

## Germany

II

### **REWE Group with significant increase in turnover in Germany**

#### **Some 300 new supermarkets and discounters planned – Quality campaign**

With an increase in turnover of 4.3 percent, REWE Group has grown far faster than the segment on the domestic German market. In 2006, the Group generated a turnover of 31.2 billion euros in Germany. While more and more companies are reduced the number of employees in Germany, REWE Group last year had 183,660 employees, an increase of 0.9 percent over the previous year. In balance, the number of stores remained more or less unchanged with 8,939 (+0.4%).

“Despite the advancing internationalisation of REWE Group, Germany still has the greatest importance for us. In the coming years, we will grow even faster and more effectively on our domestic market. This year alone, we will be opening some 300 new markets. Our motto is quality, proximity to the customer and sustainability,” said Alain Caparros, REWE Group CEO at the annual press conference (26 March) in Cologne.

#### **REWE: A little more successful every day**

With a turnover of 11.7 billion euros (+2.4%), “National full-range stores” (REWE, toom) is the business area with the highest turnover in the REWE Group, accounting for 34 percent of the consolidated Group turnover. The number of stores supplied rose by 1.6 percent to 5,888.

Spurred on by the presentation of the new, standardised nationwide “REWE” supermarket sales brand, the 4,398 independent REWE retailers increased their turnover by 3.8 percent to 7.2 billion euros.

“We have set ourselves high targets in Germany in order to accelerate even faster during the current year. We will expand with 140 new REWE stores and modernise a further 60 outlets. We are investing around a quarter of a billion euros in supermarkets and hypermarkets in order to achieve this, 100 million euros of which alone in the stores of independent REWE retailers. In the product range, the expansion of our private-label share is high on the list of priorities,” emphasised Dr. Stephan Fanderl, Management Board member of REWE Group responsible i.a. for the national full range stores. The private labels represent a clear quality

promise to the customers, and the quality campaign already launched will be continued in 2007. "REWE aims to set the standard for the quality and safety of food products," announced Dr. Fanderl.

In 2006, the development of the 85 toom hypermarkets was again marked by the integration of the Globus stores and the associated investments in excess of 100 million euros. Adjusted for the number of stores, the turnover fell by 1.9 percent to 1.6 billion euros. Despite this enormous effort, toom elaborated a new concept and orientation last year and has already implemented it with a pleasing development in turnover at selected locations.

### **Penny: Strategic waiver of unprofitable non-food sector**

Penny had already corrected its non-food stocks to a commercially expedient level in the 1<sup>st</sup> quarter of 2006, reacting to the continuing market segment-wide tense turnover development in this product range. This pioneering and future-oriented step was one of the main factors contributing to the result for 2006 being sustainably exceeded.

"Our courage and determinedness was rewarded. We are further than many of our competitors and have surpassed the plan in all strategically relevant ratios. Penny has very successfully offered alternatives to the classic non-food products, such as insurances, travel and tourism or helicopter flights. Overall, 2006 was an important year for the successful and profitable future of the discounter," emphasised REWE Group CEO, Alain Caparros, responsible i.a. for the discount stores business. Penny has thus taken a major step forward towards reaching the goal it has set itself of being Germany's most innovative discounter.

Penny set a further milestone with the new concept "Fresh meets cheap" that after a test phase went into the roll-out last year with the express approval of the Management Board and Supervisory Board. "Fresh meets cheap" focuses on the booming goods groups "fruit and vegetables" and organic products. Within a few months, the converted Penny stores had increased their turnover for fruit and vegetables by 20 percent. The standards for delicate goods groups such as fresh meat were significantly improved. As part of this campaign, Penny equipped all its fresh meat refrigerators with doors. The new concept also takes account of the demographic change by locating the products conveniently for the customer. The price signs are in large print and ceiling banners simplify orientation in the store. Last year alone, around 400 stores were reorganised in line with this new concept. A further 1,000 are to follow during the course of this year.

After years of consolidation, Penny is now starting an expansion campaign in Germany. In order to achieve the ambitious target of 150 new stores per year, Penny has changed its location strategy. Stores will also be operated in owned properties and no longer exclusively

in rented premises. "Penny will thus become faster and more flexible in the competition for the best locations," said Caparros.

Despite the strategic turnover optimism and despite the high financial and personal burden that resulted from the concept reorganisation, the drop in turnover of around three percent to 5.5 billion euros lay within the expectations, particularly as the increase in tobacco tax and the streamlining of the store network to 1,983 outlets (-16) placed further pressure on the figures. "Anyone who wants to be successful must not think just in terms of annual rhythms and balance sheet cut-off dates," said Caparros.

### **Specialist stores: New concept as the answer to the tough competition**

toom BauMarkt operates in an extremely tough competitive environment. The market segment is characterised by stagnating sales and growing sales areas. The 252 toom BauMarkt stores (including partners and franchisees) across Germany were not completely unaffected by this pressure in 2006. With net retail sales of 1.3 billion euros, they fell 2.8 percent below the value for the previous year. The exceptionally long winter 2005/2006, in particular, depressed the turnover. The loss of a large proportion of the seasonal spring business could not be compensated, despite a pleasing upswing in turnover in the 4<sup>th</sup> quarter of 2006.

toom BauMarkt has reacted to the development in the market segment by developing a new concept. The new type of DIY store attracts the growing customer segment of women and occasional DIYers, but without shunning the classic professionals. "Since the presentation of the new concept, we have changed over further locations. Turnover, result and customer **development** are very positive," explained Josef Sanktjohanser, REWE Group Management Board member. Over and above the organic growth, toom BauMarkt aims to further strengthen its market position through acquisitions and cooperations.

Last year the 53 ProMarkt stores (+3) throughout Germany worked their way back into the profit zone of more than two percent turnover earnings with the "Discount & Service" concept. The turnover of 486 million euros was 9.5 percent higher than in the previous year.

### **Commercial wholesale customers service: Market leader in Germany and Europe**

The REWE Group Großverbraucherservice (commercial wholesale customers service) again underlined its outstanding position in the food service sector last year. Following the takeover of Stöver-Frischdienst, the REWE-Großverbraucherservice is market leader with a turnover of 811 million euros (+19.4%). As a result of the takeover, REWE-Großverbraucherservice expanded its customer portfolio to include snack bars, petrol stations and system gastronomers. A further leap in turnover to well over 900 million euros is planned for 2007.

Together with the international food service activities of the transGourmet joint venture and the cash-and-carry activities of Fegro/Selgros (joint venture with the Otto Group, Hamburg), REWE Group is undisputed market leader in Europe with a turnover of 5.5 billion euros (+17.1%).

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