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GOALS AND STRATEGY

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METRO GROUP

METRO GROUP, based in Düsseldorf, is a leading international retail company. Worldwide, around 220,000 employees dedicate themselves to fulfilling the expectations of our customers. Our operating business focuses on wholesale and retail, including online retail. In these areas, our three independent sales lines are leaders:

— METRO Cash & Carry is a leading international player in self-service wholesale trade.
— Media-Saturn is number one among consumer electronics stores in Europe.
— Real is one of the leading hypermarket companies in Germany.

With their products and services, our sales lines serve professional and private customers in 29 countries in Europe and Asia. To tap new target groups and retain customers for the long term, METRO Cash & Carry, Media-Saturn and Real are transforming from product-focused sales businesses into customer- and service-oriented system partners. To this end, they are continuing to dovetail new sales channels such as delivery and online retail as well as supplementary services with their store-based business. Through targeted investments in new, fast-growing companies and own business innovations, the sales lines are bracing for future market challenges.

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

Transform
Our customers' needs and expectations form the starting point for all our strategic considerations. Which product ranges do they need? How do they wish to inform themselves, communicate with us and obtain their goods? Can we offer new services to pique the interest of additional consumers or commercial customers in our business model? Which sales channels do we have to develop or expand to meet our customers' increasing demands? Using these questions as our starting point, we have already made significant strides in the areas of multichannel marketing, delivery, franchising and own brands. In these and other areas, we are rigorously forging ahead with the strategic repositioning of our sales lines.

Grow
Our second focal point is growth in all business segments. We intend to achieve this first and foremost by improving like-for-like sales. An absolute focus on the customer is crucial to this effort. We also aim to significantly improve customer satisfaction. To raise our appeal to consumers and professional customers, we are making targeted investments in new assortments, formats and services. In addition, we are selectively adjusting our sales lines' price levels to further bolster their competitive positions. Finally, we are realigning our incentive systems for employees to encourage additional productivity enhancements.

Improve
A company's competitiveness depends as much on its process performance as on an attractive product and service offering. Our objective is to create streamlined, effective organisational structures. For this reason, we must continually examine our processes, systematically review our business portfolio and

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improve our cost structure. In this way, we can improve our cash flow and create headroom for additional investments.

Expand

Sales growth, efficient processes and optimised cash flow with stable or improved earnings represent the foundation for our future expansion. After all, our mission is to invest in a business model that is customer-focused, competitive and sustainable. Many countries in which we are active offer excellent opportunities for enhancing our footprint. We are currently focusing our expansion and are seizing new opportunities by opening new stores as well as by enhancing our offering.

Innovate

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

For more information about innovation management at METRO GROUP, see the chapter "principles of the group – innovation management".

Framework for sustainable growth

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

For more information about sustainability management at METRO GROUP, see the chapter "principles of the group – sustainability management".

METRO Cash & Carry

The goal of METRO Cash & Carry is to be the "champion for independent business". The company wants to be a preferred partner for customers in the food service, independent retailer and service provider sectors and achieve a significant market share among these customer groups. To achieve this goal, METRO Cash & Carry continues to forge ahead with its transformation from a transaction-driven partner into a partner who is systematically important to its customers and can address all of their needs with holistic solutions. In the process, the sales line has a strategic focus on the central action areas that have already been identified: establishing the New Operating Model and strictly implementing its strategic repositioning.

New Operating Model

As part of its explicit focus on customer and market requirements, METRO Cash & Carry introduced the New Operating Model in financial year 2014/15. The aim is to transfer greater operational responsibility and creative freedom to the national subsidiaries to be able to respond faster and more flexibly to local demand and specific customer requirements, and thus increase the sales line's growth potential. As part of the introduction of the New Operating Model, the METRO Cash & Carry countries were classified into three clusters: Horeca (focusing on hotels, restaurants and catering firms), traders (focusing on independent resellers such as kiosk operators, bakers and butchers) and multispecialists (focusing on Horeca, traders and service companies and offices). This categorisation was guided by the strategic focus on customer groups and expected market potential. Together with the responsible member of the Management Board, the management of the METRO Cash & Carry segment is responsible for the three clusters. Three operating partners are mandated with the individual clusters and support the country organisations with overarching measures geared towards specific customer groups. In connection with the New Operating Model, a new approach to strategy and financial planning in the form of Value Creation Plans was introduced. By the end of financial year 2015/16, all METRO Cash & Carry countries had developed plans geared towards their respective markets and customers and began to implement these.

The new model draws on the concept of active ownership. It strengthens entrepreneurial thinking and action at the national subsidiaries and thus represents another move to foster an entrepreneurial spirit across the organisation. The topics of brand, quality, human resources, finance and legal and compliance will continue to be managed centrally.

Aside from the customer-specific country clusters, focus topics of relevance to the entire company such as food service distribution, supply chain and procurement will also be bundled. These topics will be overseen by operating partners with responsibility for one topic each. In addition, the sales line will continue to pursue a company-wide exchange of specialis expertise through so-called federations. These are international working groups that pursue with sole responsibility overarching topics such as delivery service, foster an exchange of best practices and realise potential economies of scale.

Implementing the initiated strategic repositioning
The explicit focus on the customer with the aim of generating added value is an inherent component of METRO Cash & Carry's mission statement and is firmly entrenched in its strategy. All measures – including those aimed at the company's strategic transformation – begin from the customer's perspective and are coupled with the question of the extent to which this can generate customer value. A holistic understanding of customer needs and business models is a key requirement here. In this way, METRO Cash & Carry manages to offer not just products, but solutions, thereby transforming customer relationships into long-term partnerships.

Improve and transform
METRO Cash & Carry operates in 25 countries in Europe and Asia. The markets in the various countries are at different stages of maturity. As a result, the focal points for the target customer groups differ significantly in the various countries. Because the countries' stages of development are changing continuously, relevant changes must be anticipated at an early stage and local business models adapted accordingly. The Value Creation Plans ensure that this is the case. For example, the business model in Belgium and the Netherlands was optimised by reducing store space. In light of changing customer needs and market conditions, METRO Cash & Carry will continue to constantly examine its portfolio to see whether strategic goals with regard to profitable growth, market shares or increased company value can be achieved.

Grow and expand
Growth is a key component of the company strategy. The wholesale stores play an important role in this. It is thanks to their contribution that METRO Cash & Carry has registered an increase in like-for-like sales for 13 successive quarters. In addition, the sales line has strengthened its presence by opening a total of 17 additional wholesale stores in the expansion countries of Russia, India, China and Turkey.

The sales line also forged ahead with the expansion of its delivery business. For example, three new delivery depots were opened in Germany and one in China to cater to customer needs. Delivery sales increased by 18 per cent in financial year 2015/16 and now amount to about 13 per cent of METRO Cash & Carry's sales. This positive development has also been driven by the takeover and successful integration of the Classic Fine Foods group as well as the acquisition of Germany's leading food delivery service Rungis Express in February 2016. With the agreement to acquire French food supplier Pro à Pro, which was signed in July 2016, METRO Cash & Carry has also prepared the ground for an expanded service offering for customers in the French market. The transaction has yet to be closed.

Innovate
Innovation, both in the core business of wholesale and in delivery as well as in the management of target customer groups, is another fundamental part of METRO Cash & Carry's strategy. For the company, this translates above all into a requirement to identify relevant market trends early on, to recognise changing customer needs and to derive specific solutions. METRO Cash & Carry supports the development of innovative, digital solutions for the food service sector through such initiatives as the METRO Accelerator powered by Techstars. The company uses this programme, which it realises in cooperation with the US company Techstars, to gain access to value-adding, innovative solutions which it can then pass on to its customers in the food service and hospitality sector. The participating start-ups, in turn, benefit from the immense combined network of the two partners. Following the successful first round of the Accelerator during financial year 2014/15 with eleven selected start-ups, the second round with ten international start-ups started in autumn 2016.

Media-Saturn

Media-Saturn is number one among consumer electronics stores and the associated products and services in Europe, with sustainable and profitable market positions in selected countries. The group of companies regards itself as a partner, daily companion and navigator for consumers in an increasingly digitised world.

Increase customer value
Customer shopping behaviour has changed completely because sales channels are increasingly linked. Only a few years ago, store-based retail still served as the starting and finishing point in the purchasing process. Today, however, this process takes place in all kinds of ways – digitally and physically – from the decision to buy a product or service through to completing the transaction. For this reason, the Media Markt and Saturn sales brands were expanded to become multichannel retailers.

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In financial year 2015/16, more added value was established for customers: the same-day delivery concept was systematically expanded in Germany and other countries so that customers can receive purchased products even faster. The acquisition of the repair service provider RTS in August 2015 makes more new services possible. For example, customers can set up their PCs directly after purchase in many stores in Germany and have faulty products, such as smartphones, repaired in the store. The expansion of these services is also planned internationally. In order to retain customers, Media Markt has already established the Media Markt Club programme in five countries. A similar programme is being prepared for Saturn. Furthermore, Media-Saturn is fulfilling its mission as a daily companion, partner and navigator with new content offerings. For example, Media Markt and Saturn introduced so-called content marketing portals, such as turn-on.de in Germany and mediatrends.es in Spain. This involves content-driven offerings for consumer electronics, increasing the time that customers spend with the respective Media-Saturn brand.

Transform and grow

In order to satisfy changing customer needs, the company has also systematically developed its portfolio of locations and formats even further. Instead of having a standardised Europe-wide concept, Media-Saturn has implemented innovative store formats on the basis of a new format and concept strategy. In Turkey and Switzerland and at Berlin's central station, for example, stores were opened that were smaller than the traditional locations. In Russia and Turkey, the sales line has introduced a total of six so-called shop-in-shop stores in METRO Cash & Carry wholesale stores since September 2015. In Barcelona, Media Markt's first digital store was opened in July 2016. On a floor space of 400 square metres, the customer can directly purchase about 5,000 digitally presented products in a pilot store, access more than 200 services and experience the benefits of digital technology in the store. This includes, for example, the use of virtual reality devices, regular training courses on topics such as the use of digital cameras and a digital play area for children.

Improve

Customer requirements vary according to location and also change constantly. In order to retain customers and increase their satisfaction, it is essential to respond to changed requirements quickly. For this reason, Media-Saturn made structural changes in financial year 2015/16 and introduced a new operating model. In doing so, the sales line is transferring decision-making powers and responsibility even further to the operating business in order to respond faster and more flexibly to requirements. The store managers maintain their corporate role and take on the function of chief customer officer, who is primarily responsible for the satisfaction of customers. The national subsidiaries are becoming active portfolio managers. Their task is to optimally align the various sales brands and floor designs in each country and thus to attain the highest possible market share as well as a large number of customers. Media-Saturn-Holding concentrates on its role as a higher authority on strategy, focuses on governance topics, and administers general functions.

Innovate

In financial year 2015/16, Media-Saturn further promoted innovations in the three areas of new business models, digital innovation as well as product and service innovation. As part of the Spacelab tech accelerator, which was founded in 2015, Media-Saturn invested in four start-up companies from the service area in the first round of the programme. They underwent a comprehensive mentoring programme and implemented pilot projects, in cooperation with the sales line, in many stores of the sales brands. Furthermore, METRO GROUP acquired a minority stake in Deutsche Technikberatung, one of the participating companies.

In the area of digital innovation, Media-Saturn fitted its European stores with digital price tags. These reduce the efforts needed for price changes and will allow the customer to retrieve additional product information from the price tag using a smartphone. Media-Saturn is also testing how virtual reality (VR) can help customers with their shopping: In the Saturn stores in Berlin and Ingolstadt, kitchens can be configured and viewed in virtual space. Through these and other offerings, many customers were able to have their first experience with high-end VR headsets in the company's stores. In addition, several tests were initiated on subjects such as in-store navigation and robotics.

In the area of product and service innovation, Media-Saturn established new product categories in many stores. Therefore, electric bicycles, robots and so-called hoverboards are now available at Media Markt and Saturn.

Real

Real laid the foundation for its strategic repositioning in financial year 2015/16. In this context, the sales line continued to adapt its cost base and structures, optimised its sales network, forged ahead with the modernisation of its store network and further expanded its online business. In addition, more efficient business processes were introduced and new synergies were created: Since the start of October 2015, Real has partnered with Privates Handelshaus Deutschland GmbH (PHD), the procurement cooperative of Bartels-Langness, Georg Jos. Kaes and Klaas & Kock. Both partners benefit from pooled purchasing, with their combined purchasing volume amounting to about 7 per cent of German fast-moving consumer goods (FMCG) retail. Real achieved more synergy effects through its cooperative agreement, implemented in April 2015, with Markant Handels- und Industriewaren-Vermittlungs AG, which has been responsible for the settlement of Real's entire merchandise business ever since. The goal of the sales line is to further promote the company's repositioning in order to sustainably increase profitability in the coming years.

While realigning the business, Real developed a new concept for selected locations that is being tested for the first time in the Krefeld store. The objective of the so-called hybrid store concept is to adjust the range of goods and services to meet the individual needs of various customer groups, and also to further promote the modernisation process in the retail sector. For this purpose, Real is relying on innovations that take into consideration both emotional and rational customer wishes. For example, the store in Krefeld offers freshly made pizza, pasta and sushi, redesigned presentations of specially defined key merchandise groups (destinations), with goods being presented with more service and advice, and further expands digital networking opportunities and offerings, such as e-coupons, electronic receipts and apps. In this way, Real aims to specifically address target customer groups and to win new customers.

An important element of this strategy is the significant strengthening of customer orientation. In order to create a basis for specific measures, Real analysed customer needs in detail. With the clear focus on high quality of service as well as on customer orientation, the range of products and services as well as the corresponding employee qualification are to be continuously improved.

With the hybrid approach, Real is defining the guidelines for future action and also striving to make a significant contribution to an improved earnings position. The hybrid store concept supplements other repositioning measures that were already implemented successfully or initiated in recent years. These include, among other things, the ongoing portfolio optimisation, the implementation of the efficiency programme for competitive cost structures, and an adjustment of the wage structure through a collective agreement for the future, which is to be negotiated directly between Real and the trade union Verdi.

Real has also set clear goals in the areas of sustainability, online business and innovation. The sales line is striving to reduce its greenhouse gas emissions by at least 50 per cent per square metre of selling space by 2030, using 2011 as the base year. For this purpose, Real is investing in – among other things – improvements to the energy efficiency of stores, new refrigerated counters for sales areas, the use of new light sources and optimisations in the area of waste disposal. In financial year 2015/16, Real also adopted a purchasing guideline with the goal of expanding the share of sustainable products to 30 per cent of the entire range by 2019.

At the same time, Real is systematically driving innovation – for example, in the mobile payment area. Today, customers can already collect points in Real stores with their mobile phone, pay with their mobile phone and have a receipt sent to their mobile phone. In light of increasing demand, Real will also expand its online range as well as its delivery service even further in the next financial year. With the agreement to acquire Cologne-based shopping portal Hitmeister, which was signed in March 2016, the sales line is strengthening its competitiveness and accelerating the growth of its online business.

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