

# CORPORATE GOVERNANCE REPORT

Pursuant to the recommendation in Subsection 3.10 of the German Corporate Governance Code, the Management Board and the Supervisory Board of METRO AG deliver the following report on corporate governance at METRO.

The Management Board and the Supervisory Board of METRO AG are firmly committed to the principles of transparent, responsible corporate governance and supervision. They attach great importance to good corporate governance standards. Their voluntary commitment to the German Corporate Governance Code (DCGK) is reinforced by the following provision in the corporate bodies' rules of procedure:

"The company's Management Board and Supervisory Board base their actions on the relevant valid recommendations of the German Corporate Governance Code and shall only depart from the code's recommendations in well-founded exceptional cases. If the Management Board or Supervisory Board intends to depart from a recommendation, the corporate bodies shall inform each other of the planned course of action prior to its implementation."

## Implementation of the German Corporate Governance Code

During financial year 2016/17, the Management Board and the Supervisory Board of METRO AG have extensively considered implementation of the recommendations by the German Corporate Governance Code and issued the following joint declaration pursuant to § 161 of the German Stock Corporation Act for the first time in September 2017:

"The Management Board and the Supervisory Board of METRO AG hereby declare that the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice in the official section of the Federal Gazette dated 7 February 2017 have been complied with since their applicability commencing with the stock exchange listing of METRO AG on 13 July 2017, with the exception of the recommendation in Section 7.1.2 Sentence 3 of the German Corporate Governance Code.

Due to the previous planning in the context of the demerger of the former METRO GROUP, which incorporated the previous uncertainties with regard to the exact effective date of the demerger, and the requirement for a uniform and transparent capital markets reporting by CECONOMY AG and METRO AG, it was not possible to publish the quarterly report for the

third quarter of financial year 2016/17 within the 45 days following the end of the reporting period, as is recommended in Section 7.1.2 Sentence 3 of the German Corporate Governance Code.

For the future, the Management Board and the Supervisory Board of METRO AG intend to follow the recommendations of the Government Commission in the version dated 7 February 2017 without exception."

The declaration of compliance pursuant to § 161 of the German Stock Corporation Act (AktG) was revised as follows in November 2017:

"Management Board and Supervisory Board of METRO AG have amended the annual declaration of compliance pursuant to § 161 of the German Stock Corporation Act (AktG) on 27 September 2017. This declaration is amended as follows:

The Supervisory Board of METRO AG convened on 14 November 2017 and resolved to adjust the current remuneration system for members of the Management Board with regard to the components of the short-term performance-based compensation component (short-term incentive, STI) and its weighting. The previous STI component "currency-adjusted earnings before deduction of interest expenses and taxes (EBIT)" will be replaced by a component "currency-adjusted earnings before deduction of interest expenses, taxes and depreciation (EBITDA)". The objective of this component is – similar to the objectives of the other STI components – taken unchanged from the budget for the financial year 2017/18 adopted by the Supervisory Board in September 2017. The amendment also provides for the following weighting of the 3 STI components: (1) like-for-like sales development at 40%, (2) EBITDA at 40% and (3) currency-adjusted return on capital employed (RoCE) at 20%.

The adjustments are intended to essentially base the short-term performance-based remuneration component for members of the Management Board on the same financial figures as are used for group controlling and capital market outlook of METRO. The adjustments will have retroactive effect from the beginning of the current financial year 2017/18 (from 1 October 2017 to 30 September 2018). The current employment contracts with the members of the Management Board will be adapted accordingly; the members of the Management Board have already indicated their approval.

By carrying out a mid-year adjusting of the existing remuneration system and corresponding adjustment of the employment contracts of the members of the Management Board, we have departed from the recommendation under point 4.2.3 Section 2 Sentence 8

of the German Corporate Governance Code. This recommendation excludes a subsequent amendment of the performance objectives or the comparison parameters with regard to the variable parts of the remuneration of the Management Board. We intend to fully comply with said recommendation in the future.”

METRO AG has made these declarations pursuant to § 161 of the German Stock Corporation Act (AktG) permanently accessible on the website [www.metroag.de](http://www.metroag.de).

In addition to recommendations, the German Corporate Governance Code contains suggestions that listed companies can – but do not have to – address. METRO AG follows these non-obligatory suggestions of the German Corporate Governance Code, with the exception of the suggestion offered in Section 2.3.3, which proposes to enable shareholders to follow the Annual General Meeting via contemporary communication media, such as the internet. The first Annual General Meeting of METRO AG following the company’s listing on the stock exchange is scheduled for February 2018. METRO AG intends to limit internet broadcasting to the address by the Chairman of the Management Board.

### **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.

The Management Board of METRO AG consists of 4 members and is responsible for managing the company. The essential management duties of the Management Board of METRO AG include defining corporate objectives and determining the strategic positioning for the group as well as managing the company, monitoring and planning. In addition, the Management Board of METRO AG ensures the availability of investment funds, decides on their allocation within the group and is responsible for attracting and supporting highly qualified managers.

In accordance with the stipulations of the German Co-determination Act, the German Stock Corporation Act and the company’s Articles of Association, the Supervisory Board of METRO AG consists of 10 shareholder representatives and 10 employee representatives. In addition, women and men each hold at least 30% of the seats on the Supervisory Board. The Supervisory Board appoints the members of the Management Board, provides advice to the Management Board and monitors its corporate management, including with regard to the attainment of long-term corporate objectives. The Management Board involves the Supervisory Board in the planned development of

METRO and in decisions concerning important measures. Aside from its statutory approval obligations, the Supervisory Board has determined its own approval requirements for certain actions and business dealings of the Management Board.

- **For more information about members of the Management Board and Supervisory Board, see the notes to the consolidated financial statements of METRO AG in no. 55 – Corporate Boards of METRO AG and their mandates.**
- **The rules of procedure of the Management Board, Supervisory Board and Audit Committee can be found on the website [www.metroag.de](http://www.metroag.de) in the section Company – Corporate Governance.**
- **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 statement on corporate management pursuant to § 289 a of the German Commercial Code (HGB) and § 315 Section 5 of the German Commercial Code (HGB). The declaration of compliance pursuant to § 161 of the German Stock Corporation Act (AktG) also appears in full in this report.**
- **The statement on corporate management is available on the website [www.metroag.de](http://www.metroag.de) in the section Company – Corporate Governance.**

### **Objectives for the composition of the Management Board**

The decisions taken by the Supervisory Board regarding the composition of the Management Board are based on careful analysis of current and future challenges faced by the company. Potential members of the Management Board must not only have solid general qualifications, but must also be individuals capable of helping the company 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. The Supervisory Board in particular aims to promote the notion of diversity in accordance with the spirit of the Code. § 111 Section 5 of the German Stock Corporation Act requires the Supervisory Board to determine a desired quota of female members appointed to the Management Board, as well as a period of less than 5 years in which said quota should be attained. The Supervisory Board thus resolved for at least one of the members of the METRO AG Management Board to be a female office holder by 30 June 2022. This represents a quota of 25% at the current Management Board consisting of 4 members.

## Objectives for the composition of the Supervisory Board

To ensure the Supervisory Board of METRO AG can duly perform its responsibilities, the Supervisory Board has adopted concrete objectives for its composition and a profile of competencies for the entire corporate body in the meaning of Section 5.4.1 of the German Corporate Governance Code.

### Objectives for the composition

For the purpose of determining its composition, the Supervisory Board afforded reasonable consideration to the company-specific situation in terms of the company's international activities, potential conflicts of interest, the number of independent members of the Supervisory Board, a prescribed retirement age for members of the Supervisory Board and a prescribed maximum office term for members of the Supervisory Board and the issue of diversity, and determined the following individual objectives:

- The members of the Supervisory Board should complement each other with regard to their age, (educational and professional) background, experience and skills in such a way that the overall corporate body will benefit of the largest possible pool of experience and the broadest possible spectrum of expertise.
- An adequate number of the members of the Supervisory Board should have international experience or expertise.
- The statutory gender quota of 30% should be met by both the shareholder representatives as well as the employee representatives. It follows that at least 3 of the members of the Supervisory Board on each side should be female.
- In accordance with Section 5.4.2 of the German Corporate Governance Code, at least 12 of the Supervisory Board's 20 members must be independent office holders, with at least 6 of them being shareholder representatives.
- At least one member of the Supervisory Board must meet the requirements for being appointed the chairperson of the Audit Committee. Pursuant to the procedural rules of the Audit Committee, the committee chairperson must be independent and possess professional expertise in the areas of accounting and auditing of annual financial statements, as well as internal control measures (financial expert). The other committee members should possess adequate professional expertise and experience in these areas. Ideally, one member of the Audit Committee should have special expertise in the field of compliance.
- To prevent potential conflicts of interest, members of the Supervisory Board of the company must not assume board functions, consulting tasks or memberships on the supervisory boards of German or international, direct and material competitors.
- The ordinary maximum office term for members of the Supervisory Board is 10 years. The ordinary of-

office term for shareholder representatives appointed to the Supervisory Board is 3 years. The Supervisory Board determines exceptions from the ordinary criteria at its own dutiful discretion on a case-by-case basis.

- As a general rule, only candidates who are not older than 65 years at the time of their initial election should be proposed for their first election to the Supervisory Board. As a general rule, only candidates who are not older than 71 years at the time of their election should be proposed for being elected a member of the Supervisory Board. The Supervisory Board determines exceptions from the ordinary criteria at its own dutiful discretion on a case-by-case basis.

The current composition of the Supervisory Board satisfies these objectives. The members of the Supervisory Board complement each other with regard to their age, (educational and professional) background, experience and skills in such a way that the overall corporate body will benefit of the largest possible pool of experience and the broadest possible spectrum of expertise. Several members of the Supervisory Board have international expertise and/or experience. The Supervisory Board currently includes 4 female office holders on the part of the employee representatives as well as on the part of the shareholder representatives (as of: November 2017). The current composition of the Supervisory Board also satisfies the objective in terms of the number of independent members of the Supervisory Board and shareholder representatives. The objectives in terms of the chairperson and the members of the Audit Committee have also been satisfied. The committee's independent Chairman is Prof. Dr Edgar Ernst. None of the members of the Supervisory Board of METRO AG hold an office in a corporate body or advisory function in a substantial direct competitor, neither is any of them a member of such a company's supervisory board. The incompatibility of assuming any corporate body functions and advisory functions as well as a membership on a supervisory board of a substantial direct competitor, both domestic and foreign, with being a member of the Supervisory Board of METRO AG is also provided for in the procedural rules of the Supervisory Board.

The ordinary maximum term, the ordinary term of office for shareholder representatives and the ordinary retirement age are stipulated in the procedural rules of the Supervisory Board. All members of the Supervisory Board of METRO AG have assumed their respective office on 21 February 2017. Currently, due to the transition of the remaining office terms at the former METRO AG (now: CECONOMY AG), 3 shareholder representatives have been appointed for more than 3 years. In addition, a shareholder representative was appointed for one year only and 3 further shareholder representatives were appointed for 3 years only, to improve the staggered arrangement of the terms of office. 2 members of the Supervisory Board,

both of them previous members of the Supervisory Board of the former METRO AG, were older than 65 years of age, or 71 years of age respectively, at the time of their (initial) election to the Supervisory Board of the new METRO AG. All of these appointments took place prior to the Supervisory Board's resolution on the objectives for its own composition and prior to applicability of the German Corporate Governance Code.

#### Profile of expertise

The Supervisory Board resolved for the overall corporate body to possess the following expertise in the sense of a profile of expertise:

- Commercial expertise
- Expertise/experience in accounting, auditing of annual financial statements, internal control processes
- Expertise in the area of compliance
- Expertise in the area of mergers and acquisitions
- Expertise in the area of digitisation/technology
- International experience/expertise, particularly in Eastern Europe and Asia
- Expertise in the area of sustainability
- Expertise in logistics, in particular in the field of supply chain logistics
- Marketing expertise
- Human resources expertise
- Experience in managing a company

The current composition of the Supervisory Board delivers the desired profile of expertise.

#### Independence of shareholder representatives appointed to the Supervisory Board

As stipulated in Section 5.4.1 of the German Corporate Governance Code, the corporate governance report should also set out the Supervisory Board's opinion concerning a reasonable number of independent members on the part of the shareholders and disclose the names of these members. The Supervisory Board holds its objective of requiring at least 6 members of the Supervisory Board to be independent shareholder representatives to be a reasonable arrangement. As of the date of this report, all shareholder representatives are independent in the meaning of Section 5.4.2 of the German Corporate Governance Code. The independent shareholder representatives are Mr Jürgen B. Steinemann, Mrs Gwyn Burr, Prof. Dr Edgar Ernst, Dr Florian Funck, Mr Peter Küpfer, Mr Mattheus P. M. (Theo) de Raad, Dr Fredy Raas, Mrs Eva-Lotta Sjöstedt, Dr Liliana Solomon and Mrs Alexandra Soto.

#### Disclosure of individual attendance at meetings

The individual attendance of members of the Supervisory Board at meetings of the Supervisory Board and its committees is disclosed in the following. Due to the particular circumstances resulting from the group demerger in terms of the formation and staffing of the Supervisory Board, the disclosure of information on individual attendance at meetings during the report-

ing period only considers meetings held after the augmentation of the Supervisory Board to its current 20 members as of 21 February 2017.

#### DISCLOSURE OF INDIVIDUAL ATTENDANCE AT MEETINGS<sup>1</sup>

Supervisory Board	Meeting attendance	Attendance in %
Jürgen B. Steinemann, Chairman	4/4	100
Werner Klockhaus, Vice Chairman	4/4	100
Gwyn Burr	4/4	100
Thomas Dommel	4/4	100
Professor Dr Edgar Ernst	4/4	100
Dr Florian Funck	4/4	100
Michael Heider	4/4	100
Andreas Herwarth	4/4	100
Peter Küpfer	4/4	100
Susanne Meister	4/4	100
Dr Angela Pilkmann	3/4	75
Mattheus P. M. (Theo) de Raad	3/4	75
Dr Fredy Raas	4/4	100
Xaver Schiller	3/4	75
Eva-Lotta Sjöstedt	4/4	100
Dr Liliana Solomon	3/4	75
Alexandra Soto	4/4	100
Angelika Will	4/4	100
Manfred Wirsch	4/4	100
Silke Zimmer	4/4	100
<b>Total</b>		<b>95</b>

Presidential Committee	Meeting attendance	Attendance in %
Jürgen B. Steinemann, Chairman	2/2	100
Werner Klockhaus, Vice Chairman	2/2	100
Xaver Schiller	2/2	100
Dr Liliana Solomon	1/2	50
<b>Total</b>		<b>87.5</b>

Audit Committee	Meeting attendance	Attendance in %
Prof. Dr Edgar Ernst, Chairman	3/3	100
Werner Klockhaus, Vice Chairman	3/3	100
Dr Florian Funck	3/3	100
Andreas Herwarth	3/3	100
Dr Fredy Raas	3/3	100
Xaver Schiller	3/3	100
<b>Total</b>		<b>100</b>

Nomination Committee	Meeting attendance	Attendance in %
Jürgen B. Steinemann, Chairman	1/1	100
Gwyn Burr	1/1	100
Professor Dr Edgar Ernst	1/1	100
<b>Total</b>		<b>100</b>

<sup>1</sup> Only includes meetings held during a member's term on the Supervisory Board or a committee.

## Compliance and risk management

METRO uses a group-wide compliance management system to ensure compliance with laws and a self-imposed code of conduct in the areas of antitrust law, prevention of corruption, money laundering, conflicts of interest, fraud/embezzlement as well as the regulation of downstream kickback benefits in purchasing.

The aim of the compliance management system is to systematically and sustainably prevent, detect and sanction regulatory infringements within the stated areas of the company. METRO does so by regularly identifying conduct-related compliance risks, establishing the necessary organisational structures and consistently monitoring and controlling these risks. In its group-wide systematic reporting, key compliance risks and measures are transparently communicated and documented. The need for further development of the compliance management system is ascertained from the results of regular employee surveys, internal reviews and audits. An IT-based whistleblower system provides employees and external third parties with an opportunity to provide information on regulatory infringements within the company, under the protection of anonymity. All reported regulatory infringements, irrespective of whether the measures for ensuring compliance with these rules falls within the area of responsibility of the compliance organisation, are investigated and sanctioned systematically by the compliance management system, which relies on the compliance incident handling system operated by the compliance organisation. The responsibility for regula-

tory compliance measures that fall outside of the area of responsibility of the compliance organisation, with the exception of compliance incident handling, lies with the respective departments. For example, measures to ensure compliance with regulation on fair working conditions are the responsibility of the HR department.

METRO's risk management forms another integral component of our value-based corporate management. This takes the form of a systematic, group-wide process that assists the management team in identifying, assessing and managing risks and opportunities. As such, risk and opportunity management form a unity. Risk management reveals unfavourable developments and events at an early stage and analyses their implications. This allows the company to put the necessary countermeasures in place as early as possible and simultaneously make targeted use of arising opportunities. Both the risk and opportunity management system and the compliance management system are continually refined.

Risks and opportunities are also managed by the internal control systems (ICS) and the internal auditing unit. As an independent function, the latter provides auditing of key business processes, performs event-related assessments and reviews the compliance and risk management system as well as the internal control systems.

METRO has further advanced its management systems in financial year 2016/17. We also assessed selected components on their effectiveness. The analyses have confirmed that METRO employs adequate management systems. The reviews also provide an important foundation for the further optimisation of the systems and their continuous modification in response to changing business processes within the company.

— **For more information about the subjects of compliance and risk management, see the combined management report – 5 risk and opportunity report – as well as the statement on corporate management pursuant to § 289 a of the German Commercial Code (HGB) and § 315 Section 5 of the German Commercial Code (HGB). The statement is available on the website [www.metroag.de](http://www.metroag.de) in the section Company – Corporate Governance.**

## Transparent corporate management

Transparency is an essential element of good corporate governance. The website [www.metroag.de](http://www.metroag.de) is an important source of information for the shareholders of METRO AG, the capital market and the general public. Aside from a host of information on METRO, the site contains the financial reports of METRO AG, investor news, ad hoc statements and other legal notices. METRO AG publishes the dates for the most important recurring publications and events (announcements of sales results, reports as well as quarterly and half-year reports, annual results press conferences and annual general meetings) in a financial calendar on its web-

site. The timing of the publication allows for a reasonable lead time. The website also offers information published for the annual business conference, roadshows, investor conferences and information events.

### **Annual General Meeting**

The Annual General Meeting of METRO AG gives shareholders the opportunity to exercise their legal rights, in particular to exercise their voting right (where these apply) and to direct questions to the company's Management Board. The first Annual General Meeting of METRO AG following the company's listing on the stock exchange is scheduled for February 2018. To assist shareholders with exercising their rights at the Annual General Meeting, METRO AG posts documents and information for each Annual General Meeting on its website during the lead-up to the Annual General Meeting.

The registration and legitimisation procedure for the Annual General Meeting of METRO AG complies with German stock corporation law and international standards. Each shareholder intending to attend an Annual General Meeting of METRO AG and exercise his or her voting right there must register and produce proof of his or her right to attend the meeting and exercise voting rights. Written proof of share ownership in German or English issued by the institution administering the securities deposit account satisfies this requirement. It is not necessary to deposit the shares. Proof of share ownership must be established by the beginning of the 21st day prior to the Annual General Meeting. Identical to the registration for the Annual General Meeting, it must be submitted to METRO AG at the address specified in the invitation letter within the time frame stipulated by law and in the Articles of Association. The particulars with regard to registration and attendance conditions are set out in the invitation letter for each Annual General Meeting.

Shareholders who are unable to attend the Annual General Meeting in person may authorise a proxy to exercise them on his or her behalf. The necessary proxy authorisation must be provided in written form. Shareholders are granted eased formal requirements in the cases described in the invitation to the Annual General Meeting. These are, for example, for issuing voting right authorisations issued 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 obligated 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 METRO AG are also available. The right to grant authority to other persons remains unaffected. The details on proxy

voting are set out in the invitation letter for the Annual General Meeting.

In the interest of shareholders, the chairperson of the Annual General Meeting, who is usually the chairperson of the Supervisory Board, ensures that the Annual General Meeting is conducted efficiently and effectively. The objective is to conclude a regular METRO AG Annual General Meeting after no more than 4 to 6 hours.

### **Managers' transactions**

Pursuant to Article 19 of the Regulation (EU) No. 596/2014 of the European Parliament and of the Council dated 16 April 2014 on market abuse (market abuse regulation), members of the Management and Supervisory Boards, in their capacity as persons discharging managerial responsibilities, must inform METRO AG of any transactions involving their own METRO shares, METRO bonds or related financial instruments. 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 on the website [www.metroag.de](http://www.metroag.de) in the section Media Centre – Legal Announcements.**

### **Audit of the annual financial statements**

#### **Audits 2016/17**

KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) was elected auditor of the annual financial statements on 8 November 2016 and in the context of the transformation of the current METRO AG into a public limited company (Aktiengesellschaft). On 30 May 2017, KPMG was also elected auditor of the consolidated financial statements for financial year 2016/17. The Supervisory Board's instructions to perform an audit of the annual financial statements considered the recommendations contained in Section 7.2 of the German Corporate Governance Code.

Throughout the audit, which was completed in November 2017, KPMG made no reports to the Supervisory Board regarding grounds for disqualification or conflicts. There was also no evidence that any existed. Furthermore, in the course of the audit, there were no unexpected substantial findings or events concerning Supervisory Board functions. As a result, an extraordinary report from the auditor to the Supervisory Board was not required. The auditor found no deviations from the Management and Supervisory Boards' statements of compliance with the German Corporate Governance Code.

**Independence of the auditor**

The auditor performs 2 key functions. The auditor supports the Supervisory Board in supervising the affairs of a company. At the same time, the auditor's activities provide the foundation for trust awarded by the general public and capital market participants in particular in the accuracy of the annual accounts, notes to the financial statements and the management reports. The auditor's independence is a key prerequisite for the performance of these 2 func-

tions. The Audit Committee of METRO AG was therefore particularly concerned with establishing the auditor's independence.

- **For more information about the topic of corporate governance at METRO, please refer to the website [www.metroag.de](http://www.metroag.de) and select the section Company - Corporate Governance.**