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CORPORATE GOVERNANCE REPORT

Pursuant to the recommendation of Section 3.10 of the German Corporate Governance Code [Deutscher Corporate Governance Kodex, DCGK], the Management Board and the Supervisory Board of CECONOMY AG deliver the following report on corporate governance at CECONOMY AG and CECONOMY Group.

The Management Board and the Supervisory Board of CECONOMY AG are firmly committed to the principles of transparent, responsible corporate governance and supervision. They attach great importance to good corporate governance standards.

The voluntary commitment of the corporate bodies to the German Corporate Governance Code is reinforced by the following provision in Section 1 (2) of the Code of Procedure for the Management Board of CECONOMY AG and in Section 1 (2) of the Code of Procedure for the Supervisory Board of CECONOMY AG:

“The Management Board and the Supervisory Board of the Company base their actions on the relevant valid recommendations of the German Corporate Governance Code and deviate from the code’s recommendations only in well-founded exceptional cases. If the Management Board or Supervisory Board intends to deviate from a recommendation, the organs inform each other of the planned move in advance.”

Implementation of the German Corporate Governance Code

During financial year 2016/17, the Management Board and the Supervisory Board of CECONOMY AG discussed the implementation of the recommendations of the German Corporate Governance Code in detail and

issued the following declaration pursuant to Section 161 (1) of the German Stock Corporation Act [AktG] in September 2017:

“The Management Board and Supervisory Board of CECONOMY AG hereby declare that the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice and Consumer Protection in the official section of the Federal Gazette have been complied with since the last declaration of compliance was issued by the Management Board and the Supervisory Board of METRO AG (now: CECONOMY AG – the **Company**) in September 2016, with the following exceptions.

1. SECTION 4.2.3 (2) SENTENCE 8 DCGK

Since the Management Board and the Supervisory Board of the Company issued their last declaration in September 2016, the Company has been preparing to split the Group into two independent, listed companies: one wholesale & food specialist, the other focusing on consumer electronics.

The split of former METRO GROUP became effective when the demerger was entered in the commercial register of the Company on 12 July 2017 and thus during the course of financial year 2016/17. The remuneration system for members of the Management Board, which was approved by the Supervisory Board in 2014, did not reflect the demerger of METRO GROUP. Against this backdrop, new Management Board remuneration systems specifically geared to the respective business activities of the two new units were developed and introduced in the past financial year, with effect from the date on which the demerger became effective. The remuneration system for the Management Board of CECONOMY AG incorporated changes to the performance targets and benchmarks for both the one-year (short-term in-



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centive) and the multi-year (long-term incentive) variable remuneration schemes, and a resolution was passed governing the tranches already issued as part of the multi-year variable remuneration scheme.

This intra-annual amendment resulted in deviation from the recommendation pursuant to Section 4.2.3 (2) sentence 8 DCGK. This recommendation excludes a subsequent amendment of the performance targets or benchmarks with regard to the variable parts of the remuneration of the Management Board.

The deviation was expected. In the forward-looking section of their last declaration, issued in September 2016, regarding the recommendations of the Government Commission on the German Corporate Governance Code [DCGK] pursuant to Section 161 AktG, the Management Board and the Supervisory Board of the Company had indicated the likelihood of deviation from the recommendation pursuant to Section 4.2.3 (2) sentence 8 DCGK (as amended on 5 May 2015) in the course of financial year 2016/17 provided the demerger took place, as scheduled, during the course of the financial year.

2. SECTION 7.1.2 (3) DCGK

Following approval of the planned demerger of former METRO GROUP by the Company's Annual General Meeting in February 2017, the Wholesale & Food Specialist business was required to be recognised as discontinued operations in the Company's statement of financial position under IFRS 5. Although the interim reports as of 31 March 2017 and 30 June 2017, which were affected by this measure, were made publicly available within the statutory periods, they were not published within 45 days of the close of the reporting period as recommended in Section 7.1.2 (3) DCGK. According to this recommendation, mandatory interim financial reports should be made publicly available within 45 days of the close of the reporting period.

The deviation was as expected. In the forward-looking section of their last declaration, issued in September 2016, regarding the recommendations of the Government Commission on the German Corporate Governance Code pursuant to Section 161 AktG, the Management Board and the Supervisory Board of the Company had indicated the likeli-

hood of deviation from the recommendation pursuant to Section 7.1.2 (4) DCGK (as amended on 5 May 2015) in the course of financial year 2016/17, as they assumed that both the recognition as discontinued operations and the anticipated deconsolidation of the Wholesale & Food Specialist business – not least because of the size of spin-off – would require a vast increase in time and effort.

Another deviation from the recommendation pursuant to Section 7.1.2 (3) DCGK is already foreseeable in financial year 2017/18 since the publication of the half-year report for H1/Q2 2017/18 is scheduled for 17 May 2018, which – although still within the statutory period – is not within the recommended period of 45 days from the close of the reporting period. Publication will not be possible until after expiry of the recommended period due to the reorganisation effort required in connection with the demerger and associated transition to an independent listed holding company."

Unlike the half-year financial report for H1/Q2 2017/18, the quarterly statements for Q1 and Q3 2017/18 will be published within the recommended period of 45 days from the close of the reporting period in light of their smaller volume compared to the half-year report.

➤ CECONOMY AG makes the current declarations pursuant to Section 161 AktG permanently available on the website, as well as declarations that are no longer up to date, at www.ceconomy.de/en/company/corporate-governance.

In addition to recommendations, the German Corporate Governance Code contains suggestions that listed companies can – but do not have to – address. CECONOMY AG follows the vast majority of these suggestions. In financial year 2016/17, there was only one suggestion that the Company did not fully implement:

Section 2.3.3 DCGK recommends enabling shareholders to follow the Annual General Meeting via modern communication media such as the internet. As in previous years, CECONOMY AG (which was still called METRO AG at the time of the Company's Annual General Meeting in financial year 2016/17) only broadcast the speech by the Chair of the



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Management Board over the internet in financial year 2016/17. This practice will be continued.

Division of duties and areas of responsibility between the Management Board and the Supervisory Board

The clear division between corporate management and corporate supervision is a key element of corporate governance for German stock corporations. Duties and areas of responsibility are clearly divided between the Management Board and the Supervisory Board of CECONOMY AG.

The management authority lies with the Management Board of CECONOMY AG, which has three members. It manages Company business on its own responsibility. The key duties of the Management Board include defining corporate objectives and budgets, determining the corresponding strategic position of the Company and Group, and steering and monitoring them. In addition, the Management Board ensures the availability of investment funds, decides on their allocation within the Group, and is responsible for attracting and promoting highly qualified managers.

In accordance with the applicable regulations of the German Codetermination Act, the German Stock Corporation Act and the Company's Articles of Association, the Supervisory Board of CECONOMY AG consists of ten shareholder representatives and ten employee representatives, with women and men both holding at least 30 per cent of the seats (that is, at least three each acting as shareholder representatives and employee representatives, respectively). The Supervisory Board advises the Management Board and oversees their management including the attainment of long-term corporate objectives. The Management Board informs and involves the Supervisory Board in its plans for the future development of CECONOMY and includes the Supervisory Board in decisions about important measures and legal transactions. Above and beyond its legally prescribed approval obligations, the Supervisory Board has determined its own approval requirements for certain types of business dealings and measures planned by the Management Board. The Supervisory Board is also responsible for appointments and revoking appointments to the Management Board.

➤ For more information about members of the Management Board and Supervisory Board, see the notes to the consolidated financial statements of CECONOMY AG, No. 56 – Corporate Boards of CECONOMY AG and their mandates.

➤ The modes of operation of the Management Board and Supervisory Board, the composition and functions of the Supervisory Board committees and information on key corporate management practices are described in the annual declaration on corporate governance. The full wording of the declaration of compliance pursuant to Section 161 AktG is also repeated in this declaration. The statement on corporate management is available on the website www.ceconomy.de in the section Company – Corporate Governance.

Objectives regarding the composition of the Management Board and Supervisory Board

To carry out their duties properly, the Management Board and the Supervisory Board must possess a broad range of knowledge, skills and experience.

REQUIREMENTS FOR APPOINTMENTS TO THE MANAGEMENT BOARD

The decisions taken by the Supervisory Board regarding the composition and appointment of the Management Board are based on careful analysis of current and future business challenges. Potential members of the Management Board must not only have solid general qualifications, but must also be individuals capable of helping the Company to address its current situation and future challenges.

In selecting members of the Management Board, the Supervisory Board also heeds the recommendations of the German Corporate Governance Code. In particular, the Supervisory Board considers the issue of diversity, and strives to provide adequate consideration of women.

In financial year 2016/17, no women had yet been appointed to the Management Board of CECONOMY AG, or of METRO AG. In compliance with German legislation governing equal participation of men and women in management positions, the Supervisory Board again set targets and deadlines in financial year 2016/17 for increasing the share of women on the Management Board. According to the law, these deadlines must not exceed five years. In light of the remaining terms of the mem-



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bers of the Management Board currently in office, the Supervisory Board has decided that no women will probably be appointed to the Management Board of CECONOMY AG before 30 September 2020. The Supervisory Board has, however, adopted a longer-term perspective on this target, aiming to ensure that at least one woman be appointed to the Management Board in the long run, within the period from now until 30 June 2022. Given the conceivable composition of the Management Board of three or four members, this would equate to a share of women of at least 25 per cent.

REQUIREMENTS FOR APPOINTMENTS TO THE SUPERVISORY BOARD

To ensure that the Supervisory Board of CECONOMY AG can duly perform its responsibilities, the members formulated certain objectives regarding appointments in the constituent meeting of the Supervisory Board on 25 July 2017. These objectives are:

Diversity

The Supervisory Board has developed its own diversity strategy to ensure that the members of the Supervisory Board complement each other in terms of age, (educational and professional) background, experience and skills, in such a way that the Board as a whole can draw on as diverse a wealth of experience and as broad a spectrum of skills as possible.

The Supervisory Board aims to have a sufficient number of members with international experience or expertise.

The employee representatives and the shareholder representatives should each comply separately with the statutory gender quota of 30 per cent. This means that the Supervisory Board should have at least three female and at least three male members on each side.

The Supervisory Board in its current composition following the effective date of the spin-off adheres to these objectives. The employee representatives contribute their experience from the Group's German business and their administrative expertise from the key holding and cross-divisional service companies in Germany to the Supervisory Board, whereas the shareholder representatives include several members with

national and international retail expertise, as well as specific banking and finance expertise. Some members also have extensive experience in insurance or with consumer goods. In their former capacity as managers, several of the shareholder representatives contribute specific expertise in managing publicly listed globally operating companies to the Supervisory Board, while other individuals representing the shareholders are knowledgeable about digitalisation, marketing and M&A.

The representation of men and women on the Supervisory Board of CECONOMY AG complies with the legal requirements governing equal participation of men and women in management positions. The employee and shareholder representatives each fulfil the gender quota of 30 per cent for the Supervisory Board of CECONOMY AG separately. The Supervisory Board currently (as of November 2017) includes five female representatives on the employee side and four on the shareholder side.

Impartiality of the Supervisory Board

At least six of the ten shareholder representatives on the Supervisory Board should be impartial, in accordance with Section 5.4.2 of the German Corporate Governance Code [DCGK].

At least one member of the Board must fulfil the requirements for chairing the Audit Committee. Pursuant to the Code of Procedure for the Audit Committee, the committee chair must be impartial.

The current composition of the Supervisory Board of CECONOMY AG meets these requirements. In accordance with legal stipulations, the Supervisory Board is composed of ten employee representatives and ten shareholder representatives. At least six shareholder representatives are impartial, as defined in Section 5.4.2 DCGK. The Chair of the Audit Committee, Dr Hans-Jürgen Schinzler, is one of the impartial Supervisory Board members, as defined in Section 5.4.2 DCGK.

Special requirements related to appointments to the Audit Committee

At least one member of the Board must fulfil the requirements for chairing the Audit Committee. Pursuant to the Code of Procedure for the Audit Committee, the committee chair should be impartial and must possess professional knowledge in the areas of accounting and auditing as well



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as internal control procedures (financial expert). The other committee members should possess sufficient professional knowledge and experience in these areas, and one member of the Audit Committee should ideally also possess special knowledge in the area of compliance.

The current composition of the Supervisory Board's Audit Committee meets these requirements. The impartial Chair of the Audit Committee, Dr Hans-Jürgen Schinzler, possesses professional knowledge in the

areas of accounting, auditing, and internal control procedures. The Vice Chair of the Audit Committee, Jürgen Schulz, is sufficiently knowledgeable and experienced in these fields, as are all other members of the Audit Committee, Karin Dohm, Sylvia Woelke, Ulrich Dalibor, Dr Florian Funck, Peter Küpfer and Rainer Kuschewski. In her current capacity as a member of the Corporate Risk Management & Internal Controls function, and her former capacity as a member of the internal auditing team, Sylvia Woelke also possesses special knowledge in the area of compliance.



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Allocation of responsibilities in the Supervisory Board of CECONOMY AG¹

Retail	International experience	Digitalisation/technology	Independence	Corporate management
D. Eckardt S. Friedrich F. Raas J. Schulz V. Vrabec S. Woelke	K. Dohm B. Düttmann J. Fitschen J. Goldin J. Harlow P. Küpfer F. Raas H.-J. Schinzler R. Stachelhaus	L. Glosser J. Goldin J. Harlow R. Stachelhaus	U. Dalibor K. Dohm B. Düttmann J. Fitschen J. Goldin J. Harlow R. Kuschewski H.-J. Schinzler R. Stachelhaus A. Will	B. Düttmann J. Fitschen F. Funck P. Küpfer F. Raas H.-J. Schinzler R. Stachelhaus
Compliance	Internal controls	Mergers and acquisitions (M&A)	Accounting, audits	
R. Stachelhaus S. Woelke H.-J. Schinzler	B. Düttmann S. Woelke	K. Dohm F. Funck P. Küpfer F. Raas H.-J. Schinzler	K. Dohm B. Düttmann J. Fitschen F. Funck P. Küpfer F. Raas H.-J. Schinzler S. Woelke	
	Marketing	HR		
	B. Düttmann J. Goldin J. Harlow	B. Düttmann B. Popp R. Stachelhaus		

¹Competencies in accordance with the resolution on the competence profile dated 25 July 2017



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POTENTIAL CONFLICTS OF INTEREST WITHIN THE SUPERVISORY BOARD/TERM OF OFFICE AND AGE RESTRICTIONS

To prevent potential conflicts of interest, members of the Company's Supervisory Board may not assume board functions, consulting tasks or memberships on the supervisory boards of German or international, direct and material competitors.

The regular limit on terms of office on the Supervisory Board is ten years. Shareholder representatives should generally serve for a term of three years. The Supervisory Board may, at its discretion, approve justified exceptions to these rules.

Candidates proposed for election to the Supervisory Board for the first time should, as a rule, not be older than 65 at the time of election. Only candidates who are younger than 71 at the time of election should generally be proposed for election to the Supervisory Board. The Supervisory Board may, at its discretion, approve justified exceptions to these rules.

The Supervisory Board of CECONOMY AG currently meets these requirements. No member of the Supervisory Board assumes a function for direct, material competitors. The self-defined rules for the term of office on the Supervisory Board of CECONOMY AG have been observed without exceptions in financial year 2016/17. Although currently two members of the Supervisory Board are older than 71, they will remain on the Board until their terms of office expire at the end of the Annual General Meeting 2018 and 2021, respectively. Accordingly, they were not among the candidates proposed to the Annual General Meeting last year for election to the Supervisory Board. In addition, the Supervisory Board of METRO AG had already approved justified exceptions in both cases. The Board determined that the in-depth knowledge and experience of the members in question were particularly valuable to the future work of the Supervisory Board.

Compliance and risk management

Compliance and risk management are integral parts of the value-based management practiced by CECONOMY.

CECONOMY's business activities are subject to various legal stipulations and self-imposed standards of conduct. CECONOMY AG has bundled its measures for securing compliance with these rules and regulations in its Group-wide compliance management system.

The aim of the compliance management system is systematically and sustainably to prevent, detect and sanction regulatory infringements within the Company and the Group. To this end, CECONOMY regularly identifies behavioural compliance risks, establishes the necessary organisational structures and rigorously monitors and controls these risks through the responsible divisions. In its Group-wide systematic reporting, key compliance risks and measures are transparently communicated and documented. The need for the further development of the compliance management system is ascertained from the results of regular internal controls and audits.

Risk management at CECONOMY is a systematic, Group-wide process that helps the Company management identify, assess, monitor and manage risks and opportunities. As such, risk and opportunity management is a uniform process. The risk management system ensures that unfavourable developments and events are transparently flagged early on and their implications analysed to enable the Company to put the necessary countermeasures in place. Equally, the opportunity management system enables early identification and analysis of any opportunities that arise so that they can specifically be exploited. Both the compliance management system and the risk and opportunity management system are subject to continuous improvement.

They are managed through the internal control system [ICS]. CECONOMY AG further improved its management systems in financial year 2016/17 and adjusted them to the new structure of CECONOMY following the spin-off.

➤ For more information about compliance and risk management, see the combined management report – risk and opportunity report – as well as the declaration on corporate governance. The declaration can be found on the website at www.ceconomy.de/en/company/corporate-governance.



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Transparent corporate management

Transparency is an essential element of good corporate governance. The website www.ceconomy.de serves as an important source of information for CECONOMY AG shareholders, the capital market and the general public. Aside from a host of information about CECONOMY's strategy, brands and business, the site also contains IR publications, investor news, and ad hoc and other legal disclosures. CECONOMY also publishes the dates for its most important regular publications and events (announcements of annual sales results, annual reports as well as quarterly and half-year reports, the annual business press conference and the Annual General Meeting) on its website with reasonable advance notice. The website also offers information shown as part of annual business press conferences, roadshows, investor conferences and information events for private investors.

The Annual General Meeting

The Annual General Meeting of CECONOMY AG gives shareholders the opportunity to use their legal rights, that is, in particular, to exercise their rights to vote (where these apply) as well as to address questions to the Company's Management Board. To help shareholders exercise their individual rights at the Annual General Meeting, CECONOMY AG posts documents and information for each Annual General Meeting in advance on its website.

The registration and legitimization procedure for the Annual General Meetings of CECONOMY AG complies with German stock corporation law and international standards. All shareholders wanting to attend an Annual General Meeting of CECONOMY AG and exercise their voting rights must register and supply proof of their right to attend and exercise voting rights. Written proof of share ownership in German or English from the custodian of the securities deposit account satisfies this requirement. A deposit of shares is not necessary. Proof of share ownership must correspond to the beginning of the 21st day before each Annual General Meeting. Like the registration for the Annual General Meeting, it must be submitted to CECONOMY AG at the address specified in the invitation within the time frame specified by law and in the Articles of Association.

Detailed registration and attendance conditions are announced in the invitation to each Annual General Meeting.

Shareholders who are unable to attend the Annual General Meeting in person may exercise their voting rights through a proxy. The necessary voting right authorisation must be provided in written form. In certain cases, described in the invitation to the Annual General Meeting, simplified formal stipulations may apply, such as issuing voting right authorisations to banks or shareholder associations.

Shareholders may also authorise Company-appointed proxies to exercise their voting rights (known as proxy voting). The following rules apply: In addition to voting right authorisations, shareholders must also provide instructions on how to exercise these voting rights. The proxies appointed by the Company are obliged to vote according to these instructions. For the assignment of voting rights during the Annual General Meeting for those shareholders who initially participate in the Annual General Meeting but who want to leave early without forgoing the exercise of their voting rights, proxies appointed by CECONOMY AG are also available. Of course, this does not affect the right to appoint other proxies to exercise one's voting rights. The details on proxy voting are given in the invitation to each Annual General Meeting.

In the interest of shareholders, the Chair of the Annual General Meeting, who as a rule is the Chair of the Supervisory Board, works to ensure that the Annual General Meeting is conducted efficiently and effectively. The objective is to complete a regular CECONOMY AG Annual General Meeting within four to six hours at most.

Managers' transactions, share ownership by members of the Management and Supervisory Boards

Pursuant to Art. 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation), members of the Management and Supervisory Boards as persons discharging managerial responsibilities must inform CECONOMY AG of any transactions involving their own CECONOMY shares or CECONOMY bonds or related financial instruments (referred to



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as Managers' Transactions). This notification requirement also applies to persons closely associated with members of these corporate bodies. However, a minimum threshold has been introduced for reporting such transactions, with transactions under €5,000 in any calendar year not reportable.

➤ Notifications of managers' transactions during financial year 2016/17 have been published in the Legal Announcements section of the website at www.ceconomy.de/en/investor-relations/#anchor4.

Audit

AUDIT 2016/17

On 6 February 2017, following completion of the tender and selection process for the financial statements audit in 2016/17 pursuant to Art. 16 (3) of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 (Audit Regulation), the Annual General Meeting of CECONOMY AG (which was still called METRO AG at the time) appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, [KPMG] to audit the financial statements for financial year 2016/17 and to perform a review of the condensed financial statements and the interim management report for the first half of financial year 2016/17. In awarding the corresponding auditing contract, the Supervisory Board considered the recommendations listed in Section 7.2 of the German Corporate Governance Code.

Throughout the audit, which was completed in November 2017, KPMG did not notify the Supervisory Board of any grounds for disqualification or conflicts. There was also no evidence that any existed.

In the course of the audit, there were no unexpected substantial findings or events concerning Supervisory Board functions. As a result, no extraordinary report from the auditor to the Supervisory Board was required. The auditor found no irregularities in the Management and Supervisory Boards' declarations of compliance.

AUDITOR'S IMPARTIALITY

The auditor fulfils two key functions. Their audit activities help the Supervisory Board in exercising corporate control while providing the basis for the trust of the general public and capital market participants, in particular, in the accuracy of the annual financial statements and management reports. The auditor's impartiality is a key precondition for fulfilling these two functions.

One of the foremost tasks of the Audit Committee of CECONOMY AG is therefore the reassurance of the auditor's impartiality. The committee reviewed this impartiality again in financial year 2016/17.

➤ For more information on corporate governance at CECONOMY Group, please refer to the website at www.ceconomy.de/en/company/corporate-governance.