of the accounts (22 November 2016), the following event of material importance to an assessment of the asset, financial and earnings position of METRO AG and METRO GROUP occurred:

In mid-October 2016, Real announced detailed plans for a strategic repositioning of the sales line. In this context, the sales line's administrative functions will be reorganised and restructured, with the central functions set to be bundled at the Düsseldorf location in the near future. As part of the reorganisation, up to 500 full-time jobs will be cut over a period of 18 months. Real has budgeted restructuring costs in the middle double-digit millions. The introduction of the new hybrid store concept, which will entail a substantial enhancement of service quality, is expected to lead to the creation of up to 3,000 new jobs over the next five years.

Outlook

The outlook of METRO GROUP considers relevant facts and events that were known at the time of preparation of the consolidated financial statements and that can have an impact on future business developments. The outlook on economic parameters is based on the evaluation of leading indicators. In addition, it draws on the analyses of a number of national and international economic research institutes and organisations. The outlook is largely based on the analyses of Consensus Economics, Feri Trust and the Economist Intelligence Unit (EIU). The following conclusions reflect a mid-range scenario of expectations.

Economic parameters for 2016/17

Global economic momentum weakened further over financial year 2015/16, although developments were mixed again. Supported by central banks' expansionary monetary policy, Western and Central Europe recorded overall robust growth rates. Meanwhile, overall economic developments were more subdued in Eastern European and Asian emerging markets. Altogether, with a rate of just over 2 per cent, global economic growth in 2016 fell slightly short of the previous year's level (2.5 per cent).

All in all, we expect the global economy to continue to register below-average growth in 2016/17. The mature Western European markets are expected to experience a slight weakening of their currently solid growth rates due mostly to the upcoming exit of the United Kingdom from the European Union. While this will significantly dampen the growth outlook for the United Kingdom, the impact on the EU member states is likely to remain very limited. At the same time, the ongoing low-interest-rate environment will continue to support growth during the current financial year. In addition, unemployment continues to decline across most of Western Europe, bolstering private demand.

We expect the US economy to return to stronger growth rates of above 2 per cent in financial year 2016/17, following an overall weak previous year – despite a certain recovery over the course of the year. The specific impacts of the US election are difficult to gauge at this point in time.

Following the past two years' below-average growth trend, many emerging market economies are also expected to regain momentum. However, the extent of their recovery will also depend on potential interest rate hikes in the United States, which would redirect money flows away from emerging markets. Any rate hikes in the United States are likely to be very gradual, though. Global central banks' monetary policy generally remains rather expansionary. In the European Monetary Union in particular no rate tightening should be expected in 2016/17.

In spite of the short-term stabilisation of the Chinese economy, a sharper medium-term downturn due to persistent imbalances remains a risk in China. However, growth is only likely to slow slightly from its current high level in financial year 2016/17 as the Chinese government continues to support the economy with fiscal and monetary policy interventions.

Following two challenging years marked by a sharp economic downturn, the Russian economy probably bottomed out at the end of financial year 2015/16. Although parameters remain difficult despite the slight stabilisation of oil prices, we expect the Russian economy to register modest growth in financial year 2016/17.

Following persistently low inflation rates and in part deflationary trends in financial year 2015/16, particularly in Western and Central Europe, we expect inflation to accelerate slightly in financial year 2016/17 as the recent moderate increase in oil prices is beginning to translate into higher price increases after two years in which low energy prices dampened inflation. At the same time, financial year 2016/17 is likely to be another year in which food prices increase faster than consumer prices overall. However, food price inflation is likely to remain distinctly below 2 per cent in Western Europe. As a result, and due partly to persistently subdued demand, particularly in the Eurozone, the overall inflation rate is likely to also remain below 2 per cent in 2016/17.

Against this background, we expect growth in financial year 2016/17 to only slightly exceed the growth rate recorded during the reporting period. After just over 2 per cent in 2016, we project growth of about 2.5 per cent in 2017. Overall, the global economy has not yet returned to a path of sustainable economic growth following the financial and sovereign debt crisis.

Germany

The German economy grew slightly faster again than the Western European average in financial year 2015/16. After three years of growth rates above 1.5 per cent, we expect economic momentum to decline slightly to 1.5 per cent in the current year. Given the persistently unfavourable global economic environment and the upcoming Brexit, domestic factors, particularly public and private consumption, are likely to remain the key driver of growth. Positive employment trends and rising real wages will continue to provide for a favourable consumption and retail environment. All in all, we therefore expect retail in Germany to experience another year of robust nominal growth rates of about 2 per cent.

Western Europe

In Western Europe, economic growth is also expected to weaken somewhat after three years of solid growth. This is due mostly to Brexit, although we expect the negative impact to remain very limited outside of the United Kingdom. At the same time, the low-interest-rate environment continues to support growth. The continuous decline in unemployment across Western Europe also provides for overall solid parameters for private consumption. We therefore expect the Western European economies to post real growth above 1 per cent in financial year 2016/17, with the Spanish economy likely to continue to grow faster than the Western European average. We project overall below-average growth rates for Italy. In spite of solid short-term parameters, persistently high public indebtedness and the ongoing need for structural reforms dampen the medium-term growth outlook.

Consumption and retail are benefiting from the slow, but steady decline in unemployment. Following overall solid nominal retail sales growth of just over 1.5 per cent in financial year 2015/16 compared with the previous years, we expect retail sales growth to remain roughly stable in financial year 2016/17. Here, too, we expect to see above-average growth in Spain in particular.

Eastern Europe

Developments in Eastern Europe remain divided: we continue to project relatively robust growth of about 2 to over 3 per cent in the Central European countries while the economic environment will remain challenging in Russia and Ukraine. All in all, though, both countries seemed to have reached a bottom towards the end of financial year 2015/16. As a result, we expect growth rates of about 1 per cent in financial year 2016/17, with Russia also benefiting from the overall stabilisation of oil prices. Meanwhile, the weaker economy and political uncertainties in Turkey are likely to translate into lower economic momentum in this country.

Divided developments across Eastern Europe are also reflected in the retail outlook: we continue to project robust retail sales growth in the Central European countries in financial year 2016/17. In Russia and Turkey, sales will continue to be fuelled mostly by price increases although inflation will continue to subside, at least in Russia. Adjusted for inflation, we therefore project another real decline in retail sales in Russia and at best a slight increase in Turkey.

In the medium term, we anticipate that economic momentum in Eastern Europe will increase and the persistently high degree of catch-up potential will be fully tapped.

↓ CONSOLIDATED FINANCIAL STATEMENTS
↓ SERVICE

Asia
In spite of China's loss of economic momentum and slow growth in Japan, Asia's emerging markets remained the fastest-growing region for METRO GROUP in financial year 2015/16. This statement is likely to also apply to financial year 2016/17. However, uncertainty over the extent of the economic downturn in China persists. The Indian economy, in turn, is likely to record growth of over 7 per cent again in financial year 2016/17, once again outgrowing all other countries in which METRO GROUP operates. In the near future, Japan's economy will remain dependent on expansionary monetary and fiscal policies, which exacerbates long-term problems due to the country's high public indebtedness. As a result, however, we foresee moderate growth of 1 per cent for 2016/17.

China and India should continue to record nominal retail sales growth in the high single digits or low double digits. The price-adjusted growth rate is anticipated to be in the medium single-digit range in both countries while the saturated Japanese market is likely to see only moderate retail sales growth.

Building on our forecast for economic and retail sector developments, the following section provides an overview of the resulting implications for individual sectors as well as our sales lines.

Future sector trends

Self-service wholesale
The performance of self-service wholesale can be seen against the backdrop of current macroeconomic parameters. We continue to project divergent economic developments across the different economic areas over the next financial year. We expect these divergent trends to also be reflected in the sales figures of self-service wholesale in the individual regions within the METRO Cash & Carry portfolio.

Against the background of an only modest weakening of growth during financial year 2016/17, we project a continuous solid development in German and Western European self-service wholesale. Positive sales impulses in self-service wholesale should primarily stem from the continuous decline in unemployment, the increase in disposable incomes and the resulting demand for high-quality products. Overall, we expect to see a slight increase in sales in Western European self-service wholesale.

We project continued sales growth in local currency in Eastern European self-service wholesale over the next financial year. The Russia/Ukraine conflict will continue to overshadow regional developments. However, high inflation and its negative effects on demand should subside, benefiting food retail. In addition, we project solid sales developments in the Central European countries. In Turkey, growth is likely to slow somewhat as tourism and the restaurant sector, in particular, are challenged by the difficult domestic political situation. All in all, the region continues to offer growth potential for self-service wholesale in spite of the increasing expansion of retail formats. METRO GROUP expects Eastern Europe to remain the world's growth region number two in self-service wholesale.

With respect to the upcoming financial year, we continue to expect the strongest growth in the Asian self-service wholesale segment. In spite of the slowdown in China, macroeconomic developments continue to offer very good parameters for growing retail sales. Compared with the situation in Western and Eastern Europe, competitive pressure from modern food retail formats on self-service wholesale is relatively limited. Traditional retailers, an important customer group with strong growth potential for self-service wholesale, continue to act as the most critical supply channel for food in the region.

METRO Cash & Carry continues to focus its expansion on the dynamic markets of China and India. At the same time, through our subsidiary Classic Fine Foods, which specialises in delivery services, we can participate in the growth of out-of-home consumption in emerging markets, which is fuelled by the growing prosperity of the local population. In addition, we expect demand for delivery services to increase among our major customers from the hospitality and food service sectors in financial year 2016/17.

Consumer electronics retailing
Consumer electronics retailing in Europe is likely to continue its generally stable development in financial year 2016/17.

In view of the high base level and the relatively low speed of innovation in Germany, we expect to see growth of about 0 per cent.

Trending product categories such as health, sports & beauty, virtual reality goggles and fitness trackers provide strong impetus, but are unlikely to generate substantial volume effects over the short term. In contrast, the networking of home automation, household appliances and consumer electronics – subsumed under the term smart home – has become relevant for the wider public. However, sales figures will also pick up only gradually in this area.

The saturated Western European electronics markets will continue to record moderate growth of about 1 per cent in 2017.

Local markets across Eastern Europe continue to show very heterogeneous developments. Russia has recovered from its recent crises and has caught up significantly in the consumer electronics segment since January. This trend will continue during the current financial year. While Poland and Hungary will continue the past years' growth trend at slightly lower rates, the Greek market is likely to experience another year of slightly negative growth due to renewed comprehensive reforms and austerity measures. In the Turkish market, the most recent data point to continued double-digit growth in local currency. The long-term impact of the political situation on the willingness to spend and invest as well as overall economic growth remains to be seen.

Food retail business

All in all, the parameters for German retail will remain favourable in financial year 2016/17. As a result, food retail will also continue to grow. In addition, e-commerce sales, in particular, will grow in the low double digits.

At the same time, the inflow of immigrants is leading to higher demand for food. As a result, we also project moderate growth for store-based food retail as a whole. Besides e-food, strong price competition in the fast-moving consumer goods (FMCG) segment as well as the expansion of supermarkets' and discounters' selling space and thus assortments on already existing store space will remain a challenge in 2016/17.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Expected earnings position: outlook for METRO GROUP

The outlook is based on the current group structure and adjusted for currency effects. In addition, it is based on the assumption of a continuously complex geopolitical situation.

The outlook will be adjusted if the planned demerger of the group into two independent companies with a clear focus on the wholesale and food retail business on the one hand, and consumer electronics retailing on the other, is approved by the Annual General Meeting on 6 February 2017, as expected, and implemented, as scheduled, during financial year 2016/17.

Sales
For financial year 2016/17, METRO GROUP expects to see a slight rise in overall sales, despite the persistently challenging economic environment. The Real sales line is expected to generate slightly better performance compared with financial year 2015/16.

In like-for-like sales, METRO GROUP foresees another slight increase that will follow the reporting period's rise of 0.2 per cent. The METRO Cash & Carry and Media-Saturn sales lines in particular are expected to contribute to this development. The Real sales line is expected to generate slightly better performance compared with financial year 2015/16.

Earnings
In financial year 2016/17, earnings development will also be shaped by the persistently challenging economic environment, with political developments adding to economic challenges.

Nonetheless, METRO GROUP expects to achieve another slight improvement in earnings. Aside from operational improvements, METRO GROUP will again closely focus on efficient structures and strict cost management in this context. These measures are expected to result in special items for the last time, marking the successful conclusion of METRO GROUP's transformation.

For these reasons, we expect EBIT before special items to rise slightly above the €1,560 million achieved in financial year 2015/16, although this figure will include slightly lower income from real estate sales. METRO Cash & Carry and Media-Saturn are expected to contribute to the slight earnings improvement.

— RISK AND OPPORTUNITY REPORT

Risk and opportunity management system

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

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

Centralised management and efficient organisation
Group-wide risk and opportunity management tasks and responsibilities are clearly defined and reflect our corporate structure. We combine centralised business management by the management holding company METRO AG with the decentralised operating responsibility of the individual sales lines.

It is the responsibility and a legal requirement of the Management Board of METRO AG to organise a governance system for METRO GROUP. We regard the risk management system, the internal control system and the compliance management system as well as internal auditing as components of the governance, risk and compliance system (GRC system). This organisational structure is based on the governance elements identified in § 107 Section 3 of the German Stock Corporation Act (AktG) as well as the German Corporate Governance Code. The fundamental principles of the GRC system are defined and documented in the governance, risk and compliance guideline. The goal of this guideline is to render structures and processes more transparent as well as provide for a uniform procedural-organisational framework for the subsystems. The guideline sets the binding framework for existing and future regulations. This is the foundation on which we plan to increase the overall efficiency of the GRC system within METRO GROUP and to continuously enhance its effectiveness.

The group committee for governance, risk and compliance (GRC committee) co-chaired by the Chairman of the Management Board and the CFO of METRO AG regularly discusses ways to harmonise and refine the GRC subsystems. The committee also regularly discusses the current risk and opportunity situation. Permanent members include representatives of Corporate Accounting (including Risk Management and Internal Control Finance), Corporate Planning & Controlling, Corporate Treasury, Corporate Legal Affairs & Compliance (including Internal Control Operations), Group Internal Audit, Group Strategy, Corporate Public Policy, IT Strategy & Governance as well as the Group Finance Director (until 30 September 2016). In addition, the group department Corporate Responsibility is a non-permanent member.

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

The Supervisory Board of METRO AG also oversees the effectiveness of risk management. In compliance with the provisions of the German Corporate Sector Supervision and Transparency

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Act (KonTraG), the external auditor submits the company's early-detection system as part of the risk management system to a periodic review. The results of this review are presented to the Management Board and Supervisory Board.

The Risk Management department within the Corporate Accounting department of METRO AG is responsible for overseeing and refining our risk management system. In coordination with the GRC committee, METRO GROUP's risk management officer determines the company's risk management approaches, methods and standards. The risk management officer also coordinates the underlying process. Together with representatives from individual group departments who are also members of the GRC committee, the officer continuously and promptly informs the Management Board of METRO AG of important developments in risk management, facilitates an exchange of information within our company and supports the continued development of risk management in all sales lines, group companies and central departments.

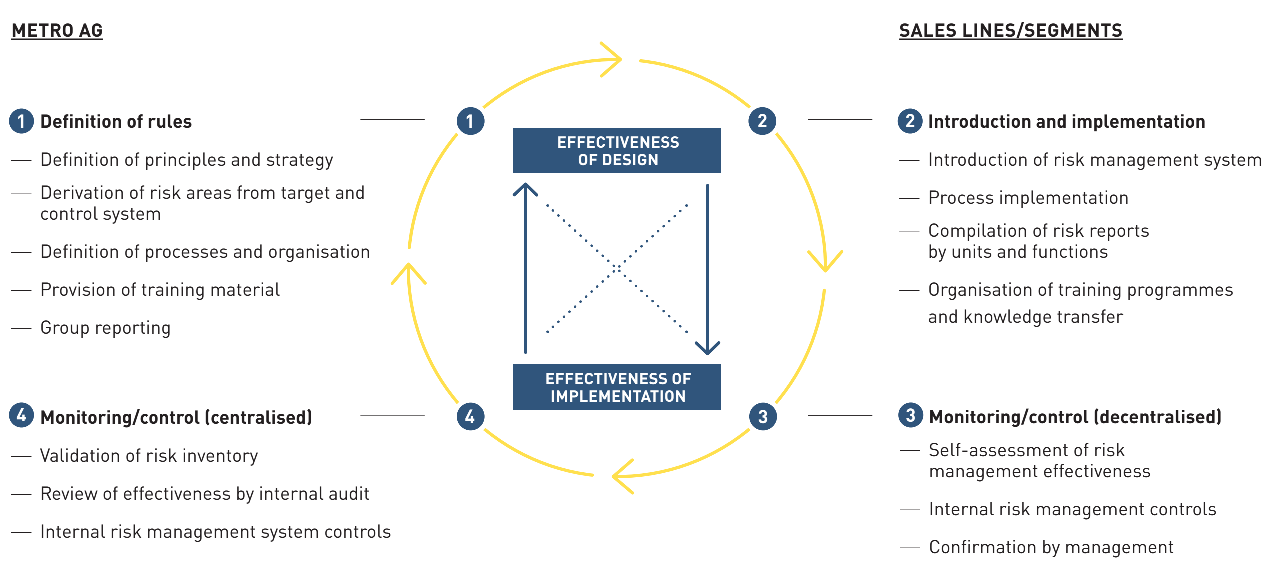
The risk management system is organised as a closed loop to ensure the design's effectiveness with respect to the defined risk management rules. This also allows us to guarantee effective implementation and continuous improvement of the system based on results and experiences.

Opportunity management

Systematically identifying and communicating opportunities is an integral part of the management and controlling system of METRO GROUP. Opportunities may refer to internal or external events and developments that can have a positive impact on our business development. In principle, we strive to balance opportunities and risks.

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

Risk management as a closed loop



Reporting

Group reporting is the central element of internal risk and opportunity communication. It is complemented by risk and opportunity management reporting. The aim is to allow for the structured and continuous monitoring of risks and opportunities and document this in line with legal and regulatory stipulations.

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

The centrally responsible risk coordinators in functional terms, for example, in procurement, sales or administrative functions at headquarters or in the sales lines, validate the results reported by the group companies and central departments. In a second step, they summarise these in a functional risk profile coupled with a detailed description of material individual risks. In a third step, risk profiles for selective categories are validated in direct interaction between the risk coordinators and the GRC committee, and specific steps to improve risk management are devised.

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

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

The Management Board regularly informs the Supervisory Board and the Accounting and Audit Committee about risk and opportunity management issues. Once a year, the Supervisory Board receives a comprehensive written report informing it about the organisation and alignment of risk and opportunity management as well as the current risk and opportunity situation.

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

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

Strict risk policy principles

In principle, METRO GROUP takes entrepreneurial risks only if they are manageable and if the associated opportunities promise reasonable added value.

Risks incurred in conjunction with the core processes of wholesaling and retailing are borne by METRO GROUP. The core processes include the development and implementation of business models, decisions about store locations, and the procurement and sale of merchandise and services. Risks from support processes are reduced within the group or, where this appears sensible, transferred to third parties. In principle, we do not assume risks that are not related to core processes or support processes.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Risk management details clearly defined

The coordinated application of risk management tools is assured by the compilation of all relevant facts in guidelines. These include the Articles of Association and by-laws of group companies, internal group procedures and our group-wide risk management guideline. It defines

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

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

The first level of risk management relates to the clustering of corporate objectives. In this respect, METRO GROUP has defined the following clusters:

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

On the second risk management level – the process level – the definition of objectives also serves as the starting point for risk mapping. In this context, we identify, classify and manage risks that would jeopardise or inhibit the achievement of our objectives should they materialise. Since the risk inventory of 2016, we have also been using a list of standardised risks which the risk units must assess. In this way, we ensure that all typical operational risks that apply to our group are validated. As a rule, we consider all external and internal risks.

In addition, clusters are delineated in terms of functional categories based on the group's organisational structures, such as procurement, sales, human resources or real estate. In principle, we consider risks over a prospective one-year period. Strategic risks cover at least the medium-term planning horizon (three years). METRO GROUP monitors and assesses longer-term risks and opportunities, for example related to climate change, using its issues management system. The Corporate Public Policy department uses issues management tools to continuously monitor and identify special interest and media issues of relevance to the group to be able to react swiftly and with clear and uniform statements to the public debate. The group's issues management and risk management systems are closely interconnected. Risks that are likely to materialise are included in our business plans and our outlook. For example, we derived various measures relating to the topic of water consumption during the reporting period. This issue is increasingly gaining importance and we want to position our company accordingly.

Risk classification

All identified risks are classified based on uniform standards and quantitative and qualitative indicators with respect to loss potential (negative effects on our corporate objectives and key performance indicator EBIT) and probability of occurrence (in per cent). In our assessment, we classify the loss potential for the group on the basis of three categories: ≥ €50 million, ≥ €100 million and ≥ €500 million. The probability of occurrence is broken down into five classes: low (< 10 per cent), unlikely (≥ 10 to 25 per cent), possible (> 25 to 50 per cent), likely (> 50 to 90 per cent), high (> 90 per cent). All risks are assessed on the basis of their potential impact at the time of the risk analysis and before potential risk-minimising measures (presentation of gross risks, that is, before the implementation of risk-limitation measures).

Risk units

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

Presentation of the risk situation

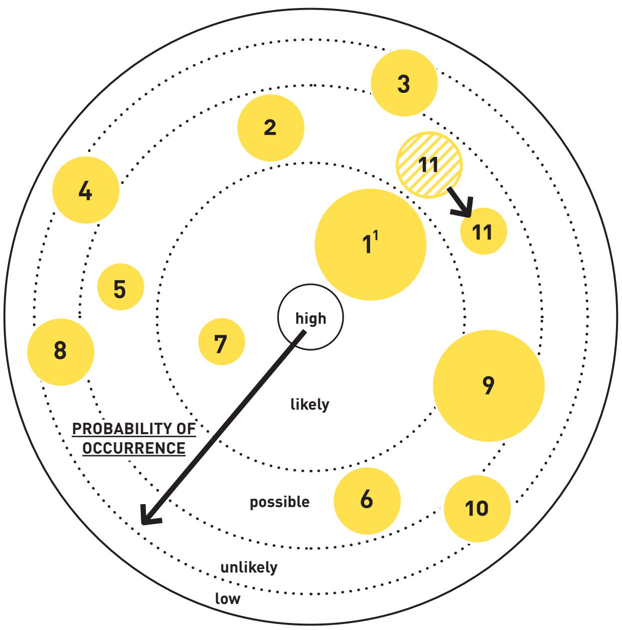
We have classified METRO GROUP's overall risk portfolio into risk groups. In addition to general risks, the Management Board of METRO AG identified and assessed the particularly relevant risks (gross risks) to METRO GROUP during the reporting period. These are listed in the following overview along with their changes since the previous year.

Due to their thematic proximity, we have integrated risk number 3 from the previous year – "insufficient customer orientation (METRO Cash & Carry)" – into risk number 1 – "challenged business model". The assessment of the potential impact and probability of occurrence remains unchanged. This results in a new numbering of risks number 3 to number 11. Risk number 8 no longer includes corruption risk as this is no longer considered of particular relevance and therefore is not explained individually within the risk group "compliance risks". Nonetheless, the assessment of risk number 8 remains unchanged. We have renamed risk number 9 to provide for a better understanding of this risk. In addition, the potential impact of risk number 11 "geopolitical situation in Russia/Ukraine" was reduced from ≥ €100 million in the previous year to ≥ €50 million. For a detailed discussion of the individual risks, see sections below.

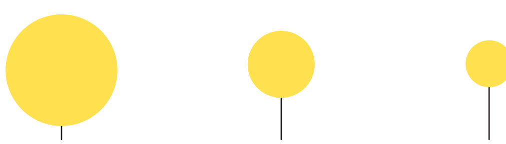
No.	Particularly relevant risks 2015/16	Risk group	Loss potential	Probability of occurrence	Change since 2014/15
1	Challenged business model	Risks related to the retail business	≥ €500 million	likely	Risk number 3 from previous year "insufficient customer orientation (METRO Cash & Carry)" – has been integrated into risk number 1.
2	Insufficient implementation of the strategy and strategic projects	Risks related to the retail business	≥ €100 million	possible	
3	Non-profitable use of selling space	Real estate risks	≥ €100 million	unlikely	
4	Interruption of business activities	Information technology risks/macroeconomic and political risks	≥ €100 million	unlikely	
5	Insufficient development and maintenance of talent pool	Human resources risks	≥ €50 million	possible	
6	Budget and forecast reliability	Financial risks	≥ €100 million	possible	
7	Insufficient or ineffective internal controls with regard to investment and costs related to expansion and construction as well as in operational processes	Compliance risks/risks related to portfolio changes	≥ €50 million	likely	
8	Antitrust violations and increasing later income regulations	Legal and tax risks/compliance risks	≥ €100 million	unlikely	Corruption risks no longer apply.
9	Impairment of goodwill and assets	Financial risks	≥ €500 million	possible	
10	Rating downgrade of METRO AG	Financial risks	≥ €100 million	unlikely	
11	Geopolitical situation in Russia/Ukraine	Macroeconomic and political risks	≥ €50 million	possible	Potential damage reduced from ≥ €100 million to ≥ €50 million.

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

These particularly relevant risks are classified as follows on the basis of loss potential (before risk limitation steps) as well as on the basis of probability of occurrence:



Size of circle = potential impact (gross)



≥ €500 million ≥ €100 million ≥ €50 million

Financial year 2014/15

Probability of occurrence
Low < 10%
Unlikely ≥ 10–25%
Possible > 25–50%
Likely > 50–90%
High > 90%

The width of the rings visualises the underlying probability of occurrence.

[1] Due to their proximity, the previous top risk 3 "insufficient customer orientation" is merged with top risk 1 in the GRC annual report. For the following top risks, the numbering has been amended.

We only list risks with a low probability of occurrence (< 10 per cent) if the probability of occurrence of a particularly relevant risk from the previous year now falls into this range.

The following sections outline the individual risk groups as well as key management measures and the especially relevant risks shown in the graphic and table. In principle, all group segments are affected. For specific issues, the respective business segments are indicated.

Risks related to the business environment
Macroeconomic and political risks
As an international company, METRO GROUP is dependent on the political and economic situation in the countries in which it operates.

The global economy continued to weaken in financial year 2015/16 compared with the previous year. Overall, it has not yet returned to a path of sustainable economic growth following the financial and sovereign debt crisis. As in the previous year, economic developments were mixed. While Western and Central Europe recorded overall robust growth rates, economic developments were more subdued in Eastern European and Asian emerging markets. Russia's economic weakness and the ongoing conflict between Russia and Ukraine continued to weigh on the Eastern European economy. As in the previous year, both countries recorded negative economic growth. However, overall economic output did not decline further towards the end of the financial year.

In light of these developments and our operational business, we see an unchanged probability of occurrence (possible) for the risk regarding the geopolitical situation in Russia and Ukraine (risk number 11), but have reduced the loss potential from ≥ €100 million to ≥ €50 million. We expect the phase of overall below-average global economic growth to continue in financial year 2016/17.

The risk of a sharper-than-expected downturn of the Chinese economy has declined somewhat over the short term but remains intact over the medium term. In Europe, the United Kingdom's decision to leave the EU (Brexit) has dominated the political debate since mid-2016. However, the impact on economies other than the United Kingdom is expected to be very limited. The risk and opportunities profile for the short-to-medium-term development of the retail sector and thus for METRO GROUP has not improved compared with the previous year. However, our international presence provides us with the opportunity to offset economic, legal and political risks as well as fluctuations in demand between individual countries.

The situation in individual countries can change rapidly. Unrest, changes in political leadership, terrorist attacks or natural disasters can endanger METRO GROUP's business in the affected country. In this context, Turkey stands out during the reporting period as a series of terror attacks and the attempted coup caused the domestic political situation to deteriorate.

Risks emerging from this conflict for METRO GROUP pertain to the loss or destruction of property/real estate, exchange rate fluctuations, restrictions on the movement of goods and capital and regulatory changes. We insure ourselves as far as possible and to the appropriate extent against the loss of tangible assets and business interruptions that, for example, are the result of political unrest. Professional crisis management allows for a fast response and handling of crises. This includes, among others, evacuation guidelines, training and standard operating procedures for local employees. As a result, we can keep our employees and customers from harm and compensate the sales and earnings losses incurred through business interruptions and destroyed property thanks to existing insurance policies.

The terrorist attacks in Western Europe have shaken the public's sense of security. However, this change has no direct impact on METRO GROUP. As before, however, we place great value on being able to respond fast and effectively and ensure professional crisis management in the event of an attack.

Reactions to possible hazards which might also lead to a business interruption (risk number 4, unchanged from previous year) are regulated in our business continuity management and a crisis management manual. With this manual we essentially aim to ensure continuity of business processes during a crisis, among other objectives. Regarding risk number 4, we monitor the risk of possible business interruptions, for example, due to natural disasters, pandemics or terrorist attacks. In addition, we focus on IT risks, in particular. For more information, see the section "information technology risks". The loss potential and the probability of occurrence remain unchanged.

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

Environmental risks

METRO GROUP is aware of its responsibility for the environment and has firmly embedded the principle of sustainable business in its corporate strategy. Environmentally harmful practices along the supply chain can seriously damage our image over the long term and endanger our business. This is why we implement numerous measures to ensure environmentally responsible business practices.

Specific environmental risks are discussed in the sections "supplier and product risks" and "real estate risks".

For more information about environmental protection, see the chapter "principles of the group – sustainability management".

Sector risks

Risks related to the retail/wholesale business

The saturated markets of Western Europe, in particular, are characterised by rapid change and intense competition. The resulting conditions can influence business development and represent natural business risks. A fundamental business risk is consumers' fluctuating propensity to consume.

Changes in consumer behaviour and customer expectations pose risks, among others, in the face of demographic change, rising competition and increasing digitisation. Failing to adequately consider customer trends and price developments or missing trends in our assortments and with respect to appropriate sales formats and new sales channels can have a negative impact on group sales and jeopardise our growth objectives (risk number 1). To counter these risks, we are expanding our sales channels based on a multichannel strategy tailored to our different sales lines. In the process, we are strengthening our online activities and expanding our delivery service. In addition, we are developing new stores for METRO Cash & Carry under a franchise concept. At the same time, we are monitoring our competitors even more closely. Through the application of an array of different strategies, we are working to further improve our purchasing and sales processes and to create added value for our customers.

In addition, we pursue transformation programmes aimed at boosting long-term sales and earnings and protecting the intrinsic value of our assets. In this context, risks emerge from the insufficient implementation and execution of strategic projects, particularly in the sales line METRO Cash & Carry (risk number 2, unchanged from previous year). To limit these risks, we comprehensively monitor project progress in the national subsidiaries and conduct training programmes that are designed to facilitate project implementation.

To recognise market trends and changing consumer expectations at an early stage, we regularly analyse internal and external information. In the process, the group's own market research draws on qualitative market and trend analyses as well as on quantitative methods such as time series analyses or forecasts of market developments derived from analyses of sales data and the results of panel market research. Time series analyses also include the observation of product segments on the market over a certain period of time.

In principle, METRO Cash & Carry faces the potential risk of inadequate customer orientation (risk number 1 "challenged business model"; risk number 3 from previous year "inadequate customer orientation" has been integrated). To address this risk and to provide targeted product ranges, we have taken steps to create an improved, customer-oriented assortment design. In one reflection of this, we are expanding our range of regionally traded products in all sales lines and increasingly gearing our assortments to meet our customers' increasing demands with regard to environmental, social and health considerations.

Real estate risks

Various factors pose a risk to the intrinsic value of METRO GROUP's store network. These include above all

- general market fluctuations,
- the unprofitable use of selling space; this includes the risk emerging from unused selling space for which no further useful purpose can be found (risk number 3, unchanged from previous year),
- loss of rental income through insolvencies of third-party tenants,
- intense competition over suitable locations,
- incorrect decisions in the selection of business locations,
- a deterioration in the profitability of a location, for example due to social-demographic changes in the catchment area,
- the structural condition of the property, and
- natural disasters such as earthquakes, flooding and storms.

We counter these risks through strategic and operational real estate management and far-sighted investment planning. Our active real estate management is primarily designed to increase the value of our entire real estate portfolio and is based on continuous market monitoring, transparent profitability audits and strategic decisions. In all countries, we select our locations on the basis of an intense examination. Since we continually monitor the profitability of our network of locations, we can identify adverse developments at individual stores or retail outlets early on and respond quickly. Should the measures we have taken not produce any successful results and should we think that a long-range improvement of the situation at the particular store or outlet is unlikely to occur, we will close the location, ensuring the continuous optimisation of the store network in the process. We counteract this risk by continuously monitoring rent payments and conducting new negotiations at an early stage. In addition, we push ahead the search for new tenants with good credit histories and the development of new usage concepts for our real estate. To prevent maintenance and repair backlogs in locations, a far-sighted maintenance plan has been put into place. We seek protection against the potential effects of natural disasters by introducing structural measures and by taking out insurance.

In our real estate operations, we also intend to assume our responsibility for the environment and address possible risks. In this manner, we reduce the ecological footprint of our business locations. Since 2011, we have been continuously lowering our specific greenhouse gas emissions. To achieve this goal, we are investing in such things as technical energy-saving solutions, ISO 50001-compliant energy management systems, the use of less climate-damaging cooling agents and programmes designed to change the behaviour patterns of every employee. With the help of these measures, we can also reduce our energy costs or at least cap them in the face of rising prices.

We conducted "water stress" risk analyses at all our locations in 2016. In the process, we also examined the extent to which physical and regulatory risks jeopardise the locations' water supplies. On a group level, the potential impact of this risk is lower than the lowest potential impact reported here.

Risks related to business performance

Supplier and product risks

As a retail company, METRO GROUP depends on external producers and providers for the supply of goods and services. We choose our suppliers very carefully, especially in the own-brand area. We place a particularly high priority on the reliability of our own-brand suppliers in terms of product quality and compliance with safety and social standards as well as suppliers' own efforts with regard to compliance. Defective or unsafe products, an exploitation of the environment or inhumane working conditions as well as failure to adhere to our compliance standards could cause major damage to the image of METRO GROUP and pose a lasting threat to the company's success. For this reason, we continuously monitor our own-brand suppliers to determine whether they adhere to METRO GROUP's high procurement and compliance policy standards. In particular, these include the food safety and quality standards recognised by the Global Food Safety Initiative (GFSI), such as the International Food Safety Standard and the GLOBALGAP certification for agricultural products. They help to ensure the safety of foods on all cultivation, production and sales levels. Own-brand suppliers without recognised and valid certification can qualify for preliminary inclusion in METRO GROUP's supplier base by undergoing and passing a special inspection (METRO Assessment Solution) by an accredited certification body.

We are not the only ones who have these concerns. Our customers place priority on quality and safety and are becoming increasingly interested in the environmental and social sustainability of the products sold in our stores and of the processes used to make these products. In light of this, METRO GROUP approved a group-wide, cross-product purchasing policy for sustainable supply chain and procurement management as early as 2013.

One of our focal points is promoting humane working conditions at our suppliers. We implement numerous measures. For example, our own-brand suppliers are required to protect fundamental human rights and to guarantee fair working conditions. As proof of this, our supplier contracts demand an audit based on the BSCI (Business Social Compliance Initiative) standard or an equivalent standard. This requirement applies to all own-brand suppliers of non-food articles who manufacture end products in risk countries as defined by the BSCI. With targeted training programmes, we help suppliers to create fair and humane working conditions. In addition, under the international fire safety agreement for increased building safety in the Bangladesh textile industry (Bangladesh Accord on Fire and Building Safety) we are working to increase safety in the factories of all our suppliers who produce in Bangladesh.

METRO GROUP's decision to join the Roundtable on Sustainable Palm Oil (RSPO) in 2011 is an example of our efforts to minimise our ecological footprint. As part of the membership, we have committed to only using certified sustainable palm oil in our own-brand products beginning in 2020. Our Real sales line has already achieved this objective. Another example: with respect to wood and paper-based products, we require our suppliers to provide relevant certifications to prove that they only sell wood from sustainable forest management rather than illegal deforestation. Moreover, in 2016, we conducted an initial survey on water risks and water risk management among selected suppliers.

Our requirements of suppliers are contractually regulated. We regularly check to determine whether the requirements are being met. Violations of conditions can lead to exclusion from our supplier network or, in case of unacceptable production methods, to a procurement ban on a product. In this way, we further minimise our supplier risk. Should, however, an incident related to quality occur, the process steps described in our manual on incidents and crises take effect. Our top priority is to correctly manage the incident in the customers' best interest. In addition, we examine possible improvements to our quality assurance systems.

To prevent disruptions in the supply of products or product groups and to avoid becoming dependent on individual companies, we work with a variety of suppliers. By taking this approach, we ensure that the desired product is generally always in stock in the desired quality and quantity and, in the process, achieve high levels of customer satisfaction.

Our success also depends heavily on the purchase prices of the products offered for sale. In many cases, our large purchasing volumes in numerous countries have a positive effect. Product prices are based on the availability of the required raw materials that may temporarily or continually become scarce. This can drive up purchase prices or lead to a certain level of volatility. We address procurement risks by continuously optimising the purchasing process. Such steps include joint procurement and the negotiation of terms with our suppliers. Prompt implementation of these improvements is a key success factor.

Over the medium term, such global challenges as climate change, the overfishing of the world's oceans and access to clean water could restrict the availability of raw materials, for example, through reductions in stocks of certain types of fish. For this reason, METRO GROUP has been supporting standards for more sustainable fishing and fish farming for years and has been working with relevant suppliers.

METRO GROUP publicly reports about the risks and opportunities resulting from climate change as part of its annual participation in a survey conducted by the independent non-governmental organisation CDP (formerly: the Carbon Disclosure Project). The CDP assessment shows whether companies are effectively addressing the effect of climate change on their business processes and whether they provide transparent information on these efforts. Since 2016, this survey has also covered the issue of water.

Other examples of product risks include supply bottlenecks after natural disasters, longer delivery times and price increases. METRO GROUP's purchasing and supply chain management create the structures that are needed to ensure the availability of goods at all times.

For more information about our work to create a sustainable supply chain, see the chapter "principles of the group – sustainability management".

Supply chain risks

The task of the supply chain function is to ensure maximum product availability at optimised cost structures while considering aspects related to sustainability, such as energy and fuel consumption.

However, the growing variety of items in the product range and high merchandise turnover, coupled with the tapping of new sales channels, result in organisational, IT and logistics risks as well as the risk of inadequate inventory. The growing internationalisation of our suppliers and the focus on regional and local product assortments increase these risks. The lack of active inventory management conducted on the basis of adequate planning parameters can result in significantly higher warehousing costs, above-average price discounts and write-downs on inventories. Disruptions in the value chain, including in the transport of goods from the supplier to our stores or customers (during delivery), can intensify this effect. We counteract this by optimising inventory management and the selection of suitable logistics service providers.

Inadequate communication regarding future product volume as a result of such things as non-existent or incorrect projections can result in insufficient product availability and inefficiencies in logistics. We respond to this risk by systematically reassigning and bundling responsibilities for order and procurement planning.

Incomplete or poorly managed product and customer master data can lead to serious delays and disruptions in the inclusion and removal of products as well as the product supply to our customers. For this reason, we have intensified our efforts to ensure the completeness and accuracy of master data by taking such steps as regularly monitoring relevant performance indicators.

Additional challenges arise from the expansion of our online activities, our multichannel business, delivery options as well as other innovative sales formats and the increased complexity that results from these activities. We address the resulting risks through close cooperation among the affected departments.

We bundle our logistics orders and only select external logistics service providers that meet our increasing requirements. At the same time, we also avoid dependencies on individual service providers. In addition, METRO GROUP creates the necessary structures to ensure consistently high quality in the supply chain at all times. We conduct qualification programmes to prepare our suppliers and logistics providers in emerging markets for these logistics requirements. In this way, we also make a lasting contribution to local food supplies and counter the problem of food waste.

In case of product incidents, our logistics systems must be prepared to trace the product's itinerary and origin within a very short time. This is done with the help of modern technologies and product identification standards. We are actively involved in various international organisations to foster the development of these standards and promote the introduction of innovative technologies for improved product identification.

Financial risks

The risk of price changes (interest rate risks, currency risks, share price risks), liquidity risks, credit risks in dealings with counterparties in the context of financial transactions and risks arising from cash flow fluctuations may have a significant negative impact on our financial result. For this reason, the financial risks of METRO GROUP are centrally managed. To the extent permissible by law and where economically feasible we use financial instruments to hedge price risks as far as possible. Risks from translation remain unhedged, since we are pursuing a long-term investment strategy. Credit risks are being monitored through a certified risk monitoring system which allows us to initiate risk-minimising measures at an early stage.

Ensuring METRO GROUP's unlimited access to the capital markets is integral to the management of financial risks. A rating downgrade – referring to a downgrade to "BB" assigned by the rating agency Standard & Poor's – would have a negative impact on our liquidity and group financing (risk number 10, unchanged from previous year). We have further reduced debt and rating-relevant metrics have improved slightly. To counter this risk, our current strategy focuses on debt reduction. Among other things, this is achieved by optimising our net working capital and focusing our investment funds on measures that add value to the company.

Another identified risk concerns unexpected deviations from our budget or outlook (risk number 6, unchanged from previous year). This could mean we would not hit our target figures and would have to revalue our assets, including goodwill. In turn, this would have a negative impact on our asset and earnings position (risk number 9, unchanged from previous year). For this reason, we attach high priority to measures designed to limit these risks. In this context we are implementing systematic strategic earnings improvement measures for the sales lines of METRO GROUP, focusing in particular on countries that are subject to impairment risk.

In addition, the steps we take to counter these risks include careful monitoring of risks and opportunities as well as the effective internal controls for the budget and forecast process. We also continue to intensify the planning process and the related internal coordination process. Closer integration of strategic planning and the budgeting process as well as a stronger involvement of the supervisory bodies in the strategy and budgeting process contribute to this. Moreover, the introduction of the New Operating Model at METRO Cash & Carry on 1 July 2015 and the related introduction of the Value Creation Plans for each country proactively reinforce implementation of METRO GROUP's strategy. The deviation of our financial year from the calendar year results in additional early planning security because our very profitable Christmas business takes place at the beginning of the financial year, instead of at the end of it. Finally, the outlook offers insights into the group's expectations for business development during the coming financial year.

For more information about financial risks and their management, see the notes to the consolidated financial statements in no. 44 – management of financial risks.

Other risks

Strategic risks

As announced on 30 March 2016, METRO GROUP is set to be separated into two independent, exchange-listed companies by mid-2017 – a wholesale and food specialist and a company focusing on consumer electronics products and services – to further sharpen customer focus, accelerate growth, simplify structures, increase the speed of implementation and therefore improve the operating performance in general. The following material risks can arise in this context: delays in the implementation of the organisational separation and the public listing, unforeseen failure to achieve the targeted investment-grade rating, an increase in planned implementation costs as well as tax risks related to the implementation of the demerger.

Risks related to portfolio changes

METRO GROUP aims to continuously optimise its portfolio. All portfolio changes and the related strategic and investment or divestment decisions are guided by their contribution to the company's success in terms of value-based management. We can reduce risks related to the intrinsic value of our assets – both in terms of individual groups of assets and in terms of our overall portfolio – through value-based management.

In the context of its ongoing portfolio optimisation measures, METRO GROUP sold the Vietnamese wholesale business of METRO Cash & Carry including the associated real estate, which was deconsolidated in the quarterly financial statements as of 31 December 2015.

Various acquisitions in all sales lines increase METRO GROUP's flexibility in the logistics and customer service areas. In addition, we expanded our activities in the start-up sector. Risks resulting from portfolio changes are reflected in the financial statements to the extent that this is required for accounting purposes.

To limit the risks of expansion as much as possible, we plan each investment and each market entry based on a structured process and proven methods. We identify risks and opportunities by using feasibility studies that consider legal, political and economic conditions. We only enter new markets when risks and opportunities are deemed to be appropriate. Even though we always base our expansion decisions on the best information available, we cannot rule out the possibility that the growth momentum in individual countries will fall short of our expectations in the coming years. Other risks include delays in store openings, for example due to lengthy authorisation procedures or unclear responsibilities of local authorities in emerging markets, and the misallocation of resources. Occurrence of these risks would result in lower-than-forecast sales and earnings.

In financial year 2015/16, METRO GROUP took a number of different steps designed to further optimise internal processes related to expansion decisions and their successful implementation and, thus, to counteract the corresponding risks (risk number 7, unchanged from previous year). Committees from the sales lines are involved in the decision-making process regarding the efficient use of investment funds for expansion. The coordination processes are being continuously improved. Furthermore, previously taken investment decisions are carefully monitored.

Information technology risks

The demands of our information technology (IT) have markedly increased as a result of new formats and sales channels and their increasing importance to the group's business, such as online retail and deliveries. Regulations such as those regarding data protection in credit card processing, the use of customer-specific information in big data solutions that are associated with an increased public debate about misuse as well as the growing complexity of IT generate additional risks for our company.

As a result, we have optimised the organisational measures that ensure our compliance with internal and external IT regulations. We regularly check systems connected to the internet for vulnerabilities. We counter the high complexity of modern IT landscapes through clear management regulations and new technology architectures that reduce the interdependencies among the various systems and facilitate system adaptations.

Important business processes such as purchasing/product ordering, marketing and sales have used IT systems for many years. Systems for online retailing must be continuously available, as these systems are a prerequisite for unlimited access outside normal store hours. As a result, the continuous availability of the infrastructure is a critical factor in the development and implementation of our IT solutions. Systems that are essential for business operations in the stores, especially checkouts, are largely self-contained and can continue to be used for some time even during events such as network failures or the failure of central systems. In case of partial network failures, they can automatically reroute shipments or switch to redundant routes.

Modern technologies such as remote server management and cloud computing allow us to use our hardware efficiently. In addition, in the event of one or several server failures, centralised IT systems can be quickly restored. We operate several central computer centres, which even enable us to compensate for major business interruptions or limit these to a minimum. We have a contingency plan to restore computer centres in Germany following longer-term outages (for example, as a result of fires, natural disasters or criminal actions) (risk number 4 "interruption of business", unchanged from previous year). For more information, see the section "risks related to the business environment".

Information is a key resource for all companies of METRO GROUP. This means that it must enjoy the same protection as all other assets. For this reason, METRO AG developed a documented IT security management system (ISMS), which was launched at the start of 2013. The aim of this framework is to ensure the confidentiality (access only for authorised users) and integrity (accuracy and completeness) of this information. Among other things, the management principles for IT security describe our operational and organisational structures. We have implemented IT security controls in accordance with the industry standard ISO 27000. In this way, we ensure that the data we process are correct and complete and can only be viewed by authorised staff. The necessary user accounts and access authorisations are administered centrally according to predefined, partially automated processes. We regularly review whether group specifications are followed in terms of critical user rights and report centrally on the results of our examinations. Affected employees are made aware of IT security issues, prepared for these and kept up to date through regular training courses in accordance with ISO 27000. In addition, the key processes and IT systems of our central IT company METRO SYSTEMS, and since 2015 also those of Media-Saturn IT Services (MSITS), are reviewed by internal audit and by external inspectors who examine them in accordance with the international standard for audit reports of service organisations ISAE 3402 (International Standard on Assurance Engagements). We address the risk of data and identity theft, particularly for people with access to confidential information, with information campaigns on the secure use of IT in everyday work.

Awareness of the importance of data protection was further raised at all levels of our group. The commitment to adhere to the data protection standards of the German Federal Data Protection Act (BDSG) is part of all employment contracts. In particular employees of company units that have access to and handle sensitive data undergo on-site training on data protection. Employees with privileged access rights (for example, administrators) must sign an additional formal obligation.

Human resources risks

The expertise, dedication and motivation of our employees are key success factors that have a decisive impact on METRO GROUP's competitive opportunities. One prerequisite for achieving strategic goals are highly qualified experts and managers. It is an ongoing challenge to recruit and retain such valuable employees for the group, in particular in the face of demographic change and intense competition for the best people. Intra-company programmes for the continued qualification of employees and the strengthening of corporate culture are also indispensable. To ensure that our employees have the requisite expertise and leadership skills, we optimise training and professional development programmes at all levels. Training courses and effective human resources development measures promote entrepreneurial thinking and actions; variable pay components based on the attainment of corporate and individual objectives serve as an incentive. Direct participation in business success increases employees' identification with METRO GROUP and enhances their awareness of opportunities and risks in all entrepreneurial decisions.

One thing is certain: METRO GROUP can only grow if we support our employees. This is reflected in annual performance reviews in which past achievements are assessed and future development measures are agreed upon with individual employees. With targeted training programmes, which we implement in cooperation with various partners, we manage to attract young people to METRO GROUP and to optimally develop their particular strengths. In Germany, in particular, METRO GROUP companies therefore place great value on their own training programmes for employees. With a share of 6.6 per cent in the reporting period, we are one of Germany's largest providers of occupational training.

Succession planning at METRO GROUP, in particular for senior management positions, is guaranteed through customised career and development plans. All these measures serve to counter the key risks of insufficient development and promotion of future managers (risk number 5, unchanged from previous year).

Health promotion concepts, occupational safety measures and locally coordinated programmes such as back therapy training, fitness classes, company sports activities, dietary tips, stress prevention training courses, ergonomic advice, computer glasses and employee counselling programmes provide for a safe, hazard-free work environment. We counter risks of non-compliance with applicable labour regulations by introducing clear guidelines and compliance rules in conjunction with a respectful approach to our employees. This effort is supported by guidelines on fair working conditions and social partnership. Our guidelines on occupational safety and health management aim to create a work environment characterised by respect, fairness and partnership.

For more information about METRO GROUP's human resources policy, see the chapter "principles of the group – employees".

Legal and tax risks

Legal risks arise primarily from labour and civil law cases as well as from changes in trade laws. In addition, risks for METRO GROUP may arise from investigations, for example, regarding possible infringements of antitrust or competition law and tightened regulations regarding deferred compensation (risk number 8, unchanged from previous year). Antitrust law risks may arise in the context of business dealings with METRO GROUP suppliers in such areas as the resale price of retail goods. Appropriate risk provisions were created for pending antitrust law proceedings where liability is sufficiently substantiated.

Tax risks mainly emanate from external audits which take a differing view of certain circumstances and transactions. In addition, risks may result from interpretations of sales tax regulations. The Corporate Group Tax department of METRO AG has established appropriate guidelines to ensure early detection and minimisation of tax risks. These risks are regularly and systematically examined. The resulting risk minimisation measures are coordinated by the Corporate Group Tax department of METRO AG and the national subsidiaries.

Control of Media-Saturn-Holding GmbH

Based on the many court decisions relating to governance issues in relation to Media-Saturn-Holding GmbH, the Management Board feels validated in its opinion that the consolidation of the Media-Saturn group of companies was correctly effected according to the relevant IFRS (International Financial Reporting Standards) regulations, both in the past and in the consolidated financial statements as of 30 September 2016.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Encouraged by additional recent court decisions, including decisions by the highest courts, the Management Board does not expect that future court rulings – as a result of other legal challenges, particularly other legal challenges filed by the minority shareholder – will contradict these verdicts in relevant issues regarding the governance of the Media-Saturn group of companies.

If – contrary to the expectations of the Management Board – a court were to reach such a different assessment, the Management Board would review its opinion on the full consolidation of the Media-Saturn group of companies. A deconsolidation of MSH based on current values could lead to one-time non-cash deconsolidation income. Given MSH's at-equity consolidation, this could impact key financial figures.

For more information about legal issues, see the notes to the consolidated financial statements in no. 47 – remaining legal issues.

Compliance risks

The activities of METRO GROUP are subject to various legal stipulations and self-imposed standards of conduct. Legal requirements in the various jurisdictions as well as the expectations of our customers and the public regarding corporate compliance have generally continued to increase and become more complex. In response to these requirements, METRO GROUP has established a group-wide compliance system that it continuously refines. The aim of this system is to systematically and sustainably prevent regulatory infringements within the company. METRO GROUP regularly identifies behavioural corporate risks.

Our compliance management is primarily focused on preventing corruption and antitrust law risks (risk number 8, unchanged from previous year). We no longer subsume corruption risks under risk number 8. In the future, these risks will be considered and assessed separately to better distinguish between them. We currently do not consider these risks to be of particular relevance. On the one hand, corruption risks arise in dealings with public authorities and public officials, for example, in the context of the company's international expansion or authorisation processes. On the other hand, they can arise in business dealings with suppliers and other business partners. In addition, the group-wide compliance management system covers other relevant criminal and penal risks, data protection and labour law-related risks such as discrimination.

As part of the compliance management system, the necessary organisational structures are established in consideration of all identified and assessed compliance risks. The responsible departments consistently manage and control the risks within the existing structures.

METRO AG has introduced group-wide standards of conduct to manage the identified compliance risks, including a handbook on antitrust law that provides guidelines on supplier negotiations, among other areas. This handbook also contains templates for antitrust law-compliant communications with suppliers. In addition, METRO AG has introduced group-wide anti-corruption policies outlining standards of conduct for dealings with both authorities and public officials and with business partners. The anti-corruption guidelines also stipulate that a compliance check must be carried out before entering into a business relationship with business partners in high-risk areas.

Compliance guidelines are updated continuously and adjusted on the basis of risk. These efforts are complemented by compulsory training courses, systematic and target group-oriented communication measures and the consistent, disciplined handling of compliance incidents and relevant follow-up measures. In addition, METRO GROUP employees, their business partners and customers have access to a professional reporting system that enables them to notify the company of compliance violations and potential violations in all group languages. If necessary, incidents may be reported anonymously. The compliance organisation ensures that all reported cases are investigated in an appropriate fashion.

The internal control system is one of the key elements of a well-designed corporate governance. By strengthening its internal control system, the company ensures that compliance and governance requirements are being increasingly linked with its operational business and financial processes.

At the end of each financial year, the internal control system is reviewed with regard to appropriateness and effectiveness through self-assessment and reviews by Group Internal Audit.

In sensitive process areas, particularly expansion, construction, purchasing and store processes, we will continue to apply the improvements we initiated in the previous financial year (risk number 7, unchanged from previous year). For this reason, we conduct risk analyses as well as modify or expand our operational control structures. In addition, we increasingly assess the effectiveness of standard controls for specific processes.

For further information, see the chapter "characteristics of the accounting-related internal control and risk management system".

Presentation of opportunities

METRO GROUP has numerous opportunities to ensure long-term positive business developments. Above all, these are due to the fact that we respond in a rigorous manner and at an early stage to the needs of private consumers and professional customers. Our key goal is to create value for our customers. As part of this work, we employ new sales channels and exploit the opportunities created by demographic trends and the increasing differentiation of the mature markets of Western Europe as well as population growth in developing and emerging countries. We analyse the relevant global and national trends and take decisions aimed at systematically exploiting opportunities of the future and creating competitive edges.

We have identified the following material opportunities that may have a positive impact on our ability to meet our corporate goals over the next five years. We disclose indicative values for especially relevant opportunities with a potential sustained EBIT effect of ≥ €100 million a year. We do not consider these values in our planning. The potential EBIT effect of all other opportunities ranges from €20 million to €100 million.

Opportunities from the development of business conditions

During financial year 2016/17, we expect at best a slight improvement in business conditions for retail, which, however, could support our sales and earnings development.

In addition, demand – including for the long term – is rising in countries with growing populations. METRO GROUP does business in many markets where we can benefit from this trend. In addition, we are continuing our expansion in the growth regions of Asia and Eastern Europe through METRO Cash & Carry. In the process, we are focusing on business units and countries where we can build a distinct profile and strong market position. As a result, we continue to focus our expansion on the markets of China, India, Russia and Turkey. We also expect to see opportunities from positive geopolitical and macroeconomic developments in Southern Europe and Russia/Ukraine.

The removal of bureaucratic barriers can help ease METRO GROUP's entry into new markets. In the context of trade relations between countries of the European Union (EU) and third countries with which the EU has concluded free-trade agreements (including Canada, Moldova, South Korea, Ukraine and Vietnam), many goods from METRO GROUP's existing assortment can already be imported with no or substantially reduced customs duties. A successful conclusion of the EU's current free-trade negotiations with such countries as the United States and Japan could also translate into substantial benefits for METRO GROUP in the procurement of goods. METRO GROUP also welcomes the multilateral agreement aimed at streamlining customs-clearing procedures and boosting the efficiency of the customs processes used by WTO member countries, which was agreed at the Ninth WTO Ministerial Conference in Bali in 2013 and the Tenth WTO Ministerial Conference in Nairobi in 2015. This programme could result in the streamlining of imports and exports, particularly in developing countries, and a reduction in the cost of international shipments of goods by up to 10 per cent.

Strategic business opportunities

METRO GROUP's sales lines have high levels of brand equity in the countries in which they do business. We have assumed leading positions in many markets. We must further strengthen and expand these. Weaker market participants have withdrawn from the market, especially in countries that are hit particularly hard by the economic and financial crisis. We are working to fill these gaps or, when reasonable, to take over individual locations. Market exits of competitors would create additional opportunities for market share gains. In addition, we see potential in the successful repositioning of national subsidiaries operating in a challenging economic environment (including Germany and Southern Europe). Ongoing transformation, repositioning and restructuring measures at our Media-Saturn sales line aim to improve the sales line's market position and boost its profitability, particularly with respect to focal topics such as the consolidation of procurement activities, logistics and the country portfolio (opportunity: EBIT of ≥ €200 million).

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

By optimising sales concepts, continuing to focus on core target groups and modernising stores, we are creating opportunities to win new customer groups and to bolster existing customer relationships. To this end, METRO GROUP continuously provides funds for investment. The company's investment strategy is aimed at protecting and strengthening the competitive strength of all sales brands while better addressing customers in a more targeted manner. Examples include new and innovative formats, a distinct intensification of our online activities and multichannel business, measures to strengthen our own brands, franchise concepts, investments in innovative sales formats and customer-centric services and solutions. In all sales lines, we see great opportunity in the continuous dovetailing of store-based and electronic retailing.

We see further opportunities in the increased cooperation of the individual sales lines, for example in consumer electronics. In Russia and Turkey, we are already testing shop-in-shop concepts where Media Markt or Saturn manage the electronic departments of METRO Cash & Carry.

In the cash-and-carry business we see substantial additional potential in the continued expansion of the delivery business, for example through selected M & A measures and by strengthening our B2B e-commerce activities (opportunity: EBIT of ≥ €100 million), as well as by tapping additional professional customer groups. Examples include the acquisition of Rungis Express and the planned acquisition of Pro à Pro during the reporting period. The acquisition of Pro à Pro has yet to be completed. For Real's business, opportunities are being created by the strategic transformation that remains focused on cost and structural adjustments, the optimisation of the distribution network, the modernisation of the store network and the expansion of the online business, among other things. In addition, a new store concept aims to better align the product range and service offering with the individual needs of different customer groups while considering both emotional and rational customer wishes.

Online sales remain an important opportunity for our company's future success. Online retail is experiencing strong growth. We believe that this development will continue and create continued competitive momentum both in the store-based business and in online retail over the medium term. As a result, it is imperative for METRO GROUP to further strengthen its internet sales channel. All our sales lines now have online shops in Germany and in many other countries. During financial year 2015/16, we continuously improved the online shops and thus made additional strides in the shift from strictly store-based retail to integrated multichannel marketing. Unlike pure online providers, we create real added value for customers this way.

The dynamic development of information technologies creates substantial opportunities for our company to optimise its own processes and offer its customers new solutions (opportunity: EBIT of ≥ €200 million). New innovation areas are being fuelled in particular by information technologies that are more widely and easily used, including mobile communications (mobile computing), social media and cloud solutions. The implementation of solutions to process and analyse large amounts of data (big data) should create significantly improved marketing instruments, more efficient logistics and an opportunity to introduce new customer-oriented products and services. New organisational IT concepts (agile methods) and newly developed IT systems based on modern technology architecture allow for a more flexible and timely adaptation of the IT infrastructure to continuously changing customer needs and market conditions. METRO GROUP also buys into new digital services, particularly for the METRO Cash & Carry sales line, to tap new business areas or to be able to offer key customer groups such as the food service sector a comprehensive portfolio of solutions.

We believe that the application of innovative ideas relating to progressing digitisation will increasingly shape the future of retail and drive the development of new business models both at METRO Cash & Carry and Media-Saturn. In our group, we see potential for those new business models which offer excellent added value to our customers, in line with our strategy and building on existing strengths in our operating processes.

Our first step in this area is to launch a pilot project to test the extent to which we can deploy an innovation at our company and to invest in interesting start-up companies. In financial year 2015/16, for example, METRO GROUP acquired shares in the start-up Shore, a leading European provider of web-based business solutions for local service providers in Europe, as well as in Orderbird, the leading iPad POS system for restaurants in the German-speaking region. Together with the US company Techstars, we have introduced the METRO Accelerator powered by Techstars, which was launched for the second time during the reporting period. As a global retail company, we thus continue to monitor trends related to food service 2.0 and support digital solutions of innovative start-up businesses for the food service, hospitality and catering sectors. Similarly, Media-Saturn also created a start-up programme with the Spacelab accelerator.

Demographic trends offer another opportunity for METRO GROUP. Ageing populations in Western Europe and the growing concentration in economic and cultural centres dominate our customers' current and future needs. The stores of our sales lines are easy to reach and, as a rule, are accessible to people with disabilities. In addition, the outlets offer assistance and products designed to meet the needs of customers of all generations. As a result, we see good opportunities to gain additional market share.

Business performance opportunities

Aside from rigorously leveraging cost-cutting opportunities, we are creating the basis for long-term success by increasing our productivity, especially through process optimisations. This effort includes a number of projects that we have already initiated and will systematically continue to pursue. These include the expansion of our delivery activities and increasing the share of high-margin own-brand products in total sales. Should we make more progress in the implementation of further productivity enhancements than we currently expect, this could have a positive impact on our business development.

Alongside cost components, quality and freshness are critical differentiating factors that are particularly relevant for food. By having employees who continuously check and ensure quality, we can gain an edge on our competitors and establish customer perception that has a positive effect on sales and earnings. Moreover, we are planning to launch a new logistics network with Germany's largest retail logistics park in Marl. New logistics centres and greater centralisation of product flows will serve to enhance the availability, quality and freshness of products.

The issue of sustainability will continue to gain importance on a global level. As a result, the expectations of customers, employees, investors, political decision-makers and society regarding corporate sustainability will increase accordingly. By continuing to rigorously implement our sustainability strategy, we will ensure that METRO GROUP as well as its sales lines and own brands will become more attractive for these stakeholder groups. For example, the renewed distinction as Industry Leader in the Dow Jones Sustainability Index makes our share more attractive to sustainability-oriented investors and provides us with access to the capital markets at better conditions.

Additional opportunities arise from efforts to cut our greenhouse gas emissions. Our climate protection goal will indeed require investments. But as a result of lower costs, particularly for energy, these investments will create savings over the medium and long term. These savings will result in financial as well as environmental benefits and improvements. Our sustainability activities in our stores and headquarters, for example the development of a sustainable assortment and service offering, as well as our corporate responsibility activities enhance our reputation among independent businesses and consumers. This will help us to grow our sales over the medium term.

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

Overall assessment of the risk situation by the company's management

The Management Board and the Supervisory Board of METRO AG are regularly informed about the company's risk and opportunities situation. Overall, the risk and opportunities profile of METRO GROUP remains at last year's level. To evaluate the present risk situation, risks and opportunities were not only examined in isolation: the interdependencies between risks were analysed and rated according to their probability and impact. The assessment has shown that the overall risks are manageable. The identified individual and cumulative risks do not represent risks that jeopardise the continuity of the group due to illiquidity or over-indebtedness over a period of at least one year. We are confident that METRO GROUP's earnings strength provides a solid foundation for sustained positive business developments and the exploitation of numerous opportunities. This assessment is mirrored by the rating of the internationally leading, independent rating agency Standard & Poor's commissioned by us. METRO GROUP's unchanged investment grade credit rating of BBB – confirms our stable outlook. The Management Board of METRO AG currently does not expect any fundamental change in the risk and opportunities situation.

— REMUNERATION REPORT

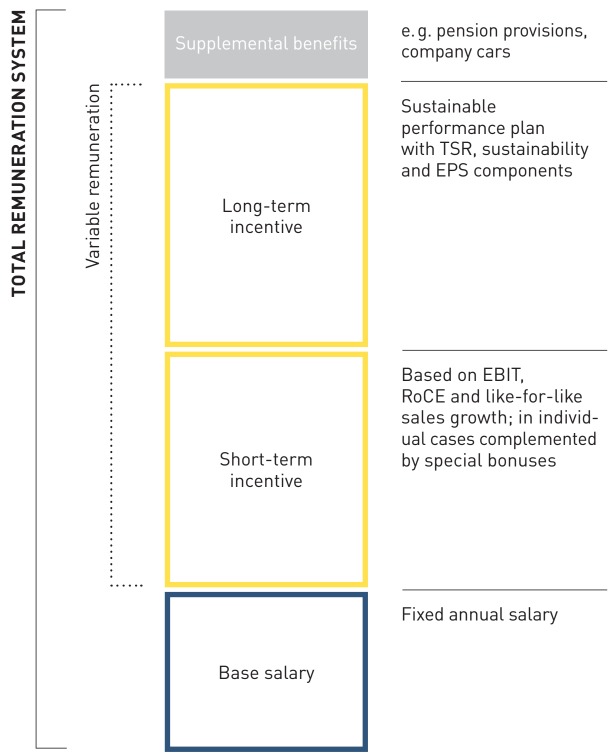
The following report describes the remuneration received by the Management Board and the Supervisory Board of METRO AG for financial year 2015/16 in accordance with standards laid down by the German Commercial Code (HGB) and the German Corporate Governance Code. In addition, this report outlines the remuneration systems and contains information about share-based compensation for executives of METRO GROUP.

The remuneration system for the Management Board is approved by the Supervisory Board of METRO AG and is prepared by its Personnel Committee. The Annual General Meeting on 20 February 2015 approved the remuneration system, which is unchanged from the previous year, with 99.6 per cent of the votes cast. The following is a description of how the system works.

The remuneration system for members of the Management Board

Management Board remuneration consists of a fixed salary and two variable performance-based components: the short-term incentive and the long-term incentive. The company also offers post-employment benefits plans and other supplemental benefits.

Remuneration system for the members of the Management Board



(Schematic illustration)

As a rule, the fixed salary and the variable remuneration paid to new members of the Management Board are reduced on a percentage basis in the first two years of service.

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

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

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

Short-term incentive / special bonuses
The short-term incentive remunerates the company's operating performance on the basis of three financial performance targets pertaining to that specific financial year, each of which has a weighting of one third.

A target value in euros is set for each member of the Management Board. The payout amount is calculated by multiplying the target value by the factor of overall goal achievement. This, in turn, is calculated by determining the goal achievement factors, each of which is rounded to two decimal points, for each of the three financial performance targets. The arithmetic mean of the factors, also rounded to two decimal points, gives the overall goal achievement factor. The overall goal achievement is limited to a factor of 2.0 (payout cap).

The short-term incentive is based on the following parameters:
— METRO GROUP's earnings before interest and taxes (EBIT),
— METRO GROUP's return on capital employed (RoCE) and
— like-for-like sales growth of METRO GROUP; this term reflects sales growth on a comparable area or with respect to a comparable group of locations in local currency.

In general, performance targets are set by the Supervisory Board for each of the three parameters before the beginning of the financial year. The basis for determining the goals is the budget plan, which requires the approval of the Supervisory Board. To determine whether a goal has been achieved, the Supervisory Board defines a lower threshold (entry barrier) for each performance target and a target value for 100 per cent goal achievement. A factor is allocated to the specific degree of goal achievement for each performance target:
— If the degree of goal achievement is 100 per cent, the factor is 1.0.
— If the degree of goal achievement is lower or equal to the entry barrier, then the factor is 0.0.
— In the case of intermediate values and values over 100 per cent, the factor for goal achievement is calculated using linear interpolation.

To calculate goal achievement, profit or loss adjusted for special items and exchange rate fluctuations is applied respectively. Special items include one-time transactions or a number of one-time transactions of the same type, which make it difficult to gauge a company's operating performance and are reported on the income statement. Generally, before the beginning of the financial year that is to be incentivised, the Supervisory Board defines which transactions will be adjusted as special items when calculating Management Board remuneration. Adjustment for exchange rate fluctuations occurs to the extent that these do not correspond to the assumptions made in the budget.

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

The following individual target values and payout caps were determined as the basis for Management Board remuneration in financial year 2015/16:

€ p.a.	Target value for the short-term incentive for financial year 2015/16	Payout cap for financial year 2015/16
Olaf Koch	1,200,000	2,400,000
Pieter C. Boone[1]	720,000	1,440,000
Mark Frese	900,000	1,800,000
Pieter Haas	900,000	1,800,000
Heiko Hutmacher	900,000	1,800,000

[1] Member of the Management Board since 1 July 2015

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

The short-term performance-based remuneration of members of the Management Board is generally paid out four months after the end of a financial year.

Long-term incentive

The long-term incentive is designed to achieve sustainable growth in the company's value and applies a multi-year assessment basis.

Sustainable performance plan version 2014 (2014/15–2017/18)

After the first tranche of the sustainable performance plan was issued in financial year 2013/14, the Supervisory Board of METRO AG approved the adjustment of the sustainable performance plan from financial year 2014/15 onwards: on 10 December 2014, the Supervisory Board adopted the sustainable performance plan version 2014, with a planned duration of four tranches up to financial year 2017/18. By incorporating an additional performance target, the 2014 version of the sustainable performance plan creates an even greater incentive for the long-term and sustainable performance of METRO GROUP under consideration of the long-term expectations of shareholders and other stakeholders as well as the group's environmental responsibility. Performance will be measured both by share-based key indicators and internal growth as well as by qualitative aspects of business, environmental and social company management. A three-year performance period applies to the 2014/15 tranche of the sustainable performance plan version 2014; from the 2015/16 tranche onwards, a four-year performance period will apply.

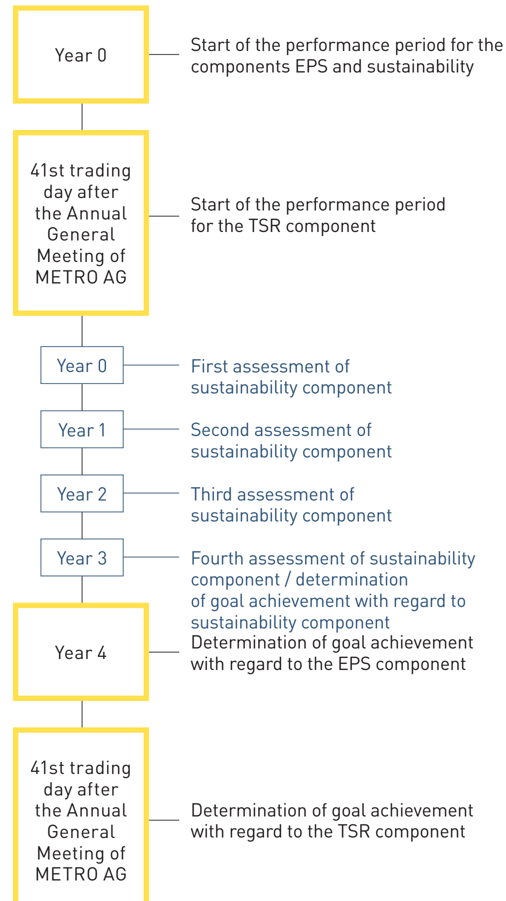
A target value in euros is set for each member of the Management Board. The payout amount is calculated by multiplying the target value by the factor of overall goal achievement. This, in turn, is calculated by determining the goal achievement factors, each of which is rounded to two decimal points, for each of the three performance targets. The arithmetic mean of the factors, also rounded to two decimal points, gives the overall goal achievement factor. The payout amount is limited to a maximum of 250 per cent of the target value (payout cap). In case of employment termination, separate rules for the payout of the tranches have been agreed upon.

The sustainable performance plan version 2014 is based on the following three performance targets:

— total shareholder return (TSR),
— sustainability and
— earnings per share (EPS).

The timing of the sustainable performance plan version 2014 is structured as follows:

Timing of the sustainable performance plan version 2014 (four-year performance period)



(Schematic illustration)

The **TSR component** is measured according to the development of the total shareholder return of the METRO ordinary share in the performance period compared to a defined benchmark index. To calculate the goal achievement factor of the TSR component, the Xetra closing prices of the METRO ordinary share are determined over a period of 40 consecutive trading days immediately following the Annual General Meeting of METRO AG in the grant year. This is used to calculate the arithmetic mean, which is known as the starting share price. The performance period for the respective tranche will begin on the 41st trading day following the Annual General Meeting. Once again, the Xetra closing prices of the METRO ordinary share are determined over a period of 40 consecutive trading days immediately following the Annual General Meeting three

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

years, or, from financial year 2015/16 onwards, four years after calculating the starting share price and issuing the applicable tranche. This is used again to calculate the arithmetic mean, which is known as the ending share price. The TSR percentage value will be determined on the basis of the change in the METRO share price and the total amount of hypothetically reinvested dividends throughout the performance period in relation to the starting and ending share prices.

The METRO TSR calculated in this manner will be compared with the TSR of the STOXX Europe 600 Retail index (index TSR) during the performance period, and the factor for computing the TSR component will be determined in this way:
— If METRO's TSR is identical to the index TSR, the factor for the TSR component is 1.0;
— if METRO's TSR is 30 percentage points or more below the index TSR, the factor for the TSR component is 0.0;
— if METRO's TSR is 30 percentage points above the index TSR, the factor for the TSR component is 2.0.
— In the case of goal achievement with intermediate values and more than 30 percentage points, the TSR factor for the sustainable performance plan version 2014 is calculated using linear interpolation to two decimal points.

To determine the goal achievement factor of the **sustainability component,** METRO AG takes part in the Corporate Sustainability Assessment conducted by the external independent agency RobecoSAM AG during each year of the three- or four-year performance period of the sustainable performance plan version 2014. RobecoSAM AG uses this assessment to determine the ranking of METRO AG within the industry group Food and Staples Retailing that is defined in accordance with the Global Industry Classification Standard (GICS). S&P Dow Jones Indices uses this ranking as the basis for decisions regarding a company's inclusion in the Dow Jones Sustainability Indices (DJSI). METRO AG is informed each year by RobecoSAM AG about its new ranking. The company's average ranking – rounded to whole numbers – is determined on the basis of the three, or, from financial year 2015/16 onwards, four rankings per tranche communicated by RobecoSAM AG during the performance period. The factor for the sustainability component of the 2015/16 and 2014/15 tranches is determined in the following manner on the basis of the average ranking during the performance period:

Average ranking (rounded)	Sustainability factor tranche for financial year 2014/15	Sustainability factor tranche for financial year 2015/16
1	3.00	3.00
2	3.00	2.50
3	2.50	2.00
4	2.00	1.50
5	1.50	1.25
6	1.25	1.00
7	1.00	0.75
8	0.67	0.50
9	0.33	0.25
Below 9	0.00	0.00

The goal achievement factor for the **EPS component,** which was introduced for the first time in the sustainable performance plan version 2014, is calculated as follows: Generally, the Supervisory Board approves an EPS target value (before special items) for the third or fourth year of the EPS performance period at the beginning of the financial year, a lower threshold/entry barrier as well as an upper threshold for 200 per cent goal achievement. The EPS value that has actually been achieved during the performance period is compared to the approved values and the factor for calculating the EPS component is determined as follows:
— If the EPS target value is achieved, the factor for the EPS component is 1.0;
— if only the lower entry barrier or a value lower than it is achieved, the factor for the EPS component is 0.0;
— in the event of 200 per cent goal achievement, the factor for the EPS component is 2.0.
— In the case of goal achievement with intermediate values and more than 200 per cent, the EPS factor for the sustainable performance plan version 2014 is calculated using linear interpolation to two decimal points.

Sustainable performance plan (2013/14)

After the last tranche of the performance share plan was issued in the short financial year 2013, the Supervisory Board of METRO AG approved the sustainable performance plan on 10 December 2013, whose tranche was paid with a three-year performance period in financial year 2013/14.

A target value in euros was set for each member of the Management Board. This is 75 per cent dependent on the TSR component and 25 per cent on the sustainability component.

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

Similarly, the method described for the sustainable performance plan version 2014 also applies to the calculation of the factor for the **sustainability component,** while the factor for the sustainability component, dependent on the average ranking during the performance period, is calculated as follows:

Average ranking (rounded)	Sustainability factor Financial year 2013/14 tranche
1	3.00
2	3.00
3	3.00
4	2.50
5	2.00
6	1.50
7	1.25
8	1.00
9	0.50
Below 9	0.00

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

Performance share plan (2009–2013)

By resolution of the Personnel Committee of the Supervisory Board and with the approval of the Supervisory Board, METRO AG introduced a five-year performance share plan in 2009. The last tranche of this plan was paid in the short financial year 2013. A target value in euros was set for each member of the Management Board. The target number of performance shares was calculated by dividing this target value by the share price upon grant, based on the average price of the METRO share during the three months up to the grant date. The key metric in this calculation was the three-month average price of the METRO share before the grant date. A performance share entitles its holder to a cash payment in euros matching the price of the METRO share on the payment date based on the average price of the METRO share during the three months up to the payment date.

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

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

METRO GROUP introduced so-called share ownership guidelines along with its performance share plan: as a precondition for the payout of performance shares, the members of the Management Board are obliged to undertake a significant continuous self-financed investment in METRO shares up to the end of the three-year vesting period. This ensures that, as shareholders, they will directly participate in share price gains as well as potential losses of the METRO share. Their investment in company shares promotes the remuneration system's

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

long-term structure and orientation towards sustainable development and results in a healthy balance of the various remuneration elements. The self-financed investment applies to the entire term of the performance share plan.

Post-employment benefits plans
In 2009, post-employment benefits plans were introduced for members of the Management Board. They consist of direct benefits with a defined contribution component and a performance-based component.

The defined contribution component is financed by the Management Board member and the company based on an apportionment of "7 + 7 + 7". When a member of the Management Board makes a contribution of 7 per cent of his or her defined basis for assessment, the company will contribute the same amount. Depending on the economic situation, the company will pay the same amount again. In view of the macroeconomic environment, the additional amount was again suspended in the reporting year. When a member of the Management Board leaves the company before retirement age, the contributions retain the level they have reached. The performance-based component is congruently reinsured by Hamburger Pensionsrückdeckungskasse VVaG (HPR). The interest rate for the contributions is paid in accordance with the articles of association of the HPR with regard to profit participation, with a guarantee applying to the paid-in contribution.

An entitlement to pension benefits exists
— if the working relationship ends with or after the reaching of standard retirement age as it applies to the German state pension scheme,
— as early retirement benefits, if the working relationship ends at the age of 60 or after the age of 62 for pension benefits that were granted after 31 December 2011, as well as ends before reaching standard retirement age,
— in the case of invalidity or death insofar as the relevant preconditions for entitlement have been met.

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

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

Further benefits in case of an end to employment
The active members of the Management Board receive no additional benefits beyond the described post-employment benefits plans should their employment end. In particular, no retirement payments will be granted. In the event of the death of a member of the Management Board during active service, his or her surviving dependants will be paid the fixed salary for the month in which the death occurred as well as for an additional six months.

Supplemental benefits
The supplemental benefits granted to members of the Management Board include non-cash benefits and expense allowances (for example, company cars). As a sustainability criterion, the company car guideline contains – similar to the company car regulation for METRO GROUP executives – a limit to the CO_2 emissions of company cars as well as a cap on the non-cash benefits associated with the private use of company cars.

Other
The members of the Management Board of METRO AG are not entitled to additional remuneration or special benefits as a result of a change of control.

Remuneration of the Management Board in financial year 2015/16[1]

					Long-term incentive			
€1,000	**Financial year**	**Fixed salary**	**Supplemental benefits**	**Short-term incentive[2]**	**Value of granted tranche[3]**	**(Payout from tranches granted in the past)**	**Total[4]**	**(Effective salary[5])**
Olaf Koch	2014/15	1,200	36	3,442	2,301	(0)	6,979	(4,678)
	2015/16	**1,200**	**41**	**1,277**	**2,624**	**(0)**	**5,142**	**(2,518)**
Pieter C. Boone[6]	2014/15	180	33	224	0	(0)	437	(437)
	2015/16	**720**	**18**	**702**	**1,575**	**(0)**	**3,015**	**(1,440)**
Mark Frese	2014/15	900	47	2,620	1,726	(0)	5,293	(3,567)
	2015/16	**900**	**79**	**878**	**1,968**	**(0)**	**3,825**	**(1,857)**
Pieter Haas	2014/15	810	61	1,951	1,726	(0)	4,548	(2,822)
	2015/16	**900**	**146**	**958**	**1,968**	**(0)**	**3,972**	**(2,004)**
Heiko Hutmacher	2014/15	900	63	1,732	1,726	(0)	4,421	(2,695)
	2015/16	**900**	**56**	**878**	**1,968**	**(0)**	**3,802**	**(1,834)**
Total	2014/15	3,990	240	9,969	7,479	(0)	21,678	(14,199)
	2015/16	**4,620**	**340**	**4,693**	**10,103**	**(0)**	**19,756**	**(9,653)**

[1] Statements pursuant to § 285 Sentence 1 No. 9 a and § 314 Section 1 No. 6 a of the German Commercial Code (HGB) (excluding provisions for post-employment benefits plans)
[2] For financial year 2014/15, short-term performance-based remuneration includes the short-term incentive as well as special bonuses for the sale of Galeria Kaufhof
[3] Shown here is the fair value at the time of granting the tranche
[4] Total of the columns fixed salary, supplemental benefits, short-term incentive and value of the granted tranche of the long-term incentive
[5] Total of the columns fixed salary, supplemental benefits, short-term incentive and payout from the tranches of the long-term incentive granted in the past
[6] Member of the Management Board since 1 July 2015

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

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

Benefits granted

	Olaf Koch				**Pieter C. Boone**				**Mark Frese**			
	Chairman of the Management Board since 1/1/2012 Member of the Management Board since 14/9/2009				**Member of the Management Board for the METRO Cash & Carry business segment Member of the Management Board since 1/7/2015**				**Chief Financial Officer Member of the Management Board since 1/1/2012**			
	2014/15	**2015/16**	**2015/16**	**2015/16**	**2014/15**	**2015/16**	**2015/16**	**2015/16**	**2014/15**	**2015/16**	**2015/16**	**2015/16**
€1,000			**Minimum value**	**Maximum value**			**Minimum value**	**Maximum value**			**Minimum value**	**Maximum value**
Fixed salary	1,200	1,200	1,200	1,200	180	720	720	720	900	900	900	900
Supplemental benefits	36	41	41	41	33	18	18	18	47	79	79	79
Total	**1,236**	**1,241**	**1,241**	**1,241**	**213**	**738**	**738**	**738**	**947**	**979**	**979**	**979**
One-year variable remuneration[1]	1,200	1,200	0	2,400	180	720	0	1,440	900	900	0	1,800
Multi-year variable remuneration[2]												
Sustainable performance plan version 2014 (granted 22/4/2015, end of performance period: 41st trading day following the Annual General Meeting three years after the issuance of the tranche)	2,301	–	–	–	0	–	–	–	1,726	–	–	–
Sustainable performance plan version 2014 (granted 20/04/2016, end of performance period: 41st trading day following the Annual General Meeting four years after the issuance of the tranche)	–	2,624	0	4,000	–	1,575	0	2,400	–	1,968	0	3,000
Total	**4,737**	**5,065**	**1,241**	**7,641**	**393**	**3,033**	**738**	**4,578**	**3,573**	**3,847**	**979**	**5,779**
Pension expenditure	169	169	169	169	32	135	135	135	128	127	127	127
Total remuneration	**4,906**	**5,234**	**1,410**	**7,810**	**425**	**3,168**	**873**	**4,713**	**3,701**	**3,974**	**1,106**	**5,906**

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

Pieter Haas				Heiko Hutmacher			
Member of the Management Board for the Media-Saturn business segment Member of the Management Board since 1/4/2013				Chief Human Resources Officer Member of the Management Board since 1/10/2011			
2014/15	2015/16	2015/16	2015/16	2014/15	2015/16	2015/16	2015/16
		Minimum value	Maximum value			Minimum value	Maximum value
810	900	900	900	900	900	900	900
61	146	146	146	63	56	56	56
871	**1,046**	**1,046**	**1,046**	**963**	**956**	**956**	**956**
810	900	0	1,800	900	900	0	1,800
1,726	–	–	–	1,726	–	–	–
–	1,968	0	3,000	–	1,968	0	3,000
3,407	**3,914**	**1,046**	**5,846**	**3,589**	**3,824**	**956**	**5,756**
137	129	129	129	128	127	127	127
3,544	**4,043**	**1,175**	**5,975**	**3,717**	**3,951**	**1,083**	**5,883**

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Accruals

€1,000	Olaf Koch – Chairman of the Management Board since 1/1/2012, Member of the Management Board since 14/9/2009		Pieter C. Boone – Member of the Management Board for the METRO Cash & Carry business segment, Member of the Management Board since 1/7/2015		Mark Frese – Chief Financial Officer, Member of the Management Board since 1/1/2012		Pieter Haas – Member of the Management Board for the Media-Saturn business segment, Member of the Management Board since 1/4/2013		Heiko Hutmacher – Chief Human Resources Officer, Member of the Management Board since 1/10/2011	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
Fixed salary	1,200	1,200	720	180	900	900	900	810	900	900
Supplemental benefits	41	36	18	33	79	47	146	61	56	63
Total	**1,241**	**1,236**	**738**	**213**	**979**	**947**	**1,046**	**871**	**956**	**963**
One-year variable remuneration[1]	1,277	3,442	702	224	878	2,620	958	1,951	878	1,732
Multi-year variable remuneration										
Performance share plan (granted 10/8/2011, end of vesting period 10/8/2014, end of term 10/11/2015)	0	0	0	0	0	0	0	0	0	0
Performance share plan (granted 1/4/2012, end of vesting period 1/4/2015, end of term 1/7/2016)	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	**2,518**	**4,678**	**1,440**	**437**	**1,857**	**3,567**	**2,004**	**2,822**	**1,834**	**2,695**
Pension expenditure	169	169	135	32	127	128	129	137	127	128
Total remuneration	**2,687**	**4,847**	**1,575**	**469**	**1,984**	**3,695**	**2,133**	**2,959**	**1,961**	**2,823**

[1] For financial year 2014/15, short-term performance-based remuneration includes the short-term incentive as well as special bonuses for the sale of Galeria Kaufhof

Long-term incentives in financial year 2015/16

The target value for the 2015/16 tranche is €1.6 million for Mr Koch; €1.2 million each for Messrs Frese, Haas and Hutmacher, and €0.96 million for Mr Boone. The value of the tranche distributed in financial year 2015/16 as part of the sustainable performance plan version 2014 was calculated at the time of granting by external experts using recognised financial-mathematical methods.

Sustainable performance plan / sustainable performance plan version 2014

Tranche	End of the performance period	Starting price for the TSR component	Target amount Management Board as of 30/9/2016
2013/14	41st trading day following the Annual General Meeting three years after the issuance of the tranche	€29.73	€4,960,000
2014/15	41st trading day following the Annual General Meeting three years after the issuance of the tranche	€31.69	€5,365,000
2015/16	41st trading day following the Annual General Meeting four years after the issuance of the tranche	€25.53	€6,160,000

In addition to the tranche from the sustainable performance plan version 2014 in financial year 2015/16, the active members of the Management Board in this financial year possess grants from tranches of the long-term incentive that were granted in the past: Mr Koch possesses a 2013 tranche of the performance share plan as well as a 2013/14 and a 2014/15 tranche of the sustainable performance plan, Mr Frese possesses a 2013/14 and a 2014/15 tranche of the sustainable performance plan, Mr Haas possesses a 2013 tranche of the performance share plan as well as a 2013/14 and a 2014/15 tranche of the sustainable performance plan, and Mr Hutmacher possesses a 2013/14 and 2014/15 tranche of the sustainable performance plan. Mr Boone possesses a 2013 tranche of the performance share plan as well as a 2014/15 tranche of the sustainable performance plan from the time of his employment at METRO GROUP before he was appointed as a member of the Management Board.

Performance share plan

Tranche	End of vesting period	Three-month average price before grant	Number of Management Board performance shares as of 30/9/2016
2009	August 2012	€36.67	Expired
2010	August 2013	€42.91	Expired
2011	August 2014	€41.73	Expired
2012	April 2015	€29.18	Expired
2013	April 2016	€22.84	116,463

The vesting period for the 2013 tranche ended in April 2016. No payouts from this tranche were made to members of the Management Board in financial year 2015/16.

In financial year 2015/16, value changes resulted from the current tranches of performance-based payment programmes with a long-term incentive effect. The company's expenses amounted to €2.26 million for Mr Koch, €0.30 million for Mr Boone, €1.58 million for Mr Haas and €1.45 million each for Mr Frese and Mr Hutmacher.

Services after the end of employment in financial year 2015/16 (including provisions for post-employment benefits plans)
In financial year 2015/16, a total of €0.69 million according to International Financial Reporting Standards (IFRS) and €0.62 million according to the German Commercial Code (HGB) was used for the remuneration of the active members of the Management Board of METRO AG for benefits to be provided after the end of their employment (2014/15: €0.59 million determined according to IFRS and €0.62 million determined according to the German Commercial Code (HGB)). Of this total, approximately €0.169 million was granted to Mr Koch for provisions for post-employment benefits plans according to IFRS, approximately €0.135 million to Mr Boone, approximately €0.129 million to Mr Haas and approximately €0.127 million each to Mr Frese and Mr Hutmacher.

According to the German Commercial Code (HGB), approximately €0.160 million was allocated to Mr Koch, approximately €0.119 million to Mr Boone, approximately €0.116 million to Mr Hutmacher and approximately €0.113 million each to Mr Frese and Mr Haas.

Provisions according to IFRS and the German Commercial Code (HGB) amounted to approximately €0.004 million for Mr Koch, approximately €0.007 million for Mr Frese, approximately €0.007 million for Mr Hutmacher, approximately €0.057 million according to IFRS and approximately €0.053 million according to HGB for Mr Boone and approximately €0.055 million according to IFRS and approximately €0.052 million according to HGB for Mr Haas.

The cash value of the commitment volume according to IFRS and HGB amounted to approximately €2.3 million for Mr Koch, approximately €0.4 million for Mr Boone, approximately €1.4 million for Mr Frese, approximately €1.0 million for Mr Haas and approximately €1.4 million for Mr Hutmacher. With the exception of the provisions listed in the last paragraph, the cash value of the commitment volume is offset by assets.

Total compensation of former members of the Management Board in financial year 2015/16
Former members of the Management Boards of METRO AG and the companies that were merged into METRO AG as well as their surviving dependants received €3.4 million (2014/15: €3.4 million).

The corresponding cash value of provisions for current pensions and pension entitlements according to IFRS amounts to €53.2 million (30/9/2015: €49.5 million).

The corresponding cash value of provisions for current pensions and pension entitlements according to the German Commercial Code (HGB) amounts to €40.4 million (30/9/2015: €41.4 million).

Long-term incentive for executives

Pursuant to the recommendation in Subsection 7.1.3 of the German Corporate Governance Code, the share-based compensation of executives of METRO GROUP will also be reported in the following section.

Long-term incentive METRO Cash & Carry (MCC LTI)
A long-term incentive tailored specifically to the New Operating Model was developed for the METRO Cash & Carry sales line. It replaces the sustainable performance plan version 2014 and was issued to high-level executives and the management of METRO Cash & Carry companies for the first time in financial year 2015/16. This is a cyclical plan that is issued once every three years. The respective performance targets focus on value creation in the individual national subsidiaries as well as their sustained development and prospects. The performance period of the MCC LTI extends from 1 April 2016 to 31 March 2019. The individual target amounts are accumulated proportionally

↓ CONSOLIDATED FINANCIAL STATEMENTS
↓ SERVICE

during this period. The final target amount that has been accumulated at the end of the performance period is based on the period of eligibility for the MCC LTI as well as the individual's position.

After the end of the performance period, the payout amount is determined by multiplying the respectively accumulated individual target amount with a total goal achievement factor. The goal achievement rate of this factor for the past performance and future value components accounts for 45 per cent each; the remaining 10 per cent are accounted for by the goal achievement rate of the sustainability component. The payout amount is capped and the total goal achievement factor cannot drop below zero. The relevant measure for the past performance and future value components for eligible executives at the national subsidiaries is the performance/value creation of the respective national subsidiary of METRO Cash & Carry. The relevant measure for the other eligible executives is the sales line's overall performance.

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

The **future value** component mirrors METRO Cash & Carry's external valuation with respect to the expected future performance of the respective national subsidiary and the sales line as a whole from an analyst's perspective. For the purpose of target setting, the enterprise value of the METRO Cash & Carry sales line was determined on the basis of analyst valuations before the start of the performance period. It is determined again at the end of the performance period. The national subsidiaries' enterprise value is derived from the respective enterprise values of the sales line. Separate target values for a goal achievement factor of 1.0 and 0.0, respectively, have been defined. In the case of intermediate values and values above 1.0, the factor for goal achievement is calculated using linear interpolation to two decimal points. The goal achievement factor for the future value component cannot drop below zero and is capped.

Performance achievement for the **sustainability component** is determined on the basis of the average rating which METRO AG (or, once the planned demerger has become effective, the Wholesale & Food Specialist entity spun off from METRO AG) is awarded in an external corporate sustainability assessment during the performance period. In each year of the performance period, METRO AG participates in the Corporate Sustainability Assessment conducted by the independent service provider RobecoSAM AG. RobecoSAM AG uses this assessment to determine METRO AG's ranking within the industry group Food & Staples Retailing that is defined in accordance with the Global Industry Classification Standard (GICS). RobecoSAM AG will inform METRO AG of any changes in its sector classification. In case of material changes in the composition of companies or the ranking method, RobecoSAM AG can determine adequate comparable values.

The company's average ranking – rounded to whole numbers – is determined on the basis of the rankings communicated during the performance period. The factor for the sustainability component is determined in the following manner on the basis of the average of the performance period:

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

As of 30 September 2016, the target amount for the eligible group of persons was €28.1 million.

The value of the METRO Cash & Carry Long-Term Incentive plan distributed in financial year 2015/16 was €35.9 million at the time of granting. It was calculated by external experts using recognised financial-mathematical methods.

Sustainable performance plan / sustainable performance plan version 2014

The sustainable performance plan and the sustainable performance plan version 2014 apply not only to the members of the

Management Board, but also to high-level executives of METRO AG as well as to high-level managing directors and executives of METRO GROUP companies, insofar as no distribution from the METRO Cash & Carry Long-Term Incentive was made in financial year 2015/16 due to the respective function. Eligible managers are given an individual target amount in accordance with the significance of their responsibilities. The additional rules of this plan correspond to the provisions for the Management Board.

Sustainable performance plan / sustainable performance plan version 2014

Tranche	End of the performance period	Starting price for the TSR component	Target amount executives as of 30/9/2016
2013/14	41st trading day following the Annual General Meeting three years after the issuance of the tranche	€29.73	€2,612,593
2014/15	41st trading day following the Annual General Meeting three years after the issuance of the tranche	€31.69	€21,550,001
2015/16	41st trading day following the Annual General Meeting four years after the issuance of the tranche	€25.53	€8,410,000

The value of the tranches granted in financial year 2015/16 as part of the sustainable performance plan version 2014 amounted to €14.2 million at the time of granting and was calculated by external experts using recognised financial-mathematical methods.

Performance share plan

The performance share plan 2009–2013 also applies not only to the members of the Management Board, but also to high-level executives of METRO AG as well as to high-level managing directors and executives of METRO GROUP companies. Under this scheme, eligible managers were given an individual target amount as part of the performance share plan (target value) in accordance with the significance of their responsibilities. The additional rules of this plan correspond to the provisions for the Management Board.

With the performance share plan, the share ownership guidelines – the requirement to undertake self-financed investments – were also applied to this group of eligible individuals. The required investment volume generally amounts to approximately 50 per cent of the individual target value.

Like those for the Management Board, the following conditions apply:

Performance share plan

Tranche	End of vesting period	Three-month average price before grant	Number of performance shares for executives as of 30/9/2016
2009	August 2012	€36.67	Expired
2010	August 2013	€42.91	Expired
2011	August 2014	€41.73	Expired
2012	April 2015	€29.18	Expired
2013	April 2016	€22.84	45,753

The vesting period of the 2013 tranche ended in April 2016. It was exercised by 192 executives with 507,436 performance shares in financial year 2015/16.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Compensation of members of the Supervisory Board

The members of the Supervisory Board receive a fixed yearly remuneration amount in accordance with § 13 of METRO AG's Articles of Association. In financial year 2015/16, this amounted to €80,000 per ordinary member.

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

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

[1] With a minimum of two meetings/resolutions

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

The relevant individual amounts for financial year 2015/16 are as follows:

Remuneration of members of the Supervisory Board for financial year 2015/16 pursuant to § 13 of the Articles of Association[1]

€	Financial year	Multiplier	Fixed salary
Jürgen B. Steinemann, Chairman (since 19/2/2016)	2014/15	●	5,417
	2015/16	●/●●●	**186,667**
Franz M. Haniel, Chairman (until 19/2/2016)	2014/15	●●●	195,000
	2015/16	●●●	**100,000**
Werner Klockhaus, Vice Chairman	2014/15	●●	130,000
	2015/16	●●	**160,000**
Prof. Dr oec. Dr iur. Ann-Kristin Achleitner	2014/15	●	65,000
	2015/16	●	**80,000**
Gwyn Burr	2014/15	●	54,167
	2015/16	●	**80,000**
Ulrich Dalibor	2014/15	●	65,000
	2015/16	●	**80,000**
Karin Dohm (since 19/2/2016)	2014/15		–
	2015/16	●	**53,333**
Thomas Dommel (since 10/12/2015)	2014/15		–
	2015/16	●	**66,667**
Jürgen Fitschen	2014/15	●◖	97,500
	2015/16	●◖	**120,000**
Hubert Frieling (until 31/8/2016)	2014/15	●	65,000
	2015/16	●	**73,333**
Dr Florian Funck	2014/15	●◖	97,500
	2015/16	●◖	**120,000**
Andreas Herwarth	2014/15	●	65,000
	2015/16	●/●◖	**113,333**
Peter Küpfer	2014/15	●	65,000
	2015/16	●	**80,000**
Rainer Kuschewski	2014/15	●◖	97,500
	2015/16	●◖	**120,000**
Susanne Meister	2014/15	●	65,000
	2015/16	●	**80,000**
Dr Angela Pilkmann (since 1/9/2016)	2014/15		–
	2015/16	●	**6,667**
Mattheus P. M. (Theo) de Raad	2014/15	●	65,000
	2015/16	●	**80,000**
Dr Fredy Raas	2014/15	●◖	97,500
	2015/16	●◖	**120,000**
Xaver Schiller	2014/15	●◖	97,500
	2015/16	●◖	**120,000**
Dr jur. Hans-Jürgen Schinzler	2014/15	●●	130,000
	2015/16	●●	**160,000**
Jürgen Schulz (since 10/12/2015)	2014/15		–
	2015/16	●	**66,667**
Angelika Will	2014/15	●	65,000
	2015/16	●	**80,000**
Total[2]	2014/15		1,522,084
	2015/16		**2,146,667**

[1] Plus applicable value added tax in accordance with § 13 Section 5 of the Articles of Association
[2] Reported figures for 2014/15 relate to active members of the Supervisory Board in financial year 2015/16

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

In financial year 2015/16, individual members of the Supervisory Board of METRO AG also received compensation from the group companies for Supervisory Board mandates at group companies.

Other intra-group compensation of members of the Supervisory Board for financial year 2015/16[1]

€	Financial year	
Werner Klockhaus	2014/15	9,300
	2015/16	**9,300**
Thomas Dommel	2014/15	–
	2015/16	**4,500**
Rainer Kuschewski	2014/15	39,400
	2015/16	**6,200**
Xaver Schiller	2014/15	9,000
	2015/16	**9,000**
Total	2014/15	57,700
	2015/16	**29,000**

[1] Plus potentially applicable value added tax

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

Outlook

METRO AG is preparing the demerger of METRO GROUP into two independent, exchange-listed companies focusing on the business segments Wholesale & Food Specialist and Consumer Electronics, respectively. The demerger is planned to become effective in mid-2017 and thus over the course of financial year 2016/17. The current remuneration system for members of the Management Board therefore does not reflect the planned demerger of METRO GROUP. Against this background, new Management Board remuneration systems for both new entities are currently being developed. These will be geared specifically to the respective business activities. These remuneration systems will be introduced as of the effective date of the demerger. In this context, the Supervisory Board passed a resolution on the treatment of the short-term incentive in financial year 2016/17 until the time the demerger becomes effective. It will also decide how to handle the already granted tranches of the long-term incentive.

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

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

On 30 September 2016, the share capital of METRO AG totalled €835,419,052.27. It is divided into a total of 324,109,563 ordinary bearer shares (proportional value of the share capital: €828,572,941, circa 99.18 per cent) as well as 2,677,966 preference bearer shares (proportional value of the share capital: €6,846,111, circa 0.82 per cent). The proportional value per share amounts to about €2.56.

Each ordinary share grants one voting right. In addition, ordinary shares entitle the holder to dividends. In contrast to ordinary shares, preference shares principally do not carry voting rights and give a preferential entitlement to profits in line with § 21 of the Articles of Association of METRO AG, which state:

"(1) Holders of non-voting preference shares will receive from the annual balance sheet profi a preference dividend of €0.17 per preference share.

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

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

(4) The holders of non-voting preference shares and of ordinary shares will equally share in any additional dividends paid in the proportion of their shares in the share capital."

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

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

To the knowledge of the Management Board, the following agreements exist or existed during financial year 2015/16. These agreements can be regarded as restrictions in the sense of § 315 Section 4 No. 2 and § 289 Section 4 No. 2 of the German Commercial Code:

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

In preparation of the demerger of METRO AG, each of the three major shareholders of METRO AG – the Haniel shareholder

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

group, the Schmidt-Ruthenbeck shareholder group and the Beisheim shareholder group – has entered into temporary lock-up agreements at normal market conditions with METRO AG for its shares in METRO AG and for the shares in the acquiring entity which the major shareholders of METRO AG will receive in the context of the demerger. In addition, METRO AG's major shareholders have agreed to certain other restrictions on the sale of shares.

In addition, legal restrictions on voting rights may exist, for example in the sense of § 136 of the German Stock Corporation Act or, insofar as the company holds own shares, in the sense of § 71 b of the German Stock Corporation Act.

Capital interests (§ 315 Section 4 No. 3 and § 289 Section 4 No. 3 of the German Commercial Code)

The following direct and indirect (pursuant to § 22 of the German Securities Trading Act) capital interests exceed 10 per cent of the voting rights:

Name/company	Direct/indirect stakes exceeding 10 per cent of voting rights
Haniel Finance Deutschland GmbH, Duisburg, Germany	Direct
Franz Haniel & Cie. GmbH, Duisburg, Germany	Indirect
Palatin Verwaltungsgesellschaft mbH, Essen, Germany	Direct
BVG Beteiligungs- und Vermögensverwaltungs-GmbH, Essen, Germany	Indirect
Gebr. Schmidt GmbH & Co. KG, Essen, Germany	Indirect
Gebr. Schmidt Verwaltungsgesellschaft mbH, Essen, Germany	Indirect
Dr Michael Schmidt-Ruthenbeck, Zurich, Switzerland	Indirect

The information above is particularly based on notifications under § 21 of the German Securities Trading Act that METRO AG has received and released.

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

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

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

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

In instances where members of the Management Board of METRO AG are appointed and removed, legal regulations laid down in §§ 84, 85 of the German Stock Corporation Act and §§ 30, 31, 33 of the German Co-determination Act apply. A supplementary regulation is contained in § 5 of METRO AG's Articles of Association. It states that the Management Board shall have not less than two members and that, apart from this, the actual number of members of the Management Board will be determined by the Supervisory Board.

Changes to the Articles of Association of METRO AG are determined principally in accordance with §§ 179, 181, 133 of the German Stock Corporation Act. Numerous other sections of the German Stock Corporation Act would apply to a change to the Articles of Association, and modify or supersede the previously mentioned regulations, for example §§ 182 ff. of the German Stock Corporation Act during capital increases, §§ 222 ff. of the German Stock Corporation Act during capital reductions or § 262 of the German Stock Corporation Act during the dissolution of the AG. Pursuant to § 14 of METRO AG's Articles of Association, changes that would affect only the text of the Articles of Association may be decided by the Supervisory Board without a vote by the Annual General Meeting.

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

Authorities to issue new shares
The Annual General Meeting on 23 May 2012 authorised the Management Board to increase the share capital, with the consent of the Supervisory Board, by issuing new ordinary bearer shares in exchange for cash or non-cash contributions in one or several tranches for a total maximum of €325,000,000 by 22 May 2017 (authorised capital I).

In the process, a subscription right is to be granted to existing shareholders. The new shares may also be acquired by banks chosen by the Management Board if the banks agree to tender them to the shareholders. However, the Management Board is authorised, with the consent of the Supervisory Board, to exclude shareholder subscription rights in the following cases:

— to compensate for fractions of shares from rounding;
— insofar as shares are issued in exchange for non-cash contributions for the purpose of corporate mergers or for the acquisition of companies, divisions of companies or interests in companies;
— in the event of a capital increase in exchange for cash capital contributions to the extent necessary to grant subscription rights to new shares to the holders of warrant or convertible bearer bonds issued by METRO AG and affiliates thereof in which METRO AG holds at least 90 per cent of shares, directly or indirectly, in the scope to which they would be entitled upon exercise of the warrant or conversion rights or fulfilment of the warrant or conversion obligations;
— in the event of capital increases in exchange for cash capital contributions if the aggregate par value of such capital increases does not exceed 10 per cent of the company's share capital and the issue price of the new shares is not substantially lower than the stock exchange price of existing shares of the same class. The limit of 10 per cent of the company's share capital is diminished by the share of the share capital represented by the company's own shares which are (i) used as own shares or sold during the term of authorised capital while excluding subscription rights in analogous application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act or (ii) issued from contingent capital to service warrant and convertible bearer bonds which, in turn, have been or are issued while excluding subscription rights in analogous application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act. Once a new authorisation for the exclusion of shareholder subscription rights issued by the Annual General Meeting pursuant to § 186 Section 3 Sentence 4 of the German Stock Corporation Act has become effective, the limit diminished in accordance with the above sentence is raised again to the extent of the new authorisation, but to a maximum of 10 per cent of the share capital.

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

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

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

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

→ CONSOLIDATED FINANCIAL STATEMENTS
→ SERVICE

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

The Management Board is also authorised to entirely exclude, in each case with the consent of the Supervisory Board, shareholder subscription rights to bonds issued in exchange for cash payment carrying warrant or conversion rights or obligations insofar as the Management Board concludes, after careful review, that the issue price of the bonds is not substantially lower than the hypothetical market value ascertained using recognised financial mathematical methods. This authorisation to exclude subscription rights applies for bonds which are issued with warrant or conversion rights or obligations to ordinary shares comprising no more than 10 per cent of the share capital at the time the authorisation takes effect or – if this value is lower – at the time the authorisation is exercised. The limit of 10 per cent of the share capital is reduced by the pro rata amount of share capital represented by any shares issued (i) during the effective period of this authorisation under exclusion of subscription rights according to § 186 Section 3 Sentence 4 of the German Stock Corporation Act, or (ii) to service warrant or convertible bonds providing for warrant or conversion rights or obligations, insofar as such bonds were issued during the effective period of this authorisation under exclusion of subscription rights by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis.

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

In the case of bonds carrying warrant or conversion rights or warrant or conversion obligations, the warrant or conversion price may be adjusted after closer determination in order to preserve the value of such warrant or conversion rights or warrant or conversion obligations in the event their economic value is diluted, to the extent that such an adjustment is not already provided for by law. The terms of the bonds may also provide for an adjustment of warrant or conversion rights or warrant or conversion obligations in case of a capital reduction or other extraordinary measures or events (for example, unusually high dividends, acquisition of control by third parties). In case of the acquisition of control by third parties, the terms of the bonds may provide for adjustment of the warrant or conversion price in accordance with typical market terms. Furthermore, the terms of the bonds may provide for a variable conversion ratio and/or variable warrant and conversion price, whereby the warrant or conversion price is determined within a range to be set based on the development of the share price during the term. The minimum issue price based on the stipulations of § 4 Section 8 of METRO AG's Articles of Association may not be undercut.

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

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

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

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

Authorisation to buy back the company's own shares

The company is authorised to buy back its own shares in accordance with § 71 of the German Stock Corporation Act. On the basis of § 71 Section 1 No. 8 of the German Stock Corporation Act, the Annual General Meeting decided on 20 February 2015 to authorise the company to acquire shares of the company of any share class on or before 19 February 2020. The authorisation is limited to the acquisition of shares collectively representing a maximum of 10 per cent of the share capital issued as of the date the Annual General Meeting resolution is passed or – if this value is lower – at the time the authorisation is exercised. The shares transferred based upon this authorisation, together with any own shares acquired for other reasons held by the company or assigned to it in accordance with §§71 a ff. of the German Stock Corporation Act, shall collectively not exceed a pro rata amount of 10 per cent of the share capital at any time.

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

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

- Sale of shares of the company via the stock exchange or by means of an offer to all shareholders;
- Listing of shares of the company on any foreign stock exchanges where they were not hitherto admitted for trading, whereby the authorisation includes prescriptions regarding the initial listing price;
- Transfer of shares in the company to third parties for non-cash consideration in connection with corporate mergers or in connection with the acquisition of other companies, divisions of other companies, businesses or interests in other companies or other assets;
- Sale of shares of the company by means other than via the stock exchange or via an offer to all shareholders, provided that the sale is for cash payment and at a price not substantially lower than the stock exchange price in effect for listed shares of the company with the same terms on the date of the sale. The foregoing authorisation is limited to the sale of shares collectively representing no more than 10 per cent of the share capital at the time the authorisation takes effect or – if this value is lower – at the time the authorisation is exercised. The limit of 10 per cent of the share capital is reduced by the pro rata amount of share capital represented by any shares issued (i) during the effective period of this authorisation under exclusion of subscription rights according to § 186 Section 3 Sentence 4 of the German Stock Corporation Act, or (ii) to service warrant or convertible bonds providing for warrant or conversion rights or obligations, insofar as such bonds were issued during the effective period of this authorisation under exclusion of subscription rights by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis;
- Delivery of shares to holders of warrant or convertible bonds of the company or its affiliates, in accordance with § 18 of the German Stock Corporation Act under the terms and conditions applicable to such warrant or convertible bonds; this also applies to the delivery of shares based upon the exercise of subscription rights, which in the event of a sale of company shares through an offer to all shareholders or in the event of a capital increase with subscription rights may be granted to holders of warrant or convertible bonds of the company or any of its affiliates in accordance with § 18 of the German Stock Corporation Act to the same extent that holders of such warrant or convertible bonds would have subscription rights for shares of the company after exercising the warrant or conversion rights or performing the warrant or conversion obligations. The shares transferred based upon this authorisation shall collectively not exceed a pro rata amount of 10 per cent of the share capital at the time the authorisation takes effect or – if this value is lower – at the time the authorisation is exercised, insofar as such shares were issued to service warrant or conversion rights or obligations granted or imposed in application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis. The limit of 10 per cent of the share capital is reduced by the pro rata amount of share capital represented by any shares issued or sold during the effective period of this authorisation by application of § 186 Section 3 Sentence 4 of the German Stock Corporation Act mutatis mutandis;

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

— Dividend payment in the form of shares (scrip dividend), whereby company shares are used (also partially and optionally) to service dividend rights of shareholders;
— Redemption of shares of the company, without the need for any further resolution by the Annual General Meeting. Such redemption may also be accomplished without an increase in capital by adjusting the proportional value of the remaining no-par-value shares to the share capital of the company. In this case, the Management Board is authorised to adjust the number of no-par-value shares in the Articles of Association.

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

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

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

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

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

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

If the company's own shares are acquired using derivatives in compliance with the above regulations, the rights of shareholders to enter into derivative transactions with the company as well as any pre-emptive tender rights are excluded.

The regulations listed above also cover the use of own shares of the company acquired using derivatives.

To date, the authorisation to buy back the company's own shares, also by using derivatives, has not been used and no concrete plans currently exist as to the use of this authorisation.

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

As a borrower, METRO AG is currently party to two syndicated loan agreements that the lender may cancel in the case of a change of control insofar as the credit rating of METRO AG drops in a way stipulated in the contract as a result of the change of control. The requirements of a change of control are, first, that the shareholders who controlled METRO AG at the time at which each contract was signed lose control over METRO AG. The second requirement is the assumption of control of METRO AG by one or several parties. The lending banks may cancel the contract and demand the return of the loan only if the change of control and a resulting drop in the credit rating occur cumulatively. The regulations as described here are common market practice and serve the purpose of creditor protection. In financial year 2015/16, these loans were not drawn.

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

No compensation agreements with the members of the Management Board or employees have been concluded with a view to takeover offers.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

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

Overview of financial year 2015/16 and outlook of METRO AG

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

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

Business development of METRO AG

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

Earnings position of METRO AG and profit appropriation

Income statement for the financial year from 1 October 2015 to 30 September 2016 in accordance with the German Commercial Code (HGB)

€ million	2014/15	2015/16
Investment result	592	**124**
Net financial result	–21	**–42**
Other operating income	469	**746**
Personnel expenses	–194	**–226**
Depreciation/amortisation/impairment losses on intangible and tangible assets	–3	**–4**
Other operating expenses	–481	**–570**
Result from ordinary operations	**362**	**28**
Income taxes	0	**–15**
Other taxes	–2	**–1**
Net profit or loss	**360**	**12**
Profit carried forward from the previous year	24	**57**
Withdrawals from reserves retained from earnings	0	**272**
Balance sheet profit	**384**	**341**

For financial year 2015/16, METRO AG posted investment income of €124 million compared with €592 million in the previous year. The key factors behind this distinct decline were, in particular, lower income from investments as well as lower income from profit and loss transfer agreements which together account for a decline of more than €330 million.

In the previous year, income from investments included dividends paid by an interim holding company in connection with the sale of Galeria Kaufhof.

In financial year 2015/16, income from investments essentially concerns the dividend in kind of a loan receivable from an interim holding company which in turn results from the distribution of capital reserves of an indirect subsidiary.

In the previous year, income from profit and loss transfer agreements primarily resulted from a final profit transfer from Galeria Kaufhof.Impairment losses on financial investments and higher expenses from loss absorption due to impairment losses on indirect subsidiaries as well as expenditure grants of subsidiaries to other group companies had a negative impact on the investment result.

The net financial result amounted to €–42 million (2014/15: €–21 million). The lower net financial result is primarily due to lower income from intra-group income allocation, which is shown in the item Other financial income.

In financial year 2015/16, the transfer pricing system of METRO GROUP's METRO Cash & Carry sales line was reviewed and amended.

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

Services are billed at arm's-length prices. Under the newly structured transfer pricing model of METRO GROUP's METRO Cash & Carry sales line, the national and international operational subsidiaries of the METRO Cash & Carry sales line were not billed a franchise fee in financial year 2015/16 (2014/15: €255 million), but licence and services fees amounting to about €500 million.

As of the closing date, other operating income, other operating expenses and depreciation/amortisation/impairment losses on intangible and tangible assets of METRO AG resulted in income of €172 million after expenses of €15 million in the previous year. The change in other operating expenses compared with the previous year results from the first-time application of a new transfer pricing model in particular. These expenses are partially offset by revenues from the invoicing of IT and business services as well as licence fees for the use of the METRO and MAKRO brands in the item other operating income. Appropriate provisions have been created for risks related to the possible partial non-recognition of the new transfer pricing model by foreign fiscal authorities and any resulting obligations to repay revenues from foreign group companies that have already been booked.

On average during the four quarters of financial year 2015/16, METRO AG employed 1,082 people (2014/15: 1,133). Part-time employees and temporary workers were converted into full-time equivalents. Personnel expenses amounted to €226 million (2014/15: €194 million). The increase was essentially due to expenses for restructuring measures.

Net profit amounted to €12 million (2014/15: €360 million) and thus fell distinctly short of the forecast for financial year 2015/16 that the company had issued at the start of the reporting period, as higher income from the new transfer pricing model was more than offset by a lower investment result.

Including retained earnings from the previous year of €57 million and transfers from reserves retained from earnings in the amount of €272 million, the company's balance sheet profit amounted to €341 million compared with €384 million in financial year 2014/15.

Regarding the appropriation of the balance sheet profit for 2015/16, the Management Board of METRO AG will propose to the Annual General Meeting to distribute from the reported balance sheet profit of €341 million a dividend in the amount of €1.00 per ordinary share and €1.06 per preference share – that is, a total of €327 million – and to carry forward the remaining amount to the new account.

Financial position of METRO AG

Cash flows

Cash flows during the reporting period were primarily impacted by cash inflows from the sale of the Galeria Kaufhof group in the previous year. These cash inflows were offset by strong cash outflows for the redemption of bonds and promissory note loans as well as the repayment of the major share of short-term loans. As of the closing date, cash on hand amounted to €618 million (30/9/2015: €35 million). This item essentially includes bank deposits through cash pool income from the sales lines towards the end of the reporting period.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE

Capital structure

Equity and liabilities

€ million	30/9/2015	30/9/2016
Equity		
Share capital	835	**835**
Ordinary shares	828	**828**
Preference shares	7	**7**
(Contingent capital)	(128)	**(128)**
Capital reserve	2,558	**2,558**
Reserves retained from earnings	2,660	**2,388**
Balance sheet profit	384	**341**
	6,437	**6,122**
Provisions	**393**	**447**
Liabilities	**5,328**	**3,230**
Deferred income	**5**	**5**
	12,163	**9,804**

Liabilities consisted of equity of €6,122 million (30/9/2015: €6,437 million) and provisions, liabilities and deferred income of €3,682 million (30/9/2015: €5,726 million). As of the closing date, the equity ratio amounted to 62.4 per cent compared with 52.9 per cent in the previous year. Provisions as of the reporting date totalled €447 million (30/9/2015: €393 million). Liabilities from bonds declined by €1,188 million to €1,751 million. In the previous year, liabilities to banks had been strongly impacted by short-term interim financing transactions in connection with the sale of the Galeria Kaufhof group. This item therefore declined markedly to €94 million as of the closing date (30/9/2015: €982 million). Liabilities to affiliated companies increased slightly to €1,320 million (30/9/2015: €1,317 million). As of the closing date, other liabilities stood at €45 million, which is €20 million below the previous year's level of €65 million.

Asset position of METRO AG

Assets

€ million	30/9/2015	30/9/2016
Non-current assets		
Intangible assets	14	**32**
Tangible assets	2	**2**
Financial assets	7,782	**7,705**
	7,798	**7,739**
Current assets		
Receivables and other assets	4,312	**1,433**
Cash on hand, bank deposits and cheques	35	**618**
	4,347	**2,051**
Prepaid expenses and deferred charges	**18**	**14**
	12,163	**9,804**

As of the closing date, assets totalled €9,804 million and were mostly comprised of financial assets in the amount of €7,705 million, receivables from affiliated companies at €1,359 million and cash on hand, bank deposits and cheques at €618 million. Due mostly to a decline in investments in affiliated companies, financial assets decreased by €77 million compared with the previous year and now account for 78.6 per cent of total assets. Receivables from affiliated companies were €113 million lower than in the previous year. This item reflects the group companies' short-term financing requirements as of the closing date and, at €1,359 million (30/9/2015: €1,472 million), accounts for 13.9 per cent of total assets. At €74 million, other assets substantially declined from €2,840 million in the previous year. At €2,353 million, this decline was due to the receipt of the claim for payment of the purchase price from the sale of the Galeria Kaufhof group that was recognised in the previous year. Cash on hand, bank deposits and cheques increased by €583 million to €618 million compared with the previous year.

Risk situation of METRO AG

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

Forecast of METRO AG

The business development of METRO AG as the management holding company essentially depends on the development and dividend distributions of its investments. Assuming a normalised cost structure at the holding company level without additional expenses from the planned repositioning of METRO AG, we expect the company's net profit to markedly exceed the level of the past financial year in the next financial year 2016/17.

The outlook will be adjusted if the planned demerger of the group into two independent companies with a clear focus on the wholesale and food retail business on the one hand, and consumer electronics retailing on the other, is approved by the Annual General Meeting on 6 February 2017, as expected, and implemented, as scheduled, during financial year 2016/17.

Planned investments of METRO AG

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

Declaration on corporate management

The declaration on corporate management pursuant to § 289 a of the German Commercial Code (HGB) is available on the company's website (www.metrogroup.de) in the section Company – Corporate Governance.

CONSOLIDATED FINANCIAL STATEMENTS
SERVICE