REWE-ZENTRALFINANZ EG, COLOGNE

GROUP MANAGEMENT REPORT

FOR FINANCIAL YEAR 2019

CONTENTS

Group Structure

The REWE combine is an international retail and tourism group consisting of REWE-ZENTRALFINANZ eG, Cologne (RZF), and its subsidiaries.

As at 31 December 2019, the REWE combine comprised the parent company RZF and 266 (previous year: 245) domestic and 149 (previous year: 149) foreign subsidiaries.

With effect as at 1 May 2019, RZF acquired all but eight shares with restricted transferability held by the shareholders of RZAG. Following the transfer of shares, RZF holds a controlling interest of 99.9995 per cent in RZAG. RZF is expected to acquire the remaining eight shares in 2020.

The REWE Group operates in various business segments, which are divided into divisions and segments.

Business Segments

RETAIL GERMANY

RETAIL INTERNATIONAL

DIY STORES

TRAVEL AND TOURISM

OTHER

The **Retail Germany** business segment includes the REWE, Penny Germany and Retail Germany Central Companies divisions.

The REWE division is active in both retail and wholesale, operating 1,760 supermarkets and consumer stores under the REWE, REWE CITY, REWE CENTER and REWE To Go brands. The wholesale business supplies 2,690 REWE and REWE Dortmund partner stores, REWE Dortmund stores and nahkauf stores as well as other customers. REWE is also active in the online business via its REWE delivery and mail order services at REWE.de.

The Penny Germany division operates 2,169 discount stores under the PENNY brand.

In addition to the domestic real estate companies, the Retail Germany Central Companies division also includes the production and sale of baked goods under the Glocken Bäckerei brand and the production of meat and sausage products under the Wilhelm Brandenburg brand, as well as domestic and international merchandising companies.

The **Retail International** business segment covers the Austrian Full-Range Stores, CEE Full-Range Stores and Penny International divisions. The Austrian and CEE Full-Range Stores divisions operate supermarkets and consumer stores at a total of 2,907 locations. In Austria, the stores are operated under the BILLA, MERKUR and ADEG brands. In addition, the wholesale business supplies 371 ADEG partner stores. The Retail International stores are also represented with the BILLA supermarkets in Bulgaria, Russia, Slovakia, the Czech Republic and Ukraine. In addition, drug stores are also operated in Croatia and Austria under the BIPA brand. In Lithuania, supermarkets are operated under the IKI brand.

In the Penny International division, the PENNY MARKT and PENNY MARKET brands are operated at a total of 1,550 locations in Italy, Austria, Romania, the Czech Republic and Hungary.

The **Travel and Tourism** business segment is organised into the Central Europe, Northern Europe, Eastern Europe and Destination Areas divisions. It comprises a number of tour operators, travel sales channels (travel agency chains, franchise sales channels and online portals) as well as destination agencies and hotels under the DER Touristik umbrella brand. Travel and Tourism business segment operates in the source markets of Germany, Austria, Switzerland, Eastern Europe, as well as Scandinavia, Finland, France, the United Kingdom and the Benelux countries through the Kuoni units. Travel and Tourism mainly trades under the brands ADAC REISEN, Apollo, Calimera, DER.COM, DER Reisebüro, DERPART, DERTOUR, EXIM Tours, helvetic tours, ITS, Jahn Reisen, KUONI, lti and Meier's Weltreisen. The Travel and Tourism business segment has a total of 792 travel agency offices. 670 locations are operated by franchisees.

The **DIY Stores** business segment operates 285 DIY stores in Germany under the toom Baumarkt and B1 Discount Baumarkt brands. As part of the wholesale business, an additional 38 partner stores and franchisees are also supplied.

Central services provided by the parent company and various subsidiaries for Group companies and third parties are combined under the **Other** business segment. These services are essentially procurement functions (merchandise wholesale business and warehousing), central settlement, del credere assumptions, IT services, energy trading (EHA), online retail trade (ZooRoyal and Weinfreunde), e-commerce services (REWE Digital) as well as coordination of Group-wide advertising activities.

Locations as at 31 December 2019

Country	Retail Germany	Retail International	Travel and Tourism	DIY Stores	Total
Germany	3,929	--	503	285	**4,717**
Austria	--	2,141	--	--	**2,141**
Czech Republic	--	617	42	--	**659**
Italy	--	386	--	--	**386**
Hungary	--	223	8	--	**231**
Romania	--	256	80	--	**336**
Slovakia	--	150	14	--	**164**
Russia	--	172	--	--	**172**
Nordic countries*	--	--	5	--	**5**
Bulgaria	--	130	--	--	**130**
Switzerland	--	--	72	--	**72**
United Kingdom	--	--	49	--	**49**
Lithuania	--	228	--	--	**228**
France	--	--	18	--	**18**
Ukraine	--	35	--	--	**35**
Croatia	--	119	--	--	**119**
Poland	--	--	1	--	**1**
Total	**3,929**	**4,457**	**792**	**285**	**9,463**

* Denmark, Finland, Norway and Sweden.

Economic Environment

1. MACROECONOMIC DEVELOPMENT

Trade disputes – not just between the USA and China but also involving other countries – led to a reduction in the flow of goods. They also impact the global economy by fuelling uncertainties as to the political conditions for international trade. Within Europe, trade was furthermore impacted by the uncertainties surrounding the shape of future economic relations after the UK's withdrawal from the EU (Brexit).

Changes in economic data for REWE Group countries

in per cent[1]	GDP			Inflation			Unemployment		
	2018	2019p*	2019p	2018	2019p*	2019p	2018	2019p*	2019p
Germany	1.5	1.3	**0.5**	1.9	2.0	**1.4**	3.4	3.0	**3.1**
Austria	2.7	2.2	**1.6**	2.1	2.1	**1.6**	4.9	4.6	**4.6**
Czech Republic	3.0	3.0	**2.5**	2.0	2.3	**2.4**	2.3	2.2	**2.1**
Italy	0.8	0.6	**0.2**	1.3	1.3	**0.8**	10.6	10.4	**10.0**
Hungary	4.9	3.3	**4.6**	2.9	3.1	**3.4**	3.7	3.5	**3.4**
Romania	4.1	3.4	**4.0**	4.1	3.5	**4.0**	4.2	4.2	**3.9**
Slovakia	4.1	4.1	**2.6**	2.5	2.4	**2.5**	6.5	6.0	**5.3**
Russia	2.3	1.6	**1.1**	2.9	5.1	**4.7**	4.8	5.3	**4.6**
Lithuania	3.5	2.9	**3.4**	2.5	2.7	**2.4**	6.2	5.8	**6.1**
Bulgaria	3.1	3.1	**3.7**	2.6	2.4	**2.7**	5.2	4.6	**4.6**
Switzerland	2.8	1.8	**0.8**	0.9	1.4	**0.6**	2.5	2.8	**2.8**
United Kingdom	1.3	1.5	**1.3**	2.5	2.1	**2.0**	4.1	4.4	**3.9**
Sweden	2.3	2.2	**0.9**	2.1	2.0	**1.8**	6.3	6.0	**6.7**
Norway	1.3	2.1	**1.9**	2.8	2.0	**2.3**	3.9	3.7	**3.6**
France	1.7	1.5	**1.3**	2.1	1.8	**1.3**	9.1	8.7	**8.5**
Denmark	1.5	1.9	**1.7**	0.7	1.5	**0.7**	5.0	4.8	**4.9**
Ukraine	3.3	2.7	**3.0**	10.9	7.3	**8.7**	9.0	9.2	**8.7**
Croatia	2.6	2.6	**3.0**	1.6	1.8	**1.0**	8.4	8.6	**7.0**

Sources: International Monetary Fund, World Economic Outlook Database October 2019, Update January 2020; Joint forecast (Autumn 2019)
p = projected; p* = projected in previous year
[1] Year-on-year GDP change in %

The economy in **Germany** cooled further in 2019. Gross domestic product (GDP) expanded by 0.5 per cent (previous year: 1.5 per cent), however growth was significantly less pronounced than in the previous year and the forecasts: Although capacity utilisation remained above the long-term average, production has been on the decline for 18 months. This is primarily the result of economic uncertainties caused by ongoing trade disputes and the lack of clarity with respect to Brexit, which adversely affected investments worldwide. The economy was buoyed by consumer spending. Inflation fell to 1.4 per cent in 2019 (previous year: 1.9 per cent) and was thus below the forecast of 2.0 per cent due to factors including lower energy prices. The unemployment rate fell slightly year on year to 3.1 per cent (previous year: 3.4 per cent). Despite this, the weak economy meant that jobs were added at a significantly slower rate.

After several years of strong growth, GDP in **Austria** expanded by 1.6 per cent in 2019, well below the prior-year figure (2.7 percent) and the forecast of 2.2 per cent. This was caused by weakening global trade and the economic slowdown in Germany, which impacted the country's export industries and stymied investment activity. The economy was boosted by private consumption, which in turn was underpinned by fiscal stimuli and a healthy situation on the labour market. The unemployment rate was 4.6 per cent in 2019 (previous year: 4.9 per cent). Inflation amounted to 1.6 per cent in 2019, significantly below the prior-year level (2.1 per cent).

Economic growth in **Italy** was close to stagnating in 2019, at 0.2 per cent (previous year: 0.8 per cent). This was due to persistent weakness in the processing industries. The unemployment rate fell to 10.0 per cent (previous year: 10.6 per cent). Inflation dropped to 0.8 per cent (previous year: 1.3 per cent), which was primarily due to the movements in energy prices.

The economies in the **Central and Eastern European** countries in which the REWE Group is represented developed positively in 2019. Economic growth in Bulgaria and Croatia exceeded the prior-year figures and the forecasts. Despite a slight year-on-year drop in growth, Hungary, Lithuania, Romania and Ukraine succeeded in outperforming the forecasts, at times by a considerable margin. Growth in Russia, Slovakia and the Czech Republic fell short of both the figures for the previous year and the forecasts, in some cases significantly. In general, economic growth in the Central and Eastern European countries was influenced by the slowdowns in other EU member states, for some Germany in particular. Overall, however, GDP growth in the Central and Eastern European countries (with the exception of Russia) outperformed the western and northern European countries of relevance to the REWE Group, in part considerably. In the majority of countries the upswing was attributable primarily to private consumption, which benefited from positive situation on the labour market and the increase in real wages, as well as investments, which increased due in part to EU funding. The sustained positive development is also reflected on the labour markets: All countries saw unemployment fall, some markedly, although employment growth is also causing a shortage of skilled workers. Inflation in Croatia, Lithuania, Romania and Ukraine fell, in part significantly, compared with the previous year. Inflation rates rose year on year in all of the other countries except Slovakia, where it remained unchanged.

In **Scandinavia**, Denmark and Norway recorded higher economic growth than in the previous year, while in Sweden in particular the economy was hit hard by the slowdown in the global economy, trade disputes and the uncertainties surrounding Brexit: The economy grew by just 0.9 per cent, falling well short of the figure for the previous year (2.3 per cent) and expectations (2.2 per cent). Overall, the economies in all three countries were bolstered by private consumption. The economic development is also reflected on the labour markets: Denmark and Norway posted declining unemployment, while the rate in Sweden was well in excess of the prior-year figure and the forecasts. Inflation in Sweden and Norway decreased year on year, while it remained level in Denmark.

The economy in **Switzerland** expanded at a moderate pace, with GDP growth of 0.8 per cent significantly below the previous year (2.8 per cent) and the forecasts (1.8 per cent). This economic slowdown had already become apparent in the second half of 2018. Exports of pharmaceutical products were a key growth driver, while other sectors were impacted by the global economic slowdown. Unemployment rose moderately to 2.8 per cent (previous year: 2.5 per cent) in line with the forecast. Inflation remained low at 0.6 per cent (previous year: 0.9 per cent).

Economic growth in the **United Kingdom** remained level year on year at 1.3 per cent in 2019, just below expectations (1.5 per cent). Industry in particular responded to Brexit with uncertainty, for instance by putting investment plans on hold. Unemployment fell to 3.9 per cent (previous year: 4.1 per cent), significantly below the forecast of 4.4 per cent. As such, the solid labour market coupled with higher real incomes made private consumption a key economic driver. Inflation fell further to 2.0 per cent (previous year: 2.5 per cent).

The economic uncertainties caused by existing trade disputes and the lack of Brexit clarity had less of an impact on **France** than on other large EU countries, with the French economy expanding at a robust 1.3 percent in 2019 (previous year: 1.7 per cent). This was due to less dependency on the export market and high domestic demand that was primarily driven by businesses making investments. The economic growth was also underpinned by the government's steps to boost purchasing power in the wake of public protests, as well as tax cuts and job creation, even if the uncertainty (including in relation to the government's reforms) meant that the increase in purchasing power was not fully used for consumer expenditure. Although the unemployment rate declined to 8.5 per cent (previous year: 9.1 per cent), it remained high compared to the rest of Europe. Inflation fell significantly, dropping to 1.3 per cent from 2.1 per cent in the previous year.

2. DEVELOPMENT BY SECTOR

Food Retail Sector

Industry trend: revenue

Change in %	Retail 2019 nominal	Retail 2018 nominal	Food retail 2019 nominal	Food retail 2018 nominal
Germany	3.4	2.7	1.5 [1]	1.2 [1]
Austria	2.0	2.6	2.4	2.5
Czech Republic	5.4	5.9	4.3	3.5
Italy	0.8	0.8	0.7	0.3
Hungary	9.1	9.3	8.7	7.0
Romania	10.2	11.3	10.8	10.5
Slovakia	0.8	6.4	4.4	4.1
Russia[2]	1.6	2.6	1.4	1.7
Lithuania	6.5	-	5.2	-
Bulgaria	3.8	7.5	3.5	10.2
Ukraine[3]	-	7.0	-	-
Croatia	5.0	5.7	3.5	3.1

Sources: Eurostat; [1] GfK; [2] Retail Update Russia (Biweekly News Report - Published by PMR) Last update: January 2020; [3] No valid source available for 2019

Figures for revenue development in the **German** food retail sector increased year on year in analyses prepared by GfK (nominal: +1.5 per cent; FMCGs excl. non-food) and by Nielsen/TradeDimension (nominal: +1.9 per cent). In this context, the Retail Germany business segment performed excellently, with revenue growth at 2.7 per cent.

In 2019, the retail trade in **Austria** posted a revenue increase of 2.0 per cent in nominal terms (1.2 per cent in real terms). The food retail sector posted a revenue increase of 2.4 per cent in nominal terms (1.5 per cent in real terms). Growth thus slowed as against the prior year in nominal terms, and improved year on year in real terms.

Retail sales in **Italy** increased by 0.8 per cent in both nominal and real terms in 2019. Households recorded real losses in purchasing power as inflation exceeded wage increases. Revenue in the food retail sector increased in nominal terms by 0.7 per cent (0.1 per cent decrease in real terms).

The food retail sector in the **Eastern European** countries in which the REWE Group is represented developed for the most part positively. In the food retail sector, the highest growth rates in 2019 were recorded in Romania (nominal: 10.8 per cent; real: 5.8 per cent) and Hungary (nominal: 8.7 per cent; real: 3.5 per cent). In nominal terms, overall growth in the food retail sector (with the exception of Russia and Ukraine) was significantly higher than in the western European countries. Consumption in these countries was boosted in part by rising real wages and the positive situation on the labour market. In Russia, the increase revenue in the retail sector (1.6 percent in nominal terms) and the food retail sector (1.4 per cent in nominal terms) was moderate and down on the previous year.

Travel and Tourism

The German tour operator market recorded moderate revenue growth of 0.6 per cent to 35.4 billion euros in 2019 and was unable to continue generating the healthy results of previous years. The key growth segment was cruises, with revenue growth of 7.0 per cent and good development among medium-sized players specialising in the segment. The bankruptcies of Thomas Cook and charter airline Germania, and the uncertainty surrounding the future of Thomas Cook subsidiary Condor cast a shadow over 2019. The sector was also impacted by the grounding of the Boeing 737 MAX, with some airlines forced to lease replacement aircraft at considerable cost. As a result, traditional air travel agencies generated only slight revenue growth of 1.9 per cent. The growth was mainly attributable to non-European destinations (Turkey +28.8 per cent; Egypt +16.4 per cent; Tunisia +5.1 per cent). Those destinations that had been mired in crisis over the past three years (Turkey, Egypt and north Africa) almost reached pre-crisis levels and are now recording only slight increases. These were not enough to compensate for the slump in European Mediterranean destinations, and Mediterranean destinations saw a decline overall. There was growth in long-haul travel due to the appreciation of the euro against the dollar. Overland travel in Europe also experienced a decline in revenue and was unable to live up to the healthy prior year.

The market for stationary travel agencies saw revenue decrease by a total of 3.1 per cent in 2019. In that year, online travel sales recorded significant growth of 16.5 per cent. In addition, revenue recorded by product portals (+12.7 per cent) and online direct sales of tourism service providers (+14.5 per cent) rose significantly and are increasingly competing with their own sales channels via tour operators and travel agencies. The specialised business travel organisations recorded a decrease of 2.0 per cent. Overall, the travel agency market in Germany recorded a 2.7 per cent decline.

Developments in the various European tour operator sectors were very mixed in 2019.

The Austrian tour operator sector saw the same moderate growth as its German counterpart, since in over 80.0 per cent of cases these tours are put together from the same content used by German tour operators.

By contrast, the Swiss tour operator sector recorded a slight decline in 2019. This was due mainly to the consistently good summer weather, which caused Swiss holidaymakers to spend more time at domestic destinations. The growth in autumn bookings was insufficient to compensate for the lack of summer bookings.

The somewhat small French tour operator sector recorded only moderate growth. The long and warm summer means that the French traditionally tend to organise holiday travel independently.

As in the previous year, the British tour operator sector suffered from the political uncertainty surrounding the timing of Brexit. The price-sensitive high-volume Mediterranean destinations saw declines, while upmarket bespoke tours to worldwide destinations held their own. Despite all of the uncertainties, the British travel market proved remarkably resilient due to the largely positive development in other domestic economic factors – wage growth outpaced inflation, employment was high and interest rates were low.

The northern European travel markets were unable to build on their moderate growth in the previous year. The long and warm summer last year, the increasing climate debate and "flight shaming", as well as adverse movements in the Swedish krona/euro exchange rate caused demand for bookings to falter.

By contrast, the Eastern European travel markets benefited greatly from the resurgent double-digit increase in demand for budget travel to Turkey and north Africa following three years of crises.

DIY Stores

According to information published by the German Association of DIY and Gardening Stores in Cologne (BHB – Handelsverband Heimwerken, Bauen und Garten e. V.), the **DIY retail sector** posted revenue growth of 3.6 per cent to 19.5 billion euros in 2019. While the good weather in February caused significant revenue increases in the first quarter (+10.7 per cent in comparison with the prior-year quarter), notably in garden products, this positive development was maintained but not significantly improved on in the second quarter (+0.8 per cent in comparison with the prior-year quarter). With revenue of 4.8 billion euros and year-on-year growth of 4.1 per cent, the third quarter saw a strong performance until the weather changed as it drew to a close. The fourth quarter was buoyed in particular by a strong November, with a 0.9 per cent increase in revenue as against the prior-year quarter. Growth was recorded in both seasonal ranges and DIY products.

Performance

Please note: The matters described below limit the comparability of figures for the current reporting period with those for the previous year:

With effect as at 1 May 2019, RZF acquired 77.4 per cent of REWE - Zentral-Aktiengesellschaft, Cologne (RZAG), thus obtaining control of the company. From that date, RZAG and its subsidiaries were included in the RZF Group for the first time. The purchase price allocation performed at the date of initial consolidation gave rise to non-recurring effects in the balance sheet and income statement. In addition, all intragroup transactions between RZF and RZAG were eliminated from the date of initial consolidation onwards. No eliminations were carried out in the previous year (see note 3 "Consolidation" to the consolidated financial statements).

The application of IFRS 16: Leases limits the comparability of the respective balance sheet and income statement items in the year of initial application. In particular, this gives rise to material shifts between EBITDA, EBIT and EBT in the income statement: The lease expense (other operating expense) no longer applies with respect to leases to be recognised from 1 January 2019 onwards. On subsequent measurement, these contracts are presented in the income statement by the depreciation charge for the right-of-use asset and the interest expense on the lease liability. The effect on the balance sheet is a material increase in total assets that is due in particular to recognising right-of-use assets in non-current assets and lease liabilities in other financial liabilities. The increase in liabilities also has a material effect on key figures such as the equity ratio and net debt.

1. COMPARISON OF THE FORECAST REPORTED IN THE PREVIOUS YEAR WITH ACTUAL BUSINESS DEVELOPMENT

The REWE combine's revenue development fell slightly short of expectations in 2019.

Internal EBITA[1] developed much better than forecast for 2019 in almost all business segments. This was due among other things to income from corporate acquisitions and income arising from restructuring the REWE Group.

Revenue in the Retail Germany business segment increased slightly year on year but did not fully meet the budgeted expectations. This is mainly attributable to increased competition in the discount market.

The business segment's internal EBITA was slightly above the budget projections. Increases were primarily reported at REWE, while Penny was faced with intense competition in the discount sector and fell short of expectations. Despite revenue growth at the Supermärkte Nord companies, the integration into the REWE organisation continued to weigh on their earnings.

The revenue development of the Retail International business segment was slightly below budgeted expectations. The Full-Range stores did not fully generate the expected revenue, which was primarily attributable to their performance in Russia.

Penny International reported healthy revenue development, particularly in Eastern Europe, and exceeded expectations.

The internal EBITA of the Retail International business segment was above budgeted expectations. Penny and the Full-Range stores exceeded their internal EBITA target. With regard to the Full-Range stores in Eastern Europe, Russia in particular fell short of expectations.

The development of the Travel and Tourism business segment was marked in particular by the difficult development experienced across the sector in the Scandinavian tour operator business. While the Travel and Tourism business segment increased its revenue year on year, it did not meet its revenue expectations. The difficult revenue and margin situation meant that Travel and Tourism was unable to meet the budgeted expectations for internal EBITA.

Revenue in the DIY Stores business segment increased year on year and outperformed the budget. Despite the pressure on margins, internal EBITA in the DIY Stores segment exceeded the budgeted expectations thanks to positive cost developments and savings.

Net debt increased somewhat more than originally budgeted in 2019. This was due to early payment of the purchase price to acquire the Lekkerland Group, which was however primarily financed by foregoing investments, selling holding companies and taking other operational measures.

[1] For a definition of internal EBITA, please see section 4 "Performance Indicators"

2. RESULTS OF OPERATIONS

Revenue Development

in million €	2019	2018	Change in absolute figures	Change in %
Retail Germany	32,317.2	31,471.0	846.2	2.7
Retail International	15,298.7	14,245.8	1,052.9	7.4
Travel and Tourism	4,958.3	4,880.5	77.8	1.6
DIY Stores	2,214.8	2,151.1	63.7	3.0
Other	585.3	645.0	-59.7	-9.3
Total	**55,374.3**	**53,393.4**	**1,980.9**	**3.7**

Revenue increased by a total of 3.7 per cent in 2019.

The highest-volume business segment, Retail Germany, recorded a 2.7 per cent increase in revenue. The revenue growth was driven in particular by the performance of the REWE stores (including REWE To Go) and the wholesale business, which primarily comprises supplying the REWE partner stores. It reflects first and foremost the organic growth of the REWE partner stores. In addition, the purchasing companies of the Other business segment have been allocated to the Retail Germany business segment since this financial year.

The Retail International business segment, with revenue of 15.3 billion euros, is the second-largest business segment in the Group. The 7.4 per cent increase was primarily generated by the Full-Range stores in Central and Eastern Europe and is mainly attributable to the positive performance at the existing stores in the Czech Republic and Slovakia as well as expansion activities in Russia. Furthermore, UAB Palink, Vilnius, Lithuania, which marked its first full year as a consolidated entity in 2019, contributed significantly to the increase in revenue. The Austrian Full-Range Stores segment reported a continued positive revenue trend, which was attributable mainly to food retail. Penny International's revenue also made a contribution to this positive development: this was caused by the revenue trend in the Czech Republic, Hungary and Romania in particular.

The Travel and Tourism Business Segment generated consolidated revenue of 5.0 billion euros (brokered travel revenue of 6.5 billion euros), up 1.6 per cent on the previous year. The increase in revenue is attributable primarily to the continued positive development in Central and Eastern Europe. The target destination agencies also recorded significant revenue increases. By contrast, revenue declines were recorded in Northern Europe due to the negative performance in Scandinavia. This was countered by revenue growth in the source markets of France and the United Kingdom. Overall, the increase in demand for long-haul travel in particular had a positive effect on revenue development.

In the DIY Stores business segment, revenue increased by 3.0 per cent. The increase in revenue at DIY stores was attributable mainly to the positive performance by the retail stores.

Stores and Sales Areas

At the end of the year, the REWE combine business segments operated 9,463 retail outlets with a total sales area of 9.2 million square metres.

Number of stores	31 Dec. 2019	31 Dec. 2018	Change in absolute figures	Change in %
Retail Germany	3,929	4,014	-85	-2.1
Retail International	4,457	4,352	105	2.4
Travel and Tourism	792	760	32	4.2
DIY Stores	285	295	-10	-3.4
Total	**9,463**	**9,421**	**42**	**0.4**

Sales area in m² *	31 Dec. 2019	31 Dec. 2018	Change in absolute figures	Change in %
Retail Germany	4,225,113	4,288,551	-63,438	-1.5
Retail International	3,078,107	2,969,858	108,249	3.6
DIY Stores	1,906,928	1,951,291	-44,363	-2.3
Total	**9,210,148**	**9,209,700**	**448**	**0.0**

* No sales area is calculated in Travel and Tourism.

Results

in million €	2019	2018	Change in absolute figures	Change in %
Revenue	55,374.3	53,393.4	1,980.9	3.7
Cost of materials, incl. changes in inventories	-42,026.9	-40,510.5	-1,516.4	3.7
Gross profit	**13,347.4**	**12,882.9**	**464.5**	**3.6**
Gross profit ratio	24.1%	24.1%		
EBITDA	**4,069.8**	**1,810.2**	**2,259.6**	**> 100**
For information: internal EBITDA*	***2,116.4***	***1,630.4***	***486.0***	***29.8***
Depreciation, amortisation and impairments/reversals of impairment losses and impairment losses (excl. goodwill)	-3,160.5	-1,245.1	-1,915.4	< -100
EBITA	**909.3**	**565.1**	**344.2**	**60.9**
For information: internal EBITA*	***866.0***	***408.7***	***457.3***	***> 100***
Goodwill impairments	0.0	-10.4	10.4	100.0
EBIT	**909.3**	**554.7**	**354.6**	**63.9**
Financial result	-537.2	-1.5	-535.7	< -100
EBT	**372.1**	**553.2**	**-181.1**	**-32.7**
Taxes on income	134.8	-137.7	272.5	> 100
Results from continuing operations	**506.9**	**415.5**	**91.4**	**22.0**
EAT/net income for the year	**506.9**	**415.5**	**91.4**	**22.0**

* For the reconciliation please see section 4 "Performance Indicators"

EBITDA rose by 2,259.6 million euros, primarily due to the initial application of IFRS 16. The increase was also attributable to the change in gross profit (+464.5 million euros), other operating income (+353.0 million euros, excluding reversals of impairment losses) and in particular the lower other operating expenses (+1,869.5 million euros), while the increase in personnel expenses had an offsetting effect (-427.4 million euros). Since the change in cost of materials was equal to the increase in revenue, the gross profit margin remained unchanged at 24.1 per cent.

The increase in other operating income was mainly due to income from advertising services, income from the disposal of non-current assets, other operating income and income from reversals of impairment losses on non-current assets. Income from the reversal of provisions had an offsetting effect.

The rise in income from advertising services is due to an increase in services provided for advertising activities in radio and television, print media, outdoor advertising and for the increased use of advertising material in the Retail Germany business segment.

The income from the disposal of non-current assets was mainly due to the sale of shares in companies previously subject to full consolidation in the Other and Travel and Tourism business segments.

The change in miscellaneous other operating income was primarily connected with the acquisition of shares in RZAG.

The income from reversals of impairment losses on non-current assets was mainly due to reversals of impairment losses on right-of-use assets in connection with accounting standard IFRS 16:

By contrast, income from the reversal of provisions decreased – particularly in the Retail Germany business segment – due to the initial application of IFRS 16.

The change in other operating expenses was primarily attributable to the initial application of IFRS 16: Leases that meet the requirements of the new standard are recognised in the balance sheet and a lease expense is no longer reported. The application of IFRS 16 also resulted in a lower addition to the provision for onerous contracts.

In addition, the expenses for purchased services decreased due to the initial consolidation of RZAG as at 1 May 2019.

By contrast, there was an increase in other occupancy costs, including in the Retail International business segment where this was primarily due to it being the first full year in which UAB Palink, Vilnius, Lithuania, had been included in the scope of consolidation.

In addition, advertising expenses in the Other business segment rose as a result of the inclusion of RZAG and its subsidiaries as at 1 May 2019. By contrast, expenses in the Retail Germany business segment decreased due to the initial consolidation of the RZAG companies. Advertising income in the two business segments recorded corresponding development.

The 6.1 per cent rise in personnel expenses is primarily attributable to the inclusion of RZAG and its subsidiaries from 1 May 2019, the fact that UAB Palink, Vilnius, Lithuania, had been consolidated for a first full year, and the 2019 pay scale increase.

Although the elimination of lease expenses under new accounting standard IFRS 16 had a positive effect on EBITDA, leases impact profit or loss in particular through depreciation, impairment and reversals of impairment losses on right-of-use assets, and as such have an effect on EBITA. **EBITA** totalled 909.3 million euros in 2019, 344.2 million euros higher than in the previous year (565.1 million euros).

The financial result of -537.2 million euros (previous year: -1.5 million euros) was also materially affected by the new standard on leases: the interest result of -542.9 million euros (previous year: -52.4 million euros) mainly includes the interest expense on lease liabilities of 542.6 million euros (previous year: 21.1 million euros). The interest income from taxes included in that item had an offsetting effect. The -26.0 million euro change in the other financial result was primarily due to writing down a loan. The result from companies accounted for using the equity method amounted to

41.3 million euros (previous year: 59.3 million euros). The decrease was attributable to factors including the acquisition achieved in stages of shares in REWE-ZENTRALFINANZ eG and REWE-Zentral AG GbR, Cologne, which were previously accounted for using the equity method, as part of the consolidation of RZAG as at 1 May 2019.

Taxes on income resulted in income of 134.8 million euros (previous year: expense of 137.7 million euros). This amount consists of a current tax expense of 61.6 million euros (previous year: 125.5 million euros) as well as deferred tax income of 196.4 million euros (previous year: expense of 12.2 million euros). The current tax expense includes income of 115.1 million euros (previous year: 22.2 million euros) from taxes for previous years.

3. FINANCIAL POSITION AND NET ASSETS

Financial Position

The REWE combine essentially has access to the following debt capital funds currently available:

Debt capital funds

in million €	31 Dec. 2019	31 Dec. 2018	Maturity
Syndicated loan	2,000.0	2,000.0	3 December 2024; max. term 3 December 2025
Promissory note loan	1,000.0	1,000.0	28 February 2021 to 28 February 2028
Promissory note loan	537.0	0.0	20 December 2022 to 20 December 2029
Promissory note loan	175.0	175.0	2 September 2024
Total	**3,712.0**	**3,175.0**	

The REWE combine has access to a syndicated loan that includes credit lines of 500 million euros. The syndicated loan was drawn down in the amount of 400 million euros as at the balance sheet date (previous year: no drawdown); the credit lines were drawn down in the amount of 14.8 million euros.

A promissory note loan amounting to 537.0 million euros was raised in the financial year, of which 437.0 million euros had been paid out as at the balance sheet date. The remaining 100.0 million euros will be paid out in January 2020. The promissory note loan comprises various maturity tranches of three to ten years.

The three bilateral credit lines totalling 275.0 million euros as of the prior-year reporting date (drawdown of 204.0 million euros as at 31 December 2018) were no longer in place as at 31 December 2019.

Internal cash pooling is aimed at reducing the amount of debt financing and at optimising cash and capital investments. Cash pooling allows the use of individual companies' excess liquidity in the REWE combine for internal financing.

Net Debt

The 9,604.6 million euro increase in net debt in 2019 as compared to 2018 was due primarily to higher lease liabilities (+9,250.8 million euros) stemming from the application of IFRS 16. Liabilities to banks also increased (+557.7 million euros), which was due among other things to the raising of a new promissory note loan. By contrast, there were decreases in liabilities from other loans (-168.9

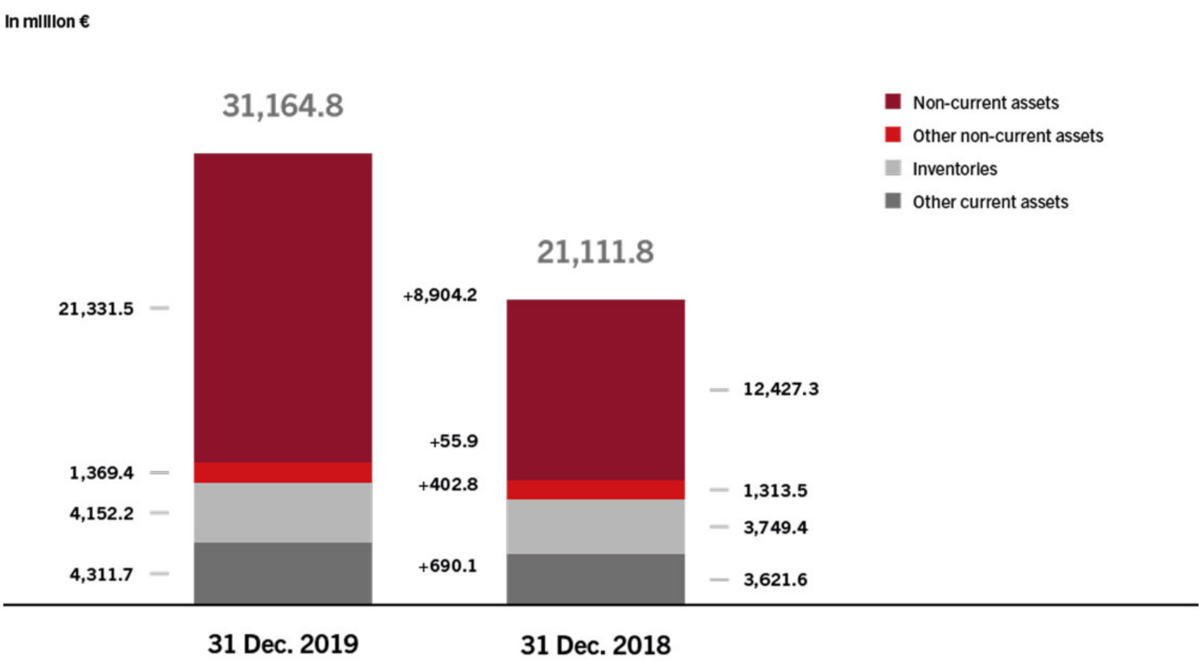
million euros), liabilities to other long-term investments (-110.4 million euros) and liabilities from financial transactions (-36.8 million euros).

in million €	31 Dec. 2019	31 Dec. 2018
Financial liabilities*	12,540.8	3,000.3
Cash and cash equivalents	-567.0	-631.1
Net Debt	**11,973.8**	**2,369.2**

* Included under other financial liabilities.

Net Assets

Assets



Total assets increased in the financial year by 10,053.0 million euros to 31,164.8 million euros.

The increase in non-current assets was primarily due to recognising right-of-use assets in respect of real estate as part of the initial application of IFRS 16.

The Group invested 1,752.0 million euros (previous year: 1,791.4 million euros) in intangible assets and in property, plant and equipment in 2019. The capital expenditures related primarily to the expansion and modernisation of the existing store network and the warehouse locations and production companies. Reductions in non-current assets were primarily caused by disposals, impairments, depreciation and amortisation.

Internally generated intangible assets in use amounting to 67.6 million euros are presented in the financial year (previous year: 77.8 million euros). In addition, there are internally generated intangible assets still in development. The internally generated intangible assets primarily concern software products. In addition, research and development costs amounting to 61.8 million euros were incurred (previous year: 64.4 million euros) that were recognised as expenses.

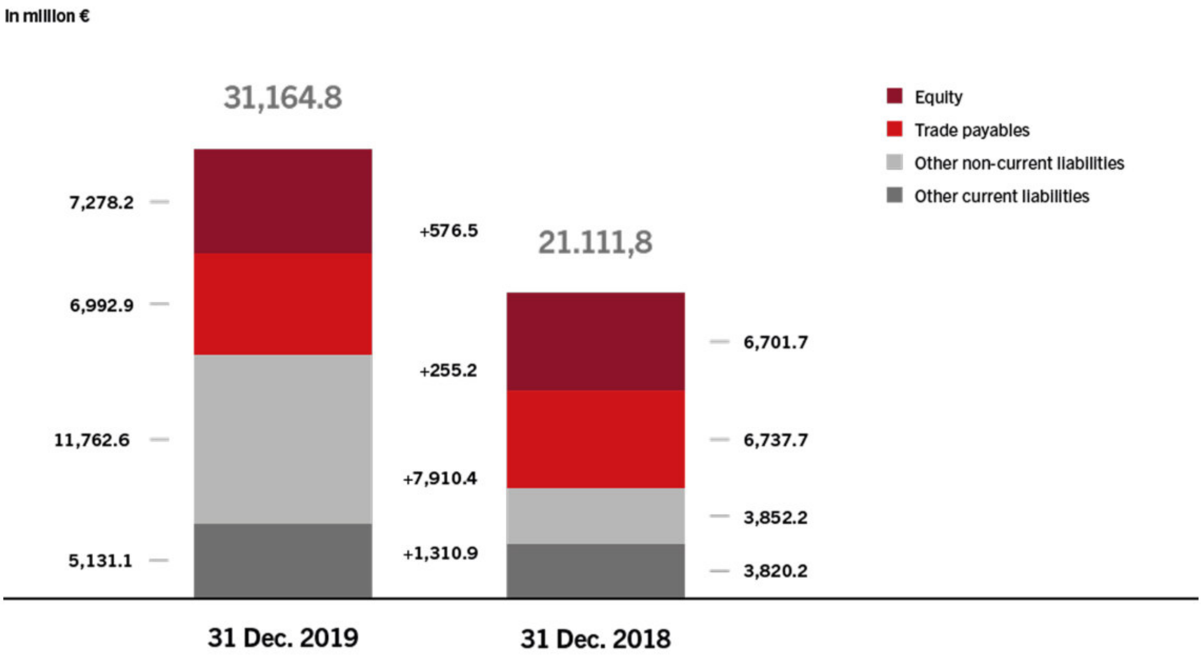
The change in other non-current assets was due to a decrease in other financial assets (-257.7 million euros), which was offset by increases in deferred tax assets (+216.5 million euros), companies accounted for using the equity method (+74.1 million euros) and other assets (+23.0 million euros). The decrease in non-current other financial assets was mainly attributable to the acquisition of shares in RZAG (and its subsequent consolidation), which until that point had been reported in other equity investments. The increase in companies accounted for using the equity method was primarily due to the sale of shares in commercetools GmbH, Munich, which had previously been included as a subsidiary. After the sale, the REWE combine still holds 40.0 per cent of the shares. Non-current other assets also increased, which mainly resulted from a rise in deferred assets that in turn was primarily due to construction cost subsidies in the Retail Germany business segment.

Inventories rose primarily due to an increase in finished goods and merchandise in the Other, Retail International and Retail Germany business segments. The increase in inventory in the Other and Retail Germany business segments was mainly attributable to the initial consolidation of RZAG and its subsidiaries as at 1 May 2019. In the Retail International business segment, the expansion of the store network in Eastern Europe in particular led to an increase in finished goods and merchandise.

The increase in other current assets was primarily attributable to the rise in other assets (+808.2 million euros), current income tax assets (+80.0 million euros) and other financial assets (+30.4 million euros). The increase in current other assets mainly resulted from a partial payment of 761.9 million euros for the acquisition of the Lekkerland Group as at 1 January 2020. Interest receivables from trade tax reimbursements and deferred commissions from the travel agencies also increased. This was offset by trade receivables (-165.5 million euros) and cash and cash equivalents (-64.1 million euros). Trade receivables from associates decreased in relation to the balance sheet date, in particular in the Retail Germany business segment. Please see note 4 "Performance indicators" with respect to the change in cash and cash equivalents.

Non-current assets held for sale increased (+1.1 million euros) due to the classification of real estate as assets held for sale in the Retail International business segment.

Equity and Liabilities



The balance sheet shows equity of 7,278.2 million euros as at 31 December 2019 (previous year: 6,701.7 million euros), which corresponds to an equity ratio of 23.4 per cent (previous year: 31.7 per cent). The change in the equity ratio is mainly due to the first-time recognition of lease liabilities in accordance with IFRS 16. The return on equity of continuing operations was 7.6 per cent (previous year: 6.9 per cent).

A capital reserve (1,219.8 million euros) relating to the premium on the capital increase at RZF as part of the acquisition of 77.4 per cent of shares in RZAG was recognised in equity for the first time as at 31 December 2019. This includes 146.5 million euros of acquired treasury shares. Retained earnings increased by 326.5 million euros to 5,983.2 million euros. Substantial components of this increase were the net income generated for the financial year attributable to the shareholders of the parent in the amount of 528.4 million euros (previous year: 350.6 million euros). Acquisitions of non-controlling interests had an offsetting effect on retained earnings. Retained earnings were also reduced by a 86.3 million euro loss on the remeasurement of defined benefit pension commitments, including the corresponding deferred taxes (previous year: gain of 16.1 million euros). The 16.9 million euro rise in other reserves to -84.2 million euros resulted primarily from the reserve for currency translation. Non-controlling interests decreased by 986.7 million euros to 159.4 million euros and in the financial year were mainly due to the sale of shares to the shareholders of the parent.

The change in non-current liabilities was due primarily to the increase in non-current other financial liabilities (+8,282.1 million euros), non-current employee benefits (+197.8 million euros) and non-current deferred tax liabilities (+67.8 million euros). The rise in non-current other financial liabilities was mainly attributable to the extended recognition of lease liabilities due to the application of IFRS 16 and the raising of a promissory note loan in the amount of 537.0 million euros, of which 437.0

million euros had been paid out as at the balance sheet date. With respect to non-current employee benefits, the decrease in the discount rate in particular led to a rise in provisions for pension obligations, end-of-service benefits and service anniversary bonuses. This was offset in particular by the changes in other non-current provisions (-542.6 million euros) and other non-current liabilities (-94.7 million euros), since the provisions for expected losses from onerous contracts and rental obligations as well as liabilities from onerous contracts were almost fully offset against the right-of-use assets due to the initial application of IFRS 16.

The increase in current liabilities was due primarily to the increase in current other financial liabilities (+1,311.7 million euros), trade payables (+251.2 million euros) and current other liabilities (+113.9 million euros). The rise in current other financial liabilities mainly resulted from the initial recognition of lease liabilities as part of the application of IFRS 16. The main reason for the change in trade payables was the initial consolidation of RZAG and its subsidiaries as at 1 May 2019. Current other liabilities increased in particular as a result of higher prepayments received on account of orders (almost exclusively in the Travel and Tourism business segment), higher liabilities from customer loyalty programmes in the Retail Germany business segment and the introduction of the "Jö-Card" customer loyalty programme in Austria, and a rise in liabilities from outstanding electricity bills due to new regulatory requirements.

The changes in current other provisions (-107.7 million euros) and current employee benefits (-35.0 million euros) had an offsetting effect. Current other provisions decreased in particular due to lower provisions for expected losses from onerous contracts and rental obligations, which were offset against the right-of-use assets due to the initial application of IFRS 16. The primary reason for the change in current employee benefits is the decrease in liabilities from annual bonus payments, particularly in the Retail Germany and Retail International business segments.

There were also contingent liabilities of 753.1 million euros as at the balance sheet date (previous year: 497.2 million euros) which mainly related to payment guarantees to financial institutions and payment guarantees for rental obligations and merchandise liabilities. Furthermore, other financial obligations to service providers amounting to 252.8 million euros (previous year: 394.0 million euros) were recorded in the Travel and Tourism business segment. Additional other contingent liabilities arose in the financial year from the acquisition of shares in Lekkerland AG, Frechen, and limited partner shares in Lekkerland AG & Co. KG, Frechen. On entering into the purchase agreement, the purchaser undertook to assume various obligations of the seller.

Significant events after the end of the reporting period are described under note 42 "Events after the Balance Sheet Date" in the notes to the consolidated financial statements.

4. PERFORMANCE INDICATORS

Financial Performance Indicators

The most significant performance indicators of the REWE combine's operating units are revenue and (internal) EBITA. Given that the contribution margin is a key instrument for our stores in managing the operating business, that we need the clearest possible insight into the costs actually incurred, and that rents constitute a material cost item for stores, the presentation must be adjusted for the effects of IFRS 16. The same applies to all effects that are not connected with managing the operating business. Consequently, the effects that materially impact earnings development at an operating level but that could also lead to mismanagement in the assessment are presented on an internal basis below EBITA. The EBITA that is relevant for management purposes is derived by adjusting the external figures for effects arising from:

- IFRS 16: Leases,
- provisions for onerous contracts,
- reversals of impairment losses on non-current assets,
- impairment (excluding goodwill), and
- net gains/losses on derivatives used for currency hedging.

The reconciliation of internal key figures to external key figures is presented below:

in million €	2019	2018	Change in absolute figures	Change in %
EBITDA (internal definition)	**2,116.4**	**1,630.4**	**486.0**	**29.8**
Provisions for onerous contracts (income/expense)	28.4	179.8	-151.4	-84.2
Net gains/losses on derivatives used for currency hedging	-0.5	0.0	-0.5	0.0
Expenses/income connected with IFRS 16, excl. depreciation and impairment	1,925.5	0.0	1,925.5	0.0
EBITDA (external definition)	**4,069.8**	**1,810.2**	**2,259.6**	**> 100**
Depreciation and amortisation (excl. impairment and leasing)	-1,250.4	-1,221.7	-28.7	2.3
Provisions for onerous contracts/currency hedging/leasing	-1,953.4	-179.8	-1,773.6	< -100
EBITA (internal definition)	**866.0**	**408.7**	**457.3**	**> 100**
Impairment incl. leasing	-443.7	-51.0	-392.7	< -100
Reversals of impairment losses	13.0	27.6	-14.6	-52.9
Provisions for onerous contracts (income/expense)	28.4	179.8	-151.4	-84.2
Net gains/losses on derivatives used for currency hedging	-0.5	0.0	-0.5	0.0
Advance travel services	15.6	0.0	15.6	0.0
Depreciation and impairment of right-of-use assets	-1,602.5	0.0	-1,602.5	0.0
Reversals of impairment losses on right-of-use assets	123.0	0.0	123.0	0.0
Capitalisation of lease expense	1,967.1	0.0	1,967.1	0.0
Other income/expenses	-57.1	0.0	-57.1	0.0
EBITA (external definition)	**909.3**	**565.1**	**344.2**	**60.9**
Goodwill impairments	0.0	-10.4	10.4	100.0
EBIT	**909.3**	**554.7**	**354.6**	**63.9**

Net debt is included at the REWE combine level. These key figures are reported under notes 2 and 3.

The cash flow statement shows changes in cash and cash equivalents less overdraft facilities during the financial year. A distinction is drawn between changes resulting from operating activities, investing activities and financing activities.

Change in cash and cash equivalents

in million €	2019	2018
Cash funds at beginning of period	**626.7**	**646.2**
Cash flows from operating activities, continuing operations	3,272.4	1,473.1
Cash flows from investing activities, continuing operations	-2,392.4	-1,863.0
Cash flows from financing activities, continuing operations	-951.3	371.7
Cash flows from continuing operations	**-71.3**	**-18.2**
Change in cash funds related to changes in the scope of consolidation	0.0	0.3
Currency translation differences	2.2	-1.6
Cash funds at end of period	**557.6**	**626.7**
Cash funds at the end of the period, continuing operations	**557.6**	**626.7**
of which: cash and cash equivalents	567.0	631.1
of which: bank overdrafts	-9.4	-4.4

For additional explanations, please see note 37 "Cash Flow Statement" in the notes to the consolidated financial statements.

Non-financial Performance Indicators

Employees

On an annual average, the REWE Group had 241,691 employees in 2019 (previous year: 231,565), of which 6,503 (previous year: 6,345) were trainees.

The increased headcount is mainly attributable to the inclusion of RZAG and its subsidiaries from 1 May 2019 and the fact that UAB Palink, Vilnius, Lithuania, had been included for the full year.

As an international trading and tourism group we rely on qualified employees. So that we continue to be considered an attractive employer in the competition for qualified employees, the REWE Group makes targeted investments in its current and future employees. The following action areas play a central role:

Values and culture

The REWE Group wants long-term commitments from its employees and offers them a motivating work environment. This includes fair work conditions, attractive social benefits and offers that are adapted to the different phases of the employee's life. Fair work environments are based on valuing diversity and a commitment to equal opportunity – these are core values for the REWE Group's corporate culture. The appreciation of employees through appropriate compensation with attractive additional benefits (such as our employee discount) is also a material component of a fair work environment.

Training and professional development

The REWE Group offers school leavers initial vocational training in sales and distribution, logistics and administration. Apprentices who excel are guaranteed full-time, permanent positions after completion of their apprenticeship. The opportunities on offer are rounded out by integrated degree programmes and vocational Master's courses for REWE employees.

In order to promote the potential and individual development of all employees in the best manner possible, the REWE Group continuously expands its personnel development measures and offers all its employees and executives an extensive offering of internal further and continuing education. As part of this effort, the Company endeavours to recruit as many as possible specialists and managers from its own ranks and to retain qualified and motivated employees long-term. In addition to numerous classroom-based courses, we also offer our employees at our headquarters and in our stores and logistics facilities the opportunity to complete training courses online.

Health and safety

Occupational safety and health management are important elements of the REWE Group's internal social policy. They help it fulfil its corporate responsibility and support employees in taking personal responsibility for their health and safety. At the same time, we are making efforts to continuously improve working conditions.

Be it ergonomic work stations or accident prevention, the safety and health of our employees has the highest priority for us. We assist the responsible managers in preparing their risk assessments for the purpose of determining the physical and mental demands of the job, and provide them with advice on setting up work stations. In addition, we place great value on the prevention of violence as well as reducing musculoskeletal strain by optimising employees' workplace habits (e.g., when lifting, carrying, pushing, sitting). Following the principle "demand and promote", in addition to mandatory health and safety training we offer our employees various programmes on promoting a healthy lifestyle and mitigating environmental risk factors. Moreover, we work closely with the occupational health service to address the topic of psychological health (e.g., consultations or a telephone hotline). Health management also takes advantage of the opportunities offered by digitalisation to enable even more employees to take part in these activities than before. The REWE Group offers all employees a custom online portal with health-promotion content, and trains specific individuals to disseminate information on these topics.

Work-life balance

Be it adult care for family members or childcare: we help our employees to balance their careers and families by offering family-oriented services which fit with each stage of life.

A family-friendly HR policy is important to the REWE Group in order to gain and retain employees. That is why we offer on-site kindergartens at certain locations and for all employees the national child and adult care services in cooperation with awo lifebalance GmbH, for example. A good work-life balance is becoming a decisive factor for many people when selecting an employer. That is why many divisions of the REWE Group have been certified by undergoing the "career and family" audit by berufundfamilie Service GmbH. Numerous models are used in the REWE Group that allow employees to organise their work individually and flexibly, for instance taking time off for a sabbatical.

Whether employees themselves are suffering from severe illness, if they have lost a loved one, if they have a family member requiring care or are facing other private issues, personal problems can cause considerable stress and have a significant impact on an employee's working life. The REWE Group supports the "LoS!" initiative to offer employees quick and practical assistance in critical life situations. In combination with independently developed guidance, training specific individuals to disseminate information on LoS! and act as guides for employees experiencing difficulties ensures that help can quickly reach those who find themselves in problem situations.

Sustainability

Sustainability at the REWE Group is firmly anchored in both the Company's strategy and the corporate organisation. The Chairman of the Management Board is responsible for setting the sustainability strategy of the entire REWE Group.

Four strategic pillars – "Green Products", "Energy, Climate and the Environment", "Employees" and "Social Involvement" – were introduced in 2008 to implement the sustainability strategy. Within these pillars, the Company has identified action areas that cover all of the issues relevant to the REWE Group.

In 2016, a strategic process was implemented by the food retail segment in Germany and at DER Touristik to review the organisation and focus of the REWE Group's commitment to sustainability, and to adapt this where necessary. The aim was to better integrate activities into the sales lines' existing business processes in order to anchor sustainability even more firmly in the Company. As part of the strategy process at DER Touristik, the five following pillars of sustainability were redefined: "Environment and Nature", "Customers and Products", "National Partners", "Employees" and "Social Involvement". The four pillars of sustainability for the food retail sector in Germany were confirmed and the action areas were revised.

a) Green Products

The goal of the "Green Products" pillar is to make more sustainable product ranges available and to offer these to consumers at the stores. A holistic approach to the supply chain is therefore a core element and integral part of the purchasing processes. The action areas for the "Green Products" pillar are "Fairness", "Conservation of Resources", "Animal Welfare" and "Diet".

The REWE Group consistently follows its objective of increasing the share of sustainable store brands and brand-name products by using the PRO PLANET label for store brand products which, in addition to high quality, also have positive ecological and/or social characteristics, by expanding the organic product line and through its product line of regional products as well as various raw materials-related guidelines.

b) Energy, Climate and the Environment

Three action areas have been identified in the "Energy, Climate and the Environment" pillar: "Energy Efficiency", "Atmospheric Emissions" and "Conservation of Resources".

By 2022, the REWE Group aims to reduce greenhouse gas emissions per square metre of sales area by half compared to 2006 levels. The 2018 carbon footprint report shows that a reduction of 43.0 per cent has already been achieved. In addition, electricity consumption per square metre of sales area will be reduced by 7.5 per cent between 2012 and 2022. The coolant-related greenhouse gas emissions per square metre of sales area will be reduced by 35.0 per cent between 2012 and 2022.

c) Employees

The satisfaction and performance capability of employees are a core element of the REWE Group's strategic human resources management. Accordingly, the following action areas have been identified for the "Employees" pillar: "Values and Culture", "Training and Professional Development", "Health and Safety", "Work-life Balance" and "Diversity and Equal Opportunity".

Various initiatives have been implemented in all action areas in order to increase employee satisfaction and dedication. Examples include activities to support health and wellbeing in the workplace, in particular in distribution and logistics, ensuring workplace health and safety, and promoting employees across all levels of the Group's hierarchy as part of our systematic career and succession planning programme. Further focus areas are promoting integration and inclusion and stepping up efforts to increase the number of female executives. The REWE Group is now the largest German employer to be certified under the "Work and Family" audit, and is systematically expanding activities to ensure a better work-life balance.

d) Social Involvement

As a major corporate group and in its cooperative tradition, the REWE Group feels obligated to be engaged socially and supports numerous national and international social projects. The action areas under the "Social Involvement" pillar are: "Healthy Nutrition and Exercise", "Opportunities for Children and Young People", "Handling Food Responsibly" and "Consumer Education and Training".

One commitment of particular significance to the REWE Group is to support local food bank initiatives. For instance, for more than 20 years now, the Company has been one of the primary sponsors of more than 940 "Tafel" food banks across Germany and a member of the Bundesverband Deutsche Tafel e.V.

Sustainability Activities

The core of the REWE Group's sustainability activities is the active integration and sensitisation of all relevant stakeholder groups, consumers in particular. The sales lines oversee customer relations, for instance by providing information in the form of weekly flyers, on its website or as part of Sustainability-related initiatives.

Since negative environmental impacts can occur along the entire packaging value chain, the REWE Group has developed a comprehensive approach to packaging. For example, the guidelines for more environmentally friendly packaging define the goal of making 100 per cent of store brand packaging more environmentally friendly by 2030. The packaging of more than 2,000 items has already been changed, saving approximately 9,000 tonnes of plastic every year. In addition, the REWE Group teamed up with the German Sustainability Award Foundation in 2019 to confer the first special award recognising ideas for more sustainable packaging. The winner was named on 22 November 2019 as part of German Sustainability Day in Düsseldorf.

These and other activities undertaken by the REWE Group are covered in detail in the REWE Group's annual sustainability report.

Risk and Opportunities Report

The Value of Risk Management

As an internationally active retail and tourism group, we are exposed to a wide variety of risks, some with short reaction times, as part of our business operations.

Risks are uncertain company-external and internal influential factors that impair the potential profit areas (assets, profit and liquidity) and/or the Group's reputation and thus hinder or threaten to hinder the realisation of planned goals or may negatively impact further business development. On the other hand, opportunities are company-external and internal influential factors that create the potential profit areas (assets, profit and liquidity) and thus positively impact the planned goals or further business development.

We employ a uniform risk management system throughout the Group to counter this risk potential successfully and ensure our opportunities potential in the long term. In so doing, we understand risk management as a continual process that is firmly integrated as a regular step in our operating practices.

At the REWE Group, all risks are subject to mandatory management and are mitigated in their effect and probability through operational initiatives. The scope of the related need for action and the point in time for initiating appropriate actions are based on the urgency (probability of materializing) as well as the threat potential (potential damage determined from the monetary, reputational, and legal impact) of the risk. We document and manage existing needs for action in our risk areas using documented action plans and schedules.

Risk Management Organisation

The general conditions, guidelines and processes for uniform corporate risk management are created centrally by Corporate Controlling in cooperation with the corporate Governance & Compliance and Business Administration departments.

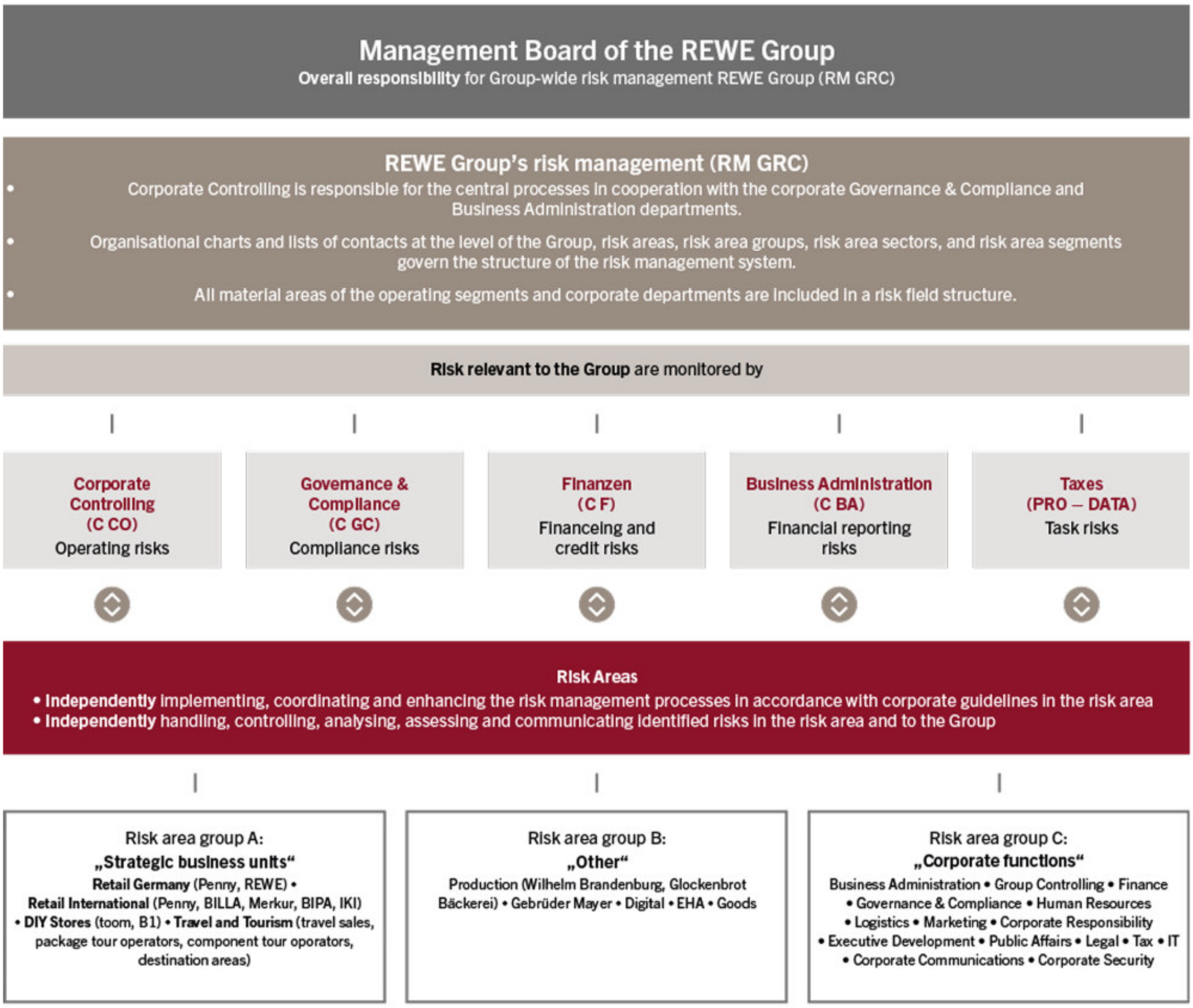
Under the Group's prescribed guidelines concerning the defined risk areas, it is the responsibility of the Group to locally organise the establishment and procedural flow of the operational risk management process.

Risk managers identify reportable risks early in our risk areas using a bottom-up approach and these risks are then classified uniformly throughout the Group and managed independently.

Risk checklists in the form of Group recommendations are developed by our corporate departments and provided to the risk areas regularly in advance of the annual risk inventory to support their risk identification and analysis. This ensures the Group-wide consideration of possible risk events as seen by headquarters.

The risk analysis covers a three-year planning horizon, analogous to the period of our mid-term plan.

Risks with relevant significance for the Group are managed and monitored by selected corporate departments based on their technical competence. In addition to operational business risks with significant threat potential, the focus is also on significant risks from finance, compliance, taxes and financial reporting. The corporate departments discuss and reconcile the varying risk assessments with the risk areas after the risk inventory has been completed and before the risk report is prepared.

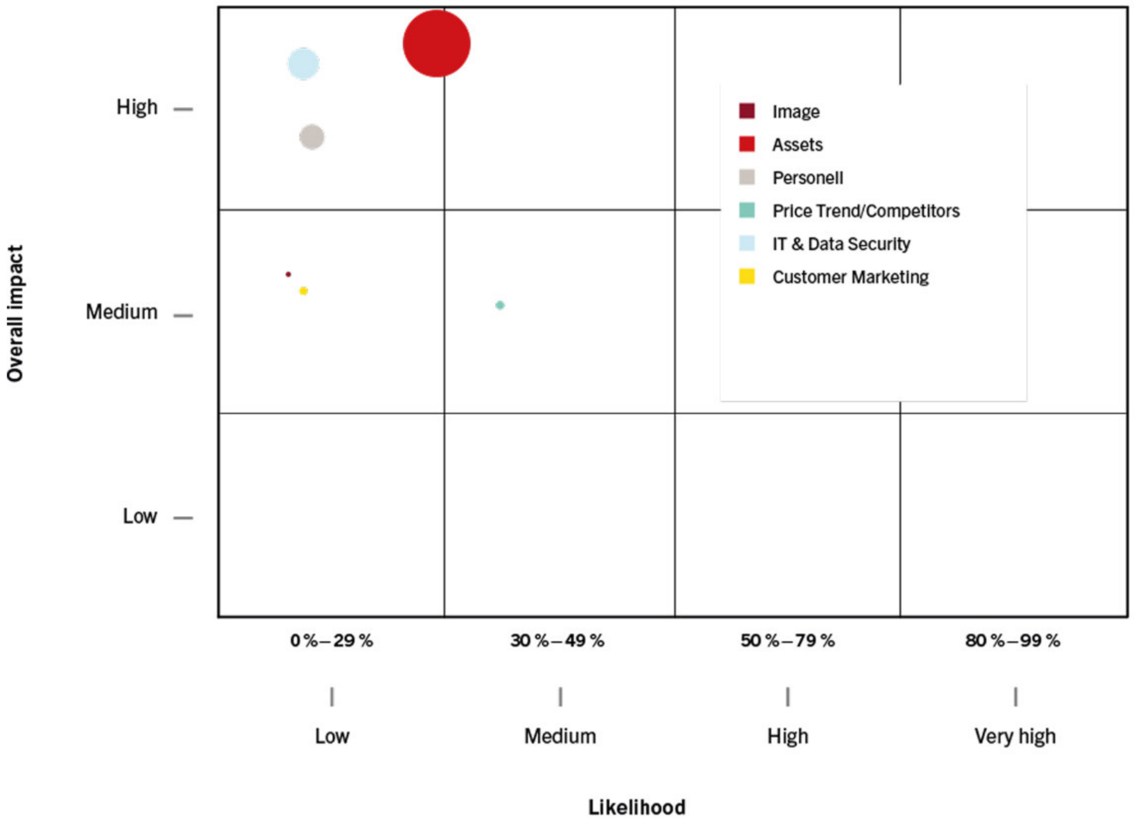


Our management and supervisory boards are informed of the Group's current risk situation in standardised form on an annual basis. To that end, the risk managers send risk reports to the Group. These reports contain risk inventories of relevant individual risks from the risk areas as of a given closing date. Risks with similar content and causes are subsequently aggregated at the level of the Group into risk categories and classified as high, medium or low with regard to their relevance to the Group based on the threat potential to our business activities, net assets, financial position, results of operations, cash flows and our reputation (high: monetary impact in specific cases > 100 million euros or considerable significance with regard to business activities, net assets, financial position, results of operations and reputation; medium and low: at most moderate significance with regard to business activities, net assets, financial position, results of operations and reputation).

We measure and manage opportunities as part of our regularly scheduled operational and strategic planning. Opportunities and risks are not offset at the level of the Group.

In addition, binding provisions were made under which newly identified, significant risks or existing risks with material effects, changes in their development and high probability of occurrence in the risk areas must be reported in a timely manner and directly to our management bodies.

As independent bodies, external auditors and the Auditing department assess the quality and functionality of our risk management system at regular intervals. Nevertheless, we cannot guarantee with complete certainty that all relevant risks are recognised early and the controls and processes function in the desired scope. Human error can never be ruled out completely.



Presentation of Risks

The risk assessment is made based on given or realistically assumable circumstances. Changes in the risk environment, the initiation of actions and changes to planning approaches result in changes to the risk portfolio. Therefore, the real estate risk type is no longer included in the top risks. The price trend and competitor risk types were combined due to the overlaps between them, as well as the risk types of assets and rental agreements under valuation risks.

a) Top Risks

Valuation Risks

Unexpected budget or forecast deviations as well as changes in general economic conditions may result in having to remeasure assets such as real estate, goodwill and rights of use. This can materially impact the earnings development of the Group. Changes in input factors can result in either charges to earnings through impairment write-downs or else to increases in earnings through reversals of impairment losses. Regular reviews of the recoverability of assets, the examination and plausibility check of the mid-term plan as well as monitoring of the current development of earnings and values give us a current picture of our valuation portfolio and future valuation risks at all times. Necessary strategic measures for reducing the impairment risk can be taken in a timely manner.

IT and Data Security

Due to the high dependence of trading and tourism processes on IT systems, including of stored data, the security of these systems represents an important foundation for the Company's success. Risk gaps will be closed by a high level of expenditures and investments in the security and performance capability of systems as well as ongoing monitoring of key processes. Furthermore, we use information events, training courses and work instructions to regularly inform our employees about material changes relating to data security.

Data security is ensured by the introduction of new, state-of-the art technologies, thus reducing possible abuse to a minimum. Documenting processes, setting rules and instructions as well as contractual safeguards form the basis for securing the Company's IT processes and systems.

A residual risk cannot be excluded entirely despite the necessary security measures.

Personnel Risks

Due to the dominance of personnel expenses in the retail business, personnel risks are also a primary focus of risk reporting. The development of pay scales and non-wage labour costs as well as the increased availability of labour are therefore of major importance. In particular, developments on the labour market are currently showing that risks are intensifying.

Third-party services and work agreements also continue to be a source of potential risk. We attempt to mitigate any risks associated with engaging third-party services by raising the awareness of our executives and employees through training courses, information events and recommended courses of action.

An optimum recruiting process is essential to ensure that vacancies are filled quickly and with suitable candidates. Should cost developments be over those previously known or expected, this results in a greater burden on retail earnings and can therefore weigh down the long-term earnings development of the Group. Cost increases can be partially compensated for by continually reviewing our processes and optimising our procedures. This requires strict and consistent cost management.

Price Trend Risks/Competitors

An intensification of the competitive environment can negatively impact price trends and be contained by initiatives only with difficulty. Negative price developments slow sustainable growth in revenue and gross profit and lead to profit erosion.

The pressure on prices in the stores is increased by discounters adding brand-name products to their shelves and in the non-food sector by the continued fierce competition among online retailers. Since these articles are essentially high revenue items, long-term price reductions on these items have a significant impact on the development of gross profit.

We are able to react quickly to price adjustments and adapt to the new price situation by monitoring the competition and prices. Innovative products and brands as well as competitive cost structures assist us in containing or reducing erosions of gross margins.

It is important for a retail company to recognise market trends early and to develop characteristics distinguishing it from the competition using new store concepts. Changes in customers' lifestyles affect their purchasing behaviour and thus the market requirements. Therefore, it is important to recognise market trends and changes in behaviour early in order to offer the store concepts to customers that meet their needs. If trends or market changes are identified too late, especially in the saturated markets, this results in a long-term competitive disadvantage and thus in revenue and earnings declines.

The growing online business poses new challenges for both over-the-counter retailing and travel and tourism. The increasing activities in the Internet retail trade will lead to changes in the retail landscape. It is therefore particularly important to closely observe and actively follow this trend. For instance, the REWE Group has continued to strengthen its online activities, particularly in the German food retail sector. We plan to expand the segment further and take a leading role in online business in the German food retail sector.

Store concepts and ranges are continually refined, meaning that innovations must be identified and implemented at an early stage. We constantly observe our competitors and the markets so as not to miss trends or new developments. This enables us to identify and implement trends and changes at an early stage.

Image

Flawed communication with customers and stakeholders, especially on the topic of sustainability, can lead to image risks for the Company. Because REWE takes a leading position in the field of sustainability, correct and transparent communication, e.g. on issues relating to products and employees, plays an important role. Due to the high sustainability requirements and continual observation by stakeholders, flawed communication can have material adverse effects on customers and stakeholders.

Sustainability communications are therefore subject to a careful examination and are reviewed by the necessary specialist departments. Campaigns are centrally supported by market research. A clearing office has been established to review communications media and statements.

Customer Marketing

Customer marketing risks relate primarily to the dissemination and distribution of customer and product information. Disruptions in the information process or delayed or incorrect customer information materially affect revenue and earnings development. Spreading the tasks across multiple vendors and service providers serves to mitigate the risk of dependency and significant communication disruptions.

b) Other Risks

Financial Risks

The Group is exposed to various financial risks by its business activities, in particular to liquidity risk, interest rate risk, foreign currency risk and commodity price risk (jet fuel). The liquidity, interest rate and foreign currency risks are managed systematically pursuant to the Group financial guidelines. Financial risks are identified, assessed and hedged in close co-operation with the operating units. A central Treasury Committee consults and decides on the risk policy and risk strategy. Treasury committees also exist at the level of the business segments. The permissible range of actions, responsibilities, financial reporting and control mechanisms for financial instruments are defined in detail in the corporate guidelines. These guidelines call in particular for a clear functional separation between trading and settlement activities.

Comprehensive management of financial risks focuses on the unpredictability of developments on the financial markets and aims to minimise the potential for negative impact on the financial position of the Group. Mitigating risk generally takes precedence over considerations of profitability.

Forward contracts, swaps and options are used to hedge interest rate, foreign exchange, and commodities price risks. These are recognised under other financial assets or other financial liabilities.

Loans, fixed-term deposits and overnight money are used as financial instruments.

The aim of liquidity management is to ensure that, through REWE International Finance B.V., Venlo, Netherlands (RIF), the consolidated companies always have access to sufficient liquidity on the basis of adequate undrawn lines of credit so that no liquidity risk exists should unexpected events have a negative financial impact on liquidity.

The budgeted demand for jet fuel is secured in coordination with the responsible managers within DER Touristik using derivative financial instruments with terms up to 18 months.

Legal Risks

As an international company, the REWE Group is confronted with changes in the legal framework of its business activities, some of which could significantly impact on the Group's business. A team of legal experts observes such changes continually and coordinates the Group's key legal steps.

A Compliance Management System (CMS) was implemented in the REWE Group in 2010 to ensure adherence with statutory and internal Company directives. Since then, the CMS has been continuously enhanced and includes in particular preventive measures to avoid compliance risks, with a focus on antitrust and corruption risks. The decentrally-structured compliance organisation has a direct link to the chairman of the Management Board.

The compliance programme was further expanded in 2019 as well. The design of the REWE Group Compliance Management System in accordance with IDW Audit Standard AuS 980 was confirmed in 2017 by the external auditing firm KPMG, who issued an unqualified opinion, and was established throughout the Group. As part of the "appropriateness of the CMS" audit, compliance-relevant processes continue to be optimised and adapted with respect to their content and systems, and new processes are established and gradually implemented in the Group. Efforts to expand the training concept began in 2018 and were largely completed in 2019 with the aim of holistic implementation across the REWE Group from 2020 onwards. In addition, numerous on-site training sessions and workshops were again conducted in which employees were also taught subject-specific behaviour conforming to compliance requirements. In 2019, in addition to the existing interactive online courses, in-person training sessions on anti-trust law were also carried out. Furthermore, work to establish new online training courses on "integrity and anti-corruption" was completed in 2019, and these will be rolled out throughout the Group from 2020 onwards. Executives and employees also took advantage of the individual compliance consultations offered. After the completion of the project to reorganise the Group's policies and guidelines management system in 2017, which has been the responsibility of the corporate Governance & Compliance department since 2016, Group-relevant guidelines continued to be transferred to the new system and into the dedicated nationally and internationally applicable "house of rules" (HORUS) IT system in 2019, accompanied by regular communication measures. A standardised process was implemented. The revision and update of the REWE Group code of conduct was completed in 2019. It was rolled out across the Group at the beginning of 2020 and was accompanied by a comprehensive communications campaign. In addition, in 2019 the Management Board entrusted the corporate Compliance Department with a Group-wide project to conduct a risk assessment on the topic of "sanctions and embargoes".

REWE's internal employee platforms continue to provide employees with the latest key compliance information in a format that is easy to understand. The REWE Group's compliance reporting system is also available on the intranet and all relevant contact data for whistleblower notifications is published there. Material information about the CMS as well as the REWE Group's code of conduct are also available on the REWE Group's website.

In its decision dated 2 February 2017, the European Commission initiated formal proceedings against the largest European tour operators – including Group companies – due to suspected source market restrictions. The outcome of these investigations is difficult to assess at the present time.

Tax Risks

Tax risks result primarily from ongoing and upcoming tax audits. These risks and possible legal risks are always taken into account by recognising provisions or allowances for claims in the statement of financial position. Tax risks are minimised by engaging qualified tax experts to closely monitor and collect information on the operating areas, by involving such experts in change projects and contractual matters and by the internal control system.

Socio-political Risks

As an international corporate group, the REWE Group is dependent on the political and economic situation in the countries in which it operates. The general conditions in the individual countries can change rapidly. Changes or instability in the political leadership, strikes, civil unrest, attacks, embargos or changes in regulations, laws or levies can lead to risks.

We are following very closely the current tense situation in Europe, the intensive discussions on immigration and asylum policies and the varying opinions of the individual member states regarding European policies, in particular also the consequences of the United Kingdom withdrawing from the EU (Brexit). We are also closely observing developments in the conflict between the United States and Iran and the political and economic development in Europe, as well as the impact of the coronavirus on the global economy.

We continuously monitor the development of socio-political risks in the countries relevant to us. In particular, we are closely monitoring current political developments in the Arabic world as well as the resulting uncertainty for our markets in these destinations as well as for the European economy.

We closely analyse risks or opportunities that arise from the social and political situation and initiate measures if necessary.

A particular focus is the impact of the coronavirus crisis on the Company and the economic development of the Group. Given that the situation is extremely fluid and there is no certainty as to whether the measures put in place by individual countries will be effective, it is not currently possible to estimate the impact it will have on the development of our business. The duration and intensity of the crisis will have a material effect on development.

At present, the primary task of the REWE Group is to supply the population with food and the ability to maintain supply chains is a particular risk in this context. We cannot judge whether enough employees will be available going forward to maintain operations at the stores and warehouses.

The travel and tourism industry has been brought to a complete standstill. Existing reservations are being cancelled, new trips are not being booked, and payment obligations must be met. Development in the Travel and Tourism business segment in particular is contingent on the duration of the crisis.

The lack of new travel reservations and the cancellations due to the coronavirus crisis will significantly reduce the Travel and Tourism business segment's contribution to the liquidity position of the REWE Group in financial year 2020. Appropriate countermeasures are being put in place in the operating business within the Travel and Tourism business segment in order to react to the change in demand and reduce the likely effects on revenue and earnings development.
Even if key destinations are closed for a longer period, the REWE Group's liquidity reserves are sufficient to meet all obligations as they fall due.

In the DIY Stores business segment, the coronavirus crisis has led to temporary store closures. Keeping the requisite measures such as store closures or restrictions on customers in place for longer will adversely affect revenue and earnings.

In addition to the crisis management teams within the units, a Group-wide crisis management team has been set up to better monitor activities and risks. This will meet on a regular basis and assess the situation as it develops.

Presentation of Opportunities

Markets and Customers

The REWE Group is represented in the Western and Eastern Europe countries with successful brands and distribution strategies. The REWE Group can utilise its opportunities on the market by developing new business models and by further developing innovative sales concepts and consistently aligning its actions to the customers' needs.

As such, the customer is the focal point of the Group's actions. By expanding the product lines of regional and sustainable products, the REWE Group is taking a leading role in the food retail sector, which is distinguishing it significantly from the competition.

In international business, the REWE Group signifies strong retail brands such as BILLA, MERKUR, BIPA, PENNY and IKI that have a high degree of name recognition. Our strength is an innovative product line which is tailored to specific countries and is continually improved and expanded. Improvements in quality and freshness lead to a positive customer perception and strengthen our competitive position.

We are in a position to improve our market share through investments in a modern and extensive branch network and by focusing on strong brands and sales concepts.

The intensified expansion of our tourism business could enable us to solidify and expand our position in the European market. Extending the value chain and expanding into additional source markets create further added value and increase the potential of harnessing market opportunities.

We want to continue to exploit the opportunities to profit from the growth of online sales and online business by further expanding our online activities. At the same time, we can further expand our market position by sensibly linking our strong brick-and-mortar retail activities and travel service activities.

By integrating new business models, we can take advantage of the opportunities to generate further constant growth and leverage synergies.

Prices

The prevailing strong competition in the food retail sector, the continuing price wars and the increasing share of brand articles being sold in the discount sector are sharply reducing margins in the food retail sector. Should the price wars and competitive pressure abate or ease, this could lead to increasing revenue and margins and therefore positive growth of gross margins.

The success of our retail companies is dependent to a considerable extent on the purchase prices. In the past we formed a purchasing company in Brussels with E.Leclerc in order to meet the growing challenges of the competition in retailing and the increasing internationalisation of the food retail sector.

We are also part of the COOPERNIC strategic alliance with other European retail companies. We can counter the risk of purchasing price volatility and leverage international purchasing potentials through joint purchasing and by negotiating terms and conditions.

Costs

Continuous optimisations of processes and costs lead to improvements in productivity which positively impacts costs, and in turn, earnings.

Management's Overall Assessment of the Risk Situation

Due to our activity in the retail and tourism sectors, we are particularly dependent on demand for consumer goods and the competitive situation. Recent years have shown that economic development in the countries of Western, Southern and Eastern Europe sharply impacts purchasing power and therefore demand. Even if the food retail sector is not as strongly affected by the economic crisis as other retail sectors, a degradation of general conditions still has a negative influence on the Company's success.

A substantial degradation of general economic conditions and an intensification of the political and economic situation in the leading nations in the Americas, Asia and Europe will greatly increase potential risks. Developments within the European Union and the discussions surrounding its future, in particular the developments in connection with the United Kingdom's withdrawal from the EU, may also lead to higher potential risks. In the Travel and Tourism business segment, the booking behaviour of customers is significantly influenced by general economic conditions and external factors. Political events, natural disasters, epidemics or terrorist attacks influence the demand for travel in certain destination areas.

The current economic uncertainty caused by the coronavirus crisis has a material impact on the REWE Group's revenue and EBITA development. From today's perspective it is difficult to present the overall development for the Group. It is clear that the tourism and DIY stores sectors will have to take a material hit to earnings as a result of the restrictions and constraints. Assessing the risk situation is very difficult since any estimate is dependent on the duration and intensity of the crisis. The food retail sector is currently recording revenue and earnings growth as a result of the current situation. It is nevertheless impossible to predict which revenues and gross margins will have a permanent effect on the year as a whole and whether cost trends can be maintained in the existing structure.

Overall, however, there are currently no identifiable risks whose materialisation could threaten the continued existence of the Group.

Report on Expected Developments

1. FUTURE MACRO-ECONOMIC DEVELOPMENT

The report on expected developments considers the relevant facts and events known as at the date the report was prepared, which could influence future business development. It is too early to predict the spread of the coronavirus and its impact on the global economy. As yet there are no forecasts by leading economic research institutions that predict future macro-economic development at national level. For this reason, the table below presents data from the International Monetary Fund (IMF) and the joint forecast, with the express disclaimer that the forecasts do not factor in the effects of the coronavirus pandemic. In order nonetheless to cite the impact of the coronavirus in the report on expected developments, reference is made to other sources of a country-specific nature that are based on different data to that used by the joint forecast or the IMF.

The economic uncertainty will be considerable in 2020, with the coronavirus outbreak having a substantial impact on a global economy that is already weakened by international trade disputes and political tensions. Even in the best-case scenario where the virus only spreads beyond China on a limited basis, which has not proven to be the case, the OECD assumed that global economic growth would likely contract sharply in the first half of the year due to disrupted supply chains, a decline in tourism and a deteriorating climate for business. Accordingly, in this case global economic growth would be expected to slow to 2.4 per cent in 2020 from an already weak 2.9 per cent in 2019. In the case of a wider outbreak throughout the Asia-Pacific region and the industrialised economies, which is now the reality, the OECD assumes that global growth could drop to 1.5 per cent. The measures taken to contain the virus and the loss of confidence would have such an impact on production and consumption that several economies could slide into recession, including Japan and the euro zone. The situation is changing rapidly and forecasts have to be adjusted on a regular basis. Even at this stage the impact has been substantial, such as the production stoppage in the automotive industry, borders closed, global travel warnings issued and restrictions placed on public life. Europe has since become another epicentre of the coronavirus crisis. Added to that is its global spread, with further centres in the United States and South America.

Forecast economic data for REWE Group countries based on data prior to the coronavirus crisis

in %[1]	GDP		Inflation		Unemployment	
	2019p	2020p	2019p	2020p	2019p	2020p
Germany	0.5	1.1	1.4	1.4	3.1	3.1
Austria	1.6	1.7	1.6	1.6	4.6	4.6
Czech Republic	2.5	2.6	2.4	2.2	2.1	2.0
Italy	0.2	0.5	0.8	1.0	10.0	9.8
Hungary	4.6	3.3	3.4	3.4	3.4	3.4
Romania	4.0	3.5	4.0	3.5	3.9	4.0
Slovakia	2.6	2.7	2.5	2.4	5.3	4.9
Russia	1.1	1.9	4.7	3.5	4.6	4.8
Lithuania	3.4	2.7	2.4	2.4	6.1	6.1
Bulgaria	3.7	3.2	2.7	2.7	4.6	4.4
Switzerland	0.8	1.3	0.6	0.6	2.8	2.8
United Kingdom	1.3	1.4	2.0	1.9	3.9	3.8
Sweden	0.9	1.5	1.8	1.7	6.7	6.9
Norway	1.9	2.4	2.3	1.9	3.6	3.5
France	1.3	1.3	1.3	1.2	8.5	8.3
Denmark	1.7	1.9	0.7	1.0	4.9	4.8
Ukraine	3.0	3.0	8.7	5.9	8.7	8.2
Croatia	3.0	2.7	1.0	1.2	7.0	6.9

Sources: International Monetary Fund, World Economic Outlook Database October 2019, Update January 2020; Joint forecast (Autumn 2019)
p=projected; [1] year-on-year GDP change in per cent

While the IMF in its January 2020 World Economic Outlook (WEO) had still expected **Germany** to experience robust economic growth at a measured pace (1.1 per cent), the Kiel Institute for the World Economy (IfW Kiel) sees two options for Germany's export-heavy economy as the coronavirus pandemic progresses: The first assumes a lockdown lasting until the end of April, with the dampening effect gradually easing from the end of May. In this scenario, IfW Kiel expects GDP to contract by 4.5 per cent. The second scenario is based on a lockdown lasting until the end of July with a gradual recovery from the end of August. In this case, IfW Kiel anticipates that GDP will contract by 8.7 per cent. The protective measures put in place in response to the coronavirus, such as closures in the retail sector or production stoppages in Germany's key automotive industry, and a dwindling order intake for small businesses and the self-employed, which is expected to trigger a wave of bankruptcies, will have massive repercussions for economic development. The German government has taken a range of steps to lessen the impact of the crisis (hardship funds, simplified loan procedures for businesses, short-time working allowance).

Before the coronavirus outbreak, the IMF had forecast that **Austria** would record a slight year-on-year increase in economic growth in 2020. Taking into account the impact of the coronavirus crisis in Austria, the UniCredit Bank Austria Business Indicator slashed its growth forecast from 1.0 per cent to -0.6 per cent. A technical recession is expected in the first half of the year. The extent of the economic recovery in the second half of the year will depend on the duration of the crisis and the measures taken in response. It is expected that short-time working and liquidity measures will keep the impact on the labour market in check, with the anticipated unemployment rate standing at 7.3

per cent. The inflation rate is expected to fall in 2020, due on the one hand to consumer reticence caused by the restrictions imposed on public life, and on the other hand to the drop in oil prices.

Even before the onset of the coronavirus crisis, the IMF's forecast for economic growth in **Italy** in 2020 was already very weak, at 0.5 per cent. Italy is currently the worst-hit country in Europe: a high number of infections and deaths and an overburdened healthcare system have led to massive restrictions (e.g. stay-at-home orders). It is not currently possible to estimate the economic consequences, although it is expected that these will be far more severe in Italy than in other countries. The sectors hit particularly hard include tourism, the food service industry and tour operators. The Italian government has put various measures in place to reduce the impact on the economy.

In 2020, the coronavirus will put an end to the economic boom in the **Eastern European** countries in which the REWE Group is represented. The coronavirus is impacting the individual countries with varying degrees of severity. Those that are not currently hit as badly by the outbreak will feel the effects through supply chains, since Eastern Europe has close links to China or Italy. Those countries that are heavily dependent on the automotive industry are already feeling a massive impact, with production having been halted completely. In the Czech Republic, for example, the Skoda, TPCA and Hyundai plants have closed and suppliers have followed suit. Tourism has also come to the standstill. The benchmark interest rate has been cut in an effort to cushion the impact on the economy, and the Czech government is providing loans and payment guarantees to small and medium-sized businesses.

Before the coronavirus crisis, **Switzerland** had been expected to record growth in 2020 as compared to 2019. The outbreak of the coronavirus pandemic and the response to it present major challenges for the economy. The economic forecast published by the KOF Swiss Economic Institute presents three potential scenarios that all anticipate a recession in the first half of the year. Depending on the assumptions, the best-case scenario provides for GDP growth of 1.2 per cent in Switzerland, including sporting events (0.8 per cent excluding sporting events). Among other things, this scenario assumes that the majority of lost production can be compensated for in the third quarter and that the impact on the labour market will only be very slight. The negative scenario assumes that GDP will contract by 2.3 per cent, with factors such as rising household debt, sustained supply difficulties and increasing liquidity bottlenecks weighing heavily on the economy.

Before the coronavirus outbreak, economic development in the **United Kingdom** was dominated by the uncertainties surrounding Brexit. The IMF had assumed that the growth rate in 2020 would remain stable as against 2019. Although there was initially some delay before the coronavirus crisis reached the United Kingdom and its economy, the country is now facing a major challenge: The UK government failed to respond to the crisis by adopting measures at an early stage, and the health system is already overburdened. Material effects on economic development are to be expected here, too.

The responses to the coronavirus crisis in **Scandinavia** have been very mixed: While Denmark and Norway reacted by implementing measures, some sweeping, Sweden's response has been more restrained. In Denmark, it was mainly businesses with direct business links to China that were initially affected by the coronavirus crisis. Now, the hardest hit sectors are logistics, tourism and the experience industry. Both the Confederation of Danish Industry and the Danish Chamber of

Commerce expect economic growth of approximately 1.0 per cent in the best-case scenario. In Sweden, the government's expectation is that GDP will slow by 0.3 percentage points in the optimistic scenario and up to 0.8 percentage points in the pessimistic variant.

Before the outbreak of the coronavirus crisis, economic growth in **France** had been expected to remain level year on year at 1.3 per cent. France has also been hit hard by the coronavirus crisis: The rate at which the pandemic is spreading has accelerated sharply, and the containment measures implemented by the government are being intensified almost daily. The growth outlook for 2020 has worsened rapidly within a short period of time, and the French government currently assumes a decline of 1.0 per cent. Some sectors have been hit particularly hard by the restrictions on movement: event organisers, hotels, tour operators, restaurants and aviation. The current uncertainty is expected to prompt a reluctance to invest on the part of businesses and a drop in consumer spending. Businesses will also be hit by the disruption to international supply chains and employee absences. Large companies such as Michelin, PSA and Renault ordered the closure of production facilities in mid-March. The government has implemented a range of measures to support the economy, such as issuing payment guarantees for small and medium-sized businesses, simplifying short-time working and deferring social security and tax payments.

2. EXPECTED REVENUE AND EBITA DEVELOPMENT

The current economic uncertainty caused by the coronavirus crisis will have a material impact on the REWE Combine's revenue and EBITA development. From today's perspective it is difficult to visualise the overall development for the Group. This depends primarily on the extent and duration of the pandemic. For example, legal measures and restrictions will become the hallmark of peoples' daily routine and influence all aspects of public life. The intensity and diversity of the measures taken in individual countries adds further uncertainty and, as a result, predicting how the crisis will unfold can only be a matter of guesswork. Consequently, in this situation the previous expectations as to revenue and EBITA growth will certainly be missed. For example, food retail initially recorded significant revenue growth due to stockpiling by members of the public and a reduction in takeaway sales. By contrast, reservations in the travel sector came to almost a complete standstill.

Based on the current situation, we assume that the food retail will record a slight increase in revenue in 2020. Since most of this is revenue from stockpiling, the healthy figures recorded in the first months will not fully impact revenue for the year as a whole.

The assessment of the expected internal EBITA development is subject to great uncertainty. We anticipate moderate year-on-year earnings growth in food retail. However, this estimate assumes that supply chains can be maintained. If this is not the case, the development will deviate from the assumptions.

We expect negative internal EBITA in Travel and Tourism. Since the travel industry has currently been brought to a standstill and it cannot be predicted how long this situation will last, it is not possible to make any more precise assertion here either.

In the DIY Stores business segment, the coronavirus crisis has led to temporary store closures. Keeping the requisite measures such as store closures or restrictions on customers in place for longer will adversely affect revenue and earnings.

Retail Germany

In the **REWE** division, the strengthening of the price-performance perception in the over-the-counter business and the further development of the online business will generally remain at the forefront in 2020. Investments in the existing store network and logistics will secure the Company's long-term future.

Due to the current situation, however, the focus is on continuing to supply the population with food. The requirements are firstly to secure the supply chain and secondly to guarantee in-store processes.

The revenue growth in the first months of 2020 is having a positive effect on earnings development. It is nevertheless impossible at present to predict which revenues and gross margins will have a permanent effect on the year as a whole and whether cost trends can be maintained in the existing structure.

We expect that internal EBITA in the **PENNY** division will decrease slightly in 2020. This is primarily due to the intensified competition in the discount sector.

Additional investments in the existing store network will continue to weigh on earnings.

The optimisation of the product range, efficient process and cost structures, and a rising number of stores will have a positive effect on earnings growth.

For PENNY, too, maintaining the supply of food to the population is a major challenge in the current situation. Revenue growth in the first quarter of 2020 is causing a positive earnings trend. Since a large portion of this is due to stockpiling, however, it is questionable whether this development will effect the figures for the year as a whole.

Retail International

We assume that revenue in the **Austria and CEE Full-Range Stores** divisions will increase slightly in 2020 as compared to 2019. The growth on existing space and the modernisation work – both completed and still in planning – would have led to further revenue and earnings growth. BIPA Austria is performing according to plan but will continue to weigh down earnings in 2020. Nevertheless, the planned activities lay the foundation for future competitiveness in a solid environment.

Developments in Austria, as in Germany, will be heavily influenced by the coronavirus crisis. The impact on revenue and earnings is expected to be similar to that experienced in Germany.

We expect that the existing store network and expansion activities in Eastern Europe will also generate revenue growth. The situations in Russia and Ukraine also remain challenging. The integration of UAB Palink, Vilnius, Lithuania, again contributed to growth in 2020.

At **Penny International**, revenue is forecast to increase as compared to 2019. This is due primarily to the positive performance of existing stores and the continued expansion. The positive revenue trend has a positive influence on the earnings situation, although increasing costs will erode this. Despite various project activities, expansion investments in infrastructure and the planned cost increases, earnings are projected to exceed the figure recorded in 2019.

Italy has been hardest hit by the coronavirus crisis. The high number of infections and deaths and a completely overburdened healthcare system are putting extreme pressure on the population. The economy is under severe strain due to strict government restrictions on public life and the closure of non-essential production facilities. Here as in all other countries, the primary focus for our stores is to supply the population, although the conditions in Italy are making this particularly difficult. Despite the current revenue growth, the impact of the crisis on our revenue and earnings position cannot currently be predicted.

Travel and Tourism

As a result of the coronavirus crisis, the expected developments for Travel and Tourism are no longer sustainable. The complete standstill in Travel and Tourism means that revenue will fall far short of expectations. The main factor here is the duration of the crisis. The longer it lasts, the more pronounced the adverse effects on revenue and earnings development will be.

The lack of new travel reservations and the cancellations caused by the coronavirus crisis will significantly reduce the Travel and Tourism business segment's contribution to the liquidity position of the REWE Group in financial year 2020. Appropriate countermeasures are being put in place in the operating business in order to react to the change in demand and reduce the likely effects on revenue and earnings development. Even if key destinations are closed for a longer period, the REWE Group's liquidity reserves are sufficient to meet all obligations as they fall due, even without recourse to government lending schemes.

DIY Stores

The **DIY Stores** business segment assumed a slight improvement in the revenue situation and budgeted for a slight increase in earnings. The continued development of the online activities in connection with the brick-and-mortar business and growth on existing space will remain a focus of activities in 2020.

The coronavirus crisis has led to temporary store closures in the DIY sector. Keeping the requisite measures such as store closures or restrictions on customers in place for longer will adversely affect revenue and earnings.

Management's Overall Assertion on Revenue, Internal EBITA and Debt Development

The business units had been expected to generate significant revenue growth in financial year 2020. Additional expansions and renovation activities were set to support long-term revenue development.

Thanks to a positive revenue development, efficient cost structures and the expansion of our business models, we had planned an internal EBITA for 2020 - excluding one-off effects from company disposals and Group restructuring in 2019 - that was significantly higher than the previous year.

An overall assertion for the Group is not possible due to the coronavirus crisis and the associated uncertainty in assessing current revenue and earnings development in the individual business segments. Due to the current situation, we expect a significant year-on-year decline in internal EBITA – particularly in the DIY Stores and Travel and Tourism business segments – that any positive trend in food retail will not be able to absorb. The effects depend first and foremost on the duration of the crisis and the associated restrictions. We expect a slight year-on-year increase in internal EBITA in 2020.

Net debt in 2020 will increase somewhat more than originally budgeted. This is mainly due to the impact of the coronavirus crisis, which cannot yet be fully predicted. Refunds of customer prepayments due to travel cancellations are covered by sufficient funds. The REWE Group has sufficient lines of credit to guarantee its solvency at all times.

Cologne, 8 April 2020