



**COMBINED MANAGEMENT  
REPORT**

- 42 Overall statement by the Management Board of CECONOMY AG on the business development and situation of CECONOMY
- 43 Overview of financial year 2016/17 and forecast
- 45 Group principles
- 66 Economic report**
- 87 Report on events after the closing date and outlook
- 90 Risk and opportunity report
- 98 Remuneration report
- 120 Disclosures pursuant to Sections 315 (4) and 289 (4) HGB (superseded version) and explanatory report by the Management Board
- 128 Supplementary notes for CECONOMY AG (pursuant to the German Commercial Code)

# ECONOMIC REPORT

## Macroeconomic and sector-specific parameters<sup>1</sup>

The following comments on the macroeconomic and sector-specific parameters include descriptions relevant to both the continued and discontinued operations of CECONOMY in financial year 2016/17.

### Global economy

In the 2016/17 financial year, the development of the global economy was more positive and more uniform than in the previous year. In Western Europe, the moderate upswing continued almost without exception. The economies were supported by persistently low interest rates and only moderately rising prices. Developments in Eastern Europe were also somewhat more uniform: the Central European countries continued to grow steadily. The countries of Eastern Europe, in particular the Russian economy, showed signs of recovery. In Asia, growth in China settled at a slightly lower level than in previous years. However, the region as a whole continued to show the strongest growth, and economic risks declined. Overall, the growth trend of the global economy continued to improve in the past financial year compared with the same period of the previous year.

### Germany

Germany continued to develop solidly across all sectors in financial year 2016/17. Consumer spending and trade and retail also supported the German economy, albeit to a somewhat lesser extent than in the previous year, due to the continuing positive development of the labour market. In addition, the upturn in world trade also stimulated exports and thus had a positive impact on the economy.

### Western/Southern Europe

In Western Europe, growth began to pick up in 2016/17, mainly due to an improvement in labour market trends and export activity. Furthermore, in some countries, the burden of budget consolidation was reduced, with positive effects on the economy. Retailers benefited from an improvement in private consumption with only a slight increase in prices in the past financial year. Again in 2016/17, the most positive economic development in Western Europe was again recorded in Spain.

### Eastern Europe

The economy in Eastern Europe recorded a solid upturn in the 2016/17 financial year, which continued to strengthen at the end of the financial year. Overall, the countries of Central Europe developed somewhat more stably, but growth in Eastern Europe also picked up again. In particular, the Russian economy again recorded moderate growth on a price-adjusted basis. This was mainly due to the significant stabilisation of the rouble and the associated decline in inflation. Retail sales also benefited from this decline in the inflation rate and the stabilisation of the labour market. On a price-adjusted basis, they reversed course and rose slightly in the second half of financial year 2016/17.

### Asia

Asia's economy continued to show stable high growth rates in financial year 2016/17. China and India recorded slightly weaker development than in the previous year, but remained on a stable growth path, with growth of just over 6.5 per cent each. Japan's economy has recently been developing somewhat more strongly again, although growth remains at a low level. Domestic sales and trade growth in the Asian countries followed the good economic performance and were consistently positive.

<sup>1</sup>The numbers indicating the development of gross domestic product in the section "Macroeconomic parameters" represent the entire years of 2016 and 2017. As such, the figures for 2017 represent projections. Unless otherwise indicated, the qualitative statements in the text refer to the reporting period.



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**Development of gross domestic product in key global regions and Germany**

Percentage change year-on-year	2016 <sup>1</sup>	2017 <sup>2</sup>
World	3.2	3.6
Germany	1.9	2.0
Western Europe (excl. Germany)	1.8	2.0
Eastern Europe	1.2	2.8
Asia	5.3	5.1

Source: Feri

<sup>1</sup> Previous year's figures may differ from those of the 2015/16 Annual Report, as final figures were not available at the time of its completion and a change to purchasing power adjusted figures was made in 2017.

<sup>2</sup> Forecast

**Sector development in consumer electronics retailing**

German consumer electronics retailing sales performance was significantly positive in financial year 2016/17. Growth in the reporting period was boosted partly by the conversion of the terrestrial TV signal in several major German regions and the associated higher demand in the TV segment.

As such, the consumer electronics segment accounted for a significant share of the positive performance in the German electronics market, together with small electrical appliances, which continued to record significant growth. Smartphones – an important submarket – and large electrical appliances recorded slightly weaker growth, in contrast.

In consumer electronics retailing in Southern Europe, after several years of growth, Spain recorded only a slightly positive performance in financial year 2016/17. In contrast, Portugal managed to record strong growth compared to previous years. Performance in Italy is slightly positive at present.

Starting from different levels, the Eastern European markets performed well across the board, while Russia again showed positive market development, following negative growth the previous year in difficult economic conditions. Growth in Turkey was again very dynamic in financial year

2016/17, although it fell short of the growth rates witnessed in recent years. As the economic situation in Greece remains difficult, growth in this market continues to be slightly negative.

Switzerland has not yet fully recovered from its move to unpeg the Swiss franc from the euro. After two years of significant shrinkage, growth in the market increased slightly in financial year 2016/17.

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

**Industry development of discontinued operations**

Sales in the **self-service wholesale trade** developed well overall worldwide, but varied in the regions in which METRO operates.

In the German self-service wholesale trade, sales declined slightly in the 2016/17 financial year. The development was thus somewhat behind that of grocery retailing, which again recorded a slight increase. In the reporting period, however, the positive sales trend of the customer group of hotel and restaurant operators (HoReCa) had a positive impact.

In Western Europe, self-service wholesale trade recorded slight growth, in line with economic development. In Portugal and Spain, in particular, the positive development of the HoReCa sector contributed significantly to this trend.

In the Central and Eastern European countries as a whole, self-service wholesale trade also developed slightly positively. The Turkish market grew on a price-adjusted basis despite the stagnating hotel and catering industry and rising inflation. In Russia, the sector recovered as a result of declining inflation and the general economic recovery. In Central Europe, the growth trend varied by country.

The Asian markets in which METRO is active recorded stable development. India, in particular, turned in a positive performance. Compared to the growth rates of recent years, China's development was somewhat



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more restrained. The delivery business remained a growth driver here, as before.

In the 2016/17 financial year, **grocery retailing** continued to develop positively, with nominal sales growth of 1.2 per cent. All organisational forms participated in the increase in sales in the grocery retail sector. The big winners in the past five years have been supermarkets with a wide range of products, and organic markets. In the 2016/17 financial year, customers were again prepared to spend a higher proportion of their net disposable household income on food. The discounter business was able to overcome a brief period of weakness and to increase its turnover again. In the case of hypermarkets, the restructuring process initiated by the nationwide operators continues. Only small grocery stores are steadily losing ground.

# Results of operations, financial position and net assets

## Earnings position

### COMPARISON OF FORECAST WITH ACTUAL BUSINESS DEVELOPMENTS

With the approval of the Annual General Meeting of the former METRO AG on 6 February 2017 on the demerger of the former METRO GROUP into two independent listed companies, the forecast of CECONOMY (former METRO GROUP), which relates exclusively to the continuing operations of CECONOMY, was already adjusted in the half-year financial statement in 2016/17.

### Sales

CECONOMY had forecast slight sales growth adjusted for currency effects for financial year 2016/17. This goal was achieved with an increase of 1.4 per cent in local currency.

CECONOMY had expected like-for-like sales growth (in local currency) to increase slightly. With a 1.9 per cent increase in like-for-like sales, this target was also met.

### Earnings

Adjusted for exchange rate effects, CECONOMY's EBIT before special items was expected to show a slight increase compared with the figure for financial year 2015/16 of €466 million. Adjusted for negative currency effects of €4 million, EBIT was €10 million or 2.2 per cent higher than in the previous year. CECONOMY has thus met its forecast.