HORNBACH

Baumarkt AG Group
ANNUAL REPORT 2016/2017

HORNBACH
Es gibt immer was zu tun.

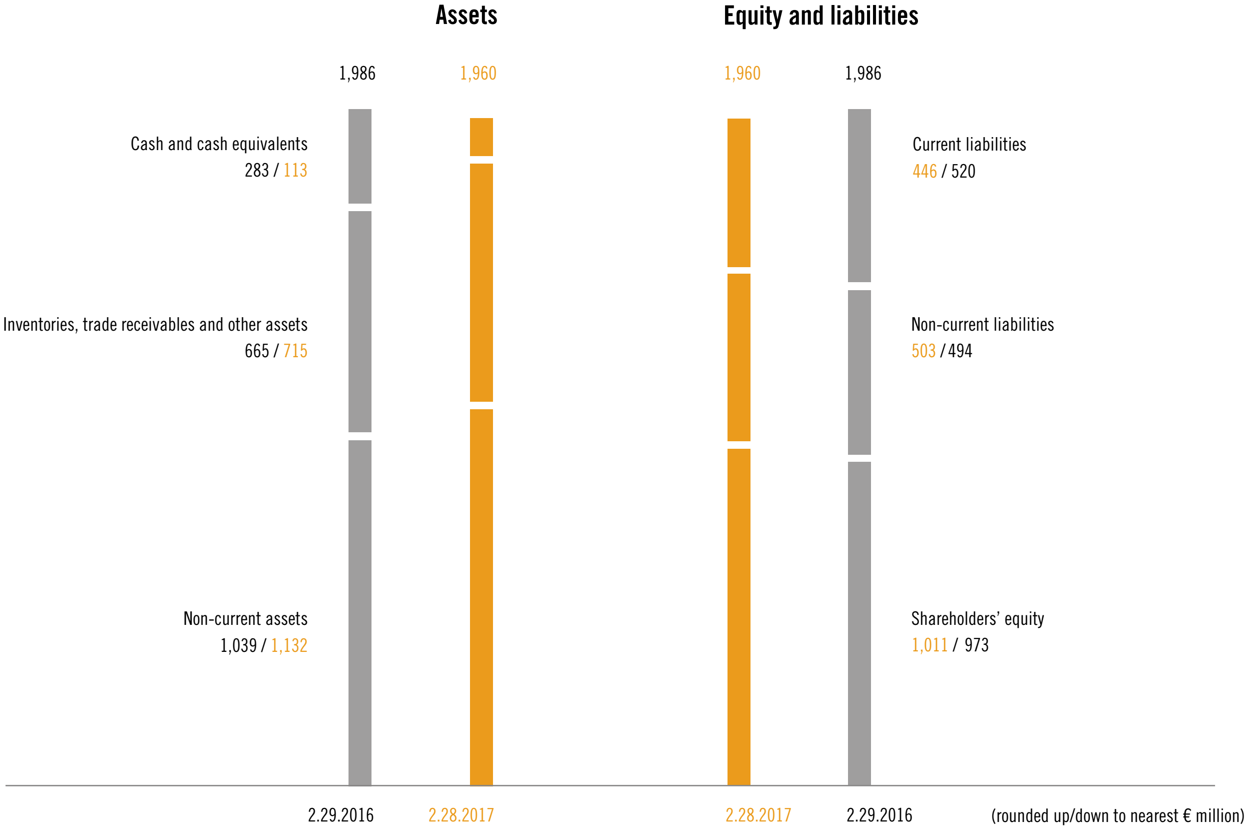
CONTENTS

Key Group, Financial and Operating Data

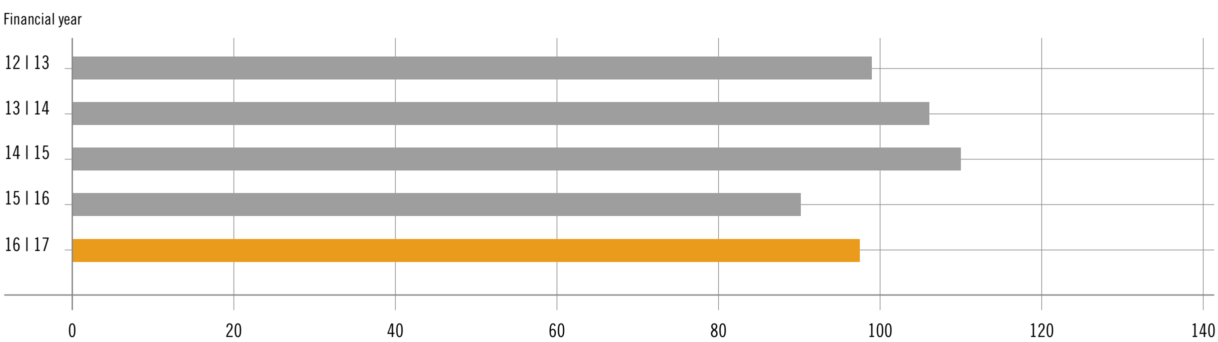
Amounts shown in € million unless otherwise stated	Change financial year 2016/2017 on previous year	IFRS									
		2016/2017	2015/2016	2014/2015	2013/2014	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008
Sales and earnings figures											
Net sales	5.0 %	3,710	3,535	3,357	3,152	3,020	3,001	2,836	2,686	2,599	2,469
of which in other European countries	9.6 %	1,670	1,524	1,390	1,325	1,279	1,272	1,195	1,109	1,065	962
Sales growth as % of net sales		5.0	5.3	6.5	4.4	0.6	5.8	5.6	3.4	5.2	3.2
EBITDA	6.9 %	174	162	167	161	156	184	173	169	193	142
as % of net sales		4.7	4.6	5.0	5.1	5.2	6.1	6.1	6.3	7.4	5.7
EBIT	8.1 %	98	90	110	105	99	128	119	115	137	79
as % of net sales		2.6	2.6	3.3	3.3	3.3	4.3	4.2	4.3	5.3	3.2
Adjusted EBIT [1]	3.5 %	103	99	115	111	101	132	120	115	102	87
as % of net sales		2.8	2.8	3.4	3.5	3.3	4.4	4.2	4.3	3.9	3.5
Earnings before taxes	1.2 %	79	78	95	87	74	106	102	96	122	56
as % of net sales		2.1	2.2	2.8	2.8	2.5	3.5	3.6	3.6	4.7	2.3
Net income for the year	(27.0)%	53	72	70	56	52	77	76	68	95	47
as % of net sales		1.4	2.0	2.1	1.8	1.7	2.6	2.7	2.5	3.7	1.9
Gross margin as % of net sales		37.2	37.7	38.0	37.4	37.3	37.4	37.4	36.8	36.6	36.3
Store expenses as % of net sales		29.8	30.2	29.8	29.4	29.7	29.0	29.3	29.6	29.1	29.4
Costs of central administration as % of net sales		5.0	5.0	4.7	4.5	4.7	4.3	4.2	4.1	4.1	4.1
Pre-opening expenses as % of net sales		0.2	0.3	0.4	0.3	0.3	0.2	0.1	0.1	0.3	0.3
Cash flow figures											
Cash flow from operating activities	8.1 %	115	107	107	144	95	104	153	156	124	67
Investments [2]	13.1 %	157	139	100	72	117	104	68	68	82	105
Proceeds from divestments		2	2	1	5	3	11	38	3	66	43
Earnings potential [3]	3.5 %	121	117	122	155	105	111	158	160	132	74
as % of net sales		3.3	3.3	3.6	4.9	3.5	3.7	5.6	6.0	5.1	3.0
Dividend distribution	13.3 %	21.6	19.1	19.1	15.9	15.9	15.9	15.9	13.7	13.7	13.6
Balance sheet and financial figures											
Total assets	(1.3)%	1,960	1,986	1,731	1,670	1,597	1,628	1,592	1,439	1,425	1,351
Non-current assets	9.9 %	1,124	1,023	786	729	722	668	621	601	565	569
Inventories	6.4 %	626	588	533	505	482	476	459	428	496	479
Cash and cash equivalents	(60.1)%	113	283	335	371	317	404	423	296	236	167
Shareholders' equity	3.9 %	1,011	973	922	862	823	792	730	655	591	516
Shareholders' equity as % of total assets		51.6	49.0	53.3	51.6	51.5	48.6	45.9	45.5	41.5	38.2
Return on shareholders' equity based on net income - in %		5.3	7.6	7.8	6.7	6.5	10.2	10.9	11.0	17.1	9.4
Net working capital	15.4 %	471	408	382	345	349	358	319	312	349	345
Additions to non-current assets	(43.6)%	176	312	100	72	117	104	68	68	84	105
Inventory turnover rate per year		3.9	4.0	4.1	4.0	4.0	4.0	4.0	3.7	3.4	3.4
Retail store data											
Number of stores		155	153	146	141	138	134	133	131	129	125
of which in Germany		98	99	97	92	92	91	92	92	92	91
of which in other European countries		57	54	49	49	46	43	41	39	37	34
Like-for-like sales growth in %		3.0	2.6	4.4	2.7	(1.4)	2.8	2.6	0.7	1.4	(0.2)
Sales area in m² (based on BHB)	1.9 %	1,805,729	1,771,480	1,704,187	1,646,712	1,597,949	1,549,085	1,513,722	1,480,216	1,446,794	1,384,901
Weighted average net sales per m² in €	2.2 %	2,068	2,023	1,985	1,940	1,912	1,933	1,903	1,828	1,839	1,810
Average store size in m²	0.6 %	11,650	11,578	11,673	11,679	11,579	11,560	11,381	11,299	11,215	11,079
Weighted average sales per store		24.1	23.4	23.2	22.7	22.1	22.3	21.7	20.7	20.6	20.1
Other information											
Employees - annual average - converted into full-time equivalents	3.1 %	15,016	14,570	13,967	13,390	12,674	12,188	11,520	11,357	11,005	10,528
Sales per employee in € 000s	1.8 %	247	243	240	239	238	246	246	237	236	235
Number of shares [4]		31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	15,903,500	15,903,500	15,740,060	15,685,020
Earnings per share in € [4]		1.66	2.28	2.19	1.77	1.64	2.43	4.76	4.32	6.04	2.98

1) EBIT adjusted for non-operating earnings items
2) Excluding investment in short-term financial deposits (2016/2017 financial year: € 30 million)
3) Cash flow from operating activities plus pre-opening expenses
4) Starting in the 2011/2012 financial year: change in number of shares following issue of bonus shares as of July 29,2011

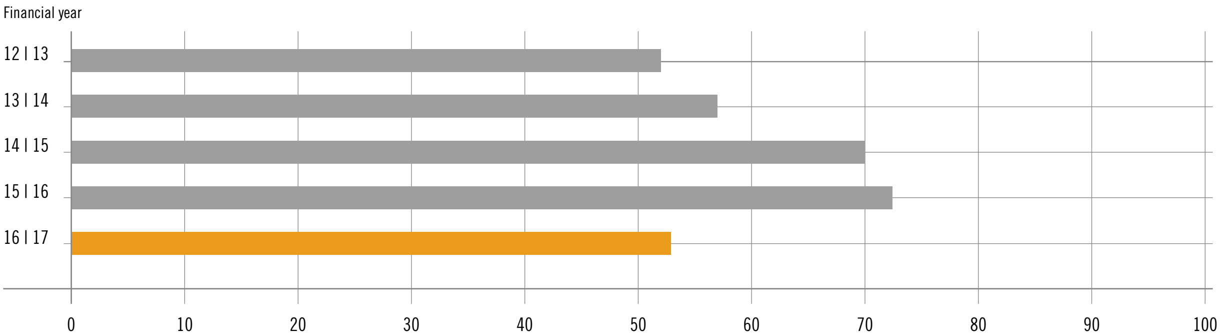
Structure of consolidated balance sheet
(€ million)



Earnings before interest and taxes
(€ million)



Net income for the year
(€ million)



COMPANY PROFILE

The HORNBACH Group is characterized by its ability to rise to the challenges of trading in DIY, home improvement and garden products, and to set new standards in the process.

Since the company was founded in 1877, five generations of the Hornbach family have been active in almost all areas of the construction sector – in the building trade, as manufacturers of prefabricated components and, for the first time in 1900, as builders' merchants.

As one of the pioneers in Germany and Europe, HORNBACH opened its first DIY store in 1968 and combined it with a garden center – at its time unique in Europe. This combination has since developed into a European standard in the DIY sector today.

In the second half of the 1980s, HORNBACH added a new dimension to the market with its concept of large DIY and home improvement megastores with garden centers. Today, an impressively presented range of around 50,000 top-quality DIY and gardening articles is available to DIY customers in spacious stores and at permanently low prices. Well-trained, service-oriented employees make project customers and DIY enthusiasts, especially those on the lookout for solutions for extensive renovation and construction projects, the focus of their activities.

The consistent implementation of the company's concept, coupled with the high expectations it places in the quality of its locations, its stores, its product range and employees, have facilitated the dynamic growth shown by the company in recent years and form the basis for further expansion. With an average sales area of more than 11,500 m² per store, HORNBACH has underlined its unique position in the DIY megastore with garden center segment and also has the highest sales area productivity of any leading DIY player in Germany. Net sales at the HORNBACH Baumarkt AG Group grew by 5.0 % to € 3,710 million in the 2016/2017 financial year. At the balance sheet date on February 28, 2017, the Group operated 155 DIY stores with garden centers in nine countries across Europe (98 of which in Germany) with total sales areas of around 1.8 million square meters.

Following the company's successful entry into the Austrian market in August 1996, it has consistently pressed ahead with its expansion into neighboring European countries. Stores were subsequently opened in the Netherlands, Luxembourg and the Czech Republic. The company's international growth continued with its expansion to Switzerland, Sweden and Slovakia. The entry into the Romanian market followed in the summer of 2007. As of February 28, 2017, HORNBACH was operating a total of 57 DIY megastores with garden centers in eight countries outside Germany. The international share of consolidated sales amounted to 45.0 % in the 2016/2017 financial year. The Group is nevertheless also continuing to pursue opportunities for expansion in Germany. Since December 1, 2010, the stationary retail business has been supplemented by HORNBACH's online shop. With its e-commerce activities, the Group is currently making targeted use of the opportunities presented by digitization in Germany, Austria, Switzerland, the Netherlands, the Czech Republic, and Luxembourg (status: February 28, 2017).

HORNBACH Baumarkt AG is a publicly listed stock corporation. Ordinary shares in the company (ISIN DE0006084403) are listed on the German Stock Exchange and are admitted to the subsection of the official market with additional admissions obligations (the "Prime Standard"). Of approximately 31.8 million ordinary shares in the company, at the balance sheet date on February 28, 2017 76.4 % were held by HORNBACH Holding AG & Co. KGaA, while 23.6 % were owned by independent shareholders.

HORNBACH is also present on the debt market with a corporate bond. On February 15, 2013, the company successfully placed a seven-year bond with a volume of € 250 million and an interest coupon of 3.875 % (ISIN: DE000A1R02E0). The issue proceeds were used to prematurely redeem the existing bond in place since November 2004 (interest coupon: 6.125 %) on February 25, 2013.

TO OUR SHAREHOLDERS

Dear Shareholders,

For us, the 2016/2017 financial year was pleasantly unspectacular. The stability and strength of our core operating business returned to the foreground once again, particularly after the non-operating, one-off items seen in the 2015/2016 financial year. We reached our sales and earnings targets at the HORNBACH Baumarkt AG Group while pressing uncompromisingly ahead with the forward-looking development of our business model.

In our stationary retail business, our expansion program saw three new DIY megastore openings in the year under report. We enlarged our international store network with new locations in Prague (Czech Republic), Rum near Innsbruck (Austria), and Amsterdam (Netherlands). In Germany, our stationary retail activities focused on existing sales surfaces. No new stores were opened in our domestic market and we removed one old location for which no extension options were available from the network. At the balance sheet date on February 28, 2017, we were operating 155 DIY stores with garden centers, of which 57 outside Germany. With the new store opened in The Hague in April 2017, we have since further boosted our presence in the Netherlands.

In our internet retail activities, we can report further dynamic developments. HORNBACH's online stores, already rolled out in Germany and five other countries within our European network, are highly popular with customers. Their pleasing growth rates contributed to the sales growth at the HORNBACH Baumarkt AG Group in the 2016/2017 financial year.

We increased our net sales at the Group by 5.0 % to € 3,710 million. On a like-for-like basis and net of currency items, we raised our group-wide sales by 3.0 %. As in the 2015/2016 financial year, the strongest growth momentum came from our retail business outside Germany.

In our international business, we increased our like-for-like sales by 5.1 %. In Germany, we improved our comparable store sales by 1.4 % and significantly extended our lead over the DIY sector again compared with the previous year.

Consistent with our forecast, we increased our consolidated operating earnings (EBIT) in the past financial year by 8.1 % to € 97.5 million. This was driven on the one hand by pleasing like-for-like sales growth and more favorable operating cost ratios at the Group. On the other hand, there was a marked reduction in non-operating, one-off charges compared with the 2015/2016 financial year, a development on which we report in the comments on our earnings position. All in all, our operating earnings strength normalized once again after the dip seen last year.

I know that some would like us not only to maintain our EBIT margin, but to get it back to the levels seen in the past, and that as quickly as possible. If we were just interested in maximizing our short-term profit, then we would behave differently. And we would have numerous options at our fingertips. We would invest far less in the customer-focused further development of our retail concept. We would not be channeling double-digit million amounts into our technological and logistical infrastructure, or such large volumes of cash into our e-commerce business, to say nothing of changing our price strategy to boost our gross margin…

That would not be HORNBACH and it would not fit our long-term, sustainable strategy. Above all, it would not be compatible with what has made us so successful with customers.

It is not just a matter of luck that we have received top rankings in prestigious consumer surveys year in year out since the end of the nineties, and that across the whole range of criteria relevant to customers' purchasing decisions. It is the result of consistent, unrelenting work, an approach that would also not be possible without the right earnings and financial strength.

Given all this, we are thrilled with our successful performance in Kundenmonitor Deutschland 2016. In what is Germany's most prestigious retail consumer survey, HORNBACH was ranked first among DIY and home improvement stores in terms of overall satisfaction (overall grade: 2.20). Not only that, HORNBACH came first in 19 and second in twelve more of the 46 other assessment categories. Among others, customers awarded us the top marks in the individual criteria of "Value for Money", "Product Quality", "Selection and Product Variety", and "Specialist Advice".

We especially appreciate the fact that DIY store customers see HORNBACH as the best provider when compared with its competitors in terms of its product range, prices, and above all specialist advice. Popularity with DIY customers – particularly when it comes to product variety and prices compared with competitors – is also the common thread running through international consumer surveys in recent years. Viewed this way, the results awarded in the 2016/2017 financial year show we are doing a lot of things right from a customer perspective. At the same time, they motivate us to tailor some aspects even more closely to customers' needs.

One of the greatest challenges in business, and one also affecting the DIY retail sector, is the digital transformation in lifestyles and consumption habits. The dividing line between online and offline is becoming increasingly blurred. The winners of this process will be those companies that are able to meet customers professionally on all stations of their individual "journeys". I am convinced that with our strategy we are superbly positioned, also compared with our competitors.

One basic component of our success is our price strategy. For more than 20 years now, we have stood for permanently low prices, fairness, and reliability. We deliberately avoid campaign prices, rebates, loss leaders, and the like. We work hard to maintain our price leadership and guarantee the best prices to our customers, and that across the whole of the product range. Not only that, we offer identical prices at our HORNBACH stores on location and at our internet stores. Our permanent low price guarantee applies not only for stationary competitors, but also for online products. As far as we are aware, we are the only provider in the German DIY sector to have extended its price guarantee this far.

The message is clear. When it comes to prices, customers are always on the safe side at HORNBACH. That creates trust and means that prices are calculable – a particularly important factor for customers tackling larger-scale construction or renovation projects.

We have emerged from our 2016/2017 financial year with new strength. We have achieved major milestones in developing our product range, merchandise presentation, and logistics. One factor that counts more than ever is to have well-trained, loyal employees capable of putting themselves into customers' shoes and offering competent advice even for the trickiest project, employees capable of dealing innovatively with trends and the latest technologies and deriving the right concepts on that basis. I am proud that we now have a group-wide total of around 17,000 employees made of that special stuff. I would like to take this opportunity to thank them all very warmly for their personal commitment and dedicated work.

On behalf of the Board of Management, I would also thank you, our shareholders, for the trust you have placed in us.

Steffen Hornbach
Chairman of the Board of Management
HORNBACH Baumarkt AG

REPORT OF THE SUPERVISORY BOARD

Albrecht Hornbach

Dear ladies and gentlemen,

In the past 2016/2017 financial year we dealt in great detail with the company's situation, perspectives, and strategic alignment. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with its Chairman, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

In the 2016/2017 financial year, the Supervisory Board and the Audit Committee held a total of four and five meetings respectively. Apart from the exceptions referred to in the following sentence, all members attended at least half the meetings of the Supervisory Board and of the committees to which they belonged in the year under report. Dr. John Feldmann and Hans Kroha each attended two meetings of the Supervisory Board. Average attendance at the meetings of the Supervisory Board and of its committees amounted to around 91 % and 90 % respectively. No conflicts of interest arose in the year under report.

At our meetings, we referred to the oral and written reports provided by the Board of Management and dealt in detail with the economic situation of the company, its business performance, corporate strategy and planning, investment and financial policy, opportunity and risk situation, risk management, and corporate governance and discussed these matters with the Board of Management. The Board of Management also provided regular written and oral reports on the company's current situation, and in particular on the development in its earnings and financial situation compared with the previous year and the budget. Budget variances were discussed and substantiated.

At the meeting held in May 2016 to approve the annual financial statements, we examined the annual and consolidated financial statements in great detail in the presence of the auditor, as was also the case in May 2017. Furthermore, the Audit Committee also reported on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The agenda for the Annual General Meeting, including the proposed resolutions, was approved. Furthermore, at its meeting in May 2016 the Supervisory Board followed the recommendation made by the Personnel Committee and appointed Wolfger Ketzler and Ingo Leiner, both members of the Board of Management, for further five-year terms through to February 28, 2022. At this meeting, the Board of Management also reported in detail on the company's logistics strategy.

At the meeting held directly before the Annual General Meeting in July 2016, the Board of Management reported on the current situation of the Group. Further topics included meeting dates and the structure of compensation paid to the Board of Management.

In December 2016, the current business situation, risk report and compliance report were discussed. Furthermore, at the recommendation of the Personnel Committee, the Chairman of the Board of Management, Steffen Hornbach, was appointed for a further five-year term until August 26, 2022. The same meeting dealt with the efficiency review of supervisory board activities and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). This was made permanently available on the company's homepage. HORNBACH Baumarkt AG has largely complied with and continues to comply with the recommendations of the Code with only a few exceptions. Further information about corporate governance at HORNBACH Baumarkt AG can be found in the joint report of the Board of Management and the Supervisory Board from Page 13 onwards.

At its final meeting in the past 2016/2017 financial year, held in February 2017, the Supervisory Board discussed the Group's current business situation, and discussed and approved the budget for the financial years 2017/2018 to 2021/2022. Furthermore, at the recommendation of the Personnel Committee, the appointment of Dr. Andreas Schobert to the Board of Management was extended by five years until December 31, 2022.

Committees and committee meetings
The Supervisory Board has established three committees. The current composition of the committees can be found on Page 12 of this Annual Report.

The Audit Committee met five times in the year under report, namely in May, June, September, December, and February. In May 2016, the Audit Committee discussed the annual financial statements of HORNBACH Baumarkt AG and the consolidated financial statements, management reports, proposed appropriation of profits, and audit reports, including the dependent company report, in the presence of the auditor and members of the Board of Management. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports compiled by the Board of Management on the company's financial situation, and the candidate to be proposed for election as auditor.

At the June meeting the financial report for the first quarter was discussed and in September 2016 the half-year financial report was addressed in the presence of the auditors. In December 2016, key focuses for the audit of the consolidated financial statements were determined together with the auditors and the guidelines concerning the approval of non-audit services by the Audit Committee were adopted. At the same meeting, the Committee dealt with the nine-month financial report, as well as the risk report, the compliance report, and the company's financial situation. In February 2017, the budget for the financial years 2017/2018 to 2021/2022 was addressed in detail. The internal audit plan for the 2017/2018 financial year was adopted at the same meeting.

The Audit Committee Chairman reported in detail on the work of the committee to the full Supervisory Board meetings.

The Personnel Committee held four meetings in the year under report. The object of the meetings was the forthcoming extension of the contracts with three members and the Chairman of the Board of Management. Further topics included the structure of compensation for the Board of Management, talent promotion, and succession planning.

It was not necessary to convene the Mediation Committee established pursuant to § 27 (3) of the German Codetermination Act (MitbestimmG).

Supervisory Board composition
We regret to report the loss of our Supervisory Board member Hans Kroha, who passed away on April 5, 2017 following

severe illness. He had represented the trade union ver.di on our Supervisory Board since July 2013. We will always honor his memory. Monika Di Silvestre replaced Hans Kroha on the company's Supervisory Board as of April 5, 2017.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG), audited the annual financial statements and the consolidated financial statements of HORNBACH Baumarkt AG as of February 28, 2017, as well as the combined management report and group management report of HORNBACH Baumarkt AG for the 2016/2017 financial year and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Moreover, KPMG confirmed that the Board of Management had suitably implemented the measures required by § 91 (2) of the German Stock Corporation Act (AktG), particularly those concerning the establishment of an early warning risk management system, and that the monitoring system was suitable for the early detection of any developments that could threaten the company's continued existence.

Key focuses of the audit in the 2016/2017 financial year included the existence and recoverability of inventories, the recoverability of property, plant and equipment, the recognition and measurement of provisions for bonuses, and the reporting on alternative key performance figures.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 23, 2017 and at the subsequent meeting of the Supervisory Board held on the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual and consolidated financial statements of HORNBACH Baumarkt AG prepared by the Board of Management as of February 28, 2017; the annual financial statements of HORNBACH Baumarkt AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

Furthermore, the Supervisory Board reviewed the report from the Board of Management on relationships with associated companies pursuant to § 312 of the German Stock Corporation Act (AktG). Neither this review nor KPMG's audit gave rise to objections. KPMG granted the following audit opinion:

"Based on the audit and assessment we have undertaken in accordance with professional standards, we confirm that
1. the factual disclosures made in the report are correct
2. the performance of the company in the transactions listed in the report was not incommensurately high.
3. for the transactions listed in the report no circumstances indicate any assessment materially different to that by the Board of Management."

Based on the conclusive findings of its audit, the Supervisory Board has no objections to the statement provided by the Board of Management at the end of its report pursuant to § 312 of the German Stock Corporation Act (AktG).

In a sector characterized by tough competition, also in terms of pricing, in both Germany and other regions, HORNBACH Baumarkt AG asserted itself well and either defended or further expanded its market position. Earnings were held back once again in the past financial year by high investments in the further digitization of the business model and one-off write-downs. The Supervisory Board thanks the Board of Management and all employees in Germany and abroad for the great commitment shown in the past financial year.

Bornheim, May 2017

The Supervisory Board
Albrecht Hornbach
Chairman

DIRECTORS AND OFFICERS

Supervisory Board

Albrecht Hornbach
Chairman
Chairman of Board of Management
HORNBACH Management AG

Kay Strelow*
Deputy Chairman
Section Manager, Berlin-Marzahn Store

Dr. Wolfgang Rupf
Further Deputy Chairman
Managing Partner, Rupf Industries GmbH,
Rupf Engineering GmbH and Rupf ATG Casting GmbH

Monika Di Silvestre* (since April 5, 2017)
State Retail Section Head at ver.di
Rheinland-Pfalz-Saarland

Mohamed Elaouch*
Section Manager, Mainz Store

Dr. John Feldmann
Supervisory Board Chairman of KION Group AG
Former Management Board member of BASF SE

Martin Fischer*
Professional Customer Advisor, Kempten Store

Christian Garrecht*
Security Specialist

Erich Harsch
CEO
dm-drogerie markt GmbH & Co. KG

Kerstin Holfert*
Section Manager, Dresden Store

Georg Hornbach
Head of Controlling Department
Universitätsklinikum Köln

Martin Hornbach
Managing Partner
Corivus Gruppe GmbH

Hans Kroha* († April 5, 2017)
State Retail Section Head at ver.di
Rheinland-Pfalz-Saarland

Brigitte Mauer*
Section Manager, Tübingen Store

Michael Reiland*
Sales Director at HORNBACH Compact

Joerg Walter Sost
Managing Partner
J. S. Consulting GmbH

Prof. Dr.-Ing. Jens P. Wulfsberg
Professor of Production Technology
Universität der Bundeswehr Hamburg

* Employee representative

Supervisory Board Committees

Audit Committee
Dr. Wolfgang Rupf Chairman
Dr. John Feldmann
Erich Harsch
Albrecht Hornbach
Martin Hornbach
Michael Reiland
Joerg Walter Sost
Kay Strelow

Personnel Committee
Dr. Wolfgang Rupf Chairman
Christian Garrecht
Erich Harsch
Michael Reiland
Joerg Walter Sost

Mediation Committee
Dr. Wolfgang Rupf Chairman
Kerstin Holfert
Albrecht Hornbach
Kay Strelow

Board of Management

Members and their areas of responsibility

Steffen Hornbach
Chairman
Strategic Development, Operative Store Management, Sales and Services

Roland Pelka
Deputy Chairman
Finance, Accounting, Tax, Controlling, Risk Management, Loss Prevention, Group Communications

Susanne Jäger
Procurement, Imports, Store Planning, Store Development, Quality Assurance, Environmental Issues

Wolfger Ketzler
Labor Director
Personnel, Real Estate, Construction, Technical Procurement, Internal Audit, Legal, Compliance

Karsten Kühn
Marketing, Market Research, Internal Communications

Ingo Leiner
Logistics

Dr. Andreas Schobert
Technology

CORPORATE GOVERNANCE

Declaration on Corporate Governance with Corporate Governance Report

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBACH has always accorded priority to high-quality corporate governance. It forms the basis for sustainable economic success and helps us enhance the trust placed in our company by our customers, business partners, investors, employees and financial markets. The standards and guidelines adhered to at the company over and above legal requirements are summarized below in the company's Declaration on Corporate Governance (§ 289a HGB), which also includes the Corporate Governance Report of the Board of Management and Supervisory Board (Point 3.10 DCGK).

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO § 161 AKTG DATED DECEMBER 2016

The Board of Management and Supervisory Board of HORNBACH Baumarkt Aktiengesellschaft hereby declare pursuant to § 161 of the German Stock Corporation Act (AktG):

I. Future-related section

The recommendations of the "German Corporate Governance Code" in the version dated May 5, 2015 and published in the Federal Official Gazette on June 12, 2015 will basically be complied with in future. No application will be made of the recommendations in Points 3.8 (3), 4.1.5, 4.2.3 (4) and (5), 4.2.5 (3), 4.3.3 Sentence 4, 5.3.3, 5.4.1 (2) and (3), 5.4.2 Sentence 3, and 5.4.6 (3) Sentence 1.

These deviations from the recommendations are due to the following considerations:

a) Point 3.8 (3):

In Point 3.8 (3), the Code recommends agreeing a specified deductible in any D&O insurance policy taken out for supervisory board members. No such deductible has been agreed at the expense of Supervisory Board members. This would reduce the attractiveness of Supervisory Board activities, and thus also the company's chances in the competition to attract qualified candidates. Furthermore, it would also improperly apply to employee representatives. The recommendation made in Point 3.8 (3) is therefore not followed.

b) Point 4.2.3 (4) and (5):

Furthermore, no application is made of the recommendations in Point 4.2.3 (4) ("severance payment cap") and (5) ("change of control compensation cap") of the Code. The deviation to Point 4.2.3 (4) and (5) is due to competition-related factors. Apart from that, it still has not been definitively clarified whether and how the recommendations in Point 4.2.3 (4) are legally enforceable.

c) Point 4.2.5 (3):

The compensation paid to the Board of Management is not presented separately for each member. The Annual General Meeting held on July 7, 2016 resolved to uphold the more guarded approach towards reporting management board compensation. For the same reason, no use is made of the "model tables" included in the "German Corporate Governance Code".

d) Point 4.3.3 Sentence 4:

According to Point 4.3.3 Sentence 4, important transactions with persons or enterprises closely associated with a member of the management board may only be carried out with the consent of the supervisory board. For this recommendation, which requires interpretation, the company can refer neither to established practice at German stock corporations nor to initial case law. As a matter of precaution, it has therefore declared a deviation. Due to application of the accounting standard IAS 24, however, the company has already ensured transparency concerning such transactions for many years now.

e) Point 5.3.3:

In Point 5.3.3, the Code recommends that the supervisory board should form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the supervisory board for its election proposals to the Annual General Meeting. The company's Supervisory Board has not formed such a committee. Based on our experience to date, the establishment of such a committee would not appear to be necessary.

f) Point 5.4.1 (2) and (3) and Point 4.1.5:
According to Point 5.4.1 (2) and (3) of the Code, the supervisory board should specify concrete objectives regarding its composition that should be taken into account in the recommendations made by the supervisory board to the competent election bodies and published in the corporate governance report. Furthermore, the supervisory board should specify a regular limit for the length of membership of the supervisory board. Overall, the company deviates from the recommendations made in Point 5.4.1 (2) and (3). In the interests of the company, in terms of the composition of its Board of Management and Supervisory Board, as well as of other management positions, HORNBACH Baumarkt AG accords priority above all to the knowledge, ability and expert experience of the individual in question. The same criteria apply when the Board of Management selects candidates for management positions at the company (Point 4.1.5 of the Code).

g) Point 5.4.2 Sentence 3:
In Point 5.4.2 Sentence 3, the Code recommends that the supervisory board should not include more than two former management board members. This is intended to ensure the autonomy of the supervisory board in its advising and monitoring of the management board. However, the Code does not stipulate any number of years for which a former member of the management board is impaired in this respect following his departure from the management board. As a matter of precaution, the company therefore declares that it deviates from the recommendation made in Point 5.4.2 Sentence 3, even though Dr. Wolfgang Rupf, Albrecht Hornbach and Martin Hornbach retired from their positions on the Board of Management of HORNBACH Baumarkt AG on October 31, 1996, October 31, 2001 and December 31, 2001 respectively.

h) Point 5.4.6 (3) Sentence 1:
In Point 5.4.6 (3) Sentence 1, the Code recommends that the compensation of supervisory board members be reported in the notes to the financial statements or the management report on an individual basis and broken down into its constituent components. Given that the amount of compensation paid to the Supervisory Board is governed by the Articles of Association, we see no need to disclose individual compensation packages.

II. Past-related section
The recommendations of the "German Corporate Governance Code" in the version dated May 5, 2015 and published in the Federal Official Gazette on June 12, 2015 were complied with apart from the deviations already listed and substantiated for the future in Section I.

Bornheim bei Landau, December 2016

HORNBACH Baumarkt AG
Supervisory Board Board of Management

The above Declaration of Conformity dated December 2016 has been published on the internet together with all earlier Declarations of Conformity and is also available as a download [www.hornbach-group.com/Declaration/HBM].

Share capital and share class

The share capital of HORNBACH Baumarkt AG amounts to € 95,421,000 and is divided into 31,807,000 no-par ordinary bearer shares with a prorated amount of share capital of € 3.00 per share.

Dualistic management structure

HORNBACH Baumarkt AG, based in Bornheim bei Landau, is governed by the requirements of German law, as well as by the provisions of its own Articles of Association. Accordingly, HORNBACH Baumarkt AG has a dualistic management structure, which assigns management of the company to the Board of Management and supervision of the company to the Supervisory Board.

Composition and modus operandi of the Supervisory Board

The Supervisory Board of HORNBACH Baumarkt AG consists of sixteen members and, consistent with the German Codetermination Act (MitBestimmG), includes equal numbers of shareholder and employee representatives. Shareholder representatives are elected by the Annual General Meeting. The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the casting vote in the second round, should renewed voting also produce a parity.

The Board of Management and Supervisory Board work together closely in the interests of the company. The Supervisory Board monitors the management of the company and accompanies the Board of Management in an advisory capacity. It appoints members of the Board of Management, dismisses them, and is responsible for concluding, amending and terminating their employment contracts. Any actions by the Board of Management that could materially influence the company's net asset, financial or earnings position require prior approval by the Supervisory Board. The Code of Procedure for the Supervisory Board contains a catalog of the transactions and actions requiring such approval. The Supervisory Board may at any time resolve to extend or reduce the list of such transactions.

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Baumarkt Aktiengesellschaft in the 2016/2017 financial year.

The Supervisory Board has the following committees:

- Mediation Committee
- Personnel Committee
- Audit Committee

The composition of the committees can be found on Page 12 of this report. Their activities have been described in detail in the Report of the Supervisory Board (Page 8 onwards).

Composition and modus operandi of Board of Management

The Board of Management of HORNBACH Baumarkt AG has a Chairman and a Deputy Chairman and consisted of seven members at the end of the 2016/2017 financial year. The composition and areas of responsibility of the Board of Management are presented on Page 12 of this report.

The Board of Management has a self-imposed Code of Procedure. The management of the company's business is the joint responsibility of all of its members. Compliance activities to ensure that the company adheres to laws, legal requirements, and its own internal guidelines represent a key management task. The Board of Management usually meets once a week, or on an ad-hoc basis when necessary.

The Board of Management provides the Supervisory Board with regular, prompt and extensive information on all matters relevant to the company's corporate strategy, planning, business performance, financial and earnings position, risk situation and risk management. Furthermore, it presents the group investment, financial and earnings budgets to the Supervisory Board both for the forthcoming financial year and for the medium term (five years). The Chairman of the Board of Management provides immediate report to the Supervisory

Board Chairman of any significant events of material relevance for any assessment of the situation, development, and management of the company. Transactions and measures requiring approval by the Supervisory Board are presented to the Supervisory Board in good time. Members of the Board of Management are obliged to disclose conflicts of interest to the Supervisory Board without delay and to inform other members of the Board of Management. Members of the Board of Management may only pursue sideline activities, in particular Supervisory Board mandates outside the Group, with the approval of the Supervisory Board Chairman.

Commitments pursuant to § 76 (4) and § 111 (5) AktG

Pursuant to § 111 (5) AktG, at its meeting on July 8, 2015 the company's Supervisory Board set the target share of women on the Board of Management, which amounted to 1/7 at the balance sheet date, at no less than 1/7 as of June 30, 2017.

With regard to the setting of a target share of women on the Supervisory Board of HORNBACH Baumarkt AG, the company is covered by codetermination legislation and therefore subject to the legal requirement of a minimum share of 30%.

At its meeting on August 31, 2015, the Board of Management of HORNBACH Baumarkt AG adopted a resolution pursuant to § 76 (4) AktG setting the share of women in the two management tiers below the Board of Management by June 30, 2017 at no less than the current levels of 6 % in the first management tier and 14 % in the second management tier.

Annual General Meeting

Shareholders of HORNBACH Baumarkt AG exercise their rights, including their voting rights, at the Annual General Meeting. Each ordinary share in HORNBACH Baumarkt AG grants one vote. The Annual General Meeting resolves in particular on the appropriation of profits, the discharge of the acts of the Board of Management and Supervisory Board, and elects shareholder representatives to the Supervisory Board, as well as the auditor. Shareholders are regularly informed of all significant dates by means of the financial calendar published in the annual and quarterly reports and on the company's homepage. The Annual General Meeting is generally chaired by the Supervisory Board Chairman. HORNBACH Baumarkt AG provides its shareholders with the services of a voting proxy bound to vote in line with instructions.

Reporting and auditing of annual financial statements

The HORNBACH Baumarkt AG Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The separate financial statements of HORNBACH Baumarkt AG are prepared in accordance with the German Commercial Code (HGB). In line with legal requirements, the auditor is elected by the Annual General Meeting. The Audit Committee prepares the Supervisory Board's proposal to the Annual General Meeting with regard to the auditor to be elected. The auditor is independent and is responsible for the audit of the consolidated and separate financial statements, as well as for the audit review of half-year financial reports. HORNBACH Baumarkt AG has a risk management system that is continually enhanced and updated to account for changes in conditions. The functionality of the early warning risk management system is checked by the auditors.

Transparency

The company's shareholders, all capital market participants, financial analysts, investors, shareholder associations and the media are regularly provided with up-to-date information about the company's situation and any material changes in its business situation. Here, the internet represents the main channel of communication (www.hornbach-group.com). All individuals with access to insider information in the course of their activities for the company are informed of the resultant obligations for them under insider law. HORNBACH Baumarkt AG Group reports on its situation and results in its

- Quarterly financial reports
- Half-year financial report
- Annual report
- Annual results press conference
- Conference calls with international financial analysts and investors
- Events with financial analysts and investors in Germany and abroad.

Dates of relevance to the company's regular financial reporting activities have been summarized in the financial calendar published on the internet at www.hornbach-group.com. Alongside this regular reporting, any information arising at HORNBACH Baumarkt AG which is not publicly known and which is likely to influence the company's share price significantly is published in the form of ad-hoc announcements.

Directors' dealings and share ownership

Members of the Board of Management and the Supervisory Board of HORNBACH Baumarkt AG, and individuals closely related to such, are required by § 15a of the German Securities Trading Act (WpHG) to disclose transactions involving shares in the company or related financial instruments.

In the year under report, the company was notified by members of the management or closely related individuals of five transactions pursuant to § 15a WpHG (directors' dealings). These involved the sale of 13,720 no-par ordinary shares in HORNBACH Baumarkt AG at prices of between € 32.52 and € 32.92 and a total amount of € 448,402. Securities transactions have been published on our website at www.hornbach-group.com [Investor Relations > Corporate Governance].

In line with Point 6.2 of the German Corporate Governance Code, we report ownership of shares in the company by members of the Board of Management and Supervisory Board where these directly or indirectly exceed 1 % of the shares issued by the company. Where the entire holdings of all members of the Board of Management and Supervisory Board exceed 1 % of the shares issued by the company, we report the entire holdings in the Corporate Governance Report broken down by Board of Management and Supervisory Board. At the balance sheet date on February 28, 2017, both individual holdings and the entire holdings by members of the Board of Management and Supervisory Board fell short of the 1 % threshold.

Relevant corporate governance practices

We base our entrepreneurial activities on the legal frameworks valid in the various countries in which we operate. This places a wide variety of obligations on the HORNBACH Baumarkt AG Group and its employees in Germany and abroad. As well as managing the company responsibly in accordance with the relevant laws, ordinances and other guidelines we have also compiled internal group guidelines setting out the system of values and management principles we adhere to at the Group. We have published the information referred to below under "Corporate Governance" in the "Investor Relations" section of our website at www.hornbach-group.com (see overview of articles).

Our system of values: the HORNBACH foundation

HORNBACH is a forward-looking, family-managed company and is characterized by a clear system of values. The values on which this system is based are honesty, credibility, reliability, clarity and trust in people. This system of values, which had already been lived over many decades, was summarized in the so-called "HORNBACH foundation" in 2004. This model forms the cornerstone for our group strategy, everyday behavior, and responsibility towards society. It lays down the basic values governing how we behave towards our customers, as well how our employees behave towards each other. Moreover, this foundation helps our shareholders, customers, and the general public, as well as our employees, to understand what the basis of our business success is [*Investor Relations > Corporate Governance*].

Compliance

In a competitive climate, only those companies which manage to convince their customers with their innovation, quality, reliability, dependability, and fairness on an ongoing basis will succeed in the long term. Here, we see compliance with legal requirements, internal company guidelines and ethical principles (compliance) as absolutely crucial. HORNBACH's corporate culture is based on these principles.

HORNBACH has a value-based compliance system which primarily pursues the objective of preventing compliance infringements before they arise, where possible. The "HORNBACH Foundation" forms the basis for HORNBACH's system of values and provides guidelines for the corporate strategy, for the day-to-day conduct of all employees, and for assuming entrepreneurial responsibility.

The principles included in the "HORNBACH Foundation" are fleshed out in the "HORNBACH Values".
[*Investor Relations > Corporate Governance > Compliance*].
These formulate the standards of conduct expected of managers and employees with regard to the stakeholder groups of "Government and Society", "Managers and Employees", "Customers, Suppliers and Competitors", and "Providers of Equity and Debt Capital". Among other factors, they set out how we meet our responsibility towards society, treat each other with respect, are committed to fair competition, act with integrity, and manage our financial reporting. The "HORNBACH Values" have been translated into all languages relevant to the Group and provided to all employees.

Compliance activities have a particular focus on the risks of "Improper conduct/corruption" and "Cartel law violations". Compliance officers are required to report on a half-yearly basis on the development in these risks and the potential materialization of new risks. Suitable measures have been laid down to reduce such risks.

At HORNBACH, adherence with compliance requirements is consistently expected of its employees and business partners and is also monitored. The Board of Management bears overall responsibility for compliance. One core component of HORNBACH's compliance system is the Compliance Committee, which acts as the topmost advisory body for compliance organization. The Chief Compliance Officer is responsible for coordinating group-wide compliance activities. This officer reports to the Board of Management and is responsible for permanently optimizing the Group's compliance organization and structures. The Chief Compliance Officer is supported by compliance officers operating on a decentralized basis in all of HORNBACH's regions and departments.

From mid-2017 onwards, the compliance system will be supported by an internet-based whistleblower system. This will provide employees, service providers, and suppliers in all countries in which HORNBACH operates with the possibility of communicating directly with the Chief Compliance Officer. This way, information about infringements of compliance requirements or suspicious cases can be submitted, also anonymously if preferred.

HORNBACH's compliance system is subject to regular reviews and enhancements.

CSR guidelines on compliance with social, safety, and environmental standards

The development of company guidelines governing minimum social standards, environmental protection, product safety and equality of opportunities forms an integral component of our corporate policy, as does monitoring compliance with such. Within our Corporate Social Responsibility (CSR) framework, we have issued group-wide guidelines to ensure that HORNBACH meets its responsibilities towards individuals, society at large, animals, and the environment [*Investor Relations > Corporate Governance > Corporate Social Responsibility*]. The CSR guidelines cover four areas of responsibility:

- **Minimum social standards**: In our procurement activities we ensure that acceptable minimum social standards are complied with in the manufacture of our products. We base our standards here on the conventions of the International Labor Organization (ILO), but also exceed these in some cases. With the assistance of standardized factory audits and targeted checks on location, we are actively working to ensure compliance with these standards. These efforts are continuing to focus above all on direct imports from non-EU countries. We are endeavoring to make sure that a continuously higher share of our suppliers and upstream suppliers commit to these regulations.

- **Rainforest protection**: In procuring timber and related products we ensure that the timber is cultivated and felled in accordance with generally accepted rules, especially those governing rainforest protection. For all timber products sold by HORNBACH, we make sure that the timber does not stem from forest depletion, but rather from sustainable forestry and that social welfare and occupational safety standards are adhered to in the timber production process. To this end, we work together with environmental protection organizations, such as Greenpeace and the WWF. HORNBACH stocks a large number of articles bearing the Forest Stewardship Council (FSC) seal for sustainable forestry. We only offer tropical woods that are certified by the FSC.

- **Product safety and production conditions**: We guarantee to our customers that all of our products meet the utmost safety standards. The company ensures this within the framework of an ongoing multistage process to assure the quality and audit the safety of its products. These checks are performed by employees in HORNBACH's quality management department with support from internationally certified inspection institutes. Alongside extensive product tests (e.g. initial sample inspections), the company focuses on auditing suppliers in the country of manufacture. The quality controllers also audit environmental and social welfare standards at the factories. This way, we aim to ensure that no forced labor or child labor is involved in the production of our merchandise. Not only that, we also perform random checks to audit compliance with strict quality standards along the entire procurement chain – from production via transport to sale at our stores.

- **Equality of opportunity (diversity)**: We ensure that our employees enjoy equal opportunities. We consistently oppose any kind of discrimination. HORNBACH is committed to promoting a liberal and open society based on shared values both within and outside the company. In this spirit we also signed the corporate "Diversity Charter" initiated for companies in Germany by the Federal Government in 2008.

COMPENSATION REPORT

The compensation report presents the basic features and structure of the compensation of the Board of Management and the Supervisory Board. It forms a constituent component of the group management report and, apart from the disclosure of individual compensation, is based on the recommendations of the German Corporate Governance Code.

Compensation of Board of Management

Compensation system at HORNBACH Baumarkt AG

Compensation of members of the Board of Management is determined in line with the requirements of stock corporation law and of the Act on the Appropriateness of Management Board Compensation (VorstAG), taking due account of levels of compensation customary in the market. Total compensation of members of the Board of Management comprises the components of fixed annual salary, annual variable compensation, plus ancillary benefits customary to the market and the company. Total compensation is regularly reviewed by the Supervisory Board in terms of its appropriateness.

- Fixed annual salary:
  Members of the Board of Management receive a fixed annual salary laid down in their individual contracts, which is paid monthly in twelve equal portions at the end of each calendar month. Fixed salaries are graded at different levels for the Chairman, Deputy Chairman, and regular members of the Board of Management.

- Variable compensation:
  Alongside fixed annual salaries, members of the Board of Management also receive annual variable compensation in line with the company's sustainable performance. This is based both on company targets and on targets agreed for individual members of the Board of Management. The key performance factor used to determine variable compensation is average consolidated net income after taxes (IFRS) at HORNBACH Baumarkt AG. Variable compensation is calculated on the basis of the three-year average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG.
  Individual variable compensation is separately graded at different levels for the Chairman, Deputy Chairman and for each regular member of the Board of Management. For no individual member of the Board of Management does it exceed 1 % of the three-year average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG. Of variable compensation calculated on the basis of average consolidated net income (IFRS), up to 25 % is calculated and determined in several stages following achievement of the targets individually set for each member of the Board of Management for the respective financial year. This process is based on targets individually agreed in advance for each member of the Board of Management. To set these targets, the Supervisory Board of HORNBACH Baumarkt AG and the respective member of the Board of Management reach a target agreement before the beginning of each financial year in which the individual targets, their respective percentage weighting and the respective degree of target achievement are determined by the full Supervisory Board. Following completion of the financial year, the full Supervisory Board determines the degree of individual target achievement for the respective member of the Board of Management.

  The remaining 75 % of variable compensation is determined on the sole basis of the average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG for the past three years. For all members of the Board of Management, the level of variable compensation is capped at a maximum of 150 % of the respective fixed salary of the individual member of the Board of Management. No further variable compensation is granted.

- Internal ratio of compensation components:
  No specific ratio of fixed salary to variable compensation components has been stipulated. In particular, apart from the cap at a maximum of 150 % of the fixed salary, no specific relationship has been determined for the amount of fixed annual salary compared with the amount of annual variable compensation.

  The structure of annual variable compensation ensures that the overwhelming share of such compensation (75 %)

is based on long-term factors, complying with the predominantly multiyear nature called for in the relevant legislation. In individual cases, the compensation system may be adapted by the full Supervisory Board, taking account of legal requirements, to the extent deemed necessary to account for the duties and performance of the respective member of the Board of Management.

Retirement and pension commitment

Members of the Board of Management of HORNBACH Baumarkt AG are granted individual contractually agreed pension commitments. These consist of a defined contribution pension scheme amounting to 25 % of their fixed salaries, payable in two equal shares of 50 % as of August 31 and February 28/29 of each year. The defined contribution pension scheme involves the following key aspects:

- Direct, defined contribution capital commitment executed by way of direct commitment
- Accumulation of policy reserve and netting with pension provisions in balance sheet
- Retirement pension payable upon retirement from age 65 or earlier if appropriate, but at the earliest from age 60 in line with the respective Supervisory Board resolution either as a one-off payment, in several annual installments or as a pension, one-off payment of pension capital upon death or invalidity
- Guaranteed return on pension capital of 2 % p.a. plus excess return on capital commitment
- The claims are vested for all current members of the Board of Management
- Insurance against insolvency via the Pension Assurance Association (PSVaG), Cologne, with additional cover by recognizing trust assets for the pension contributions
- Annual 1 % indexing in current pensions
- Voluntary contributions permitted by members of Board of Management from fixed and variable compensation components due in future in unspecified amounts up to a maximum of one total annual compensation package.

Regulations governing premature departure from the company (severance pay regulations)

The employment contracts concluded with members of the Board of Management do not provide for the payment of compensation in the event of their activity on the Board of Management being terminated prematurely without compelling reason or due to a change of control. HORNBACH Baumarkt AG thus deviates from the recommendations made in Point 4.2.3 (4) and (5) of the German Corporate Governance Code. In individual cases, payments may nevertheless be made, based on a corresponding Supervisory Board resolution, to a member of the Board of Management retiring from the Board prematurely, particularly when the reasons for such retirement do not lie with the respective member.

Additional benefits

Members of the Board of Management of HORNBACH Baumarkt AG receive the following further specific benefits to an extent customary to the market and the Group. Some of these are deemed benefits in kind and taxed accordingly:

- Reimbursement of travel and other expenses incurred in the interests of HORNBACH Baumarkt AG based on the actual amounts incurred
- Grants towards private health insurance, voluntary retirement pension scheme or alternatively contributions to a private life insurance policy
- Accident insurance covering fatality and invalidity
- Temporary continuation of payment of compensation in event of sickness or death
- Claim to provision of a company car for work-related and private use.

Compensation of the Board of Management for the 2016/2017 financial year

Total compensation of the Board of Management of HORNBACH Baumarkt AG for the 2016/2017 financial year amounted to € 5,687k. Of this sum, € 2,805k constituted fixed compensation and € 2,882k involved performance-related components. Post-employment benefits of € 663k were incurred for active members of the Board of Management in the 2016/2017 financial year (pension provision endowment). Pension provisions for former members of the Board of Management total € 1,268k (2015/2016: € 1,247k). All pension provisions are offset by corresponding value credits.

Given the company's size and its market position, we believe that the total compensation of the Board of Management is appropriate. At the 2016 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the compensation of members of the Board of Management on an individual basis up to and including the 2020/2021 financial year (opting-out clause),

Compensation of the Supervisory Board

Supervisory Board compensation is governed by § 15 of the Articles of Association of HORNBACH Baumarkt AG. As well as reimbursement of expenses, each Supervisory Board member receives fixed compensation of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed compensation.

Supervisory Board members who also sit on a Supervisory Board committee receive additional fixed committee compensation of € 9,000 for the Audit Committee, € 6,000 for the Personnel Committee, and € 4,000 for the Mediation Committee, should this be convened. This compensation is retrospectively payable together with the fixed compensation. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the respective committee compensation.

The compensation of the Supervisory Board for the 2016/2017 financial year totals € 515k. Of this, € 390k is basic compensation and € 125k for committee activity. Compensation totaling € 364k was paid for the 2016/2017 financial year for further Supervisory Board positions at HORNBACH Holding AG & Co. KGaA or HORNBACH Management AG (basic: € 245k; committee: € 119k).

CORPORATE SOCIAL RESPONSIBILITY

In the interests of corporate social responsibility (CSR), the HORNBACH Group has imposed a set of rules governing its entrepreneurial activity. These ensure that the company meets its responsibilities towards people, the environment, animals, and society as a whole [see www.hornbach-group.com: *Investor Relations > Corporate Governance > Corporate Social Responsibility*].

Responsibility for the environment

Timber only from responsible forestry

We are committed to attracting customers' attention to timbers bearing the quality seal of the Forest Stewardship Council® (FSC®). Back in 1996, our company provided the WWF and Greenpeace with a voluntary undertaking not to import any uncertified tropical timber. HORNBACH guarantees that all of the timber products it offers come from certified sources. One focus of the activities of our quality management, environment & CSR department involves working to protect rainforests and promote responsible forestry that also meets social and work safety standards. Given this focus, HORNBACH was very well prepared for the European Timber Regulation (995/2010) that took effect in 2013. Among other requirements, this regulation includes a duty of care for all timbers and timber products imported into the EU and also bans the import of illegally felled timbers.

Most extensive FSC-certified product range

Many consumers see DIY stores as having a particular obligation to ensure that only products from responsible forestry are on offer. To meet our customers' expectations in this area while also doing justice to our own commitment to sustainability, in 2007 HORNBACH became the first international DIY chain to be awarded the FSC Chain of Custody certificate GFA-COC-002007. This enables the timber supply chain to be checked from the place of origin through to the end product. The company's entitlement to this certificate is reviewed in annual audits performed by an independent testing institute. At all HORNBACH stores, trade companies and DIY enthusiasts can choose from a range of several thousand timber products bearing the FSC seal.

Against hand-hewn natural stone

Stone is often hewn by hand in inhumane conditions. By consistently delisting these products, HORNBACH Baumarkt AG is sending a clear signal. It guarantees that it only offers stone from responsible sources. All direct import suppliers and their manufacturing sites are audited by accredited, certified audit institutes at regular intervals, and at least every twelve months. We have based the audit scope and contents on the accepted BSCI, ISA 9001ff, ILO, ISO 14001, ISO 26001, and SA 8000 standards and reinforced these in line with our own stricter requirements. Upstream suppliers of our own suppliers – in this case quarries – are directly instructed by our suppliers to comply with our guidelines.

New approach to plant protection

Last year already, HORNBACH removed plant protection products containing glyphosate from its product range. The company also delisted products with insecticides classified as endangering bees (B1) or involving neonicotinoids. With these measures, HORNBACH is supporting customers in keeping their gardens as natural as possible and helping to reduce any risks to human beings or the environment. HORNBACH is taking this approach in close dialog with suppliers and manufacturers and is working with these to investigate joint alternatives and include these in its product range. Customers receive competent advice from our garden center employees as to how the new products work and how they should be applied. At the BHB sector association, HORNBACH will also be further promoting a dialog about garden products in the sector.

HORNBACH builds on healthy living

Consumers' sensitiveness towards contaminants in the air and in products has increased sharply. DIY enthusiasts and construction clients are paying increasing attention to the composition of the materials used. This is accompanied by the trend towards viewing health not simply as the opposite of illness. The focus here is on wellness, relaxation, and a pleasant room climate.

In terms of housing construction and renovation, energy efficiency became the top priority at the latest upon the introduction of the Energy Savings Ordinance. The problem here is that insulation and suitably built windows mean that rooms are now virtually air-tight. The climate in the room remains constant, but it is difficult for harmful substances in the air to escape. The healthy living project aims to help consumers avoid contaminant substances when building and designing their interiors. These products can be recognized as they bear certified seals such as "Blue Angel" or the seal of the Eco Institut.

Competent energy-saving partner

Construction clients and homeowners are obliged to implement new requirements resulting from legally binding energy-saving ordinances. HORNBACH is a competent partner here and has the product range necessary to help customers implement their energy-saving projects. New windows and doors offer substantial potential savings, as do façade, roof and basement ceiling insulation. Our product range also offers a broad range of energy-saving items – from efficient lighting systems to standby killers, water saving articles and upgraded insulation, as well as new pellet and high-tech reverse cycle heating systems.

All-round waste concept with customer service

Given the increasing scarcity of resources, a commitment to the environment in today's world would be unthinkable without recycling. To minimize the number of journeys required, HORNBACH's stores and logistics centers use compressors for high-volume waste, such as paper and plastics. An all-round waste concept promotes the separation, and thus recycling, of recyclable fractions as secondary commodities, while also helping to reduce the volume of non-recyclable waste.

Our customers in Germany have the possibility to deposit broken energy-saving light bulbs, LEDs, and luminescent tubes free of charge in suitable containers at the stores. With this voluntary service introduced in November 2011, HORNBACH is making it easier for consumers to dispose of these items during its usual opening hours, which are significantly more generous than at municipal collection points. Since 2013, HORNBACH has played a leading role in the framework negotiated by the BHB DIY sector association and the VKU municipal company association. This involves accepting old or broken small electrical appliances, such as drills, fret saws, and battery-powered drills, as well as non-DIY products such as shavers and toasters. The old appliances accepted are then collected free of charge by municipal disposal companies. The aim here also involves helping to protect the environment and avoid such products being illegally disposed of in normal household waste. Due to the voluntary measures already in place, we were well prepared for the mandatory acceptance of old electrical appliances now introduced by law.

Online recycling portal for operations and administrations

Numerous different types of waste arise at our HORNBACH DIY megastores with garden centers. To simplify the disposal of this waste, in 2015 HORNBACH launched its own web-based recycling portal. This option for ordering and organizing the collection of disposal containers was initially launched in the Netherlands, parts of Germany, and Austria. Today, the portal is used by 135 stores in six countries, by seven logistics centers, and by various administration departments.

Expansion in resource collection activities

In the 2014/2015 financial year, we began using special trucks, HORNBACH's "Resource Liners", to organize the proprietary collection of resources from our stores. The HORNBACH Resource Liners are now on the road in large parts of Germany, as well as in Austria, the Netherlands, Sweden, Luxembourg, and Switzerland. These enable us to collect large volumes of resources at the stores and then to deliver them to the desired recycling locations, such as paper factories. HORNBACH can thus ensure that further processing of the resources takes place directly. A further benefit is that these trucks – when they are not loaded with resources – can be integrated into the store supply network. This way, empty runs can be avoided and stores located on the trucks' disposal routes can be supplied with the necessary merchandise. This concept is due to be extended further.

CSR system for early risk identification

Working in cooperation with the Austrian startup Sophiesystems and the University of Vienna, HORNBACH has developed a so-called CSR map. Behind the name, there is an IT system that enables potential supply risks to be identified earlier and ideally to be avoided. The CSR map is based on two pillars. On the one hand, it includes a wealth of data. These include all relevant article master data for HORNBACH's product range, as well as all supplier audit reports submitted to HORNBACH by the audit institutes. Internationally recognized indices are deposited, initially for each non-European country. These include corruption indices, environmental indices (linked to country-specific legislation), and social welfare indices. Together, all this data is used to present a so-called risk tree on the basis of which individual articles can be assessed. On the other hand, the CSR map is connected to a news system that processes items of news in real time. The news items are presented in relationship to the products, factories, and suppliers entered in the system. In the event of environmental catastrophes, for example, the system can react immediately and color the articles thereby affected red.

Logistics: combining efficiency with environmental protection

HORNBACH is also making a contribution towards protecting the environment with the work performed by its logistics centers. In its logistics activities, the Group continued to work on reducing its CO_2 emissions in the 2016/2017 financial year. By opening new logistics locations and additional delivery plants, and by managing processes with suitable software, the Group managed to reduce total transport distances. Furthermore, alongside trucks the Group also deployed alternative means of transport. Heavy goods, such as tiles, are transported across the Alps by rail. Not only that, containers from the import hubs of Rotterdam and Hamburg are returned not by truck, but by inland waterway and rail.

A further lever for reducing CO_2 emissions involves smartly managing deliveries of merchandise to our stores. In cooperation with suppliers, the key focus is on optimal freight capacity utilization and efficient route planning. Comprehensive transport planning enables reliable deadlines to be issued to haulers and customers at the store. That significantly reduces waiting times and saves resources in terms of truck deployment. Furthermore, it leads to better working conditions for drivers and employees alike.

The introduction of full-range electronic data exchange between HORNBACH and its suppliers is creating greater transparency in the supply chain. Easier data accessibility removes the need for large quantities of printouts. As a member of the Logistics Workgroup at the BHB sector association, HORNBACH is targeting and promoting solutions aimed at digitizing and standardizing the processes involved.

To save resources, one key priority in our logistics involves freeing merchandise from unnecessary packaging material. This is largely made possible by working with reusable, durable transport containers which HORNBACH uses in circuits between its suppliers, logistics centers, and stores.

Low consumption volumes in car pool

Ecological and economic topics also play a key role when it comes to managing the Group's vehicle pool. The CO_2 limits for the three listed vehicle classes range from 125 to 150 g/km. When updating the portfolio, the Group favors models with low consumption and the latest engine technologies. The average consumption (based on manufacturers' data) of the vehicles ordered in the past financial year amounted to 4.3 liters per 100 kilometers, while average CO_2 emissions (based on manufacturers' data) came to 112.3 g/km.

To supplement the plug-in hybrid vehicles already listed, the first pure electric vehicle has also been procured for the pool. Depending on technical advances, particularly with regard to range, the use of electric vehicles as company cars is also conceivable for the future.

By accounting for fuel consumption in the calculation of the monthly mobility installment, drivers are incentivized to select lower consumption vehicles.

Energy-saving measures at stores and logistics centers

The company also actively takes account of environmental protection factors when building and operating its stores. The new lighting technology has benefited not only all new stores – a further existing store was upgraded in the year under report, so that 125 stores now have the new technology. At core, this sustainable lighting technology involves introducing electronic control gear for the operation of halogen metal vapor lamps. Central lighting control now allows the lighting to be dimmed and means that only that volume of light actually required in a given area is used. What's more, the lighting system is tailored to make optimal use of daylight. The installation of large light domes and long light bands in the roofs of new stores also assists in using natural light. The new lighting technology not only increases the operating lifetime of the lighting equipment by around 50 %, but also helps reduce annual energy costs. Not only that, it has also noticeably improved lighting quality in the shelves.

A further contribution towards saving energy is due to the Building Control Technology (BCT) that we included in our new building standards several years ago. This system manages the operating times of energy-consuming systems in line with requirements, thus optimizing energy consumption volumes. A total of 142 of our stores have been equipped with the latest technological standard.

Efficiency is also the top priority in terms of heating energy. Here, consistent waste heat recovery in the ventilation system ensures a lower volume of consumption. This technology is used when building new stores, as is enhanced heat insulation based on a new façade system. This has benefited the new stores opened in the year under report.

Based on weekly consumption statistics (electricity and heating energy), each HORNBACH store is able to gain a precise picture of its own energy efficiency. By drawing on various energy-saving technologies, we managed to further reduce the annual CO_2 emissions of our group-wide store network in the year under report.

Alongside the efforts made by our DIY stores with garden centers, several innovations have also been introduced at HORNBACH's logistics centers. The first stage involved performing light analyses, which served to identify potential energy savings. A pilot project involving the installation of LED lighting at the logistics centers has been successfully completed and initial implementation work is planned for the new financial year. Not only that, the tests with high-speed doors were also successful and helped to reduce heating costs.

Responsibility for our employees

Diversity and equality of opportunity in our workforce

The rejection of any kind of discrimination is an absolute priority in our behavior toward our employees. Ethnic origin, gender, age, sexuality, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities that count are specialist competence, a willingness to learn, and team spirit. By signing the "Diversity Charter" in 2008, the company clearly underlined its commitment to a working environment that is free of prejudice. People from a total of 68 countries across five continents work together in the nine countries in which HORNBACH operates.

For future opportunities – against shortage of specialists

HORNBACH has supported the CHANCENWERK project for several years, thus underpinning its claim to offer the same training opportunities to young people irrespective of their origins, gender, or religion. The aim of the project is to promote young people from different, in some cases difficult social backgrounds. In cooperation with CHANCENWERK, HORNBACH is supporting school pupils in three towns in Germany. Among other measures, our employees offer active job application training, our own trainees report to schools on their day-to-day work, and the DIY stores on location offer work experience and – in the best case – training posts.

Personnel development: everyone can become everything

This motto is the principle underlying the development of specialist and management staff at HORNBACH. The company only trains the staff it actually needs, with a trainee quota of more than 7 percent. This means that all trainees and participants in dual academic and vocational study programs have good chances of receiving a job at HORNBACH when they complete their training. In the period under report, 68 percent of trainees were offered jobs. Of these trainees and students, 95 percent passed their exam at the first attempt. Not only that, former trainees are increasingly seizing the opportunity to enter dual academic and vocational study programs at HORNBACH upon completion of their vocational training. HORNBACH has for the first time offered a proprietary course at Baden-Wuerttemberg State Cooperative University (DHBW) in Karlsruhe and thus created a basis to establish a robust network for students employed at the company.

HORNBACH prefers to recruit its managers from among its own staff where possible. Separate qualification modules have been developed for all store positions, and these are embedded into an all-round next generation development program. This career path is open to all employees. The only qualities that count are performance and personal potential.

Key focus on employee satisfaction

The success of the HORNBACH Group is closely linked to the competence and motivation of its employees. Their willingness to roll up their sleeves, and thus continually improve the Group's earnings, is honored by our bonus model. To enable our employees to participate even more closely in the company's success, we also offer the opportunity of acquiring employee shares in HORNBACH Baumarkt AG.

The employee survey KLARTEXT was performed for the third time already in 2016. The commitment index thereby derived remained consistently high at 78 out of 100 points. The feedback quota of 71 % also shows the high level of trust employees have in HORNBACH and their clear interest in working continually to enhance their working environments and team spirit.

Even in a positive working environment, the possibility of conflicts arising between employees or with their superiors cannot be excluded. To offer employees a neutral point of contact, HORNBACH has created the position of ombudsman. He acts as contact partner to employees and may also be initially approached without involving the opponent in the conflict. If it is apparent at the first meeting that mediation is required between the two parties to the conflict, then the ombudsman takes the initiative. His job is then to listen to both sides, moderate and ideally solve the problem. The employee should not suffer any disadvantage due to this mediation. This neutral point of contact is used by employees from across the Group and has met with high acceptance levels.

Responsibility for society

HORNBACH Foundation: "People in Need"

One particular sign of our social responsibility towards our employees was the establishment in 2002 of the HORNBACH Foundation "People in Need". This has since offered assistance in cases of accidents, severe illness, or tragic cases of fatality. Employees across the company document their solidarity with the Foundation with their "Employees help Employees" campaign, in which HORNBACH Baumarkt AG doubles the donations collected. Moreover, the Foundation is also a contact point for people outside the company who are in situations of dire need. All in all, the Foundation supported 107 individuals with a total of almost € 170,000 in the year under report. Of this sum, € 37,000 went to colleagues affected by flooding due to strong rainfall in 2016.

Key focus on children and young people

However, our commitment to society is not limited to the work performed by the Foundation. HORNBACH supports the work of many local associations and organizations at and around our locations. When selecting projects, priority is generally accorded to projects offering long-term benefits to children and young people. Environmental protection and heritage conservation are two other areas in which the company is active to the benefit of society.

Committed to the Rhine-Neckar metropolitan region

As a member of the Rhine-Neckar European Metropolitan Region Association, our Group is helping promote the region. The aim is to communicate its attractiveness, power of innovation, and economic strength to the outside world. Once every two years the Rhine-Neckar metropolitan region organizes its "Volunteers' Day", in which interested parties are invited to get actively involved in social and welfare projects in their local areas. Just the thing for HORNBACH: In 2016 the company participated once again by issuing vouchers while numerous employees rolled up their sleeves and helped decorate, build, saw and, weed. Colleagues from a variety of departments came along to help out at Landau Zoo, at schools and kindergartens, and at other projects in the region.

Ensuring compliance with international minimum standards

For more than ten years now, HORNBACH has voluntarily made every effort to ensure that minimum social standards are complied with at factories producing goods for the company. To this end, HORNBACH commissions independent audit institutes to check and evaluate factories' compliance with international standards at regular intervals. Among others, the aspects audited and assessed include compliance with local and government environment legislation, no use of forced labor, and the existence of a minimum working age. Furthermore, compliance with further standards is monitored. These include: no requirement to deposit identity papers with employers, no threatening let alone inflicting of physical or psychological violence, compliance with fire protection and occupational safety standards, and the availability of sufficient numbers of easily accessible escape routes. A detailed description can be found in HORNBACH's CSR Policy [*Investor Relations > Corporate Governance > Corporate Social Responsibility*].

HORNBACH only buys its products from suppliers who acknowledge these basic rules of social responsibility. The conventions of the International Labor Organization (ILO) serve as a basis for HORNBACH's own regulations and have been extended in line with our requirements. Our suppliers also have to ensure compliance with these standards at their own upstream suppliers. HORNBACH is working actively and insistently to ensure compliance with these regulations and to make sure that any problem areas are systematically identified and immediately remedied.

THE HORNBACH BAUMARKT SHARE

Key figures for the HORNBACH Baumarkt share		2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Year-end price[1)]	€	29.72	25.77	32.60	30.50	26.00
12-month high[1)]	€	31.50	38.60	34.98	31.10	26.40
12-month low[1)]	€	23.69	24.51	26.56	24.00	24.20
Shares issued	Number	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000
Market capitalization	€ 000s	945,304	819,666	1,036,908	970,114	826,982
Earnings per share	€	1.66	2.28	2.19	1.77	1.64
Price / earnings ratio[2)]		17.9	11.3	14.9	17.2	15.9
Book value per share	€	31.77	30.59	29.02	27.10	25.83
Price-to-book ratio[3)]		0.9	0.8	1.1	1.1	1.0
Cash flow from operating activities per share	€	3.62	3.35	3.38	4.54	2.98
Price / cash flow ratio[4)]		8.2	7.7	9.7	6.7	8.7
Dividend per share[5)]	€	0.68	0.68	0.60	0.60	0.50
Distribution total[5)]	€ 000s	21,629	21,629	19,084	19,084	15,904
Payout ratio[5),6)]	%	41.0	29.8	27.4	33.9	30.5
Dividend yield[7)]	%	2.3	2.6	1.8	2.0	1.9
Performance including dividend	%	18.6	(19.5)	8.9	19.7	5.8
Performance excluding dividend	%	15.3	(21.0)	6.9	17.3	3.8
Average daily trading volume[1)]	Number	8,201	10,246	10,476	2,968	1,548

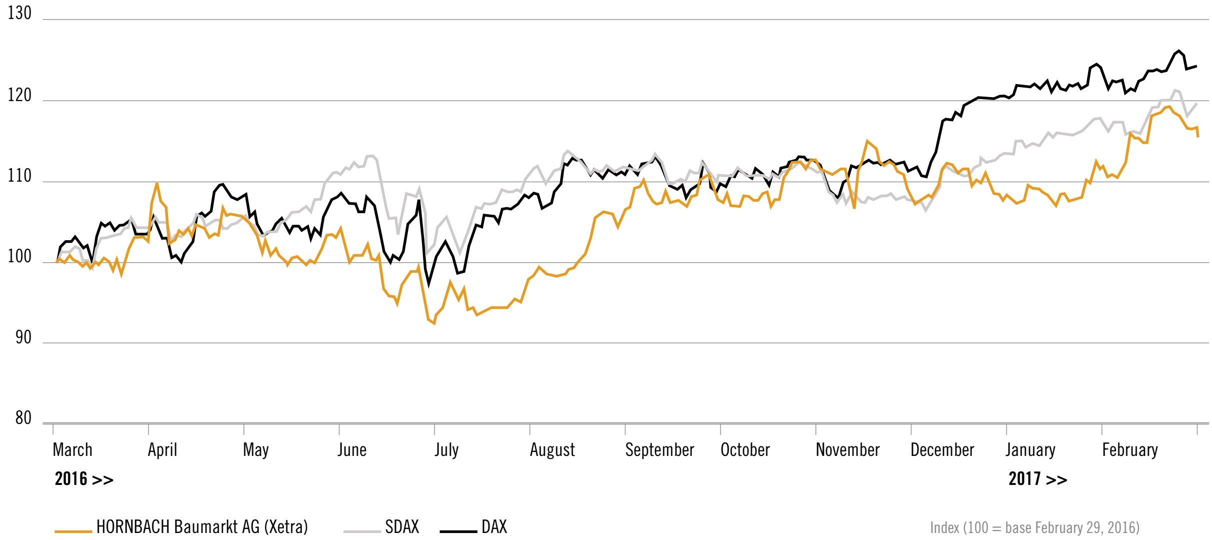
1) In Xetra trading
2) Year-end price ÷ earnings per share
3) Year-end price ÷ book value per share
4) Year-end price ÷ cash flow from operating activities per share
5) 2016/2017: proposal to 2017 Annual General Meeting
6) Dividend per share ÷ earnings per share
7) Dividend per share ÷ year-end price

2016/2017 on the stock markets

A year to forget – that is presumably what most equity investors thought in early 2016. Fears of a marked slowdown in the Chinese economy sent the world's top indices spiraling downwards. Germany's lead index, the DAX, witnessed particularly dramatic developments in the first weeks of the year, plummeting from 10,743 points at the end of 2015 to 8,699 points at the end of February 2016. This 19% drop marked the worst start to a year for around 50 years. Subsequent months gave investors no cause to jump for joy, but the DAX, Dow Jones, and other major equity indices nevertheless made up lost ground. This was followed by months of volatile sideward movement, in which stock markets benefited from the fact that central banks in Europe, the US, and Japan maintained their expansive monetary policies.

The adverse impact on markets of the British decision on June 23, 2016 to leave the European Union was less severe than originally feared. The surprising result of the US elections also failed to frighten investors. On the contrary – following Donald Trump's election as the new US President, the DAX set out in December 2016 on a rapid year-end rally, surging by around 8 % in the final month of the year alone. Among other reasons, this was due to Trump's intention to stimulate the US economy with extensive infrastructure measures and tax relief, which led to a significant depreciation in the value of the euro against the US dollar. This means that German companies can sell their products more cheaply on international markets, leading investors to expect earnings growth. Thanks above all to December, investors can afford to be satisfied when looking back on 2016. The DAX closed the year up almost 7 % at 11,481 points.

Share price performance: March 1, 2016 to February 28, 2017



Despite numerous political and economic uncertainties, the stock markets began 2017 on a thoroughly robust note. After all, they might have been concerned on the one hand about the Euro crisis, which was never really mastered and is currently returning as a source of uncertainty. On the other hand, forthcoming elections in key European states, with the accompanying fears that right-wing populists would gain ground, were also a potential cause for concern.

HORNBACH Baumarkt share price performance

During the 2016/2017 financial year (March 1, 2016 to February 28, 2017) HORNBACH Baumarkt's share price developed more or less in parallel with the positive overall market, albeit at a slightly lower level. The DAX increased in value by almost a quarter in the period under report, the SDAX improved by 20 %, while the share price of HORNBACH Baumarkt AG, excluding the dividend payment in July 2016, rose by 15 %. Including the distribution, and assuming reinvestment of the dividend, the share price rose by 19 %. Right at the beginning of the new financial year, the share price benefited from the pleasing sales figures published on March 22, 2016 for the overall 2015/2016 financial year. After that, however, the share price headed towards its annual low, which came at € 23.69 on June 24, 2016.

This was followed just a few days later by a rally, which brought the share price to an interim high of € 29.70. After temporary profit taking, the share then rose to levels of more than € 30.00. The annual high came shortly before the end of the financial year, at € 31.50 on February 17, 2017. The share then closed at € 29.72 in Xetra trading on the balance sheet date on February 28, 2017 (February 29, 2016: € 25.77). The market capitalization therefore amounted to € 945 million (February 29, 2016: € 820 million).

Key data about the HORNBACH Baumarkt share	
Type of share	No-par ordinary bearer shares
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification number	608440
ISIN	DE0006084403
Stock market ticker	HBM
Bloomberg	HBM GY
Reuters (Xetra)	HBMG.DE
Financial year	March 1 to February 28 (29)
Initial public offering	11.15.1993
Number of shares	31,807,000
Share capital	95,421,000 €

Interesting for value investors

The parent company HORNBACH Holding AG & Co. KGaA still owns 76.4 % of the total of around 31.8 million shares issued. The remaining 23.6 % are held in particular by international institutional investors. The HORNBACH share is particularly interesting to value investors with a long-term focus, as they see the further sustainable growth potential harbored by the business model. The following figures demonstrate how this approach can be worthwhile. An investment in the Baumarkt share at the balance sheet date on February 28, 2002 is now – 15 years later – worth well over twice as much (plus 137 % excluding dividend payments). Not only that, the investment is ahead of the market average (DAX 30 performance index: plus 135 %). Including the dividend distribution and assuming that this was consistently reinvested, the investment would even have grown by 241 %. Put simply: An investment of € 10,000 would now be worth € 23,700, or even € 34,100.

Share buyback for renewed employee stock program

The annual issue of employee shares has a long tradition at HORNBACH: Since the 1993/1994 financial year, the year of the company's IPO, employees entitled to subscribe have been offered the opportunity to acquire shares in HORNBACH Baumarkt at advantageous prices and thus to benefit from the company's sustainable business performance and long-term success. A total of 2,491 HORNBACH Group employees participated in last year's employee stock program, with 48,050 shares being transferred in all.

Strong support from analysts

As of the balance sheet date on February 28, 2017, the HORNBACH Baumarkt share was regularly covered by five financial analysts (2015/2016: four) in research reports and studies. All analysts recommended buying the share as of the balance sheet date. Their average share price target of € 32.96 represented upward potential of almost 11 % compared with the closing price at the end of our 2016/2017 financial year. The current list of banks and research institutes regularly reporting on HORNBACH and their respective recommendations for the share can be viewed at the HORNBACH Group's website under *Investor Relations > Shares > Analysts' Recommendations*.

Dividend policy

HORNBACH pursues a continuity-based dividend policy which aims to maintain a fair balance between shareholders' interests on the one hand and financing the company's growth on the other hand. The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose a dividend of € 0.68 per share with dividend entitlement, and thus at the same level as in the previous year, for approval by the Annual General Meeting on July 6, 2017. The distribution total, which amounts once again to € 21,629k, corresponds to a distribution quota of 41.0 % (2015/2016: 29.8 %) of earnings per share.

Financial communications on a wide variety of levels

Our investor relations activities provided shareholders, analysts, the financial media, and the general public with prompt information on the business performance of the HORNBACH Baumarkt AG Group in the past financial year. All quarterly reports, annual reports, press releases, and additional financial information were published on the internet communications platform of the HORNBACH Group (www.hornbach-group.com). The Annual General Meeting, the annual results press conference, analysts' press conferences, and meetings with investors give us opportunity to maintain our dialog with the capital markets. Moreover, we draw on personal contacts to investors and the media to present our company's objectives and strategy.

FINANCIAL CALENDAR 2017

May 29, 2017	Annual Results Press Conference 2016/2017 Publication of Annual Report DVFA Analysts' Conference
June 30, 2017	Quarterly Statement: 1st Quarter of 2017/2018 as of May 31, 2017
July 6, 2017	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 28, 2017	Half-Year Financial Report 2017/2018 as of August 31, 2017
December 21, 2017	Quarterly Statement: 3rd Quarter of 2017/2018 as of November 30, 2017

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COMBINED MANAGEMENT REPORT

GROUP FUNDAMENTALS

The Group at a glance

The HORNBACH Baumarkt AG Group (hereinafter "HORNBACH") is one of Europe's leading do-it-yourself (DIY) retail companies.

At the balance sheet date on February 28, 2017, the Group operated 155 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 98 locations are in Germany. A further 57 stores are located in the following other European countries: Austria (14), the Netherlands (12), Luxembourg (1), the Czech Republic (10), Switzerland (6), Sweden (5), Slovakia (3), and Romania (6). With total sales areas of more than 1.8 million m², the average size of a HORNBACH DIY store with a garden center amounts to around 11,600 m².

In the 2016/2017 financial year (March 1, 2016 to February 28, 2017), the HORNBACH Baumarkt AG Group generated net sales of around € 3.71 billion. This makes HORNBACH the third-largest retail group in the German DIY sector and the fifth-largest player in Europe.

At the balance sheet date on February 28, 2017, the Group had a total of 16,929 employees (2015/2016: 16,600), of which 7,340 outside Germany (2015/2016: 7,034).

The diagram on Page 37 presents the current group structure and provides an overview of the most important shareholdings of HORNBACH Baumarkt AG. Complete details about the scope of consolidation and consolidated shareholdings are provided in the notes to the consolidated financial statements.

HORNBACH Baumarkt AG is a listed stock corporation. Its parent company HORNBACH Holding AG & Co. KGaA holds 76.4 % of the total of around 31.8 million ordinary shares in the company (ISIN DE0006084403, Prime Standard). 23.6 % of its shares are in free float (status: February 28, 2017). The company was founded in 1877 and is still family-managed, now in the fifth generation.

Group business model

Retail activities

HORNBACH has an absolute focus on project customers. On the one hand, those are home improvement enthusiasts and professional customers wishing to implement extensive renovation and construction projects under their own steam in their houses, apartments, or gardens (do-it-yourself). On the other hand, they also include customers wishing to select their products themselves, but then to have all of the work involved in their project, including all services, performed by a competent partner (do-it-for-me). All of the company's activities are tailored to these target groups. HORNBACH thus offers its customers easily accessible locations, a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, a reliable and transparent permanently low price policy, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in well-known consumer surveys.

The average product range stocked by HORNBACH stores encompasses around 50,000 articles in the five following divisions: Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

HORNBACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio of 155 locations (February 28, 2017) in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company is relying not just on its stationary retail business, but is also building on the development potential harbored by e-commerce. As a high-performing virtual DIY store and garden center, HORNBACH's online store is gradually being rolled out to all of the countries in which HORNBACH operates stores. The guiding principle – HORNBACH should offer customers all channels they need to implement their projects.

Real estate activities

The HORNBACH Baumarkt AG Group has a substantial real estate portfolio. This predominantly relates to retail properties used by the company itself. At the balance sheet date on February 28, 2017, 29 % of the sales areas were owned by the Group. HORNBACH Immobilien AG and its subsidiaries owned a further 28 % of the Group's DIY sales areas. The overriding strategy is for the overall HORNBACH Holding AG & Co. KGaA Group to retain ownership of at least half of the real estate, measured in terms of sales areas, used for operating purposes.

Reporting segments

The delineation of business segments is consistent with the internal reporting structures used by the Board of Management of the HORNBACH Baumarkt AG Group to manage the company. The "Retail" segment (until 2014/2015 financial year: "DIY stores") comprises the 155 DIY megastores with garden centers pooled at the HORNBACH Baumarkt AG Group (2015/2016: 153) and our e-commerce retail activities. Sales at the HORNBACH Baumarkt AG Group are primarily generated in the Retail segment, i.e. in the operating retail business. The "Real estate" segment comprises the retail properties owned by the HORNBACH Baumarkt AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are summarized in the "Headquarters and consolidation" reconciliation column.

Management system

The key management figures outlined below are used to manage both the HORNBACH Baumarkt AG Group and HORNBACH Baumarkt AG.

Most important key management figures

For a retail company like the HORNBACH Baumarkt AG Group, **sales** are the central management figure for its operating business. This figure directly indicates our success with customers. Our sales performance is reported as net total sales in euros.

Operating earnings (EBIT) are the central key management figure for planning, measuring, and managing the Group's operating earnings performance. EBIT stands for earnings before interest and taxes. In the income statement, EBIT is calculated as gross profit in euros less costs (selling, store, pre-opening, and administration expenses) plus other income and expenses. The most important key figure we use to manage the operating earnings performance is **adjusted EBIT** (adjusted operating earnings). To calculate this key figure, EBIT is adjusted to exclude non-operating earnings items. Non-operating expenses (e.g. impairment losses on non-current assets, additions to provisions for onerous contracts) are added to EBIT, while non-operating income (e.g. income from disposals of properties, income from write-ups of assets impaired in previous years) are deducted. Adjusted EBIT is therefore particularly useful for comparing the company's operating earnings performance over time or in forecasts.

Alternative key performance figures

In this Annual Report, we also refer to alternative key performance figures not defined in accordance with IFRS when commenting on our asset, financial, and earnings position.

In terms of our DIY stores with garden centers, the rate of change in **like-for-like sales net of currency items** is presented as an alternative key performance figure. This figure serves to measure the performance of our operating business and as an indicator of the organic growth of our retail activities (stationary stores and online shops).

The calculation of like-for-like sales is based on all DIY stores with garden centers that have been in operation for at least one full year. By contrast, no account is taken of stores newly opened, closed, or subject to substantial conversion work in the past twelve months. Like-for-like sales are calculated without sales tax (net) and based on the local currency for the reporting period under comparison (currency-adjusted). As a performance indicator, the rate of change in like-for-like sales net of currency items is therefore independent of currency factors. In addition, we also calculate like-for-like sales on a euro basis and including currency items in the non-euro countries within our European store network.

Selling, store, pre-opening, and administration expenses are key parameters for assessing the Group's earnings strength. We use **cost ratios** calculated as percentages of net sales as alternative key performance figures and also as cost trend indicators. Since the 2016/2017 reporting year, allocable non-operating income and expenses have been recognized in the relevant functional expenses items (previously: under other income and expenses). To comment on our operating earnings performance, we also report where necessary on functional expense items net of non-operating earnings items.

The **store expense ratio** corresponds to selling and store expenses divided by net sales. Selling and store expenses involve those costs incurred in connection with operating stationary DIY stores with garden centers and online shops. These mainly involve personnel expenses, costs of premises and advertising expenses, as well as depreciation and amortization. Moreover, this item also includes general operating expenses, such as transport costs, expenses, maintenance and upkeep.

The **pre-opening expense ratio** is obtained by dividing pre-opening expenses by net sales. Pre-opening expenses relate to those expenses arising at or close to the time of the construction up to the opening of new stationary DIY stores with garden centers. Pre-opening expenses mainly consist of personnel expenses, costs of premises, and administration expenses.

The **administration expense ratio** corresponds to the quotient of administration expenses and net sales. General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of stationary DIY stores with garden centers and with the development and operation of online retail (e-commerce) which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses. As well as purely administrative administration expenses, these expenses also include project-related expenses, and in particular expenses relating to the increasing digitization of our business model (interconnected retail).

EBITDA serves as an alternative key performance figure to comment on the earnings performance in the period under report. EBITDA, which stands for earnings before interest, taxes, depreciation and amortization, has a cash flow character, as non-cash-effective depreciation and amortization are added to operating earnings (EBIT).

To comment on our asset position, we refer to the **equity ratio.** This corresponds to shareholders' equity as posted in the balance sheet divided by total capital (total assets). The Group has not set any defined target for its shareholders' equity. To safeguard our financial stability and independence, our basic objective is rather to permanently ensure a stable, high equity ratio.

Net financial debt is an alternative key performance figure used to comment on the financial situation. This key figure is calculated as total current and non-current financial debt less cash and cash equivalents and – where applicable – less current financial assets (financial investments). To avoid negative interest on cash investments, starting at the beginning of the 2016/2017 financial year the Group channeled part of its cash and cash equivalents into near-liquid short-term financial investments with terms of between more than three months and a maximum of twelve months. The inclusion of current financial assets in the calculation of net financial debt enhances comparability with the previous reporting period.

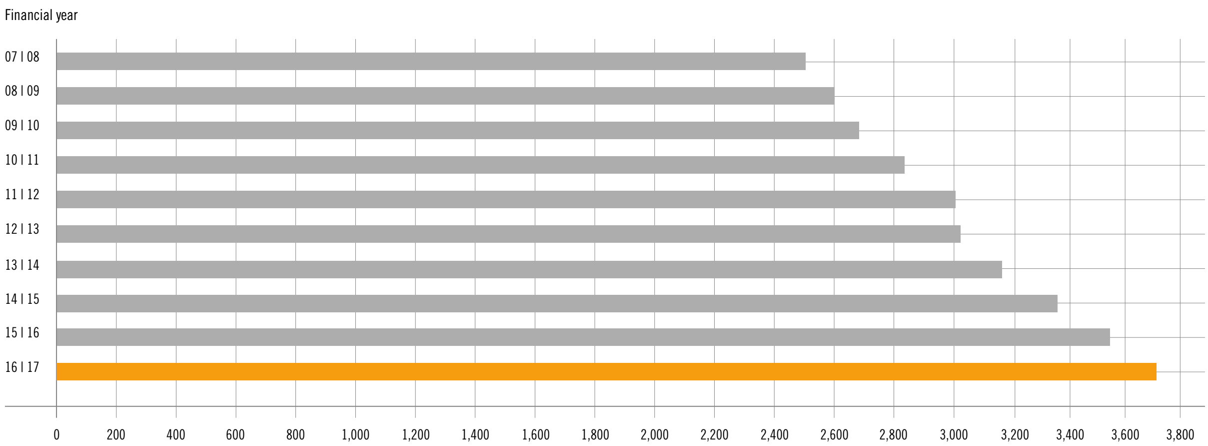
Further key management figures

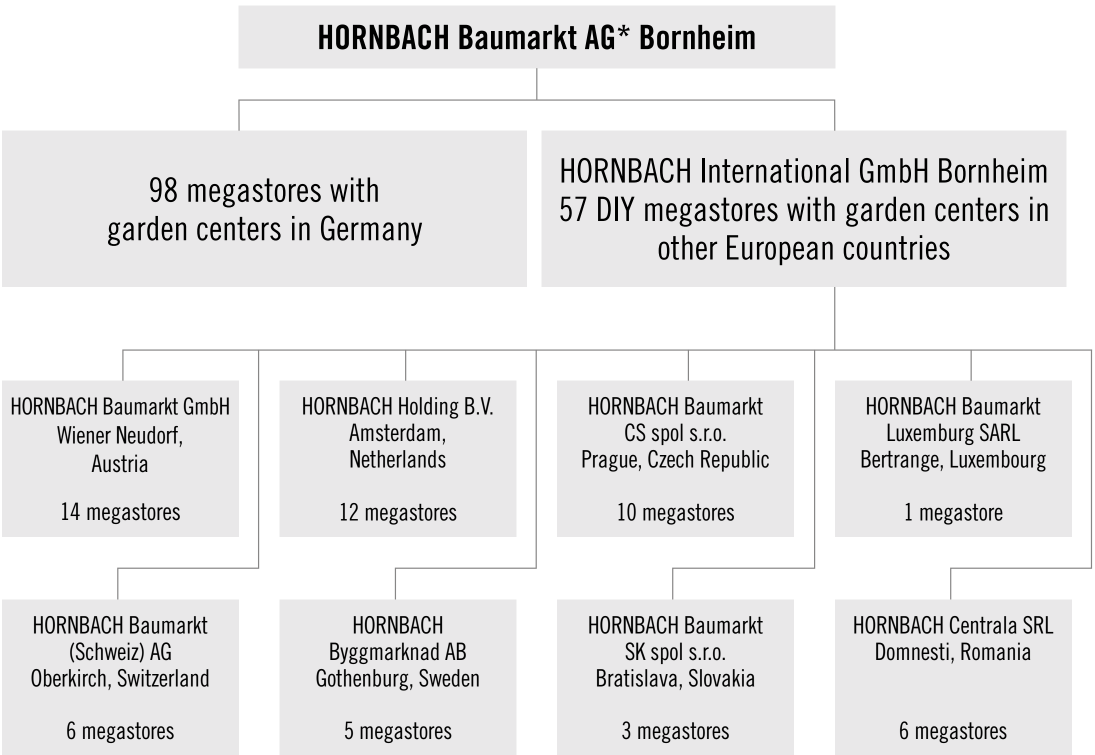
The development in the **gross margin** offers information about our gross trading performance. This margin is defined as gross profit (net balance of sales and cost of goods sold) as a percentage of net sales. This key management figure is chiefly influenced by developments in procurement and retail prices, changes in the product mix, and currency items resulting from international procurement.

In managing its financial and asset position, the HORNBACH Baumarkt AG Group pursues the objective of safeguarding the Group's liquidity at all times and covering the financing requirements for the Group's sustainable growth at the least possible expense. Other key management figures relevant in this respect include cash-effective **investments** in land, buildings, plant and operating equipment for new and existing DIY stores with garden centers, and intangible assets. Here, we aim to strike a balance between our operating cash flow and our budgeted investments.

For retail companies, the **inventory turnover rate** is an important indicator of merchandising efficiency. We define inventory turnover as the ratio of material input costs to average inventories. The arithmetic mean of the period opening and period closing balances is taken as the average volume of inventories. The higher the inventory turnover rate, the lower the inventories and thus the volume of liquidity committed. Our aim is therefore to sustainably improve our inventory turnover rate at an above-average high level compared with competitors while also ensuring product availability.

Sales performance of the HORNBACH Baumarkt AG Group
(net, € million)





* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 28, 2017

BUSINESS REPORT

MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

International framework

Global economy

According to estimates compiled by the International Monetary Fund (IMF), global economic output grew by 3.1 % in 2016 compared with the previous year. Numerous indicators pointed to an improvement in the global economic climate.

Business framework in Europe

The European economy maintained its slow, but nevertheless solid recovery. Based on figures released by the European Union statistics authority (Eurostat), gross domestic product (GDP) in the European Union as a whole (EU 28) grew by 1.9 % in 2016 – and thus at the same rate as in the previous year. Real-term GDP in the Euro area (EA 19) rose overall by 1.7 % in 2016.

The nine European countries in which HORNBACH operates also showed a uniformly positive picture in terms of their economic developments. Based on the data available upon completion of this report, the growth rates achieved in 2016 were in most cases ahead of the previous year's figures. The top performer here was Romania, with GDP growth of 4.8 %, followed by Luxembourg, which latched onto its strong growth in previous years and generated further growth of 4.2 % in 2016. Sweden and Slovakia posted strong performances, with growth rates of 3.3 % in both countries. The Czech Republic (2.4 %), the Netherlands (2.2 %), and Germany (1.9 %) were in mid-field, while only Austria and Switzerland fell slightly short of the European average, with growth rates of plus 1.5 % and plus 1.3 % respectively.

Construction industry, consumer spending, and retail

Following the turnaround seen in 2014, the European construction sector has now returned to a solid growth course. Based on estimates compiled by the Euroconstruct Group, European construction volumes in its 19 partner countries grew overall by 2.0 % to € 1.44 trillion in 2016. The main source of momentum was housing construction, which rose by almost 4.0 % in the past year. At € 671 billion, investments in building, enhancing the value, and maintaining residential property also accounted for the largest share of the cake in nominal terms. The second-largest share was attributable to non-residential construction (€ 462 billion), followed by civil engineering (€ 308 billion). Consistent with these figures, building permits rose by 10.3 % in the EU 28 and 11.7 % in the euro area. Germany, Sweden, and Slovakia even exceeded these figures.

Average energy prices continued to place a significant damper on inflation in 2016. As a result, the HICP rate of inflation for the euro area rose to a mere 0.2 %, thus only marginally exceeding the annual average for 2015 (0.0 %). Combined with a further reduction in unemployment, real-term disposable incomes rose significantly and stimulated private consumers' propensity to spend. Private consumer spending showed solid real-term growth of 2.3 % in the EU 28 countries and 2.0 % in the euro area and was one of the key factors driving economic growth in Europe.

The effects of this also made themselves felt in the European retail sector. Average retail sales in 2016 (excluding automobile sales and adjusted for calendar factors) grew year-on-year by 2.8 % in the EU 28 countries and by 1.9 % in the euro area. All countries in HORNBACH's network except Switzerland reported positive growth rates. Luxembourg, Romania, and the Czech Republic exceeded the European average with substantial, in some case double-digit, growth rates.

The indicators available on the basis of sector association surveys also point to a successful year in the DIY store and garden center sector in 2016. In most of the European countries for which data was available, nominal and like-for-like sales in the DIY retail sector increased compared with 2015, in some cases significantly so.

Business framework in Germany

The macroeconomic situation in Germany in 2016 was once again characterized by solid, consistent economic growth. Based on calculations compiled by the Federal Statistical Office, real-term gross domestic product (GDP) rose by an annual average of 1.9 % in 2016. Economic output thus grew slightly faster than in the previous year (plus 1.7 %).

This GDP growth was chiefly driven by strong domestic demand. This is also one of the most important factors in assessing the framework for DIY stores and garden centers in Germany. Private consumer spending benefited from the favorable situation on the labor market and from significant increases in real-term disposable incomes resulting from low inflation. As in the previous year, price-adjusted private consumer spending rose by 2.0 %.

Construction activity and construction trade

Taken as a whole, the economic data for the construction industry paints a favorable picture for 2016. Strong demand for property and low borrowing interest rates provided housing construction in particular with a further boost in the past year. Construction investments in Germany grew by 3.0 % in 2016, with all segments generating momentum: housing construction (plus 4.2 %), public sector construction (plus 2.6 %), and commercial construction (plus 0.4 %).

All in all, building permits showed further strong growth, with the construction of a total of 375,400 housing units approved in 2016. According to the Federal Statistical Office, that represents a year-on-year increase of 21.6 %, or around 66,700 units. The positive trend which began in 2009 thus continued once again in 2016. The last time a higher number of units was approved was in 1999 (440,800).

Given this positive demand, the construction trade is on an expansion course. Sales grew nominally by 6.3 % to € 107 billion in 2016. Housing construction accounted for the greatest momentum, with growth of 8.5 % to € 40 billion, while sales growth in public sector construction and commercial construction was slightly less dynamic at 6.5 % and 4.0 % respectively.

GDP growth rates in countries with HORNBACH DIY megastores and garden centers

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2016	2nd Quarter 2016	3rd Quarter 2016	4th Quarter 2016	Calendar Year 2016 vs. 2015
Germany	**0.7**	**0.5**	**0.1**	**0.4**	**1.9**
Austria	0.6	0.1	0.6	0.6	1.5
Czech Republic	0.4	0.9	0.2	0.4	2.4
Luxembourg	0.0	1.2	1.0	1.3	4.2
Netherlands	0.7	0.7	0.8	0.6	2.2
Romania	1.3	1.5	0.5	1.3	4.8
Slovakia	0.6	0.8	0.7	0.8	3.3
Sweden	0.3	0.6	0.3	1.0	3.3
Switzerland	0.3	0.6	0.1	0.1	1.3
Euro area (EA 19)	**0.5**	**0.3**	**0.4**	**0.4**	**1.7**
EU28	**0.4**	**0.4**	**0.4**	**0.5**	**1.9**

Retail and DIY

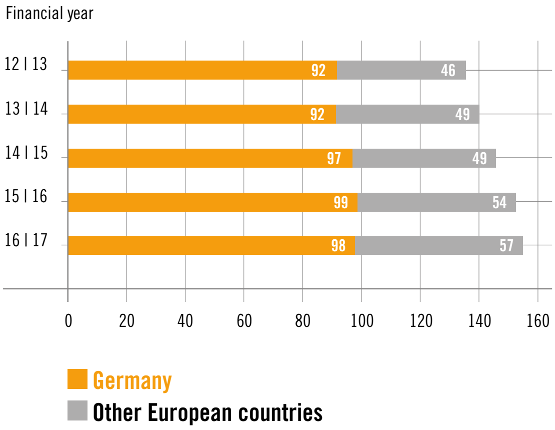
Supported by the stable situation on the labor market and increasing private household incomes, sales in the German retail sector showed further growth in 2016. Based on figures released by the Association of German Retailers (HDE), net aggregate sales rose to € 482.2 billion. Sector sales therefore grew year-on-year by 2.3 % in nominal terms and by 1.6 % in real terms. The key growth driver once again in 2016 was online retail (e-commerce), where net sales most recently came to € 44.0 billion (2015: € 39.8 billion). This corresponds to growth of 10.6 %. Online sales thus accounted for a 9.1 % share of total retail sales in 2016 (2015: 8.3 %).

Based on figures released by the BHB sector association, the German DIY sector can also look back on a successful year. According to the BHB forecast, large-scale DIY stores with sales areas of more than 1,000 m² increased their gross nominal sales by 1.5 % to € 18.24 billion in 2016 as a whole (2015: € 17.97 billion). Like-for-like sales, i.e. excluding sales at stores newly opened, closed or subject to substantial conversion measures in the year under report, also showed slight growth of 0.8 %. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) increased by 1.3 % to € 3.80 billion (2015: € 3.75billion). The market volume of all DIY and home improvement stores thus rose by 1.5 % to around € 22.0 billion in 2016.

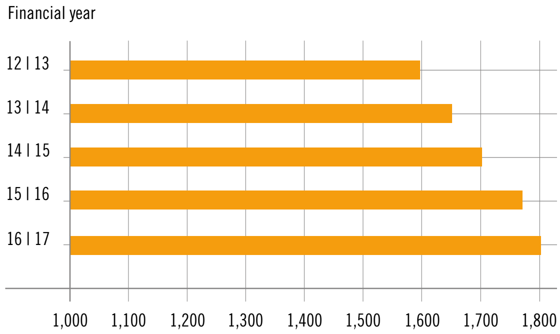
The trend towards e-commerce has continued apace for home improvement, construction materials, and garden product ranges as well. According to figures compiled by market researchers at Teipel Research & Consulting, stationary retailers, mail order players, and pure online retailers generated gross sales of € 2.77 billion with DIY products in Germany in 2016 (2015: € 2.43 billion). That represents growth of 14.0 % compared with 2015 and corresponds to around 5.8 % of the extended core DIY market (DIY and home improvement stores, specialist retailers, small-scale formats, and distance mail order), which most recently came to € 47.9 billion.

Stores and sales areas at the HORNBACH Baumarkt AG Group

(No. of HORNBACH DIY megastores with garden centers)



(Total sales areas in thousand square meters)



BUSINESS PERFORMANCE

Impact of the business framework on the business performance of the Group

Overall, the macroeconomic and sector-specific framework developed positively in the 2016/2017 financial year (March 1, 2016 to February 28, 2017). Specifically, private consumer spending and the boom in construction, both of which supported by favorable levels of consumer confidence, created a solid foundation of demand for DIY retail goods and services. This also benefited the business performance of the HORNBACH Baumarkt AG Group in the countries in which it operates across Europe.

Assessment of 2016/2017 business performance at the HORNBACH Baumarkt AG Group

Having passed through substantial earnings volatility in the previous 2015/2016 financial year, the business performance of the HORNBACH Baumarkt AG Group returned to calmer waters in the 2016/2017 year under report. This year's figures more clearly reflect the operating stability of our business model once again.

We met the sales and earnings forecasts for the HORNBACH Baumarkt AG Group. We increased consolidated sales by 5.0 % to € 3.71 billion (2015/2016: € 3.53 billion). Consolidated operating earnings (EBIT) rose 8.1 % to € 97.5 million (2015/2016: € 90.2 million). EBIT adjusted to exclude non-operating earnings items came to € 102.8 million and was thus 3.5 % ahead of the previous year's figure (€ 99.3 million).

- This was due on the one hand to the pleasing level of like-for-like sales growth achieved in the Group's DIY retail business (currency-adjusted: plus 3.0 %) and to more favorable operating cost ratios at the Group. These factors enabled us to more than offset the expected reduction in the gross margin.

- On the other hand, structural adjustments in the income statement also contributed to the improvement in consolidated operating earnings in the past financial year. These resulted from rental agreements amended or newly concluded at individual DIY locations since the fourth quarter of 2015/2016. The reclassification of these former operating lease agreements as finance leases led rental expenses to be replaced by depreciation and interest expenses. In the period under report, this benefited operating earnings (EBIT) by almost € 5 million. Earnings before taxes, by contrast, were reduced by € 2.5 million.

- Furthermore, non-operating charges on earnings resulting from IAS 36 impairments and provisions for onerous contracts decreased from € 12.9 million in the 2015/2016 financial year to € 5.0 million in the 2016/2017 year under report. This factor had a correspondingly beneficial impact on earnings.

All these factors stabilized the earnings strength of the HORNBACH Baumarkt AG Group following the marked deterioration in profitability in the 2015/2016 financial year. Not only that, we consistently pressed ahead with digitizing our business activities with additional outlays in a medium double-digit million euro range. This way, we substantially boosted our strategic position in the European DIY market in the past 2016/2017 financial year and broadened the foundation for sustainable earnings growth at the HORNBACH Group in the years ahead.

Comparison of actual and forecast business performance

Expansion

In the Outlook section of our 2015/2016 Annual Report, we announced that the pace of expansion in the 2016/2017 financial year would noticeably decrease compared with the two previous years (2014/2015 and 2015/2016) and that our focus of investment would be outside Germany.

We planned to open up to three new DIY megastores outside Germany and to close one location no longer capable of further extension in Germany. We met these forecasts. We opened new DIY megastores in Prague (Velká Chuchle, Czech Republic), **Rum near** Innsbruck (Austria), and **Amsterdam** (Netherlands). At the end of April 2016, we closed the store in Mannheim, now almost 25 years old and with sales areas of around 4,000 m², due a lack of extension prospects. As planned, the total number of HORNBACH DIY stores with garden centers at the Group therefore rose to 155 as of February 28, 2017 (February 29, 2016: 153), of which 98 (99) in Germany and 57 (54) in other European countries.

Targets and results of the HORNBACH Baumarkt AG Group in the 2016/2017 financial year

	Targets for 2016/2017	Results in 2016/2017
Expansion	up to 3 new store openings 1 closure	3 DIY stores & garden centers opened 1 DIY store & garden center closed
Investments	between € 100 million and € 130 million	€ 157 million
Sales performance		
Net sales	growth in medium single-digit percentage range	plus **5.0 % to** € 3.71 billion
Like-for-like and currency-adjusted sales	growth in low to medium single-digit percentage range	plus **3.0 %**
Earnings performance		
EBIT	significant improvement compared with 2015/2016 financial year (€ 90.2 million)	plus 8.1 % to € **97.5 million**
Adjusted EBIT	at same level as in 2015/2016 financial year (€ 99.3 million)	plus 3.5 % to € **102.8 million**

Investments

We forecast investments of between € 100 million and € 130 million for the 2016/2017 financial year. The acquisition of inventory properties in connection with the Group's expansion was brought forward to the year under report. With an actual volume of € 157 million, the original investment budget was therefore significantly exceeded.

Sales performance

The sales forecast for the HORNBACH Baumarkt AG Group formulated in the Outlook section of the 2015/2016 Annual Report and not revised in the course of the year predicted that net sales would show growth in a medium single-digit percentage range. With consolidated sales growth of 5.0 % to € 3,710 million in the past 2016/2017 financial year, we met this forecast. For like-for-like sales net of currency items, we forecast group-wide growth in a low to medium single-digit percentage range. In actual fact, we improved our adjusted sales by 3.0 % in the financial year. For the Germany region, we expected to generate positive like-for-like sales growth in 2016/2017. With a growth rate of 1.4 % (2015/2016: 0.8 %), we met this objective. For our Other European countries region, we forecast growth in currency-adjusted, like-for-like sales that would be higher than in Germany and ahead of the group average. With adjusted sales growth of 5.1 % (2015/2016: 4.9 %), we clearly met this forecast.

Earnings performance

In the Retail segment, we expected both EBIT and adjusted EBIT for the 2016/2017 financial year to more or less match the previous year's figure of € 57.8 million in each case. In actual fact, both earnings figures fell significantly short of the target figures. Mainly due to a lower gross margin, higher store and administration expenses, and non-operating earnings charges relating to impairment losses and provisions for onerous contracts, EBIT fell by 28.8 % to € 41.1 million. Adjusted EBIT was reported at € 46.2 million.

In the Real estate segment, we expected to see significant growth in both EBIT (2015/2016: € 47.7 million) and EBIT adjusted for non-operating earnings items (2015/2016: € 56.6 million) in the 2016/2017 financial year. With EBIT of € 67.3 million and adjusted EBIT of € 67.6 million, the earnings targets for the Real estate segment were met.

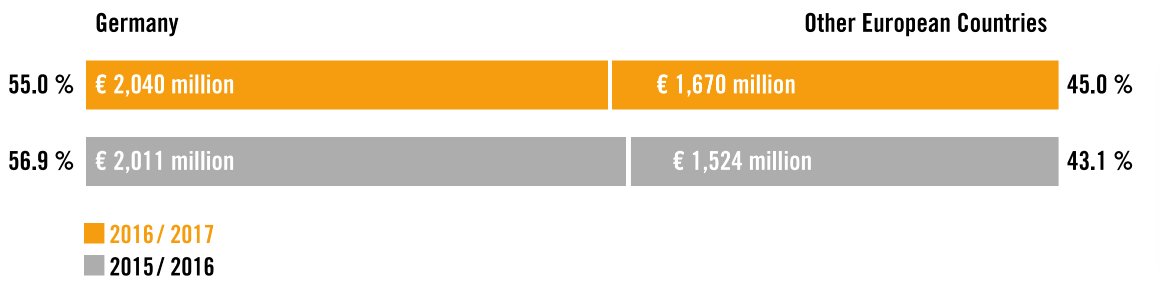
In our earnings forecast for the **HORNBACH Baumarkt AG Group we predicted that operating earnings (EBIT) would significantly exceed the figure for the previous 2015/2016 financial year (€ 90.2 million)**. In actual fact, our EBIT grew by 8.1 %, and thus disproportionately compared with sales, to reach € 97.5 million. We expected our EBIT adjusted for non-operating earnings items to match the level achieved in the 2015/2016 financial year (€ 99.3 million). With an actual figure of € 102.8 million, we met this forecast.

Budget/actual comparison for separate financial statements (HGB)

In the separate financial statements of HORNBACH Baumarkt AG, which are shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, our sales forecast for the 2016/2017 financial year envisaged sales growth in a low to medium single-digit percentage range. With sales growth of 5.1 % to € 2,436 million, we met this objective. In terms of our earnings forecast, we assumed that the volume of earnings transferred from HORNBACH International GmbH would remain constant. Adjusted for the negative base effect resulting from the write-up of € 25.7 million in the carrying amount of the investment in that company's Swedish subsidiary in 2015/2016, we expected the result of ordinary operations to increase significantly (forecast issued prior to the German Accounting Directive Implementation Act [BilRUG] coming into effect). At € 57.9 million, our actual result of ordinary operations was significantly ahead of the equivalent figure of € 42.3 million for the 2015/2016 financial year.

Earnings Situation

Sales by region



Sales performance

The HORNBACH Baumarkt AG Group's sales are primarily generated in the Retail segment (please see segment report in the notes to the consolidated financial statements). Sales in the Real estate segment principally involve rental income from the group-internal letting of DIY store properties to the Retail segment. This income is fully consolidated in the segment report as "Rental income from affiliated companies". In view of this, the following comments refer exclusively to the sales performance of the Retail segment. When commenting on our sales performance, we also subdivide our sales into geographical segments, namely "Germany" and "Other European countries", where our activities in eight countries outside Germany are summarized.

Seasonal and calendar-related fluctuations

The 2016/2017 year under report had an average of three **business days** more than the previous year. The resultant calendar effect, which benefited the first half in particular, was distributed among the quarters as follows:

- Q1: plus 1.0 business day
- Q2: plus 1.2 business days
- Q3: minus 0.3 business days
- Q4: plus 1.0 business days

Weather conditions had a disparate impact across HORNBACH's European network in the year under report. Our sales performance was held back by wintry weather in March and numerous thunder storms in the early summer of 2016, as well as by the very cold January in the winter of 2016/2017. By contrast, summery weather in April 2016 and very warm weather in the late summer led to above-average demand at our locations.

Net sales

The HORNBACH Baumarkt AG Group increased its net sales by 5.0 % to € 3,710 million in the 2016/2017 financial year (2015/2016: € 3,535 million). Net sales in the Germany region grew by 1.5 % to € 2,040 million in the period under report (2015/2016: € 2,011 million). Outside Germany (Other European countries region) and including three newly opened stores we reported sales growth of 9.6 % to € 1,670 million (2015/2016: € 1,524 million). Due to the higher rate of growth compared with Germany, the international stores' share of consolidated sales increased from 43.1 % to 45.0 %.

Like-for-like sales performance

The following comments refer to the development in currency-adjusted like-for-like sales at the HORNBACH Baumarkt AG Group, which thus take no account of stores newly opened or closed in the past twelve months. The previous year's figures can be seen in the overview provided in the table. We have also reported the rate of change on a euro basis, i.e. including currency items for non-euro countries (Czech Republic, Romania, Sweden, and Switzerland). These figures are stated in brackets.

The Group's like-for-like sales rose by 3.0 % in the **2016/2017 financial year** net of currency items (including currency items: 2.8 %). This growth was concentrated in the first three quarters. Fourth-quarter sales had difficulty maintaining their ground against the strong base effects in the previous year.

- In the **first quarter of 2016/2017**, like-for-like sales net of currency items grew by 4.4 % (4.0 %). Given extreme weather fluctuations between March and May 2016, a factor making it more difficult to plan and implement some construction and home improvement projects, the sales performance in the opening quarter was pleasing.

- The sales performance gained further momentum in the **second quarter of 2016/2017**. Based on high sales figures in the previous year, adjusted sales grew by 4.5 % (4.2 %). Following a subdued start in June 2016 – which also felt the effects of changeable, rainy weather and the European Football Championships (June 10 to July 10, 2016) – sales growth in August 2016 in particular, which benefited from hot summer weather, produced the year's highest quarterly growth. The HORNBACH Baumarkt AG Group concluded the first half of its financial year with like-for-like, currency-adjusted sales growth of 4.5 % (4.1 %).

- Following solid sales growth of 3.0 % (3.5 %) in the **third quarter of 2016/2017**, the standard for the HORNBACH DIY stores with garden centers to beat in the final quarter was high. Given the growth of 5.6 % (5.9 %) achieved in the previous year's quarter, the basis for comparison was tough. Due in particular to seasonal and calendar-related items, like-for-like sales net of currency items then showed a slight decrease of 0.7 % (0.6 %) in the **fourth quarter of 2016/2017**.

From a geographical perspective, we further increased our like-for-like sales both in the Germany and the Other European countries region in the 2016/2017 financial year. As in the 2015/2016 financial year already, the strongest growth momentum came from our store network outside Germany.

Like-for-like sales performance* by quarter
(in percent)

2016/2017 financial year 2015/2016 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**4.4**	**4.5**	**3.0**	**(0.7)**	**3.0**
	(1.1)	4.0	2.9	5.6	2.6
Germany	**2.7**	**2.2**	**2.2**	**(2.3)**	**1.4**
	(2.4)	4.0	(0.2)	2.5	0.8
Other European countries	**6.6**	**7.7**	**3.9**	**1.3**	**5.1**
	0.7	4.0	7.0	9.7	4.9

* Excluding currency items

Germany

The HORNBACH DIY stores with garden centers in Germany increased their like-for-like sales by 1.4 % in the 2016/2017 financial year (2015/2016: 0.8 %). Against a backdrop of persistently tough competition in the German market, growth rates in the first three quarters settled at around 2.5 %. The timing of the Christmas holidays and frosty weather conditions in January 2017 held back demand, particularly among home improvement customers working on more extensive construction or renovation projects, in the fourth quarter. As a result, like-for-like sales in the winter quarter were unable to avoid falling by 2.3 %. Irrespective of this, the domestic DIY retail business managed to improve its sales momentum compared with the previous 2015/2016 financial year.

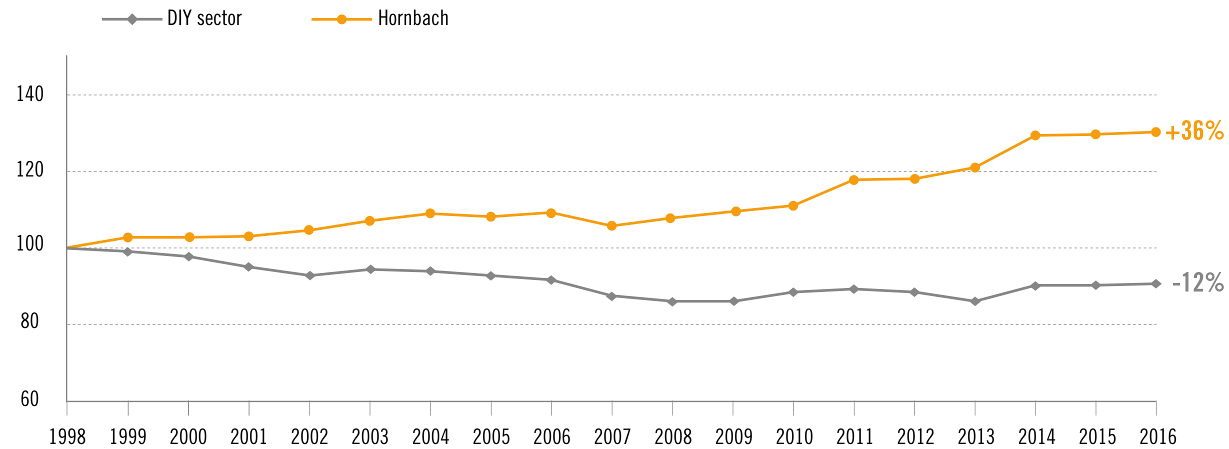
HORNBACH extended its head start over the German DIY sector once again compared with the previous year. In its "DIY Total Store Report", the GfK determines the sales performance of German DIY stores and garden centers on behalf of the BHB sector association. According to this report, DIY sector sales showed like-for-like growth of 0.8 % in the period from January to December 2016. In this comparative period, which deviates from our financial year, our domestic like-for-like sales outperformed the German sector average by around 150 (2015: 20) base points, and that despite a significantly higher basis for comparison. If the 1998 calendar year is taken as an index value of 100 %, by 2016 HORNBACH had increased its like-for-like sales in Germany to 136 %. By contrast, the overall sector only reached 88 % in 2016.

We increased our market position in Germany in the 2016 calendar year. As a percentage of aggregate sales at all German DIY stores and garden centers (2016: € 22.0 billion), our market share rose from 11.0 % to 11.1 %. If the calculation is based only on the market volume of German DIY stores and garden centers with sales areas of more than 1,000 m² (2016: € 18.2 billion), our market share in this segment rose from 13.3 % to 13.4 %.

We benefited to an above-average extent from the ongoing favorable framework for construction and renovation activities in the 2016/2017 financial year. We are particularly popular with customers planning larger-scale projects in their houses, gardens, or apartments. This was underlined once again in 2016 by our pleasing performance in Germany's most prestigious consumer survey for the retail sector, namely Kundenmonitor Deutschland. In the DIY and home improvement store sector, HORN-

Like-for-like sales performance in Germany

(Index: 1998 = 100 %, calendar year)



BACH was ranked first for overall satisfaction with an aggregate grade of 2.20. HORNBACH also came first in 19 and second in 12 of the 46 other assessment categories. Customers particularly awarded us the best grades for the individual criteria of "Value for Money", "Product Quality", "Selection and Product Variety", "Intention to Return", and "Specialist Advice". Especially valuable is the fact that DIY store customers view HORNBACH as being ahead of its competitors in aspects such as product range, prices, advertising, and particularly specialist advice. This underlines the success and attractiveness of our unmistakable retail format, which has long become more than just an excellently operated retail business. Increasing digitization is also creating added value for customers. That is reflected in the company's top ranking in "Media Assistance with Using the Materials/Tools Bought", a category surveyed for the first time in 2016.

- **Other European countries**

The positive sales trend already seen in our international business in the past financial year continued in the 2016/2017 year under report. Compared with Germany, our stores in other European countries posted a significantly more dynamic sales performance. The HORNBACH DIY stores with garden centers in the eight countries outside Germany increased their like-for-like sales net of currency items by 5.1 % in the 2016/2017 financial year, thus even exceeding the previous year's growth rate (plus 4.9 %). Including currency items, like-for-like sales grew by 4.6 % (2015/2016: 7.5 %). On a like-for-like basis and net of currency items, we improved our sales in other European countries by 6.6 % in the first quarter and by 7.7 % in the second quarter. By the end of the first six months, cumulative growth came to 7.1 %. The second half of the year had to bear comparison with the challenging standard set in the 2015/2016 financial year, in which sales had grown by 7.0 % and 9.7 % in the third and fourth quarters. On this basis, the stores in other European countries generated sales growth of 3.9 % (Q3) and 1.3 % (Q4) in the year under report.

HORNBACH further boosted its market position in other European countries as well in the past financial year. The greater effectiveness of our operations is clearly apparent when our sales performance is compared with sector developments in individual countries. Based on the sales indications available to us for five countries in our network outside Germany, we outperformed the relevant DIY sector averages, in most cases significantly so, in the 2016 calendar year.

Our success in establishing ourselves among DIY customers as a project partner applies not only to our domestic market, but also to the countries in which we operate outside Germany. These days, that holds true not only for our stationary DIY stores and garden centers, but increasingly for our e-commerce activities as well. Professional customers and DIY enthusiasts in Austria, Switzerland, the Netherlands, the Czech Republic, and Luxembourg are now also using HORNBACH's online store for their purchases. With its focus on construction and renovation projects, our retail concept enables us to participate to an above-average extent in the growth in the European housing construction market.

Numerous consumer surveys, such as Kundenmonitor Österreich, its Swiss counterpart, and surveys performed in the Dutch, Swedish, and Czech DIY markets offered proof that, with its uniform presence across Europe as the "top address for projects", HORNBACH remained just as popular with DIY store customers outside Germany as well in the past 2016/2017 financial year. Top marks for the assessment criteria of "Overall Satisfaction", "Selection and Product Variety", "Prices Compared with Competitors", and "Value for Money" are the common thread running through all of our survey results in recent years.

Key earnings figures of the HORNBACH Baumarkt AG Group

Key figure (€ million, unless otherwise stated)	2016/2017	2015/2016	Change
Net sales	3,710	3,535	5.0 %
EBITDA	173.6	162.4	6.9 %
EBIT	97.5	90.2	8.1 %
Adjusted EBIT	102.8	99.3	3.5 %
Consolidated earnings before taxes	79.3	78.4	1.2 %
Consolidated net income	52.9	72.4	(27.0)%
EBITDA margin	4.7 %	4.6 %	
EBIT margin	2.6 %	2.6 %	
Tax rate	33.3 %	7.6 %	

(Differences due to rounding up or down to nearest € million)

Earnings performance

Summary

Pre-tax earnings at the HORNBACH Baumarkt AG Group exceeded the previous year's key figures in the 2016/2017 financial year. On the one hand, the reduction in non-operating one-off charges benefited EBIT by € 3.8 million. On the other hand, earnings excluding non-operating items, i.e. adjusted EBIT, rose by € 3.5 million. This was chiefly due to pleasing levels of like-for-like sales growth at the HORNBACH DIY stores with garden centers (plus 3.0 % on a currency-adjusted basis) and to favorable operating cost ratios at the Group. These factors more than offset the expected reduction in the gross margin. Despite a further increase in forward-looking investments in digitization and e-commerce, we therefore managed to maintain our operating earnings strength at a level comparable with the 2015/2016 financial year. Due to a significantly higher tax charge, however, consolidated net income, and thus earnings per Baumarkt share, fell significantly compared with the previous year.

Structural changes within the income statement and impact on earnings situation

In preparing the 2016/2017 consolidated financial statements we have implemented two material structural changes within the income statement.

- As already communicated in the quarterly statements and half-year financial report published during the year under report, from the fourth quarter of 2015/2016 through to the preparation of this report rental contracts have been extended or newly concluded at individual DIY locations in Germany and abroad. These contracts, previously recognized as operating leases, required reclassification as finance leases pursuant to IAS 17. As a result, rental expenses have been substituted for depreciation and interest expenses. In the period under report, this factor increased operating earnings (EBIT) by around € 4.8 million and reduced earnings before taxes by € 2.5 million.

- To improve the presentation of earnings, furthermore, the statement of non-operating income and expense items in the income statement has been adjusted. To the extent that they are allocable, these have now been reported in the respective functional line items (selling and store, pre-opening, and administration expenses). In the previous year, we still reported the corresponding non-operating items under other income and expenses. To facilitate comparison, the previous year's figures have been adjusted as appropriate (see Note 10 in the notes to the consolidated financial statements). To comment on our operating earnings, we also report on functional expenses adjusted to exclude non-operating earnings items.

Earnings performance of the HORNBACH Baumarkt AG Group

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 6.9 % to € 173.6 million (2015/2016: € 162.4 million). The EBITDA margin (as a percentage of net sales) increased from 4.6 % to 4.7 %. **Consolidated operating earnings (EBIT)** grew by 8.1% to € 97.5 million in the 2016/2017 financial year (2015/2016: € 90.2 million). The EBIT margin remained unchanged at 2.6 %. EBIT adjusted to exclude non-operating, one-off items increased by 3.5 % to € 102.8 million (2015/2016: € 99.3 million). As in the previous year, the adjusted EBIT margin was reported at 2.8 %.

The following table presents the reconciliation of consolidated operating earnings (EBIT) with adjusted EBIT, i.e. EBIT adjusted for non-operating, one-off items (please see Note 10).

Reconciliation of consolidated operating earnings (EBIT) with adjusted EBIT by segment

2016/2017 in € million 2015/2016 in € million	Retail segment	Real estate segment	Headquarters and consolidation	HORNBACH Baumarkt AG Group
Operating earnings (EBIT)	**41.1**	**67.3**	**(10.9)**	**97.5**
	57.7	47.7	(15.2)	90.2
Non-operating earnings items	**5.0**	**0.3**	**0.0**	**5.3**
	0.0	8.9	0.3	9.1
Adjusted EBIT	**46.2**	**67.6**	**(10.9)**	**102.8**
	57.7	56.6	(14.9)	99.3

(Differences due to rounding up or down to nearest € million)

Net financial expenses deteriorated from minus € 11.8 million in the previous year to minus € 18.2 million in the year under report. This was due on the one hand to a € 3.4 million reduction in the interest result to minus € 17.7 million. The extended and newly concluded rental agreements now reported as finance leases led interest expenses to increase by € 7.3 million. On the other hand, negative currency items of minus € 0.5 million (2015/2016: plus € 2.5 million) impacted negatively on profit in the year under report. At € 79.3 million, **earnings before taxes** were therefore only 1.2 % ahead of the previous year's figure of € 78.4 million. By contrast, earnings after taxes showed a marked reduction in the 2016/2017 financial year. **Consolidated net income** fell by 27.0 % to € 52.9 million (2015/2016: € 72.4 million). Taxes on income rose significantly from € 6.0 million to € 26.4 million. As a result, the effective tax rate on group level surged from 7.6 % to 33.3 %. This was chiefly due to an increase in non-period deferred taxes by a net total of € 17.5 million. This in turn mainly resulted from the write-down of deferred tax assets recognized on losses carried forward in Sweden. Unlike the assessment made one year ago, these are now no longer deemed recoverable (see Note 8). The return on sales after taxes fell from 2.0 % to 1.4 %. Earnings per Baumarkt share (see Note 9) are reported at € 1.66 (2015/2016: € 2.28).

Key earnings figures of the Retail segment

Key figure (€ million, unless otherwise stated)	2016/2017	2015/2016	Change
Net sales	3,708	3,533	5.0 %
of which: in Germany	2,041	2,010	1.5 %
of which in other European countries	1,668	1,524	9.4 %
Like-for-like sales growth	3.0 %	2.6 %	
EBITDA	80.7	96.9	(16.7)%
EBIT	41.1	57.7	(28.7)%
EBITDA margin	2.2 %	2.7 %	
EBIT margin	1.1 %	1.6 %	
Gross margin	37.2 %	37.6 %	
Store expenses as % of net sales	31.6 %	31.5 %	
Pre-opening expenses as % of net sales	0.2 %	0.3 %	
General and administration expenses as % of net sales	4.7 %	4.6 %	

(Differences due to rounding up or down to nearest € million)

Earnings performance of the Retail segment

The Retail segment comprises the operating retail business within the Group. At the balance sheet date on February 28, 2017, we were operating a total of 155 DIY retail outlets across Europe (2015/2016: 153) and online shops in six of the nine countries within our European network.

Net sales in this segment grew by 5.0 % to € 3,708 million in the 2016/2017 financial year (2015/2016: € 3,533 million). By contrast, earnings fell in the same period. This was mainly due to a lower gross margin and a disproportionate rise in selling, store, general and administration expenses compared with sales.

Gross profit

Gross profit grew by 3.8 %, or € 50.1 million, to € 1,379.6 million in the 2016/2017 financial year. The gross margin decreased from 37.6 % to 37.2 % (minus 40 base points). This was mainly due to structural changes in the product mix in connection with the growing share of sales in our online business and the higher volume of freight costs thereby incurred to deliver goods to customers (business-to-consumer; B2C). Compared with our customers' average shopping baskets in the stationary DIY business, average shopping baskets in the e-commerce business include a higher share of articles with low gross margins. To a lesser extent, the decline in the gross margin was also due to lower retail prices. We were only able to offset part of these adverse effects on our earnings with more favorable procurement terms and the margin benefits resulting from the rising share of private label sales.

Selling and store, pre-opening and administration expenses

Selling and store expenses in the Retail segment showed slightly disproportionate growth compared with sales, rising by 5.1 % to € 1,170.3 million (2015/2016: € 1,114.0 million). The store expense ratio rose from 31.5 % to 31.6 %. This was mainly due to the disproportionate increase in general operating expenses and depreciation and amortization. This includes non-operating earnings items of around € 5.0 million

(2015/2016: € 0.0 million) resulting from the addition of provisions for onerous contracts and impairment losses (IAS 36). Adjusted to exclude these items, the store expense ratio fell from 31.5 % to 31.4 % in the 2016/2017 financial year.

Pre-opening expenses (please also see Note 4 in the notes to the consolidated financial statements) virtually halved to € 5.7 million in the 2016/2017 financial year. This reduction is connected to the lower number of new DIY store openings. Three new DIY stores were opened in the year under report, whereas in the 2015/2016 financial year six new DIY megastores (of which one replacement location) and two small-scale stores were opened. The pre-opening expense ratio fell from 0.3 % to 0.2 %.

Administration expenses grew disproportionately compared with sales, rising from € 158.5 million to € 174.7 million. The administration expense ratio increased from 4.5 % to 4.7 %. Forward-looking investments in digitizing our business model and in further innovation projects rose substantially faster than sales. These costs essentially involve developing e-commerce and the necessary infrastructure, including customer service centers. This cost growth was largely offset by the development in purely administrative and operative administration expenses, which declined as a proportion of sales.

Other income and expenses, EBITDA and EBIT
Other income and expenses increased by 5.2 % to € 12.2 million in the year under report (2015/2016: € 11.6 million).

EBITDA in the Retail segment fell by 16.7 % to € 80.7 million in the 2016/2017 financial year (2015/2016: € 96.9 million). That corresponds to an EBITDA margin of 2.2 % (2015/2016: 2.7 %). **Operating earnings (EBIT)** fell by 28.7 % to € 41.1 million (2015/2016: € 57.7 million). Segment EBIT was equivalent to 1.1 % of net sales in the year under report (2015/2016: 1.6 %). Adjusted EBIT for this segment is reported at € 46.2 million (2015/2016: € 57.7 million). The adjusted EBIT margin came to 1.2 % (2015/2016: 1.6 %).

Earnings performance of the Real estate segment

All the real estate activities of the HORNBACH Baumarkt AG Group are pooled in the Real estate segment. Its main business activities involve building and subsequently letting DIY store properties within the Group. These either remain in group ownership or are sold following construction to an external investor and then leased back. The respective DIY store properties are charged to the Retail segment on rental and other terms customary to the market. Operating earnings in the real estate segment mirrored the development in the Retail segment.

Key earnings figures of the Real estate segment

Key figure (€ million, unless otherwise stated)	2016/2017	2015/2016	Change
Rental income	167.6	162.1	3.4 %
Real estate expenses	99.3	113.6	(12.6)%
Net rental income	68.4	48.5	40.9 %
Disposal gains/losses	0.0	(0.2)	(84.1)%
Net real estate income	68.3	48.3	41.4 %
EBITDA	97.1	73.9	31.4 %
EBIT	67.3	47.7	41.1 %

(Differences due to rounding up or down to nearest € million)

Earnings from rental activities and net real estate income

In line with the Group's expansion, rental income in the Real estate segment, 99 % of which comprises internal rental income, rose by 3.5 % to € 167.6 million in the year under report (2015/2016: € 162.1 million). By contrast, real estate expenses decreased in absolute terms by € 14.3 million, or 12.6 % to € 99.3 million (2015/2016: € 113.6 million). The main reasons for this on the one hand involved the reduction in rental expenses by € 17.0 million, a development chiefly due to the reclassification of operating leases as finance leases. On the other hand, expenses benefited from a positive non-operating base effect within write-downs. In the previous year, impairment losses mainly recognized on one DIY store property in the context of IAS 36 impairment tests resulted in a charge of € 8.8 million on earnings in the Real estate segment. Earnings from rental activities rose by 40.9 % to € 68.4 million in the 2016/2017 financial year (2015/2016: € 48.5 million). Given negligible real estate disposal losses, net real estate income improved by 41.4 % to € 68.3 million (2015/2016: € 48.3 million.

EBITDA and EBIT

Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 31.4 % to € 97.1 million in the reporting period from March 1, 2016 to February 28, 2017 (2015/2016: € 73.9 million). **EBIT** in the Real estate segment rose by 41.1 % to € 67.3 million (2015/2016: € 47.7 million). EBIT adjusted for non-operating one-off items increased by 19.5 % to € 67.6 million (2015/2016: € 56.6 million).

Earnings performance by geographical regions

The Germany region and the Other European countries region reported disparate earnings performances in the 2016/2017 financial year. In Germany, we improved our operating earnings and our adjusted EBIT compared with the previous year. In Other European countries, these key figures showed a moderate decline, albeit at a high level.

EBITDA in **Germany** increased by 31.4 % to € 57.3 million (2015/2016: € 43.6 million). The domestic share of the Group's EBITDA grew from 27 % to 33 %. EBIT in the Germany region improved from minus € 4.8 million to € 12.2 million. It should be noted that the previous year's key figure included non-operating charges on earnings – mainly impairment losses – of € 12.5 million, while in the year under report the negative non-operating items in Germany were significantly lower at € 4.1 million. The domestic share of operating earnings rose from minus 5 % to 13 % in the 2016/2017 financial year. The EBIT margin for Germany came to 0.6 %, as against minus 0.2 % in the previous year. EBIT for the Germany region adjusted for non-operating earnings items more than doubled from € 7.7 million to € 16.3 million in the 2016/2017 financial year. We improved our adjusted EBIT margin in Germany from 0.4 % to 0.8 %.

Other European countries generated EBITDA of € 116.5 million (2015/2016: € 118.8 million), and thus around 67 % of the HORNBACH Baumarkt AG Group's EBITDA in the period under report (2015/2016: 73 %). EBIT outside Germany fell by around one tenth to € 85.4 million (2015/2016: € 95.0 million). Due to relatively strong earnings growth in Germany, the international share of EBIT eased from 105 % to 87 %. The EBIT margin for other European countries came to 5.1 % (2015/2016: 6.2 %). The operating earnings figures include non-operating earnings items which developed in opposing directions in the years under comparison: earnings charges of € 1.2 million in the 2016/2017 financial year contrasted with earnings-enhancing items of € 3.4 million in the 2015/2016 financial year. Adjusted EBIT for the Other European countries region amounted to € 86.7 million (2015/2016: € 91.6 million). The adjusted EBIT margin outside Germany came to 5.2 % in the 2016/2017 financial year (2015/2016: 6.0 %).

Dividend proposal

The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose an unchanged dividend of € 0.68 per share with dividend entitlement for approval by the Annual General Meeting on July 6, 2017. Taking due account of the company's performance capacity, HORNBACH will thus uphold its principle of dividend continuity. Subject to the resolution adopted by the Annual General Meeting on the appropriation of unappropriated net profit, the distribution quota (distribution total as a percentage of consolidated net income) would then reach 41 % in the 2016/2017 financial year (2015/2016: 30 %). The company would thus contribute towards meeting the distribution policy on the level of HORNBACH Holding AG & Co. KGaA, which provides for a target distribution quota of 30 %.

Financial Situation

Principles and objectives of financial management

Financing measures are coordinated by Group Treasury at HORNBACH Baumarkt AG in close liaison with the group company financing the respective measure. Central organization of financial management enables the HORNBACH Group to maintain a uniform presence on financial markets and to provide centralized liquidity management for the overall Group. HORNBACH Baumarkt AG grants financial assistance in the form of guarantees and letters of comfort only for its subsidiaries.

The information required for efficient liquidity management is provided by rolling group financial planning covering all relevant companies, which is updated monthly and has a budgeting horizon of twelve months, as well as by short-term financial forecasting updated daily. Based on the information available, the financing requirements of individual units within the Group are initially settled using surplus liquidity from other group companies by means of a cash pooling system. Such liquidity bears interest at market rates on the basis of internal group loan agreements. Where long-term financing requirements are covered internally, these facilities take the form of long-term internal loan agreements charging interest at congruent market rates.

External financing requirements are covered by taking up loans from banks and on the capital market. Moreover, to date DIY store properties have been sold to investors upon completion, with utilization secured by rental agreements (sale and leaseback). Here, efforts have been made to meet the IAS 17 criteria governing classification as “operating leases”. As a result of contracts extended and newly concluded for existing sale and leaseback agreements, individual locations were reclassified as “finance leases” in the 2015/2016 and 2016/2017 financial years. Reference is made in this respect to Note (12) "Property, plant and equipment and investment property". Due to the forthcoming amendments to lease accounting under IFRS 16 and the discontinuation of the “operating lease” classification, in future – and at the latest from the 2019/2020 financial year – lease transactions will be reported in a manner basically comparable to that used for finance leases pursuant to IAS 17.

External financing generally takes the form of unsecured loans and real estate sales (sale and leaseback). Consistent with HORNBACH’s forward-looking financial policy, financial liabilities due to mature are refinanced where necessary at the earliest opportunity.

In line with internal risk principles, derivative financial instruments are held solely for hedging purposes. The nominal values and measurement of existing derivative financial instruments are presented in the notes on the consolidated balance sheet in the notes to the financial statements.

Financial debt

The HORNBACH Baumarkt AG Group had financial debt of € 452.9 million at the balance sheet date on February 28, 2017 (2015/2016: € 513.0 million). This reduction despite the reclassification of a further location from operating leases to finance leases was due to debt repayments and the avoidance of new borrowing. By contrast, net financial debt rose from € 230.0 million to € 339.9 million. This was due to the significant reduction in cash and cash equivalents from € 283.0 million in the previous year to € 113.0 million in the year under report. Alongside funds used to finance the Group's expansion, a further outflow of cash resulted from the investment in current financial assets. Reference is made to the information under "Cash and cash equivalents". Including the invested liquidity item of € 30.0 million, adjusted net financial debt rose from € 230.0 million in the previous year to € 309.9 million in the year under report. The specific composition of financial debt is presented in the following table.

Financial debt of the HORNBACH Baumarkt AG Group

Type of financing € million	Liabilities broken down into remaining terms < 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	28.2.2017 Total	2.29.2016 Total
Short-term bank debt[1]	13.9						13.9	0.8
Mortgage loans	3.0	0.6	0.0	0.0	0.0	0.0	3.6	7.3
Other loans[2] [3]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	80.0
Bonds[3]	0.0	0.0	248.2	0.0	0.0	0.0	248.2	247.6
Negative fair values of derivative financial instruments	1.4	0.0	0.0	0.0	0.0	0.0	1.4	1.4
Finance leases	10.2	10.4	10.9	11.3	11.8	131.1	185.7	175.9
Total financial debt	**28.6**	**11.0**	**259.1**	**11.3**	**11.8**	**131.1**	**452.9**	**513.0**
Cash and cash equivalents							113.0	283.0
Net financial debt							**339.9**	**230.0**

(Differences due to rounding up or down to nearest € million)

[1] Financing facilities with nominal terms of under one year and interest deferrals
[2] Loans not secured by mortgages
[3] The costs relating to the taking up of the corporate bond have been spread pro rata temporis over the respective terms.

The current financial debt (up to 1 year) of € 28.6 million (2015/2016: € 94.5 million) comprises financing facilities of € 13.5 million (2015/2016: € 0.0 million), interest deferrals of € 0.4 million (2015/2016: € 0.8 million), the portion of long-term financing facilities maturing in the short term, at € 13.3 million (2015/2016: € 92.5 million), and the measurement of derivative financial instruments, at € 1.4 million (2015/2016: € 1.2 million).

HORNBACH enjoys great financing flexibility and draws on a wide range of different financing instruments. At the balance sheet date on February 28, 2017, one key financing facility was the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until February 15, 2020 and an interest rate of 3.875 %.

The promissory note bond of € 80 million at HORNBACH Baumarkt AG in place since June 30, 2011, which had a floating interest rate and a term until June 30, 2016, was paid back on schedule upon maturity and was not replaced with any follow-up financing.

Furthermore, the Group has financing facilities of € 3.6 million (2015/2016: € 7.3 million) secured by land charges of € 36.6 million (2015/2016: € 36.6 million).

Credit lines

At the balance sheet date on February 28, 2017, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 321.0 million (2015/2016: € 282.3 million) on customary market terms. These include a syndicated credit line of € 250 million with a term running until April 15, 2019. To ensure the maximum possible degree of flexibility, all major group companies have credit lines denominated in local currencies, generally at local banks.

Covenants

No assets have been provided as security for the credit lines or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities.

In the case of the syndicated credit line at HORNBACH Baumarkt AG, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH Baumarkt AG Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report. Further information about financial debt can be found in Note 23 of the notes on the consolidated balance sheet.

Cash and cash equivalents

The Group still accords high priority to maintaining an extensive supply of liquidity in the form of cash and cash equivalents and free credit lines. Given the ongoing policy of expansive interest rates at the ECB, however, it has become increasingly difficult to avoid negative interest rates on deposits which, to be reported under cash and cash equivalents, may not have terms longer than three months.

To ease this investment situation, cash and cash equivalents have been reduced significantly from € 283.0 million in the previous year to € 113.0 million at the balance sheet date. To achieve this, the Group's liquid funds were used to cover investments without drawing on external financing facilities, while existing financing facilities were repaid upon maturity without refinancing. Cash and cash equivalents were also reclassified into current financial assets on the money markets. These have original terms of more than three months and have been recognized in the cash flow statement as outflows of funds for investing activities in the "Cash paid for investments in connection with short-term finance planning" line item. As of the balance sheet date, funds of € 30 million were thus invested. By distributing the company's liquidity broadly and in some cases extending investment horizons in the aforementioned manner, it has so far been possible to avoid negative investment rates or the "custody fees" prevalent on current accounts without amending the company's security-driven investment strategy.

Key financial figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		28.2.2017	2.29.2016
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	339.9	230.0
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		9.8	10.6
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		1.9	1.4

* EBITDA excluding changes in non-current provisions and gains/losses on the disposal of non-current assets as reported in the cash flow statement

Cash flow statement

Cash flow statement (abridged) € million	2016/2017	2015/2016
Cash flow from operating activities	115.2	106.6
of which: funds from operations[1)]	144.3	133.0
of which change in working capital[2)]	(29.1)	(26.4)
Cash flow from investing activities	(185.4)	(137.1)
Cash flow from financing activities	(100.1)	(21.2)
Cash-effective change in cash and cash equivalents	**(170.4)**	**(51.7)**

(Differences due to rounding up or down to nearest € million)

1) Consolidated earnings after taxes, plus depreciation of non-current assets and changes in provisions, minus gains/plus losses on the disposal of non-current assets, plus/minus other non-cash expenses/income
2) Difference between "Change in inventories, trade receivables and other assets" and "Change in trade payables and other liabilities"
3) In the 2016/2017 financial year: including investments in current financial assets of € 30.0 million

Investments of € 157.0 million

The HORNBACH Baumarkt AG Group invested a total of € 157.0 million in the 2016/2017 financial year (2015/2016: € 138.8 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at stores under construction. The funds of € 157.0 million (2015/2016: € 138.8 million) required for cash-effective investments were largely acquired from the cash flow of € 115.2 million from operating activities (2015/2016: € 106.6 million). Around 68 % of total investments were channeled into new real estate, including properties under construction, while 32 % were invested largely in replacing and expanding plant and office equipment. Of total investments, € 37.6 million related to the Retail segment, mainly to replace and expand plant and office equipment (2015/2016: € 48.8 million), € 94.1 million related to the Real estate segment and was invested in new real estate, including properties under construction (2015/2016: € 78.5 million), and € 25.4 million was invested at head office departments and consolidation (2016/2017: € 11.5 million).

The most significant investment projects related to construction work on DIY stores with garden centers opened in the past financial year or due to be opened in subsequent financial years, the conversion and extension of existing stores, the acquisition of land for the Group's further expansion, investments in plant and office equipment, and in intangible assets, especially software.

The inflow of funds from operating activities rose from € 106.6 million in the previous year to € 115.2 million in the 2016/2017 financial year. Here, the inflow of funds from operations rose slightly from € 133.0 million to € 144.3 million. This increase was largely driven by like-for-like sales growth and favorable operating cost ratios. The change in working capital resulted in an outflow of funds of € 29.1 million, as against an outflow of funds of € 26.4 million in the previous year. The outflow of funds primarily resulted from the expansion-related build-up in inventories.

The outflow of funds for investing activities increased from € 137.1 million to € 185.4 million. Here, the rise in investments by € 18.2 million to € 157.0 million was opposed by proceeds of € 1.6 million from disposals of non-current assets (2015/2016: € 1.7 million). Furthermore, cash and cash equivalents of € 30 million were reclassified in the period under report and recognized as an outflow of funds to financial assets with terms of more than three months in connection with short-term finance planning. As in the previous year, no DIY stores with garden centers were disposed of within sale and leaseback transactions in the 2016/2017 financial year.

The outflow of funds for financing activities totaled € 100.1 million in the 2016/2017 financial year, compared with an outflow of € 21.2 million in the previous year. Scheduled repayments of € 83.7 million were made for non-current financial debt but no new long-term borrowing was taken up. Current financial loans increased by € 5.1 million, having risen by € 2.1 million in the previous year. Dividends paid to shareholders also increased, in this case from € 19.1 million to € 21.6 million.

Rating

Since 2004, the creditworthiness of the HORNBACH Baumarkt AG Group has been rated by the leading international rating agencies Standard & Poor's and Moody's Investors Service. Upon completion of this report, both agencies had in their most recent publications confirmed their ratings at "BB+" with a stable outlook in the case of Standard & Poor's and "Ba1" and a stable outlook at Moody's.

Asset Situation

Equity ratio rises to 51.6 %

Balance sheet of the HORNBACH Baumarkt AG Group (abridged version)

€ million	2.28.2017	2.29.2016	Change
Non-current assets	1,131.7	1,038.6	9.0 %
Current assets	828.2	947.8	(12.6)%
Assets	**1,959.9**	**1,986.4**	**(1.3)%**
Shareholders' equity	1,010.6	972.9	3.9 %
Non-current liabilities	503.4	493.7	2.0 %
Current liabilities	445.8	519.8	(14.2)%
Equity and liabilities	**1,959.9**	**1,986.4**	**(1.3)%**

(Differences due to rounding up or down to nearest € million)

Total assets at the Group showed a slight year-on-year decrease of € 26.5 million (minus 1.3 %) to € 1,959.9 million. Given the continuing expansion of the HORNBACH Baumarkt AG Group and ongoing expansive interest policies at the ECB, this reduction in total assets reflects the associated amendment in investment policy to ease the problematic investment situation at the HORNBACH Baumarkt AG Group. The equity of the Group as stated in the balance sheet amounted to € 1,010.6 million at the end of the financial year (2015/2016: € 972.9 million). The equity ratio rose from 49.0 % in the previous year to 51.6 % at the end of the 2016/2017 financial year. The reduction in current liabilities was largely due to the repayment of a promissory note bond.

Non-current and current assets

Non-current assets amounted to € 1,131.7 million at the balance sheet date (2015/2016: € 1,038.6 million) and thus accounted for around 58 % (2015/2016: 52 %) of total assets. Property, plant and equipment and investment property rose by € 96.7 million (plus 9.6 %) from € 1,006.6 million to € 1,103.3 million. Additions of € 161.3 million to property, plant and equipment were countered by depreciation of € 73.5 million, reclassifications of € 0.2 million, and disposals of assets amounting to € 1.2 million. Adjustments to account for exchange rate movements led property, plant and equipment and investment property to increase by € 2.2 million. Furthermore, additions of € 8.2 million were recognized due to the first-time consolidation of a real estate company.

In the previous year, non-current income tax receivables included a payment claim for a corporate income tax credit with a present value of € 1.7 million. This item was capitalized in the 2007/2008 and 2010/2011 financial years due to legislative amendments (SEStEG). No further non-current claims to payment applied in the 2016/2017 financial year. The reduction in deferred tax assets was chiefly due to the write-down of deferred tax assets on losses carried forward of € 6.2 million that are classified as not being utilizable within the planning horizon.

Current assets decreased by 12.6 % from € 947.8 million to € 828.2 million, or to around 42 % of total assets (2015/2016: 48 %). This resulted from the growth-driven increase in inventories from € 588.4 million to € 626.1 million and was countered by a reduction in cash and cash equivalents from € 283.0 million in the previous year to € 113.0 million in the year under report. This reduction was partly due to the reclassification of liquid funds of € 30.0 million to short-term fixed-term deposits reported under current financial assets.

Despite the increase in inventories, it was possible to maintain the inventory turnover rate at a high level of 3.9 (2015/2016: 4.0). Current receivables and other assets (including income tax receivables, excluding current financial assets) decreased by € 17.3 million to € 59.1 million. This was due above all to lower trade receivables and lower current income tax receivables resulting from lower tax prepayments.

Non-current and current liabilities

Liabilities, including provisions, amounted to € 949.2 million at the balance sheet date, as against € 1,013.5 million in the previous year. Due mainly to the increase in non-current financial debt, non-current liabilities rose from € 493.7 million to € 503.4 million. This increase was primarily due to the extension of a rental agreement now requiring classification as a finance lease. The recognition of the leasing liabilities pursuant to IAS 17 has increased non-current liabilities for finance leases from € 167.0 million to € 175.5 million. Non-current liabilities to banks decreased from € 3.6 million to € 0.6 million. Provisions for pensions rose from € 14.6 million in the previous year to € 15.2 million. Non-current liabilities also include deferred tax liabilities of € 27.5 million (2015/2016: € 28.6 million). Current liabilities decreased from € 519.8 million to € 445.8 million. The reduction in current financial debt was largely due to the repayment of a promissory note bond of € 80.0 million as of June 30, 2016. Trade payables and other liabilities totaled € 327.1 million at the balance sheet date, as against € 335.6 million in the previous year. Mainly due to higher provisions for onerous contracts, which were countered by lower provisions for bonuses, other provisions and accrued liabilities rose by € 1.4 million from € 75.3 million to € 76.7 million.

The net debt of the HORNBACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, rose from € 230.0 million to € 339.9 million. This increase was chiefly due to the amended investment strategy adopted by the HORNBACH Baumarkt AG Group to ease the problematic investment situation resulting from the ECB's ongoing expansive interest policy. Including the funds of € 30.0 million invested in current financial assets as of the balance sheet date, net debt amounted to € 309.9 million.

Key balance sheet figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.28.2017	2.29.2016
Equity ratio	Equity / Total assets	%	51.6	49.0
Return on equity	Annual net income / Average equity	%	5.3	7.6
Return on total capital	NOPAT[1] / Average total capital[2]	%	5.3	5.9
Debt / equity ratio (gearing)	Net debt / Equity	%	33.6	23.6
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	176.1	312.4
Net working capital	Inventories and receivables less trade payables	€ million	470.7	407.8
Inventory turnover rate	Cost of goods sold / Average inventories		3.9	4.0

[1] Net operating profit after tax, defined as EBIT minus unchanged standardized tax rate of 30 % at the HORNBACH Group.
[2] Average total capital, defined as average equity plus average net debt.

Off-balance sheet financing instruments and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH Baumarkt AG Group and 12 DIY stores with garden centers used on the basis of a finance lease agreements (2015/2016: 11), there are 43 stores and one logistics center that are let from the associate company HORNBACH Immobilien AG or its subsidiaries (2015/2016: 44), as well as 56 DIY megastores with garden centers that are let from third parties (2015/2016: 54). Moreover, the Group also has a small number of additional land leasehold, leasing and rental agreements.

Obligations under rental, hiring, leasehold and leasing contracts relate exclusively to rental agreements for which the companies of the HORNBACH Baumarkt AG Group are not the economic owners of the assets thereby leased pursuant to IFRS accounting standards (Operating Lease). The rental agreements principally relate to DIY stores with garden centers in Germany and other countries. The terms of the rental agreements usually amount to between 15 and 20 years, with subsequent rental extension options. The respective agreements include rent adjustment clauses.

As of February 28, 2017, obligations under rental, hiring, leasehold and leasing contracts totaled € 1,013.1 million (2015/2016: € 1,016.8 million).

OVERALL ASSESSMENT OF GROUP EARNINGS, FINANCIAL AND NET ASSET SITUATION

The HORNBACH Baumarkt AG Group can look back on a challenging 2016/2017 financial year, in which the business performance normalized and operating earnings stabilized after the more volatile developments in the previous year.

We thus increased our net sales by 5.0 % to € 3,710 million in the 2016/2017 financial year. At 3.0 %, the Group's like-for-like sales growth net of currency items was ahead of the previous year's level. This growth was driven by both the Germany and the Other European countries regions. We once again generated the strongest growth outside Germany. As a result, the share of consolidated sales contributed by the international stores rose significantly from 43.1 % to 45.0 %.

We met our earnings forecast in the 2016/2017 financial year. Consolidated operating earnings rose by 8.1 % to € 97.5 million. The Group's earnings performance benefited from substantially lower non-operating charges in the form of impairment losses or provisions for pending losses. EBIT adjusted to exclude non-operating earnings items came to € 102.8 million. Thanks above all to like-for-like sales growth and improved cost ratios, this key figure was ahead of the previous year.

Despite further stepping up our forward-looking investments in digitization and e-commerce, we maintained a stable EBIT margin on Group level. In the Germany region, we visibly improved our EBIT margin compared with the previous year, in which we had entered loss-making territory mainly as a result of non-operating one-off factors. The main downer in the 2016/2017 financial year was the reduction in consolidated net income due to a significant year-on-year increase in the tax charge.

The equity ratio rose from 49.0 % to 51.6 % at the balance sheet date and thus remains high. To alleviate the difficult investment situation, cash and cash equivalents were significantly reduced from € 283.0 million in the previous year to € 113.0 million at the balance sheet date. To this end, the Group used liquid funds to finance investments without external funding and to repay existing external financing facilities without refinancing upon maturity. Liquid funds were also channeled into short-term financial investments on the money markets. In view of our broad spectrum of financing sources, we enjoy a high degree of security and flexibility to finance our further growth.

All in all, the Group's economic situation in the 2016/2017 financial year was satisfactory.

Notes on the Annual Financial Statements of HORNBACH Baumarkt AG (HGB)

Income statement of HORNBACH Baumarkt AG pursuant to HGB (abridged version)

€ 000s	2016/2017	2015/2016
Sales	2,436,132	2,317,821
Other own work capitalized	378	250
Other operating income	12,144	52,591
Cost of materials	1,649,262	1,579,541
Gross profit	**799,392**	**791,121**
Personnel expenses	395,720	386,051
Depreciation and amortization	34,870	42,049
Other operating expenses	355,521	363,900
Operating result	**13,281**	**(879)**
Financial result	44,572	69,826
Taxes	3,280	(2,041)
Earnings after taxes	**54,573**	**70,988**
Other taxes	935	1,027
Annual net surplus	**53,638**	**69,961**
Allocation to other revenue reserves	26,818	34,980
Net profit	**26,820**	**34,981**

HORNBACH Baumarkt AG, whose legal domicile is in Bornheim (Pfalz), prepares its annual financial statements in line with the requirements of the German Commercial Code (HGB) and supplementary provisions of the German Stock Corporation Act (AktG). It is the parent company of the HORNBACH Baumarkt AG Group. HORNBACH Baumarkt AG includes the operating retail business at the HORNBACH DIY stores with garden centers in Germany and head office functions at the Group, such as finance, accounting, information technology, tax, legal, and personnel.

Business framework

The macroeconomic and sector-specific framework for our operating business in Germany is described in detail in the Business Report from Page 39 onwards.

Development in the store network

HORNBACH did not launch operations at any new DIY stores with garden centers in Germany in the 2016/2017 financial year. As planned, one location was closed due to a lack of development prospects.

We therefore operated a total of 98 retail outlets across Germany as of February 28, 2017 (February 29, 2016: 99). Sales areas in Germany totaled around 1,049,000 m² (2015/2016: 1,052,000 m²).

Earnings position

Conversion to requirements of Accounting Directive Implementation Act (BilRUG)

The German Accounting Directive Implementation Act (BilRUG) came into effect on July 23, 2015. The provisions of this legislation require mandatory application in financial years beginning on or after January 1, 2016 and have been implemented for the first time in the annual financial statements of HORNBACH Baumarkt AG as of February 28, 2017. In these annual financial statements, these mainly affect sales, procured services, and other operating income, as well as the presentation of the non-current asset schedule. For the presentation of the income statement, the company has drawn on the option of not adjusting the previous year's figures. As a result, the previous year's figures are only comparable to a limited extent.

Sales performance

Net sales (excluding sales tax) as reported in the separate financial statements of HORNBACH Baumarkt AG grew by 5.0 % from € 2,318 million to € 2,436 million in the 2016/2017 year under report. Sales include an amount of € 349 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2015/2016: € 307 million). The business performance of HORNBACH Baumarkt AG is largely determined by the development in domestic like-for-like sales, which we have explained in detail in the Business Report from Page 46 onwards.

Sales for the 2015/2016 financial would have been € 39.4 million higher at € 2,357.2 million if the BilRUG legislation had already been applied as of February 29, 2016.

Earnings performance

The other operating income reported in the income statement, which mainly consists of income from reversals of provisions and exchange rate gains, decreased by € 40.5 million to € 12.1 million (2015/2016: € 52.6 million). If the BilRUG legislation had already been applied as of February 29, 2016, the reclassification of other income to sales would have reduced the other operating income reported for the 2015/2016 financial year by € 39.4 million to € 13.2 million.

Cost of materials rose by 4.4 %, and thus less rapidly than sales, to € 1,649.3 million (2015/2016: € 1,579.5 million). Gross profit totaled € 799.4 million, or 32.8 % of net sales, as against € 791.1 million, or 34.1 %, in the previous year.

Application of the BilRUG legislation as of February 29, 2016 already would have increased the cost of materials for the 2015/2016 financial year by € 12.2 million to € 68.2 million. This is due the need to reclassify expenses incurred in connection with the generation of sales out of other operating expenses and into cost of materials. Gross profit would have amounted to € 779.0 million, or 33.0 % of net sales.

Personnel expenses rose by 2.5 %, and thus less rapidly than sales, from € 386.1 million to € 395.7 million. At € 34.9 million, depreciation and amortization were 16.9 % lower than in the previous year (€ 42.0 million). This reduction was mainly due to the impairment losses of € 7.5 million recognized on a DIY store property in the previous year.

Other operating expenses decreased to € 355.5 million, down from € 363.9 million in the previous year. Application of the BilRUG legislation as of February 29, 2016 already would have reduced the other operating expenses reported for the 2015/2016 financial year by € 12.2 million to € 351.7 million.

At € 13.3 million, the operating result was higher than in the previous year (minus € 0.9 million). This was mainly due to the lower volume of other operating expenses (minus € 8.4 million) and lower depreciation and amortization (minus € 7.1 million), with these two factors opposed by higher personnel expenses (plus € 9.6 million).

The financial result (including income from investments) fell by € 25.2 million from € 69.8 million to € 44.6 million in the year under report. This reduction was mainly driven by the decrease in income from investments from € 84.4 million to € 55.5 million as a result of a lower transfer of profit from HORNBACH International GmbH.

In the 2016/2017 financial year, HORNBACH Baumarkt (Schweiz) AG, Switzerland, HORNBACH Holding B. V., Netherlands, and HORNBACH Baumarkt Luxemburg SARL, Luxembourg, distributed profit totaling € 54.1 million to HORNBACH International GmbH (2015/2016: € 57.0 million).

In the 2015/2016 financial year, HORNBACH International GmbH additionally benefited from a write-up to earnings of the carrying amount of the investment in the Swedish subsidiary HORNBACH Byggmarknad AB. This amounted to € 25.7 million and led to a corresponding increase in the profit transferred to HORNBACH Baumarkt AG.

At € 2.9 million, interest income and income from loans of financial assets showed a slight year-on-year increase (2015/2016: € 2.4 million). At € 13.9 million, interest expenses in the year under report were 18.2 % lower than the previous year's figure (€ 17.0 million).

In view of the factors outlined above, the annual net surplus decreased from € 70.0 million to € 53.6 million in the 2016/2017 financial year.

Asset situation

At € 1,193.1 million, total assets as of February 28, 2017 fell € 56.6 million, or 4.5 %, short of the previous year's figure (€ 1,249.7 million).

Non-current assets amounted to € 523.3 million, or 43.9 % of total assets, at the balance sheet date (2015/2016: € 486.8 million / 39.0 %). Due to investments of € 51.5 million and reclassifications of € 0.2 million, accompanied by depreciation of € 31.5 million and retirements of € 0.9 million, property, plant and equipment rose to € 288.5 million (2015/2016: € 269.6 million).

Balance sheet of HORNBACH Baumarkt AG pursuant to HGB (abridged version)

Assets	2.28.2017 € 000s	2.29.2016 € 000s
Intangible assets	11,276	8,831
Property, plant and equipment	288,492	269,575
Financial assets	223,564	208,421
Non-current assets	**523,332**	**486,827**
Inventories	401,122	374,885
Receivables and other assets	165,362	157,050
Cash holdings, credit balances at banks, and checks	93,540	221,169
Current assets	**660,024**	**753,104**
Deferred expenses and accrued income	5,422	5,434
Deferred tax assets	4,350	4,323
Total assets	**1,193,128**	**1,249,688**
Equity and liabilities		
Shareholders' equity	616,296	584,201
Provisions	57,679	56,670
Liabilities	510,202	600,680
Deferred income and accrued expenses	8,951	8,137
Total equity and liabilities	**1,193,128**	**1,249,688**

Due to long-term loans to a Dutch and a Romanian group company, financial assets grew by a total of € 15.2 million from € 208.4 million to € 223.6 million.

Current assets fell from € 753.1 million in the previous year to € 660.0 million at the balance sheet date. Due to the company's growth, inventories rose by 7.0 %, or € 26.2 million, from € 374.9 million in the previous year to € 401.1 million. At 4.2, the inventory turnover rate in the 2016/2017 financial year fell short of the previous year's figure of 4.4. Receivables from affiliated companies increased by € 29.2 million to € 130.1 million (2015/2016: € 100.9 million). The increase in receivables in the 2016/2017 financial year was chiefly attributable to the year-on-year growth in short-term financing of group companies. Due in particular to increased group financing measures and the scheduled repayment of the promissory note bond (€ 80 million) in the year under report, cash and cash equivalents fell by € 127.7 million from € 221.2 million in the previous year to € 93.5 million.

At € 4.4 million, deferred tax assets were at the same level as in the previous year (2015/2016: € 4.3 million).

At € 613.3 million, shareholders' equity as of February 28, 2017 was 5.5 % higher than in the previous year (€ 584.2 million). The equity ratio is reported at 51.7 % (2015/2016: 46.7 %). Provisions increased slightly from € 56.7 million to € 57.7 million at the balance sheet date. This largely resulted from higher tax provisions.

At € 510.2 million, liabilities were € 90.5 million lower at the balance sheet date than the previous year's figure of € 600.7 million. Due to scheduled repayments, liabilities to banks decreased from € 81.1 million in the previous year to € 13.7 million. Furthermore, due to reporting date factors trade payables fell from € 183.2 million to € 175.0 million. Liabilities to affiliated companies, mainly comprises group financing, fell from € 49.9 million to € 33.2 million in the 2016/2017 financial year.

Financial situation

Information about the principles and objectives of financial management, an explanation of financial liabilities and the capital structure can be found in the Financial Situation of the HORNBACH Baumarkt AG Group (Page 54 onwards).

Shareholders' equity (after the planned dividend distribution) covers around 114 % of non-current assets. In the 2016/2017 financial year, HORNBACH Baumarkt AG invested a total of € 58.0 million (2015/2016: € 33.3 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 29.1 million, while a further sum of € 22.4 million was channeled into replacing and expanding plant and office equipment. Of total investments, € 6.5 million (2015/2016: € 4.9 million) related to intangible assets acquired in return for payment. Furthermore, largely due to the granting of long-term loans to two group companies financial assets also increased.

Overall assessment of earnings, net asset, and financial situation of HORNBACH Baumarkt AG

Driven by a positive sales performance, HORNBACH Baumarkt AG managed, unlike in the previous year, to improve its operating result in the 2016/2017 financial year. The decline in the gross margin was more than offset by the lower personnel expense ratio, and by lower depreciation, amortization and other operating expenses. At € 53.6 million, the annual net surplus fell 23.3 % short of the previous year's figure. Excluding the negative base effect resulting from the write-up in the carrying amount of the investment in the Swedish subsidiary in the 2015/2016 financial year, however, the annual net surplus was significantly higher than the previous year's figure. The equity ratio showed a further increase from 46.7 % to 51.7 % at the balance sheet date. Non-current assets and around 49 % of current assets are financed on a long-term basis by shareholders' equity (after the planned dividend distribution) and non-current debt capital. Overall, the company's economic situation remains satisfactory.

Proposed appropriation of net profit of HORNBACH Baumarkt AG

HORNBACH Baumarkt AG concluded the 2016/2017 financial year with an annual net surplus of € 53,637,871.49.

Following the allocation of € 26,818,000.00 to revenue reserves, the Board of Management proposes to appropriate the net profit of € 26,819,871.49 as follows:

- € 0.68 dividend per share with a nominal value of € 3.00 on 31,807,000 ordinary shares
- Dividend distribution: € 21,628,760.00
- Further allocation of € 5,191,111.49 to revenue reserves

EVENTS AFTER THE BALANCE SHEET DATE

No events that could be of material significance for the assessment of the net asset, financial or earnings position of HORNBACH Baumarkt AG or of the HORNBACH Baumarkt AG Group occurred between the balance sheet date on February 28, 2017 and the date of preparation of this Annual Report.

RISK REPORT

Risk management at the Group

All entrepreneurial activity directly involves opportunities and risks. Effectively managing opportunities and risks therefore represents a critical success factor in sustainably securing the company's value. The Board of Management of HORNBACH Baumarkt AG is committed to risk-conscious corporate management which accords top priority at all times to safeguarding the continued existence of the overall company and its subsidiaries. The risk management system (RMS) implemented by the Board of Management is intended to achieve ongoing enhancements in the early identification of risks with the aim of proactively managing such risks, as well as continuously optimizing the company's opportunity/risk profile. On this basis, the Board of Management has adopted the following principles:

Risk policy principles

The generation of economic profit necessarily involves risk taking. Nonetheless, no action or decision may entail any existential risk, i.e. any threat to the continued existence of the company or any of its operations. As a matter of principle, the Group does not enter into any risks which relate neither to its core processes nor to its support processes. Core processes involve developing and implementing the respective business models, procuring merchandise and services, location decisions, safeguarding liquidity, and developing specialist and management personnel. Any earnings risks entered into have to be justified by an appropriate level of expected return. The relevant key figures are based on the return on capital employed. Risks which cannot be avoided have to be insured against, where this is possible and economically expedient. Residual risks have to be controlled by means of a range of risk management instruments.

Organization and process

The risk management system in place at the HORNBACH Baumarkt AG Group forms an integral part of the company's management structure. It consists of the central components of early risk identification, controlling and planning processes, reporting and an internal control system, and is continually enhanced and optimized. Responsibility for establishing, organizing and maintaining a suitable, target-based risk management system, and the internal control system in particular, lies with the Board of Management. In terms of the organization and maintenance of the system, the Board of Management is supported by the Director of Group Controlling / Risk Management.

The Board of Management has appointed risk managers at the Group's operations in Germany and abroad. These are charged with identifying and reporting risks in their areas of responsibility and managing such risks with appropriate measures.
These responsibilities and accountabilities are clearly defined at the Group and reflect our company structure. When identifying and evaluating risks and determining appropriate measures to manage such risks, risk managers are supported by a central risk controller responsible for coordinating risk management processes.

Company risk assessment categories in ascending order

Probability of occurrence		Potential implications (in €)	
improbable	≤ 1 %	marginal	≤ 5.0 million
rare	> 1 % - ≤ 5 %	moderate	5.0 million ≤ 10.0 million
occasional	> 5 % - ≤ 20 %	noticeable	10.0 million ≤ 50.0 million
possible	> 20 % - ≤ 50 %	severe	50.0 million ≤ 100.0 million
frequent	> 50 %	critical	> 100.0 million

Earnings risks are analyzed with the assistance of a risk matrix. This records both the probability of occurrence and the potential level of damages of the relevant risks. This way, we can assess the existence and extent of any need for action. Where risks cannot be quantified, they are assessed in terms of their qualitative implications. The principles and regulations underlying the risk management system are documented in a risk management handbook. This sets out uniform principles for the overall Group concerning the structures and processes necessary for the early detection of risks. To support the risk management process, a standard software solution has been implemented across the Group which offers assistance in recording and documenting risks and the relevant risk management measures.

Risks are updated quarterly and reported to the Board of Management. The Supervisory Board and Audit Committee discuss the current risk situation on a half-yearly basis. Alongside this scheduled reporting, ad-hoc reporting structures are also in place and have been implemented in the risk management process for risks arising unexpectedly.

The internal control system currently in place is based on standardized documentation requirements at the Group for all checks on processes and related risks which could impact materially on the financial reporting process. The internal control system is based in this respect on the relevant work instructions and handbooks available on the Group's intranet.

Within the framework of its activities, the Group Internal Audit Department regularly audits the functionality of the existing risk management system. When auditing the annual financial statements, the external auditor also assesses whether the early warning risk identification system is suitable to provide early warning of any developments that could threaten the continued existence of the company.

Internal control and risk management system in respect of the group financial reporting process (report pursuant to § 315 (2) No. 5 HGB)

The objective of the internal control and risk management (IKS) system in respect of the financial reporting process is to identify and evaluate those risks which could prevent the consolidated financial statements from conforming to the relevant requirements. Corresponding control measures and clear responsibilities are allocated for the risks thereby identified. These are intended to provide reasonable assurance of the possibility of preparing financial statements for the overall Group and those subsidiaries requiring consolidation that conform to the relevant requirements in spite of the risks thereby identified.

At the HORNBACH Baumarkt AG Group, the existing internal control (IKS) system in respect of the financial reporting process and associated risk matrix are documented on a group-wide basis. Country-specific features deviating from group processes are described by the subsidiaries and added to the documentation. The appointment of IKS managers at the country companies and parent company ensures that material process changes are documented and suitable checks implemented. In this respect, IKS managers are required to submit annual declarations of conformity. The existing IKS system is continually being developed further.

Alongside defined control mechanisms, such as technical system and manual agreement processes, key elements of the internal control system include the separation of functions and the existence of guidelines and work instructions, and compliance with such. The principle of dual control is applied throughout the financial reporting process, and compliance is required with specified approval processes. Clearly defined company and management structures, clearly allocated responsibilities and adequate regulations governing access to the information and accounting systems relevant to the financial statements based on a standard authorization concept valid for the entire Group serve to further manage and control risks. These principal control measures are integrated into financial reporting processes.

Group companies prepare their financial statements locally. They are responsible for taking due account of local requirements and compliance with group-wide guidelines in the form of work instructions and accounting and organization handbooks, as well as for the correct reconciliation of local separate financial statements with the IFRS financial statements prepared in accordance with group-wide uniform accounting policies. The accounting handbook in particular sets out clear instructions limiting employees' discretionary scope in terms of the recognition, measurement and disclosure of assets and liabilities, thus reducing the risk of accounting inconsistencies within the Group.

The managers responsible for the accounting treatment of the relevant items at individual group companies submit quarterly group-internal declarations of completeness confirming the correctness and completeness of the respective separate financial statements. On group level, the Group Accounting Department and Group Controlling Department perform further checks on the plausibility and correctness of the accounting data input into the financial statements. The process of preparing consolidated financial statements is centrally coordinated by way of a specified deadline and activity plan and monitored both centrally and locally. Subsidiaries are supported by central contact partners throughout the entire financial reporting process.

Major changes to financial reporting processes due to new laws, legislative amendments or changes in internal processes are discussed prior to implementation at sometimes international finance conferences for all managers with significant involvement in the group financial reporting process. Specialist accounting or financial reporting issues and complex matters either involving particular risks or requiring special expertise are monitored and processed centrally. External experts, such as chartered surveyors, are drawn on in particular to assess the fair values of real estate for impairment tests or to measure pension provisions.

All significant processes relevant to financial reporting are uniformly portrayed across the Group in a common IT system for the overall Group. This complete integration of all major finance systems within a uniform IT system ensures the integrity of the data on which the separate and consolidated financial statements are based. In conjunction with the accounting handbook valid for the whole Group, the use of uniform account codes across the Group and central management of the account system ensure uniform accounting treatment of transactions of the same nature. This also serves as a basis for group consolidation in accordance with the relevant requirements. Consolidation measures and the necessary agreement activities are performed centrally by a consolidation department. The checks to be undertaken in the consolidation processes, such as the consolidation of liabilities, expenses or revenues, are performed both automatically by the IT system and manually.

The risk of system breakdowns or data loss is minimized by centrally managing and monitoring all significant IT systems involved in the financial reporting process and regularly performing system backups. As an integral component of the internal control system, the Group Internal Audit Department regularly audits the effectiveness of the internal control system in respect of the financial reporting process on the basis of trial samples reviewed in line with a risk-oriented audit plan. However, even suitable functional systems cannot provide absolute certainty concerning the identification and management of risks.

Overview of overall risks*

	Probability of occurrence	Potential implications
Financial risks		
Foreign currency risks	possible	moderate
Liquidity risks	improbable	critical
Credit risks	rare	moderate
External risks		
Macroeconomic and sector-specific risks	frequent	noticeable
Natural hazards	improbable	severe
Operating risks		
Location and sales risks	possible	noticeable
Procurement risks	occasional	moderate
Legal risks		
Legislative and regulatory risks	occasional	severe
Risks relating to legal disputes	possible	marginal
Management and organizational risks		
IT risks	improbable	critical
Personnel risks	possible	marginal

* Unless otherwise stated, the risks hereby listed apply both to the "Retail" segment and to the "Real estate" segment.

Financial risks

The Group's financial risks comprise foreign currency, liquidity, and credit risks. Responsibility for managing these risks lies with the Treasury department.

Foreign currency risks

In general, HORNBACH is exposed to foreign currency risks on account of its activities in countries with currencies other than the euro. Specifically, these involve Swiss francs, Czech crowns, Swedish crowns, Romanian leis, and Hong Kong dollars. Any depreciation in a foreign currency against the euro can lead to a reduction in consolidated earnings when translating the separate financial statements of foreign subsidiaries into euros, the Group's currency. These risks are not hedged at the Group.

Furthermore, the increasingly international business activities of the Group result in rising foreign currency requirements both for handling international merchandise procurement and for financing objects of investment in foreign currencies. Any change in the exchange rate between the respective national currency and the procurement currencies (chiefly EUR and USD) could have a direct negative impact on earnings. Open foreign currency positions in USD are largely secured by hedging transactions (USD fixed-term and time deposits). Where possible, investments are externally financed on a long-term basis in the functional currency of the respective country company (natural hedging). Open foreign currency positions arising at the Group in EUR, which mainly relate to intragroup deliveries and services invoiced in EUR and intragroup EUR loans, are not hedged.

Liquidity risks

The acquisition of land, investments in DIY stores with garden centers and procurement of large quantities of merchandise require high volumes of liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 250 million with a term running until April 15, 2019, and not least the € 250 million bond issued by HORNBACH Baumarkt AG in February 2013, which has a term running until February 15, 2020.

HORNBACH counters the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to financing conditions on the capital markets by flexibly adjusting its investments, maintaining a substantial liquidity cushion, and with short and medium-term financing based on existing credit lines. No security in the form of assets was granted in connection with the bond or the syndicated credit line at HORNBACH Baumarkt AG. The contractual terms nevertheless require compliance with specified customary bank covenants. Failure to do so may possibly result in immediate repayment being required for the funds drawn down. This would necessitate follow-up financing, which would only be possible on stricter refinancing terms.

Alongside general covenants, such as pari passu, negative pledge, and cross default covenants, specific financial covenants were also agreed for the syndicated credit line at HORNBACH Baumarkt AG. These require compliance with an equity ratio of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBACH Baumarkt AG Group. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries.

The bond is only governed by general covenants, such as pari passu, negative pledge, and cross default covenants, but not by financial covenants. As of February 28, 2017, the equity ratio amounted to 51.6 % (2015/2016: 49.0 %) and interest cover came to 9.8 (2015/2016: 10.6).

Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2016/2017 financial year.

The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month budgeting horizon, which is updated monthly, as well as by a daily financial forecast. The Group currently faces no risks in connection with any follow-up financing necessary to cover maturing financial liabilities. At present, no liquidity risks are discernible.

Credit risks

The company limits the risk of any financial loss in connection with financial investments and derivative financial instruments by working exclusively with contractual partners of strong creditworthiness and selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to counter the risk of bank deposit default. This approach was also maintained in the 2016/2017 financial year. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced.

Further detailed information about financial risks and sensitivity analyses can be found in Note 34 in the notes to the consolidated financial statements.

External risks

Macroeconomic and sector-specific risks

The dependency of HORNBACH DIY stores with garden centers on general macroeconomic developments and levels of disposable household income may become apparent in the form of unwillingness on the part of customers to make purchases in periods of low economic growth. Not only that, the economic outlook in Europe may also turn out weaker than expected due to the influence of negative developments in the global political and economic framework.

Irrespective of this, a major dependency on economic developments in Germany has been identified. The further expansion into other European countries is intended to achieve an ongoing diversification of risk. Furthermore, the company generates a substantial share of its sales with seasonal articles whose turnover is significantly affected by external factors, such as weather conditions. Prolonged winter weather, for example, might shorten the spring season and result in lower sales in the gardening division in the important 1st quarter of the financial year.

Changing consumer behavior, particularly with regard to increasing digitization, also harbors risks. To be prepared for the future in this respect, and thus counter this risk, we have gradually expanded our online activities by way of an integrated multichannel strategy.

Natural hazards

The climate change observable around the world also directly affects HORNBACH locations in Germany and other European countries. In addition to potential natural catastrophes (e.g. gales, flooding), the Group is also exposed to risks resulting from fire and explosions. The principal insurable natural hazards and any potential interruption to operations arising as a result are covered by group-wide insurance policies.

Operating risks

Location and turnover risks

Investments in unsuitable locations could have a significant negative impact on the Group's earnings power. To minimize such risks, investments in new locations are therefore prepared on the basis of detailed market research analysis, with investment decisions being taken on the basis of dynamic investment calculations and sensitivity analyses. The risk of unsatisfactory sales performance due to additional existing factors, such as customer behavior and the local competitive situation, can nevertheless not be excluded entirely. Ongoing investments therefore have to be made in locations, enhancing customer service levels, and in new concepts in order to maintain the company's competitiveness, especially in countries with low market growth and intense competition.

Procurement risks

As a retail company, HORNBACH is dependent on external suppliers and manufacturers. We exercise the utmost caution when selecting our suppliers. Particularly when selecting private label suppliers, we pay attention to their reliability in terms of high product quality and their consistent compliance with safety and social standards at the respective companies. To avoid the loss of major suppliers, the Group has developed an efficient early warning system that monitors suppliers continuously on the basis of various quantitative and qualitative criteria. The implications of any potential supplier loss are further reduced by probing the market for alternative substitutes at an early stage and maintaining a multi-supplier strategy. Should there be any deterioration in the macroeconomic situation, however, then the risk of the Group losing suppliers and being unable to procure such products elsewhere at short notice cannot be excluded entirely.

The overall Group has several central warehouses in order to reduce the risk of any interruption to the logistics chain and optimize the supply of merchandise. In its procurement of merchandise, HORNBACH is subject, among other risks, to increasing purchasing prices for articles involving a high share of crude oil, copper or steel as a result of volatile prices on the international commodities markets. Furthermore, higher prices for products involving energy-intensive manufacturing processes could lead to an increase in overall procurement costs, one which it might not be possible to pass on to customers in full, or only following a certain delay.

Legal risks

Legislative and regulatory risks

As a result of its international business activities, the HORNBACH Baumarkt AG Group is subject to various national legislative frameworks and regulations. Legislative amendments may therefore lead to higher costs. Alongside risks such as those relating to damages claims due to infringements of patents or industrial property rights, or of damages resulting from environmental or product liability, the Group's future earnings situation may also be negatively affected in particular by any tightening up of national construction laws or regulations governing the acquisition of land. To avoid contract breaches and disadvantageous arrangements, we continually monitor compliance with our contractual obligations and seek advice from internal and external legal experts for contract-related matters.

Risks relating to legal disputes

In the course of their business operations, the companies of the HORNBACH Baumarkt AG Group are inevitably confronted with legal claims on the part of third parties, both in court and out of court. Precautionary accounting measures are taken by recognizing a suitable level of provisions for existing risks in connection with legal disputes. At present, HORNBACH is not involved in any current or foreseeable court or arbitration proceedings which could have any significant impact on the Group's economic situation.

Management and organizational risks

IT risks

The management of the Group is heavily dependent on high-performance information technology (IT). The ongoing maintenance and optimization of IT systems is performed by highly qualified internal and external experts. Unauthorized data access, and the misuse or loss of data are averted by using appropriate up-to-date virus software, firewalls, adequate access and authorization concepts, and existing backup systems. Appropriate emergency plans are in place for unexpected breakdowns in IT systems.

Personnel risks

The deployment of highly motivated and qualified employees represents one of the foundations for HORNBACH's success. This pillar of the corporate culture is therefore of great significance for the overall Group. The maintenance of employee satisfaction is therefore evaluated in regular employee surveys carried out by external service providers, while employee qualification levels are continually improved with appropriate training and development measures. Performance-based bonus models support the company in reaching this objective. Not only that, all management staff hold annual one-to-one meetings with their employees in which their past performance is appraised and future development measures are agreed. In its recruitment and retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

Overall assessment of risk situation

The assessment of the overall risk situation found that there were no risks to the continued existence of the HORNBACH Baumarkt AG Group in the 2016/2017 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position.

OPPORTUNITY REPORT

The European DIY sector will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the Risk Report and the evaluation of the future macroeconomic framework provided in the Outlook.

The business performance of DIY and garden stores may be affected in the coming years by a series of sector-specific development trends (megatrends). Against this backdrop, the company is consistently enhancing its retail format and corporate strategy, aiming to ensure continuity, reliability and sustainability so as to make optimal use of potential opportunities for future growth.

Sector-specific opportunities

Megatrends play a key role for DIY store and garden center operators. These harbor various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens.

In the hunt for growth factors, one key aspect of relevance to the entire European construction and modernization sector is the great need for solutions in terms of energy-saving building technology and energy efficiency and of contemporary interior fittings. Overall, we believe that the outlook is favorable for increasing sales and earnings in the DIY sector in Germany and abroad. These growth prospects are backed up by, among others, the opportunities briefly described below.

Opportunities due to sustainability

Construction work on existing buildings (the modernization and renovation market) has become an ever more important factor in the business performance of DIY and garden stores in recent years. The share of construction work involving new housing, by contrast, is declining across Europe and most recently accounted for significantly less than half of total housing construction investments. In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Due to favorable financing terms, the share of new construction work has risen slightly once again since 2011. More than two thirds of the most recent total construction volumes of around € 189 billion nevertheless still involved modernization projects. Three key trends are responsible for this development:

- The **age structure of existing real estate** indicates an increasing need for maintenance and modernization. In Germany, for example, three quarters of all apartments are more than 30 years old. Almost one in three detached houses in Germany is in need of renovation. Half of the owner-occupied houses built between 1949 and 1960 have not yet been comprehensively renovated and no longer meet current technology standards in terms of energy efficiency. Given that the property will decline in value and attractiveness on the housing market unless renovation measures are undertaken, the need for construction services and materials can be expected to increase. Interest rates, still at record lows, have improved private households' financing opportunities here.

- Given the long-term increase in energy costs and climate protection, renovating buildings in terms of their energy efficiency is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. **Energy-efficient construction and renovation** enable a residential property's energy costs to be cut by up to three quarters and the property's operating costs to be sustainably reduced over its lifecycle. Energy-efficiency renovation also makes a major contribution towards cutting CO_2 emissions. Energy efficiency is therefore one of the top themes in the European DIY sector.

- Given demographic developments in Europe, **barrier-free construction** involves the challenge of adapting existing living space and urban infrastructure to enable elderly people to retain their freedom and live independently in their familiar surroundings for as long as possible. Demand for senior citizen-friendly construction solutions, such as barrier-free access to buildings and apartments, the installation of elevators, and doorway-widening and sanitary conversion measures, will therefore continue to rise.

These trends can also be summarized under the heading of "sustainability". The ecological, economic and social dimension of sustainable construction is ever more important as a key competitive factor, not only in the real estate market. At the same time, by offering the right range of products and services, high-performing industrial and retail players, as well as tradesmen, stand to benefit from the ever greater sales potential resulting from this development.

Opportunities due to consumer trends

Past experience shows that people are more likely to withdraw into their private sphere during periods of uncertainty than at other times ("homing"). Consumers spend more time at home again and are prepared to invest in decorating and equipping their own four walls. This is not just a German phenomenon but also a key international motivation for home improvement as a popular leisure activity. This is all the more relevant at present, as consumers in numerous regions across Europe are benefiting from low mortgage interest rates and prefer to channel their resources into private house construction or renovation projects than into alternative capital investments that are increasingly viewed as unsafe or unattractive.

The realization of "living worlds" is playing an ever greater role in modernization projects in consumers' houses, apartments and gardens. Consumers are showing growing awareness of trends and influences from the realms of fashion, art, architecture and the media. Consumers' desire to map these living trends onto their own four walls is socially motivated by a desire for durable values, quality (of living), individuality, and emotional flair. Compared with specialist retailers, the DIY store sector still has great potential for development, and thus new opportunities, in terms of addressing its target groups in ways which arouse their emotions, presenting "living worlds", and advising consumers on complex interior design projects.

Opportunities due to new market potential

Numerous different sales formats are competing for the favor of DIY enthusiasts, construction clients and garden lovers in the European DIY market. By offering suitable customer focus and specialist retail concepts, DIY store operators have the opportunity to acquire additional market share at the cost of other sales formats. This growth potential is inversely proportionate to the share of the total DIY market accounted for by DIY stores in a given country.

Germany is the largest DIY market in Europe. However, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 45 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so.

Alongside activities to boost competitiveness in stationary retail formats, since 2010 the DIY store and garden center sector has also increasingly relied on the internet as a distribution channel. Online retail has reported by far the strongest growth rates within the overall retail sector. E-commerce with DIY product ranges has so far posted an above-average performance in this respect. Experts expect online sales with typical DIY store product groups in Germany to grow by 10 % to around € 3.1 billion in 2017. Given a forecast gross sales volume of around € 48.4 billion for the extended core DIY market (DIY and home improvement stores, specialist stores and small-scale retail formats) in 2017, this corresponds to an online share of 6.4 %. According to the BHB sector association, this share is set to rise to around 10 % by 2020 and according to a joint study with Roland Berger to up to 25 % of total sales by 2030.

Specialists see multichannel retailing, in which the stationary business is closely dovetailed with online retail, as representing one of the most promising sales formats within e-commerce. Not only that, e-commerce is also set to become even more sociable. Social media offer innumerable platforms for consumers to share their experience with projects, products, and prices, as well as with providers and their service and quality standards. Ever more companies in the DIY sector are dealing closely with these networks and entering into active dialog with their customers.

Opportunities due to internationalization

Over and above the opportunities available in the German DIY market, the company's expansion into other countries offers additional growth prospects. Numerous leading German DIY store players already took the decision to expand outside their own borders years ago. Outside Germany, they hope to benefit from greater sales potential and higher profitability than in the saturated German market. Not only that, internationalization also helps companies spread their market risks more widely. It should be noted, however, that regional DIY markets are increasingly gaining in maturity and that some EU countries are recovering only sluggishly from the downstream impact of the financial and sovereign debt crisis on employment and income levels. These factors increase the strategic, as well as the equity requirements placed in DIY retail players if they wish to generate attractive sales and earnings growth in their international businesses in the longer term as well.

Strategic opportunities

Our aim is to continually expand HORNBACH's position in the European DIY market by means of organic growth. Our sales and profitability are to be sustainably increased by expanding our internationally successful retail format. This involves focusing on the strategic enhancement of our concept and the expansion of our store network at locations offering above-average growth potential in Germany and abroad.

- The company's strategy focuses on the project concept. HORNBACH is increasingly able to differentiate itself from its competitors with this approach, which is reflected in its product range, service and pricing policies. Our solid financial resources, public corporate rating and the flexibility available to us in refinancing the business on the capital market will enable us to invest considerable sums in **differentiating HORNBACH's format** in future as well.

- One unshakable component of our uniform strategy across the Group is our reliable **permanent low price policy**. We believe that we are better able to retain customers at HORNBACH in the long term by offering and guaranteeing the best market price on a permanent basis. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. This is not possible with temporary discount campaigns.

- DIY customers are increasingly according priority not only to competitive prices, but also to the **quality** and **sustainability** of the products and advisory services on offer. Above all the lifestyle-driven customer target group, who base their lifestyles on health and sustainability factors, is playing an increasingly important role in this respect. These so-called "LOHAS" (lifestyle of health and sustainability) mostly have above-average incomes, and are conscious, critical consumers. They accord great value to quality, brand and design. With our focus on the quality and sustainability of our product ranges, accompanied by professional advice, we are particularly well-placed to meet the high standards of these target groups. We are the DIY sector leaders, for example, in trading FSC-certified timber products.

- We believe that we are excellently positioned in the sector with regard to the ever more important **modernization market** and, within this market, especially with regard to the increasingly strict legal requirements governing building **energy efficiency**. We will in future continue to present complex projects, such as the insulation of facades or the replacement of windows and doors, as "Project Shows" at the stores. The "Project Show" is an innovative marketing instrument aimed at intensifying the project concept. Presentations held in special event sections at the stores provide customers with specialist advice, information and suggestions as to how they can undertake renovation projects or realize their dream living space either under their own steam or with specialist support. These activities are accompanied by service packages from our tradesman service. Moreover, further sales momentum may also be provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly. Here, we offer an extensive database of subsidy opportunities on our homepage.

- Furthermore, we are expanding our range of services, information and advice in order to attract **new customer groups** to HORNBACH. These include home improvement demonstrations at the stores intended to motivate customers to do it themselves, and special workshops for women. These measures are backed up by the promotion of specialist skills on the part of the store personnel with the aim of achieving a further increase in product expertise and advisory competence, and thus in customer satisfaction. Our DIY megastores with garden centers are also increasingly of interest to professional customers. Generous opening hours, the stocking of large quantities, the rapid handling of purchases at our drive-in stores and builders' merchant centers, and the uncomplicated acceptance of residual volumes no longer required make HORNBACH an attractive alternative to traditional specialist retail or wholesale procurement sources.

- We see the **buy-it-yourself** (BIY) or do-it-for-me market segment as offering promising growth opportunities. This segment includes the target group of those customers who are on the lookout for solutions for their home improvement projects and who wish to purchase the product ranges themselves, but who then prefer to have the work undertaken by a specialist. We also view this market segment within the broader context of the ageing population in Germany and other parts of Europe. Our tradesman service aims to tap this potential.

- For many of our project customers, it has become absolutely normal to plan construction and renovation projects and the related purchases in detail on the internet. Since its launch in December 2010, our online store (www.hornbach.de) has grown into a high-performance virtual DIY store and garden center. The internet plays a key role in flanking our stationary retail business. Alongside Germany, we have now rolled out our e-commerce activities to Austria, Switzerland, the Netherlands, the Czech Republic, and Luxembourg as well.

  One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. This way, our customers can inform themselves online about products, prices, and availability, and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Customers can have articles delivered directly to their homes by mail order or opt for our "Reserve online and pick up at the store" service. From just two hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBACH store. This service is a real timesaver, especially for our professional customers. Not only that, our internet presence gives us the opportunity to acquire new customers outside our store network catchment areas and arouse their interest in the HORNBACH brand.

- The exploitation of opportunities is not limited to further enhancing our concept or accessing market segments. We are also focusing on **optimizing our operating processes**. The processes involved in store organization, sales and the links to procurement and logistics are subject to a process of ongoing enhancement. This is expected to have a sustainable positive impact on the Group's sales and earnings performance.

- The **internationalization** of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply all of our stores as efficiently as possible. Suppliers are able make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries. The fact that our retail format is increasingly attracting professional customers to HORNBACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers. The flexible dovetailing of our suppliers with the company's logistics structures optimizes our value chain and secures a significant competitive advantage for us. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our product selection to regional requirements in those countries and to improve our margins due to benefits of scale. We are tapping further earnings potential by increasingly developing private labels in cooperation with partners. These provide our customers with attractive value for money, while at the same time differentiating us from competitors.

- HORNBACH is committed to **organic growth**. We will continue to track down opportunities in our expansion across Europe in future as well. In the densely occupied German DIY market, we are relying on selective growth in attractive catchment areas. Here, we can draw on our structural advantages and benefits of scale, especially our high surface productivity together with the largest average store size in the market. In our expansion, we will be focusing on countries outside Germany. Due to their lower degree of market saturation in the DIY megastore and garden center segment compared with Germany, most other European regions harbor above-average growth opportunities.

Explanatory comments on risk and opportunity report of HORNBACH Baumarkt AG

The risks and opportunities at HORNBACH Baumarkt AG are largely consistent with those presented for the HORNBACH Baumarkt AG Group.

OUTLOOK

FORECAST MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

One crucial factor for the business prospects of the HORNBACH Baumarkt AG Group is the future development in consumer demand and in construction and renovation measures in the countries in which we operate. Private consumer spending is decisively influenced by developments in employment totals, inflation, and disposable incomes. Forward-looking parameters, such as economic and income expectations, or consumers' propensity to spend, provide early indications of developments in consumer confidence ahead of the real macroeconomic data. Political changes in particular are a source of both opportunities and risks for macroeconomic developments and consumer's propensity to spend. Not only that, exceptional weather conditions can severely impact on consumer behavior and on our seasonal business, even though this factor cannot be accounted for in our advanced planning.

Business framework in Europe

According to the European Commission, the European economy will continue to grow at a moderate pace in 2017 as well. Private consumer spending, which stands to benefit from further increases in employment totals and slight income growth, is expected to remain the key growth driver. Growth prospects may nevertheless be negatively affected by political uncertainty, subdued growth outside the European Union, and weak global trade.

Irrespective of global political uncertainties, confidence levels among company decision makers in Germany and Europe have most recently improved. That is also reflected in numerous expert assessments available upon the preparation of this report. Early indicators, such as the ZEW Economic Expectations Index and the Ifo Business Confidence Index, thus pointed to an increasing probability of economic growth and stability in Germany and Europe.

According to the median forecast issued by the Centre for European Economic Research (ZEW), economists and bank analysts expect gross domestic product (GDP) in the euro area to grow by 1.5 % in 2017, and thus slightly more slowly than in 2016 (1.6 %). The European Commission forecasts growth of 1.6 %.

The Commission's forecasts for most countries in which HORNBACH operates its DIY megastores with garden centers are significantly more positive than the euro area average. The respective estimates range between plus 1.5 % and plus 4.4 %. Real-term GDP is set to grow by 1.6 % in Germany and Austria and by 2.0 % in the Netherlands in 2017. Luxembourg, Slovakia, the Czech Republic, Romania, and Sweden are forecast to achieve growth rates of 2.4 % to 4.4 %. With forecast GDP growth of plus 1.5 %, Switzerland is the only country expected to fall slightly short of the euro area average.

Consistent with ongoing positive economic growth rates and falling unemployment totals across Europe, the GfK market research company expects private consumer spending to be a key economic driver once again in 2017. According to the GfK forecast, real-term private household consumer spending in the European Union is set to rise by between 1.0 % and 1.5 % in the current year. The ZEW has forecast growth of 1.4 % for the euro area. According to GfK experts, the risks to this consumer spending forecast include any significant upturn in inflation, the forthcoming Brexit negotiations with the United Kingdom, the uncertainty surrounding the outcomes to the elections in France and Germany, and the future political and economic direction taken by the new US government.

European construction volumes are expected to grow by just over 2.0% in 2017, and thus at a rate similar to that in the previous year. This was the conclusion reached by the Euroconstruct research and consulting network in its forecast dated November 2016. Housing construction is set to remain the driving force. While civil engineering and non-housing construction in Europe are expected to grow by around 1.8 % and almost 1.5 % respectively, growth of nearly 3.0 % is forecast for housing construction.

Business framework in Germany

The economists surveyed by the ZEW in February 2017 expect the German economy to post solid growth of 1.6 % once again this year.

The reasons for this widespread optimism concerning economic developments are apparent. Given the superb development in employment totals, the economists see clear potential for income growth among employees. Due to the recent rise in inflation in Germany, however, real-term incomes face increasing headwind. The market research company GfK expects real-term private consumer spending in Germany to rise by 1.5 % in the year as a whole. The ZEW has forecast growth of 1.4 % in this key figure.

According to the economic experts, the positive macroeconomic framework and ongoing high levels of consumer confidence will be reflected in further retail sales growth in 2017 as well. The Association of German Retailers (HDE) expects nominal net sales to grow by 2.0 % to a total of € 491.9 billion. Online retail, which according to the HDE forecast is set to grow by 11.0 % to € 48.8 billion, will remain the key growth driver. Online sales would then make up almost one tenth of total retail sales in 2017. Industry experts predict that this share could rise to up to 20 % by 2020.

The outlook for the construction industry for the current year also remains rosy. Early indicators, such as building permits and order intake in the main construction trade, are in clearly positive territory. In their joint forecast for 2017, the two German construction industry associations (*Hauptverband der Deutschen Bauindustrie* and *Zentralverband des Deutschen Baugewerbes*) have forecast sales growth of 5.0 % to around € 112.2 billion for the main construction trade. As in the past year, this growth will mainly be driven by housing construction, with expected nominal sales growth of 7.0 %. Overall, around 310,000 to 320,000 apartments could be added to the market. Even though the number of refugees coming to Germany has fallen significantly, ongoing high levels of immigration and internal migration make it necessary to complete at least 350,000 apartments a year. However, this level can only be achieved on a gradual basis.

The BHB sector association has forecast nominal sales growth of 1.3 % for the German DIY retail sector in 2017. On a like-for-like basis, sales growth is expected to amount to 1.0 %. The BHB sees particular potential for sales growth in the field of private renovation and housing construction and in the flourishing construction industry. The fact that the sales forecast issued by the sector association for 2017 is not higher can be attributed to the subdued start to the 2017 calendar year. Due to weather conditions and calendar-related effects, the DIY sector generated weak sales in January and February 2017 compared with the previous year and therefore has a need to make up lost ground, particularly in the spring season.

For 2017, market researchers expect e-commerce sales involving DIY product ranges (home improvement, construction materials, and garden products) to grow by around 10 % to around € 3.1 billion. Given gross sales volumes of around € 48.4 billion forecast for the core DIY market (DIY and home improvement stores, specialist retailers, smaller-scale formats, and distance mail order) in 2017, this corresponds to an online share of 6.4 %.

Overall assessment of the expected impact of the business framework on the business performance of the Group

Based on our assessment, the macroeconomic and sector-specific framework forecast across Europe for 2017 – and especially the revival in consumer demand and housing construction activity – will impact positively on the sales and earnings performance of the HORNBACH Baumarkt AG Group in the 2017/2018 financial year.

FORECAST BUSINESS PERFORMANCE OF THE HORNBACH BAUMARKT AG GROUP IN 2017/2018

The statements made concerning the expected business performance in the 2017/2018 financial year are based on the company's medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The budget for the financial years 2017/2018 to 2021/2022, into which the annual budget for 2017/2018 is integrated, was adopted by the Board of Management at the end of January 2017 and approved by the Supervisory Board at the end of February 2017.

Expansion

We still have not planned any market entry into a new country for the one-year forecast period, but will rather focus on expanding and modernizing our store network in our existing country markets. Depending on the progress made in the building permit and construction planning stages, store openings may be rescheduled between individual years.

Given the challenges facing the sector in the field of e-commerce, in our stationary retail business we will be focusing even more closely than in the past on selective growth at premium locations. That is especially true for new store openings in Germany. In the coming five years, the number of HORNBACH DIY stores here will remain essentially unchanged, as the planned new store openings – some of which replacement locations – will be balanced by planned closures. The key focus of our medium-term expansion and investment activities will be outside Germany.

Two new store openings are planned for the 2017/2018 financial year. In the first quarter of the forecast period, operations were launched at a DIY megastore with a garden center in The Hague, now the company's 13th store in the Netherlands. This is due to be followed by a store opening in Halle (Sachsen-Anhalt), most likely in the third quarter of 2017/2018. This will be our second location in the state of Sachsen-Anhalt.

We also plan to close the store opened in 1988 in Hanau, which has sales areas of around 5,000 m², by the end of December 2017 at the latest, as this location does not offer opportunities for extension and modernization. The group-wide total number of HORNBACH DIY stores with garden centers is therefore set to rise to up to 156 by February 28, 2018 (February 28, 2017: 155), of which 58 in other European countries.

Investments

Gross investments of between € 120 million and € 140 million have been budgeted at the HORNBACH Baumarkt AG Group for the 2017/2018 financial year. The overwhelming share of these funds will be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure. Almost half of the planned investment budget relates to advance payments to purchase land for new HORNBACH DIY stores planned for periods beyond the 2017/2018 financial year, as well as to logistics infrastructure.

HORNBACH enjoys great flexibility in its investment financing. Alongside the free cash flow from operating activities, the company's cash resources and free credit lines mean that a large volume of disposable liquidity is available. The inflow of cash from operating activities will exceed the total investment volume both in the one-year forecast period and in the period covered by the medium-term planning. No sale and leaseback transactions are planned in the 2017/2018 financial year.

Sales performance

Thanks to our expansion, increased growth at existing stores, and growing online sales due not least to the completion of the online store rollout to all countries in which HORNBACH operates, we expect consolidated sales in the 2017/2018 budget year to exceed the figure for the 2016/2017 year under report (€ 3,710 million). Given the macroeconomic and sector-specific framework outlined above, we expect the Group's like-for-like sales net of currency items to slightly exceed the previous year's level in the 2017/2018 financial year. In geographical terms, we have based our forecasts on the following assumptions:

- In **Germany,** we expect to generate like-for-like sales growth in the 2017/2018 financial year, albeit at a lower rate than in other European countries due to the comparatively higher level of sales growth outside Germany. Given our strong competitive position in our stationary and online retail businesses, we are optimistic that HORNBACH will outperform the German sector average in future as well. Our forecast is based on the assumption that the consumer climate in Germany will remain largely stable and continue to be supported by robust developments in employment and income levels. However, any significant macroeconomic disruptions during the forecast period, for example as a result of political crises, terrorism, or exogenous price shocks on commodity or energy markets, would lead via a potential deterioration in consumer confidence to downside risks for the development in our like-for-like sales.

- We believe that the like-for-like, currency-adjusted sales performance of our stores in **other European countries** will improve in the 2017/2018 forecast period compared with the 2016/2017 financial year. Growth rates in the Other European countries region are expected to exceed the group average and lead to a further increase in the international share of the Group's sales. This expectation is also backed up by the broad-based economic growth forecast by economists for Europe in 2017, which will be supported in particular by private domestic demand and the boom in housing construction activity. Any significant deterioration in the macroeconomic framework would also present a downside risk for the like-for-like sales performance at HORNBACH's locations in other European countries.

Sales forecast for the HORNBACH Baumarkt AG Group

We expect our net sales, i.e. sales including new openings, closures and extensions of stores, to show growth in a medium single-digit percentage range in the 2017/2018 financial year. For like-for-like sales net of currency items, we expect to see group-wide growth in a low to medium single-digit percentage range.

Earnings performance

Our future earnings performance is mainly based on the earnings contributions expected from the "Retail" and "Real estate" segments.

Retail segment

The operating earnings performance of the Retail segment is principally determined by the rate of change in like-for-like sales, the gross margin, and the development in costs.

We expect the **gross margin** in the 2017/2018 financial year to decrease on a scale similar to that seen in the 2016/2017 financial year (minus 0.4 percentage points). The development in the gross margin will continue to be influenced by tough competition in the stationary and online DIY retail businesses. E-commerce is gradually gaining in significance throughout our European network. The internet provides consumers with maximum price transparency. HORNBACH has positioned itself here with a consistent permanent low price policy and offers identical article prices to its customers both online and at the stores.

Having said this, the disproportionate growth in the online share of consolidated sales has structural implications for the margin. Given the different product mix involved, we generate a lower gross margin in online retail compared with our stationary retail business. Not only that, the online retail margin is adversely affected by freight costs that are only partly covered by freight revenues.

To stabilize the gross margin in the long term, we intend to continually increase the share of sales generated with private label products, among other measures. Whereas ten years ago private label products still accounted for less than ten percent of sales, by the end of the 2016/2017 financial year this share had more than doubled and is set to rise further in the 2017/2018 budget year. Moreover, we are working to further increase the volume of imports in order to benefit from the best procurement prices available worldwide.

According to our 2017/2018 annual budget, **selling and store expenses** are set to rise less rapidly than sales. As a result, the store expense ratio should fall short of the level seen in the 2016/2017 financial year, in which selling and store expenses also included non-operating earnings charges of € 5.0 million. Due to expected collectively agreed pay rises and shortages of specialists in regional labor markets in the countries in which HORNBACH operates, personnel expenses are expected to increase once again, albeit to a less marked extent than sales. We expect rental expenses to rise less rapidly than sales. According to our budget for the 2017/2018 financial year, utility expenses should remain virtually unchanged. Compared with the 2016/2017 financial year, advertising expenses are budgeted to grow less rapidly than sales in 2017/2018. The increase in expenses is due, among other factors, to marketing measures for new stores and for newly added online stores. We expect our general operating expenses to rise at the same rate as sales in the one-year forecast period. Maintenance measures for land and buildings will continue to play a key role in this respect. Maintaining the substance of stores and ensuring they are attractively designed requires an ongoing supply of funds to renovate older properties and modernize sales areas and merchandise presentation.

Pre-opening expenses in 2017/2018 are expected to remain at around the same level as in the previous year's period. Although only two new stores are scheduled for the 2017/2018 forecast period, compared with three new store openings in the 2016/2017 financial year, a prorated share of store opening expenses will already be incurred for those stores due to be opened at the beginning of the subsequent 2018/2019 financial year.

The 2017/2018 budget foresees a significantly disproportionate rise in **administration expenses** compared with sales. This increase in costs is once again closely linked to additional expenses incurred for the increasing digitization of our business model and forward-looking strategic projects. A large portion of these outlays involves personnel expenses. We aim to complete the rollout of our online store to all countries in which HORNBACH operates in the 2017/2018 forecast period. We thus plan to go live with the web store in Romania, Sweden, and Slovakia in the second half of the financial year. Further resources will be channeled into customer service, particularly for online retail in the newly added regions. Furthermore, the budget for information technology, a prerequisite for sustainable overall IT infrastructure, will be increased. Costs for an extensive refurbishment and modernization of the old office complex at the Bornheim location have also been budgeted for the 2017/2018 financial year. Overall, the administration expense ratio will increase significantly compared with the 2016/2017 financial year.

In the Retail segment, both **EBIT** and **EBIT adjusted** for non-operating earnings items (adjusted EBIT) are set to grow disproportionately compared with sales in the one-year forecast period.

Real estate segment

Due to the Group's expansion, we expect **rental income** in the Real estate segment to show further stable growth in a low to medium single-digit percentage range. The **real estate expenses** budgeted for 2017/2018 are at around the same level as in the previous year. The lower real estate expense ratio as a percentage of rental income will also benefit from a year-on-year reduction in operating expenses for conversion measures. The budget for the 2017/2018 financial year provides for a year-on-year increase in pre-opening expenses. Overall, we expect **EBIT** and **adjusted EBIT** in the Real estate segment to show disproportionate growth compared with rental income in the 2017/2018 financial year.

Earnings forecast for the HORNBACH Baumarkt AG Group

This earnings forecast, which refers to operating earnings, is based on the assumption that there will not be any unexpected macroeconomic downturn or any significant deterioration in consumer confidence in the forecast period. Furthermore, we have based the forecast on the assumption that the competitive framework remains largely unchanged.

Taking account of a year-on-year increase in central expenses not allocable to the Retail or Real estate segments, in our earnings forecast for the 2017/2018 financial year we expect **EBIT** to slightly exceed the previous year's figure. We expect our EBIT figure adjusted for non-operating items (**adjusted EBIT**) for the one-year forecast period to be at around the same level as in the 2016/2017 financial year.

Earnings forecast for HORNBACH Baumarkt AG (Separate financial statements - HGB)

In the separate financial statements of HORNBACH Baumarkt AG, which will be shaped by developments at the HORNBACH DIY stores with garden centers in Germany, we expect sales growth in a low to medium single-digit percentage range in the 2017/2018 financial year. Assuming consistent profit transfer from HORNBACH International GmbH, we expect the result of ordinary operations at HORNBACH Baumarkt AG to more or less match the previous year's figure in the 2017/2018 forecast period.

OTHER DISCLOSURES

Disclosures under § 315 (4) and § 289 (4) HGB and explanatory report of Board of Management

As the parent company of the HORNBACH Baumarkt AG Group, HORNBACH Baumarkt AG participates in an organized market as defined in § 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG) by means of the shares with voting rights thereby issued and therefore reports in accordance with § 315 (4) and § 289 (4) of the German Commercial Code (HGB).

Composition of share capital

The share capital of HORNBACH Baumarkt AG, amounting to € 95,421,000, is divided into 31,807,000 ordinary bearer shares with a prorated amount in the share capital of € 3.00 per share. Each no-par ordinary share entitles its holder to one vote at the Annual General Meeting. Reference is made to the relevant requirements of stock corporation law in respect of the further rights and obligations for ordinary shares.

Direct or indirect capital shareholdings

HORNBACH Holding AG & Co. KGaA, based in Le Quartier Hornbach 19, 67433 Neustadt an der Weinstrasse, Germany, holds more than 10 % of the voting rights. Its shareholding, and thus its share of voting rights, amounted to an unchanged total of 76.4 % as of February 28, 2017.

Statutory requirements and provisions in Articles of Association relating to appointment and dismissal of members of Board of Management and amendments to Articles of Association

The appointment and dismissal of members of the Board of Management (§ 84 and § 85 of the German Stock Corporation Act – AktG) and amendments to the Articles of Association (§ 133 and § 179 AktG) are based on the relevant requirements of stock corporation law.

Change of control

Substantial agreements taking effect upon any change of control are in place between HORNBACH Baumarkt AG and third parties in respect of contracts relating to the long-term financing of the Group.

Powers of Board of Management to issue shares

Pursuant to § 4 of the company's Articles of Association (Share Capital), the Board of Management is authorized until July 7, 2021, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 15,000,000.00 by issuing new ordinary shares on one or several occasions in return for cash contributions (Authorized Capital I). The new shares may in each case be issued as ordinary shares with voting rights or as non-voting preference shares. The Board of Management is authorized, subject to approval by the Supervisory Board, to determine the further details concerning the execution of capital increases. Shareholders are generally to be granted subscription rights when the authorized capital is drawn on. However, the Board of Management is entitled, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights:

- in order to settle residual amounts
- to the extent necessary to grant subscription rights to the holders of conversion or option rights issued or still to be issued by the company or by direct or indirect wholly-owned subsidiaries to the extent that they would be entitled to such shares having exercised their respective conversion or option rights
- to offer new shares up to a total volume of € 1,500,000.00 to employees of the company and its subsidiaries for subscription as employee shares
- to the extent that the proportion of share capital attributable to the new shares for which subscription rights are excluded does not exceed a total of ten percent of the existing share capital either at the time of this authorization being adopted or at the time at which such authorization takes effect or is exercised and that the issue price of the new shares does not fall significantly short of the stock market price. Shares issued, disposed of or to be issued by any other direct or analogous application of § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) are to be imputed to this restriction to ten percent of the share capital. This relates in particular to the disposal of treasury stock undertaken on the basis of an authorization to dispose of treasury stock pursuant to § 71 and § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG), as well as to shares issued or to be issued in order to service bonds with conversion and/or option rights in cases where the respective bonds were issued on the basis of an authorization pursuant to § 221 (4) and § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG).

The Board of Management is authorized until July 7, 2021, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 30,000,000.00 by issuing new individual shares on one or several occasions in return for cash or non-cash contributions (Authorized Capital II). The new shares may in each case be issued as ordinary shares with voting rights or as non-voting preference shares. The Board of Management is authorized, subject to approval by the Supervisory Board, to determine the further details concerning the execution of capital increases. Shareholders are generally to be granted subscription rights when the authorized capital is drawn on. However, the Board of Management is authorized, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights to the extent that the capital increases in return for non-cash contributions are undertaken for the purpose of acquiring companies or shareholdings in companies.

The Board of Management is further authorized, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights to the extent required to grant subscription rights to owners of conversion or option rights issued or still to be issued by the company or its direct or indirect wholly-owned subsidiaries to the extent that the holders of these rights would be entitled to such shares following the exercising of their conversion or option rights. Moreover, residual amounts may also be excluded from shareholders' subscription rights.

The Supervisory Board is authorized to adjust the wording of the Articles of Association in line with the respective volume and level of utilization of the authorized capital and of any conditional capital.

Corporate Governance declaration pursuant to § 289a HGB

The Corporate Governance Declaration requiring submission pursuant to § 289a of the German Commercial Code (HGB) is available under "Corporate Governance" in the Investor Relations section of the company's homepage at www.hornbach-group.com. Pursuant to § 317 (2) Sentence 3 HGB, the disclosures made under § 289a HGB have not been included in the audit performed by the auditor.

Compensation report

The compensation report sets out the basic features and structure of the compensation paid to the Board of Management and Supervisory Board. It is a constituent component of the Group Management Report and has been presented in the Corporate Governance chapter from Page 20 onwards of this Annual Report.

Dependent company report

A report on relationships with associate companies has been compiled for the 2016/2017 financial year pursuant to § 312 of the German Stock Corporation Act (AktG). With regard to those transactions requiring report, the report states: "Our company has received adequate counterperformance for all legal transactions executed with the controlling company or any associate of such or at the instigation or on behalf of any of these companies in accordance with the circumstances known to us at the time at which the legal transactions were performed. No measures were taken or omitted at the instigation of or on behalf of the controlling company or any associate of such."

DISCLAIMER

Our combined management report should be read in conjunction with the audited financial data of the HORNBACH Baumarkt AG Group and the disclosures made in the notes to the consolidated financial statements which can be found in other sections of this Annual Report. It contains statements referring to the future based on assumptions and estimates made by HORNBACH's Board of Management. Forward-looking statements are always only valid at the time at which they are made. Although we assume that the expectations reflected in these forecast statements are realistic, the company can provide no guarantee that these expectations will also turn out to be accurate. The assumptions may involve risks and uncertainties which could result in actual results differing significantly from the forecast statements. The factors which could produce such variances include changes in the economic and business environment, particularly in respect of consumer behavior and the competitive environment in those retail markets of relevance for HORNBACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBACH has no plans to update the forecast statements, neither does it accept any obligation to do so.

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2016 to February 28, 2017

1)	Notes	2016/2017 € 000s	2015/2016 € 000s	Change %
Sales	1	3,710,097	3,534,846	5.0
Cost of goods sold	2	2,328,851	2,203,638	5.7
Gross profit		**1,381,246**	**1,331,208**	**3.8**
Selling and store expenses	3/10	1,104,263	1,068,308	3.4
Pre-opening expenses	4/10	6,012	10,745	(44.0)
General and administration expenses	5/10	186,336	175,372	6.3
Other income and expenses	6/10	12,888	13,408	(3.9)
Earnings before interest and taxes (EBIT)		**97,522**	**90,191**	**8.1**
Other interest and similar income		904	776	16.5
Other interest and similar expenses		18,595	15,104	23.1
Other financial result		(538)	2,501	>(100)
Net financial expenses	7	**(18,229)**	**(11,827)**	**54.1**
Consolidated earnings before taxes		**79,293**	**78,363**	**1.2**
Taxes on income	8	26,429	5,962	>100
Consolidated net income		**52,864**	**72,401**	**(27.0)**
Basic/diluted earnings per share (€)	9	1.66	2.28	(27.2)

1) Previous year's figures adjusted; please see "Amendments in statement".

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2016 to February 28, 2017

	Notes	2016/2017 € 000s	2015/2016 € 000s
Consolidated net income		**52,864**	**72,401**
Actuarial gains and losses on defined benefit plans	24/25	1,974	(3,602)
Deferred taxes on actuarial gains and losses on defined benefit plans		(367)	486
Other comprehensive income that will not be recycled at a later date		**1,607**	**(3,116)**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity 1)		(8)	(115)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		733	1,925
Measurement of available for sale financial assets	13/33	1,788	1,881
Exchange differences arising on the translation of foreign subsidiaries		2,565	(2,857)
Deferred taxes on gains and losses recognized directly in equity	8	(237)	(559)
Other comprehensive income that will be recycled at a later date		**4,841**	**275**
Total comprehensive income		**59,312**	**69,560**

1) Represents the residual value of fair value changes and recognized changes in the value of corresponding hedge instruments in the period under report.

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 28, 2017

Assets [1]	Notes	2.28.2017 € 000s	2.29.2016 € 000s
Non-current assets			
Intangible assets	11	15,235	12,045
Property, plant, and equipment	12	1,087,101	991,694
Investment property	12	16,226	14,895
Financial assets	13/33	5,659	3,871
Other non-current receivables and assets	14/24	3,632	3,946
Non-current income tax receivables	27	0	1,666
Deferred tax assets	15	3,848	10,495
		1,131,701	**1,038,612**
Current assets			
Inventories	16	626,086	588,440
Current financial assets	17	30,009	0
Trade receivables	18	8,221	11,860
Other current assets	18	43,129	46,829
Income tax receivables	27	7,706	17,676
Cash and cash equivalents	19	113,033	282,998
		828,184	**947,803**
		1,959,885	**1,986,415**

Equity and liabilities [1]	Notes	2.28.2017 € 000s	2.29.2016 € 000s
Shareholders' equity	**21**		
Share capital		95,421	95,421
Capital reserve		143,623	143,623
Revenue reserves		771,601	733,834
		1,010,645	**972,878**
Non-current liabilities			
Non-current financial debt	23	424,320	418,495
Provisions for pensions	24	15,216	14,570
Deferred tax liabilities	15	27,455	28,590
Other non-current liabilities	25/28	36,410	32,075
		503,401	**493,730**
Current liabilities			
Current financial debt	23	28,575	94,485
Trade payables	26	244,468	257,363
Other current liabilities	26	82,626	78,198
Income tax liabilities	27	13,441	14,494
Other provisions and accrued liabilities	28	76,729	75,267
		445,839	**519,807**
		1,959,885	**1,986,415**

[1] Previous year's figures adjusted; please see "Amendments in statement“.

Statement of Changes in Equity of the HORNBACH Baumarkt AG Group

2015/2016 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2015		**95,421**	**143,623**	**(1,817)**	**39,624**	**645,567**	**922,418**
Consolidated net income						72,401	72,401
Actuarial gains and losses on defined benefit plans	24/25					(3,116)	(3,116)
Measurement of derivative financial instruments (cash flow hedge), net after taxes				1,279			1,279
Measurement of available for sale financial assets, net after taxes	33					1,853	1,853
Foreign currency translation					(2,857)		(2,857)
Total comprehensive income				**1,279**	**(2,857)**	**71,138**	**69,560**
Dividend distribution	22					(19,084)	(19,084)
Treasury stock transactions	21					(16)	(16)
Balance at February 29, 2016		**95,421**	**143,623**	**(538)**	**36,767**	**697,605**	**972,878**

2016/2017 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2016		**95,421**	**143,623**	**(538)**	**36,767**	**697,605**	**972,878**
Consolidated net income						52,864	52,864
Actuarial gains and losses on defined benefit plans	24/25					1,607	1,607
Measurement of derivative financial instruments (cash flow hedge), net after taxes				515			515
Measurement of available for sale financial assets, net after taxes	33					1,761	1,761
Foreign currency translation					2,565		2,565
Total comprehensive income				**515**	**2,565**	**56,232**	**59,312**
Dividend distribution	22					(21,629)	(21,629)
Treasury stock transactions	21					85	85
Balance at February 28, 2017		**95,421**	**143,623**	**(24)**	**39,332**	**732,293**	**1,010,645**

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2016/2017 € 000s	2015/2016 € 000s
Consolidated net income		**52,864**	**72,401**
Depreciation and amortization of non-current assets	10	76,122	73,064
Change in provisions		7,760	(2,003)
Gains/losses on disposals of non-current assets and of non-current assets held for sale		679	(172)
Change in inventories, trade receivables and other assets		(17,951)	(64,872)
Change in trade payables and other liabilities		(11,128)	38,481
Other non-cash income/expenses		6,870	(10,342)
Cash flow from operating activities		**115,217**	**106,557**
Proceeds from disposal of non-current assets and of non-current assets held for sale		1,555	1,692
Payments for investments in property, plant, and equipment		(150,424)	(133,758)
Payments for investments in intangible assets		(6,578)	(5,034)
Payments for investments in financial assets		0	0
Cash paid for investments in connection with short-term finance planning		(30,000)	0
Cash flow from investing activities		**(185,447)**	**(137,100)**
Proceeds from capital increases		0	0
Dividends paid	22	(21,629)	(19,084)
Proceeds from taking up long-term debt		0	0
Repayment of long-term debt	23	(83,659)	(4,172)
Proceeds from group financing activities		35	0
Payments for transaction costs		0	0
Change in current financial debt		5,128	2,099
Cash flow from financing activities		**(100,125)**	**(21,157)**
Cash-effective change in cash and cash equivalents		(170,355)	(51,700)
Change in cash and cash equivalents due to changes in exchange rates		390	(115)
Cash and cash equivalents at March 1		282,998	334,813
Cash and cash equivalents at balance sheet date		**113,033**	**282,998**

Cash and cash equivalents include cash on hand, credit balances at banks, and other short-term deposits.

The other non-cash income/expenses item mainly relates to deferred taxes and unrecognized exchange rate gains/losses.

The cash flow from operating activities was reduced by income tax payments of € 11,102k (2015/2016: € 23,238k) and interest payments of € 21,279k (2015/2016: € 16,449k) and increased by interest received of € 1,133k (2015/2016: € 776k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on the Principles and Methods Applied in the Consolidated Financial Statements

Basis of preparation

In line with § 315a of the German Commercial Code (HGB), HORNBACH Baumarkt AG prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. New IFRS are basically only applied following their endorsement by the European Union. Application has been made of all IFRS and pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) with binding effect for the 2016/2017 financial year.

HORNBACH Baumarkt AG and its subsidiaries are included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA. The consolidated financial statements and group management report of HORNBACH Holding AG & Co. KGaA are published in the electronic Federal Gazette (*Bundesanzeiger*).

HORNBACH Baumarkt AG is a publicly listed stock corporation whose legal domicile is in Bornheim, Germany. Its address is Hornbachstrasse 11, 76879 Bornheim. The company is entered in the Commercial Register (No. HRB 2311) at Landau/Pfalz District Court. HORNBACH Baumarkt AG and its subsidiaries develop and operate DIY megastores with garden centers on an international basis.

The financial year of HORNBACH Baumarkt AG and thus of the Group runs from March 1 of each year through to the final day of February of the following year.

The income statement, statement of comprehensive income, balance sheet, cash flow statement, and statement of changes in equity are presented separately in the consolidated financial statements. To enhance clarity, individual income statement and balance sheet items have been grouped together. These items are reported separately in the notes. In line with IAS 1 “Presentation of Financial Statements”, a distinction is made in balance sheet reporting between non-current and current debt capital. Debt items are treated as current if they are due within one year.

The consolidated financial statements have been compiled in euros. This represents the functional currency at HORNBACH Baumarkt AG. The figures have been rounded to the nearest thousand or million euros. Such rounding up or down may result in minor discrepancies between the figures depicted in the various sections of these notes.

The Board of Management of HORNBACH Baumarkt AG prepared the consolidated financial statements and approved them for publication on May 15, 2017. The period in which adjusting events could be accounted for thus expired as of this date.

Amendments in statement

To enhance presentation, in the 2016/2017 consolidated financial statements the degree of detail provided in stating "Receivables and other assets" and "Trade payables and other liabilities" has been increased. Sundry and miscellaneous components were not reported separately in the comparative period. From now on, these items will be stated separately. The previous year's figures have been adjusted accordingly.

Furthermore, to enhance presentation of the earnings position the recognition of non-operating income and expenses has been adjusted in the income statement. These items have now been stated, where allocable, under functional expenses. In the previous year, these items were reported under other income and expenses. To facilitate comparison, the previous year's figures have been adjusted accordingly. The effects arising due this amendment in statement have been presented in summarized form in Note 10.

Changes to accounting policies due to new accounting requirements

The following new standards, revised standards and interpretations required application for the first time in the 2016/2017 financial year. First-time application of these requirements has not had any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 27 – Equity Method in Separate Financial Statements
- Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 1 – Disclosure Initiative
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 – Bearer Plants
- Annual Improvements to IFRSs 2012 – 2014 Cycle

Standards and interpretations not applied prematurely

The IASB has issued the following standards, interpretations, and revisions to existing standards of relevance to the HORNBACH Baumarkt AG Group which only require mandatory application in later financial years and which the HORNBACH Baumarkt AG Group has also not applied prematurely:

- IFRS 9 "Financial Instruments": This standard issued in July 2014 is set to replace the existing IAS 39 requirements. IFRS 9 contains revised guidelines concerning the classification and measurement of financial instruments, including a new expected credit loss model to calculate impairments of financial assets and new general hedge accounting requirements. It has also taken over requirements governing the recognition and retirement of financial instruments from IAS 39. This new standard requires first-time application in financial years beginning on or after January 1, 2018.

  The Group is currently in the process of analyzing and determining any implications. The new model used to recognize credit losses may lead to the increased recognition of impairments in future. It is currently not possible to quantify these effects in any greater detail.

- IFRS 15 "Revenue from Contracts with Customers": This new standard reorganizes the requirements governing the recognition of revenues. As a result, IFRS 15 will replace all previous relevant standards governing revenue recognition (IAS 18, IAS 11, and IFRIC 13), as well as the relevant interpretations. From now on, companies will be required to determine the date or period in which revenues are recognized by reference to a five-stage model. The model will also be used to determine the amount of revenues. In general, revenues will have to be recognized as of the date/period in which control over the goods and services is transferred. The standard also includes guidelines for multiple element arrangements and new requirements governing the treatment of service contracts and contract modifications. The scope of note disclosures has also been extended. An "Amendment to IFRS 15" proposing that the effective date be postponed was published in September 2015. This standard requires first-time application in financial years beginning on or after January 1, 2018. Premature application is permitted.

With regard to IFRS 15, an initial impact analysis has identified topics which could have implications for the consolidated financial statements. These potential implications are currently being analyzed in greater detail and refer, among other aspects, to the possibility of later revenue recognition for multiple element arrangements which include guarantee commitments.

Standards, interpretations and amendments published, but not yet adopted into European law by the EU Commission upon approval of these financial statements

The following requirements had been published in English by the IASB and the IFRIC but not yet endorsed by the EU upon the approval of the financial statements for publication.

- IFRS 16 "Leases": This standard replaces the existing lease accounting requirements and fundamentally alters the treatment of leases at the lessee. The existing review performed to classify a lease as an operating lease or a finance lease is no longer required at the lessee. Apart from short-term and low-value contracts, from now on all lease contracts are to be presented using a methodology similar to that previously applied for finance leases, i.e. alongside a right of use a corresponding lease liability is also recognized upon initial recognition. Both items are updated as appropriate. When accounting for leases, lessors are still required to perform a review to classify leases as operating or finance leases. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2019. Premature application is permitted, provided that parallel application is made of IFRS 15.

- Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions": These amendments refer to the recognition of vesting conditions when measuring cash-settled share-based payments, the classification of share-based payments with net settlement features for withholding tax obligations, and the recognition of modifications of terms from cash-settled to equity-settled. Subject to adoption into EU law, these amendments will require application to compensation granted or amended in financial years beginning on or after January 1, 2018. Earlier application is permitted. Retrospective application is only permitted if no reference is made to hindsight.

- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts": These adjustments relate to the first-time adoption of IFRS 9 for insurers. Due to the differing effective dates for IFRS 9 and IFRS 4, the adjustments are intended to reduce the additional expense and increased volatilities resulting from conversion. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2018. Premature application is permitted, provided that parallel application is made of IFRS 15.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”: This amendment offers clarification concerning transactions between investors and associates or joint ventures. Where the transaction involves a business as defined in IFRS 3, the complete gains or losses must be recognized at the investor. Partial recognition of gains or losses applies when the transaction does not involve a business. The IASB decided in 2015 to postpone the effective date until the completion of a research project addressing equity-method accounting.

- Amendment to IFRS 15 "Clarifications to IFRS 15 – Revenue from Contracts with Customers": These amendments contain clarifications and simplifications in the form of conversion options. Subject to adoption into EU law, which is still outstanding, this application will require first-time application as of January 1, 2018.

- Amendments to IAS 12 "Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses": The amendments provide basic clarifications concerning the treatment of deductible temporary differences. In particular, the amendments address the treatment of deductible temporary differences resulting from debt instruments measured at fair value. Subject to adoption into EU law, which is still outstanding, this amendment will require first-time application in financial years beginning on or after January 1, 2017. Earlier application is permitted.

- Amendments to IAS 7 "Disclosure Initiative": The amendments are intended to enhance the information provided on changes in liabilities for financing activities. The addition makes it necessary to provide more detailed disclosures on changes in those financial liabilities for which incoming and outgoing payments are presented in the cash flow from financing activities. The required disclosures are cash-effective changes, changes resulting from the acquisition or disposal of companies, changes resulting from exchange rate movements, changes in fair values, and other changes. Subject to adoption into EU law, which is still outstanding, the amendments will require first-time application in financial years beginning on or after January 1, 2017. Premature application is permitted.

- Amendment to IAS 40 "Transfers of Investment Property": This amendment to IAS 40 serves to clarify the cases in which classification of a property as "investment property" begins or ends when the property is still under construction or in development. Based on the existing exhaustive list in IAS 40.57, the classification of incomplete properties was not clearly determined. The list is now explicitly not exhaustive, as a result of which properties not yet complete may also be subsumed under this requirement. Subject to adoption into EU law, this amendment will require first-time application in the first reporting period in a financial year beginning on or after January 1, 2018. Earlier application is permitted.

- Annual Improvements to IFRSs 2014 – 2016 Cycle: Within the IASB's annual improvements process, amendments are introduced within individual IFRS standards in order to eliminate inconsistencies with other standards or to specify their content in greater detail. This cycle introduces amendments to IFRS 1, IFRS 12, and IAS 28. Subject to adoption into EU law, the amendments to IFRS 12 will require first-time application in the first reporting period in a financial year beginning on or after January 1, 2017, while the amendments to IFRS 1 and IAS 28 will require first-time application in the first reporting period in a financial year beginning on or after January 1, 2018. Earlier application is permitted.

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration": The interpretation addresses a question arising in connection with application of IAS 21 *The Effects of Changes in Foreign Exchange Rates* and clarifies the time as of which the exchange rate should be determined for the translation of foreign currency transactions that include the receipt or payment of advance consideration. According to the interpretation, the exchange rate used to translate the underlying asset, income or expenses should be determined upon initial recognition of the asset or liability resulting from the advance consideration. Subject to adoption into EU law, this interpretation will require first-time application in the first reporting period in a financial year beginning on or after January 1, 2018. Earlier application is permitted.

The implications for the consolidated financial statements of the aforementioned standards and supplements not yet adopted into EU law are currently being investigated. The following as yet inconclusive implications have been identified within the analyses currently underway.

IFRS 16 will basically make it necessary to recognize all leases in the balance sheet in future. At HORNBACH, this relates in particular to those rental agreements previously classified as operating leases, which are disclosed as financial obligations in the notes. As a result, non-current assets and financial debt will both increase in future. Furthermore, changes will also arise in the income statement. To date, rental payments in connection with operating lease agreements were mainly included as expenses within selling and store expenses. In future, these expenses will be split into depreciation and interest expenses and recognized accordingly. As the Group has not yet completed the data collection project phase, it is currently not possible to quantify the implications.

From a current perspective, the amendments to IAS 7 will result in extended disclosures in connection with the cash flow statement. At present, the Group intends to meet the extended disclosure requirements by presenting a reconciliation statement.

From a current perspective, the other new requirements are not expected to have any material implications.

Consolidation principles

The annual financial statements of the companies included in the consolidated financial statements are based on uniform recognition and measurement principles.

The separate financial statements of the companies included in the consolidated financial statements have been prepared as of the balance sheet date for the consolidated financial statements.

Capital consolidation has been based on the purchase method. Any resultant debit differences have been recognized as goodwill. This is tested for impairment in the event of any indication of such and at least once a year.

Any change in the level of shareholding held in a fully consolidated company not leading to a change of status is recognized as an equity transaction.

Intercompany sales, income and expenses, and receivables and liabilities between the consolidated companies have been offset against each other. Where material, intercompany profits have been eliminated.

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBACH Baumarkt AG is based on an assessment of control-related factors. Control over a subsidiary exists when HORNBACH can directly or indirectly influence the relevant activities of the subsidiary and when it is exposed to variable returns from the subsidiary or is entitled to such. Furthermore, control enables the level of returns to be influenced. HORNBACH generally acquires this right when it holds a majority of the voting rights. Where this is not the case, other contractual arrangements may lead to HORNBACH gaining control. Subsidiaries are fully consolidated in the consolidated financial statements of HORNBACH Baumarkt AG on the date on which control is gained. Should any circumstances or facts indicate a change in the control relationship, then a reassessment is performed.

Interests in companies not included in the scope of consolidation have been recognized in accordance with IAS 39.

In addition to HORNBACH Baumarkt AG, the consolidated financial statements include 6 domestic and 28 foreign subsidiaries by way of full consolidation. As the sole shareholder in HORNBACH International GmbH, HORNBACH Baumarkt AG holds, either directly or indirectly, 100 % of the voting rights in the consolidated subsidiaries. As in the previous year, all direct and indirect subsidiaries of HORNBACH Baumarkt AG have been included in the consolidated financial statements for the 2016/2017 financial year.

Changes in the scope of consolidation

The following changes arose in the scope of consolidation in the 2016/2017 financial year.

G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf (Austria), a real estate company acquired as of October 31, 2016, has been included in the consolidated financial statements of HORNBACH Baumarkt AG for the first time. The company acquired does not have any active operations pursuant to IFRS 3. The acquisition process therefore does not constitute a business combination. The purchase price amounted to € 2.6 million and was fully paid in the 2016/2017 financial year.

Furthermore, HS Immobilien Sigma GmbH, Wiener Neudorf (Austria), was merged into EZ Immobilien Beta GmbH, Wiener Neudorf (Austria). EZ Immobilien Beta GmbH, Wiener Neudorf (Austria), was subsequently merged into HL Immobilien Lamda, Wiener Neudorf (Austria).

The development in the scope of consolidation was as follows:

	2016/2017	2015/2016
March 1	**36**	**36**
Companies consolidated for the first time	1	0
Mergers	2	0
February 28/29	**35**	**36**

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
Germany [2]			
HORNBACH International GmbH, Bornheim	100	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	100	311	EUR
HB Reisedienst GmbH, Bornheim	100	7,345	EUR
HB Services GmbH, Bornheim	100	18	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100	167	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	100	(36)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100[4]	2,642,476	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	70,370	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	9,601	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	100	287	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	9,599	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	128,925	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	100	40,369	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	100	594	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	96,513	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	11,789	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,871	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	1,393	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	11	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	(13)	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	(11)	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	13	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(590)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	942	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	783	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,325	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	881	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,431	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,548	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	687	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(10)	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	24,534	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100[3]	88,917	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100	4,734	HKD

[1] Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL, however, equity has been determined in accordance with IFRS.
[2] Of which: 100 % direct shareholding.
[3] Of which: 1.6854 % direct shareholding.
[4] Of which: 0.0033 % direct shareholding.

A control and profit and loss transfer agreement is in place between HORNBACH Baumarkt AG and HORNBACH International GmbH.

Currency translation

In the separate financial statements of HORNBACH Baumarkt AG and its consolidated subsidiaries, transactions in currencies other than the respective company's functional currency have been translated into the relevant functional currency at the transaction rate. All receivables and liabilities in currencies other than the respective company's functional currency have been measured, irrespective of any currency hedges, at the reporting date rate. The resultant exchange gains and losses have generally been included in the income statement. Embedded forward exchange transactions have been recognized at fair value.

In line with IAS 21, the annual financial statements of foreign group companies have been translated into euros on the basis of the functional currency concept. This is the local currency for all of the companies in view of the fact that the foreign companies conduct their business independently from a financial, economic and organizational point of view. Accordingly, non-current assets, other assets and liabilities have been translated at the median rate on the reporting date. Income and expense items have been translated using average rates. Exchange rate differences arising from the translation of the annual financial statements of foreign subsidiaries are recognized directly in equity in a separate item within revenue reserves.

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2017	2.29.2016	2016/2017	2015/2016
RON Romania	4.5202	4.4757	4.49100	4.45285
SEK Sweden	9.5675	9.3219	9.49182	9.33668
CHF Switzerland	1.0648	1.0914	1.08530	1.07097
CZK Czech Republic	27.0210	27.0570	27.03226	27.16532
USD USA	1.0597	1.0888	1.10080	1.10114
HKD Hong Kong	8.2252	8.4651	8.54064	8.54162

Accounting policies

General principles

The following table presents the most important measurement principles applied by the Group when preparing the consolidated financial statements.

Balance sheet item	Valuation principal
Assets	
Goodwill	Impairment only approach
Intangible assets	
with infinite useful lives	Impairment only approach
with finite useful lives	At amortized cost
Property, plant, and equipment	At amortized cost
Investment property	At amortized cost
Financial assets	
Available for sale	Fair value with gains or losses recognized directly in equity and at amortized cost
Inventories	Lower of cost and fair value less costs to sell
Current financial assets	At amortized cost
Trade receivables	At amortized cost
Other current assets	
Loans and receivables	At amortized cost
Held for trading	Measured at fair value through profit and loss
Cash and cash equivalents	Par value
Non-current assets held for sale	Lower of book value and fair value less costs to sell
Equity and liabilities	
Financial debt	
Measured at amortized cost	Measured at amortized cost using the effective interest method
Held for trading	Measured at fair value through profit and loss
Provisions	
Provisions for pensions	Present value of future obligations (projected unit credit method)
Other provisions	Expected settlement amount
Trade payables	At amortized cost
Other liabilities	At amortized cost
Accrued liabilities	At amortized cost

The company has not drawn on the option of remeasuring intangible assets, property, plant and equipment and investment property. Income and expenses have been deferred in line with their respective periods.

Goodwill

Goodwill is tested for impairment once a year. Should any events or changes in circumstances indicate any impairment in value, then such impairment test must be performed more frequently. Pursuant to IAS 36, the carrying amounts of the cash generating units, including the share of goodwill allocated to such units, are compared with the higher of the fair value less costs to sell and the value in use (so-called recoverable amount) of such units.

If a write-down is required, then the impairment loss for a cash generating unit is initially allocated to goodwill. Any remaining impairment loss is subsequently recognized for the other assets in the cash generating unit. However, assets may only be written down at maximum to the recoverable amount of the individual identifiable asset. Goodwill is not written up.

Intangible assets (except goodwill)
Intangible assets with finite useful lives are recognized at amortized cost.

Amortization is determined using the straight-line method based on the following economic useful lives:

	Years
Software and licenses	3 to 8
Other intangible assets	3 to 8

Impairment losses are recognized when there are indications of impairment and the recoverable amount falls short of the carrying amount. Corresponding write-ups to a maximum of amortized cost are recognized when the reasons for impairment losses recognized in previous years no longer apply.

There are no intangible assets with indefinite useful lives.

Property, plant and equipment and investment property
Property, plant and equipment and investment property are recognized at amortized cost.

Depreciation is undertaken on a straight-line basis. If there are indications of any impairment in value and if the recoverable amount is less than the amortized cost, then impairment losses are recognized for the respective items of property, plant and equipment or investment property. Corresponding write-ups to a maximum of amortized cost are recognized when the reasons for impairment losses recognized in previous years no longer apply.

Depreciation is uniformly based on the following economic useful lives across the Group:

	Years
Buildings and outdoor facilities (including rented property)	15 to 33
Other equipment, plant, and office equipment	3 to 15

Financing costs incurred in connection with real estate development ("building interest") which can be directly allocated to the acquisition, construction or establishment of land and buildings ("qualifying assets") are capitalized as a component of costs in accordance with IAS 23 “Borrowing Costs".

Impairment of non-current financial assets

The amount of impairment is measured on the basis of the amount by which the recoverable amount of an asset falls short of its amortized cost. The recoverable amount is the higher of the fair value less costs to sell and the value in use.

Where no recoverable amount can be determined for an individual asset, the recoverable amount is determined for the cash generating unit in which the asset is included. A cash generating unit is defined as the smallest identifiable group of assets independently generating cash flows. Within the Group, individual locations are basically viewed as cash generating units.

The value in use of an individual asset or a cash generating unit is calculated by reference to the discounted future cash flows of a cash generating unit expected on the basis of the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future (perpetuity) have been based on growth factors of 1.0 % to 1.5 % (2015/2016: 1.0 % to 1.5 %). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current procurement terms and future expectations as to such terms.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBACH Baumarkt AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. To this extent, the value in use is basically determined by reference to Level 3 input data. The interest rates used for discounting are based on market data. Depending on the countries and activities involved, the discount rates thereby applied ranged from 4.6 % to 10.0 % after taxes (2015/2016: 5.0 % to 9.8 %) and from 5.8 % to 11.9 % before taxes (2015/2016: 6,5 % to 11.7 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

The fair value less costs to sell (net realizable value) of an individual asset or cash generating unit is determined by reference to external surveys and assessments based on past experience.

The net realizable value of real estate at individual locations that is owned by the Group and of investment property is determined by external independent surveyors. These determine the fair value less costs to sell by reference to Level 3 input data using the valuation methods outlined below. Application is made on the one hand of the capitalized value method, generally the discounted cash flow method. Here, a present value is derived from future (rental) income by application of a discount rate. On the other hand, market price-based methods are applied in the form of analogy methods. Here, reference is made to standard land values determined by comparing the price with suitable other pieces of land or by surveyor committees on the basis of corresponding land sales. Furthermore, application is made of the multiplier method, in which rental income surpluses are multiplied by land-specific factors. Alongside the input data already mentioned, the surveyors also account for additional premiums and discounts to do justice to the individual property-specific circumstances (e.g. size, situation, conversion or demolition costs still required).

The net realizable values of other assets included in the cash generating unit are also determined on the basis of Level 3 input data. Based on past experience and on an assessment of current market conditions, the cash flows that could be generated by disposing of the assets currently in the cash generating unit are determined.

Leases

Leased items of property, plant and equipment which are to be viewed in economic terms as asset purchases with long-term financing (finance leases) are recognized pursuant to IAS 17 "Leases" at fair value at the beginning of the leasing relationship, unless the present value of the leasing payments is lower. The relevant assets are depreciated over their economic useful lives or over the term of the lease contract if shorter. Application is made of the same method of depreciation applicable to comparable assets acquired or manufactured. Moreover, an equivalent financial liability is capitalized at the amount of the fair value of the asset or the present value of the minimum leasing payments, if lower. These payments are subsequently divided into financing costs and the principal repayment share of the remaining liability. Where material changes in the contractual terms result in a reclassification requirement, the lease is prospectively recognized as a finance lease. Where group companies act as lessees within an operating lease, i.e. when all significant risks and rewards remain with the lessor, then the leasing expenses are recognized on a straight-line basis in the income statement.

Inventories

Inventories are carried at cost or at their net realizable value, if lower. The net realizable value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Costs of unfinished services relate to customer orders for merchandise deliveries, including services provided with tradesmen commissioned by HORNBACH. Unfinished products and unfinished services mainly involve directly allocable costs of material and invoiced tradesman services. Supplier compensation requiring measurement as a reduction in the respective costs of acquisition or manufacture is recognized accordingly within inventories.

Taxes

Taxes levied by the respective countries on taxable income and changes in deferred tax items are recognized as taxes on income. These are calculated in accordance with the relevant national legislation on the basis of the tax rates applicable at the balance sheet date, or due to be applicable in the near future.

Other taxes are allocated to the respective functional divisions and recognized under the corresponding expenses for the relevant function.

In line with IAS 12, deferred taxes are recognized and measured using the balance sheet liability method based on the tax rate expected to be valid at the realization date. Deferred tax assets are recognized for the tax benefits expected to arise from future realizable losses carried forward. Deferred tax assets arising from deductible temporary differences and tax losses carried forward are only recognized to the extent that it can be assumed with reasonable certainty that the company in question will generate sufficient taxable income in future. Recognized and unrecognized deferred tax assets are reviewed at each balance sheet date to ascertain whether any adjustment in their current values is required.

Deferred tax assets and liabilities referring to items recognized directly in equity are also recognized in equity rather than in the income statement.

Deferred tax assets and liabilities are netted for each company or fiscal unity provided that such are due to or from the same tax authority and there is an enforceable right for such items to be offset.

Non-current assets held for sale and disposal groups
Land, buildings and other non-current assets and disposal groups which are very likely to be sold in the coming financial year are measured at fair value less costs to sell, if such is lower than the carrying amount.

Pensions and similar obligations
Consistent with legal requirements in the respective countries and with individual commitments made to members of the Board of Management, group companies of HORNBACH Baumarkt AG have obligations relating to defined contribution and defined benefit pension plans.

In the case of defined benefit plans, provisions have been calculated using the projected unit credit method in accordance with IAS 19 (revised 2011) “Employee Benefits”. When determining the pension obligation in accordance with actuarial principles, this method accounts for the pensions known of and claims vested as of the balance sheet date, as well as for the increases in salaries and pensions to be expected in future. The plan assets are deducted at fair value from the obligations. Should this result in a net asset, then this is recognized, provided that it does not exceed the present value of future reductions in contributions or repayments or any retrospective service costs.

Current service cost and any retrospective service cost are recognized under personnel expenses. The net interest result is recognized under net financial expenses. Actuarial gains and losses relating to the pension obligation or the plan assets are recognized directly in equity, taking account of any deferred taxes. The implications are presented separately in the statement of comprehensive income.

For defined contribution plans, the contributions are recognized under personnel expenses upon becoming due for payment. Multiemployer pension plans are recognized by analogy with defined contribution plans.

Provisions and accrued liabilities
Provisions are recognized for uncertain obligations to third parties where these result from past events and are likely to lead to a future outflow of resources. Provisions are stated at the expected settlement amount, having accounted for all identifiable risks, and are not offset against recourse claims. This item also includes provisions for severance payments, for which actuarial surveys are obtained. If the overall effect is material, non-current provisions are measured at present value discounted to the end of the respective terms. Provisions for pending losses and onerous contracts are recognized if the contractual obligations are higher than the expected economic benefits. Any risks existing in connection with legal disputes and court cases are recognized under provisions. The amount of provision is based on the assessment of the relevant circumstances. In the case of accrued liabilities, the date and level of the respective liability are no longer uncertain.

Financial instruments
Financial instruments are contracts which result in a financial asset at one company and a financial liability or equity instrument at another company. On the one hand, these include primary financial instruments such as trade receivables and payables, financial receivables and financial liabilities. On the other hand, they also include derivative financial instruments, such as options, forward exchange transactions, interest swaps and currency swaps. Derivative financial instruments are recognized at fair value as of the transaction date. Primary financial instruments are basically recognized at the time at which the company becomes a contractual party. Upon initial recognition, these are recognized at fair value. This generally corresponds to the transaction price. Where there are indications that the fair value deviates from the transaction price, the fair value is determined in accordance with the logic outlined in "Fair Value Measurement" and then used as the basis for initial recognition.

Financial assets are basically derecognized once the contractual rights to payment have expired. Furthermore, financial assets are derecognized when the contractual rights to payment, and thus all significant risks and rewards or powers of disposal over these assets, have been assigned. Financial liabilities are derecognized once they have been settled, i.e. once the liability has been repaid, cancelled or has expired.

Primary financial instruments

The HORNBACH Baumarkt AG Group has so far not made any use of the option of classifying financial assets or financial liabilities as measured at fair value through profit or loss.

Financial assets are classified pursuant to IAS 39 as available for sale, as they cannot be allocated to any other of the IAS 39 categories. They are measured at fair value. Investments and prepayments for financial assets (equity instruments) are recognized at cost when there is no active market for these items and their fair values cannot be reliably determined at reasonable expense.

Current financial assets mainly relate to fixed-term deposits which cannot be allocated to cash and cash equivalents. These are recognized at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable risks.

Trade receivables and other assets (except derivatives) are carried at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable risks. These are determined on the basis of individual risk assessments and depending on the maturity structure of overdue receivables. Specific cases of default lead to the receivable in question being derecognized.

Impairment accounts are maintained for current financial assets, trade receivables and the financial assets recognized under other assets. Amounts from impairment accounts are derecognized, with a corresponding charge to the carrying amount of the impaired assets, in cases such as when insolvency proceedings against the debtor have been completed, or when the receivable is deemed irretrievably lost.

Cash and cash equivalents include cash on hand and short-term deposits with maturity dates of less than three months. These items are measured at amortized cost (nominal value).

Financial debt (except derivatives) are recognized at the respective loan amount, less transaction costs, and subsequently measured at amortized cost. The difference to the repayment amount is recognized as an expense over the term of the bond and the respective financial liability using the effective interest method. All other debt items are also recognized at amortized cost. This mostly corresponds to the respective repayment amount.

Trade payables and other liabilities are recognized at amortized cost. Trade payables are mostly classified as current. The same applies for other liabilities. In this respect, their carrying amounts basically correspond to their fair values.

Derivative financial liabilities

Derivative financial instruments, such as forward exchange transactions and interest swaps, are used to hedge exchange rate and interest risks. In line with the Group's risk principles, no derivative financial instruments are held for speculative purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are immediately recognized as expenses.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 are subject to mandatory classification as held for trading (financial assets/liabilities held for trading) and are thus measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the balance sheet date. The fair value of interest and interest-currency swaps is determined by the financial institutions with which they were concluded. The financial institutions use customary market valuation models (e.g. discounted cash flow method) that refer to the interest and currency information available on the market. This corresponds to Level 2 input factors in the fair value hierarchy.

Upon entering into a hedging transaction, the HORNBACH Baumarkt AG Group classifies certain derivatives as hedging future cash flows or planned transactions (cash flow hedges). Changes in the fair value of those cash flow hedges viewed as effective are recognized directly in equity under revenue reserves, taking due account of deferred taxes, until the result of the hedged item is recognized. Non-effective gains and losses are recognized through profit or loss.

Fair value measurement

Fair value represents the price on a given valuation date which a company would receive to sell an asset or to transfer a liability (exit price). Fair value is determined in line with the three-level measurement hierarchy set out in IFRS 13. Based on the availability of information, fair value is determined by reference to the following hierarchy.

Level 1 information –	current market prices on an active market for identical financial instruments
Level 2 information –	current market prices on an active market for comparable financial instruments or using valuation methods whose key input factors are based on observable market data
Level 3 information –	input factors not based on observable market prices.

The level of information and/or valuation methods used to determine the fair value of assets and liabilities is explained in the respective chapter.

Revenues

Pursuant to IAS 18, sales and other operating income are recognized at the time at which the service is performed provided that the amount of income can be reliably determined and the inflow of benefits is deemed likely.

For the sale of merchandise, the time at which ownership, i.e. the significant risks and rewards associated with ownership, is transferred is taken to be the time at which the service is performed. The amount of sales recognized is based on the fair value of the consideration received, taking due account of sales deductions and the expected level of goods returned.

Rental income from operating lease arrangements is recognized on a straight-line basis under sales over the term of the rental contract.

Government grants awarded to cover expenses incurred and for assistance purposes are recognized as income in the income statement. Grants awarded for non-current assets reduce the cost of such assets accordingly.

Expenses

As well as the direct acquisition costs of the merchandise in question, the cost of goods sold also includes ancillary acquisition costs, such as freight charges, customs duties and other services rendered, as well as write-downs on inventories.

Rental expenses for operating lease arrangements are recognized on a straight-line basis as expenses over the term of the rental contract.

Outlays on advertising campaigns and sales promotion measures are recognized as expenses once the relevant powers of disposal have been granted or the respective service received.

The reversal of provisions and accrued liabilities has generally been recognized as a reduction in expenses within the functional expense group in which the costs of recognizing the corresponding provision or accrued liability were originally presented.

Interest expenses and interest income are recognized in accordance with the period of the respective financial debt. Financing costs incurred in connection with real estate development ("building interest") which can be directly allocated to the acquisition, construction or establishment of land and buildings ("qualifying assets") are capitalized as a component of costs in accordance with IAS 23 “Borrowing Costs".

Tax expenses include current and deferred taxes unless they relate to facts or circumstances accounted for directly in equity.

Discretionary decisions

Discretionary decisions made when applying the accounting policies and which materially influence the amounts recognized in the consolidated financial statements chiefly relate to the classification of leases as finance or operating leases. Based on the contractual terms, an assessment is made upon concluding or modifying the respective contracts as to whether the risks and rewards associated with ownership of the leased item are attributable to HORNBACH Baumarkt AG or to the counterparty. More detailed information can be found in Notes 23 and 30.

Assumptions and estimates

Assumptions and estimates are made when preparing the consolidated financial statements which have an effect on the recognition and/or measurement of the assets, liabilities, income and expenses as presented. Assumptions and estimates are made on the basis of the information available at the reporting date. Should the development in the relevant conditions deviate from the assumptions and estimates, then the amounts actually arising in future may differ from the amounts recognized in the accounts.

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11 & 12), the recognition and measurement of provisions (Notes 24 & 25), the calculation of the recoverable amount to determine the amount of any impairments of non-current, non-financial assets (Notes 10, 11 & 12), the determination of the net realizable price for inventories (Note 16), and the ability to obtain future tax relief (Notes 8, 15 & 27). Further information about the accounting policies relating to the respective topic can be found in the aforementioned notes.

The assumptions and estimates relevant to the preparation of the consolidated financial statements are continually reviewed. Changes in estimates are accounted for in the period of such changes and in future periods when they relate both to the reporting period and future periods.

Segment Reporting

Segment reporting is consistent with the accounting policies applied in the consolidated financial statements (IFRS). Sales to external third parties represent net sales. Transfer prices between the segments are equivalent to those applied to external third parties.

Segment delineation

The allocation of business fields (segments) corresponds to the internal reporting system used by the Board of Management of the HORNBACH Baumarkt AG Group for managing the company. The "Retail" segment includes the 155 (2015/2016: 153) DIY megastores and garden centers grouped together in the HORNBACH Baumarkt AG Group and the online shops in six of the nine European countries in which we operate. The "Real estate" segment includes the retail properties owned by the HORNBACH Baumarkt AG Group, which are let and charged to the respective DIY stores with garden centers within the Group at normal market conditions. The "Headquarters and consolidation" reconciliation column includes administration and consolidation items not attributable to the individual segments.

Segment earnings

Earnings before interest and taxes (EBIT) have been taken to represent the segment earnings.

Segment assets and liabilities

Apart from income tax receivables, income tax liabilities and deferred taxes, asset and liability items in the consolidated balance sheet have been directly allocated to the individual segments as far as possible. Remaining assets and liabilities have been allocated as appropriate. Liabilities in the consolidated balance sheet have been increased by liabilities to group companies in the individual segments and allocated to the individual segments in line with their causation. The resultant adjustments have been eliminated in the "Headquarters and consolidation" reconciliation column. Investments relate to the non-current assets allocable to the respective segment.

2016/2017 in € million 2015/2016 in € million	Retail	Real estate	Headquarters and consolidation	HORNBACH Baumarkt AG Group
Segment sales	**3,708.5**	**167.6**	**(166.0)**	**3,710.1**
	3,533.1	162.1	(160.4)	3,534.8
Sales to third parties	3,708.5	0.0	0.0	3,708.5
	3,533.1	0.0	0.0	3,533.1
Rental income from third parties	0.0	1.6	0.0	1.6
	0.0	1.7	0.0	1.7
Rental income from affiliated companies	0.0	166.0	(166.0)	0.0
	0.0	160.4	(160.4)	0.0
Segment earnings (EBIT)	**41.1**	**67.3**	**(10.9)**	**97.5**
	57.7	47.7	(15.2)	90.2
of which: depreciation and amortization/write-ups	39.5	29.8	6.8	76.1
	39.2	26.2	6.8	72.2
Segment assets	**893.7**	**937.2**	**117.4**	**1,948.3**
	881.2	850.6	224.8	1,956.6
of which: credit balances at banks	58.6	0.0	32.4	91.0
	66.1	0.0	186.1	252.2
Investments [1]	**37.6**	**113.1**	**25.4**	**176.1**
	48.8	250.2	11.5	310.5
Segment liabilities	**405.6**	**215.1**	**287.6**	**908.3**
	400.7	286.4	283.4	970.5
of which: financial debt	13.5	189.7	249.6	452.9
	0.2	263.9	248.9	513.0

[1] Investments in the "Real estate" segment include additions resulting from the capitalization of finance leases amounting to € 19.0 million (2015/2016: € 171.7 million).

Reconciliation in € million	2016/2017	2015/2016
Segment earnings (EBIT) before "Headquarters and consolidation"	**108.4**	**105.4**
Headquarters	(10.9)	(15.2)
Net financial expenses	(18.2)	(11.8)
Consolidated earnings before taxes	**79.3**	**78.4**
Segment assets	**1,948.3**	**1,956.6**
Deferred tax assets	3.8	10.5
Income tax receivables	7.7	19.3
Total assets	**1,959.9**	**1,986.4**
Segment liabilities	**908.3**	**970.5**
Deferred tax liabilities	27.5	28.6
Income tax liabilities	13.4	14.5
Total liabilities	**949.2**	**1,013.5**

Geographical information

To enhance comprehension of the financial statements, the mandatory geographical disclosures for sales to third parties and non-current assets have been supplemented with voluntary additional information.

The geographical disclosures have been subdivided into the "Germany" and "Other European countries" regions. The "Other European countries" region includes the Czech Republic, Austria, the Netherlands, Luxembourg, Switzerland, Sweden, Slovakia, and Romania.

Sales are allocated to the geographical regions in which they were generated. Apart from income tax receivables, income tax liabilities and deferred taxes, all assets have been allocated to the region in which they are located. Investments relate to non-current assets allocated to the respective region. The reconciliation column includes consolidation items.

2016/2017 in € million 2015/2016 in € million	Germany	Other European countries	Reconciliation	HORNBACH Baumarkt AG Group
Sales	**2,361.0**	**1,669.9**	**(320.8)**	**3,710.1**
	2,293.0	1,524.3	(282.5)	3,534.8
Sales to third parties	2,040.5	1,668.0	0.0	3,708.5
	2,010.7	1,522.4	0.0	3,533.1
Sales to affiliated companies	320.4	0.4	(320.8)	0.0
	282.2	0.3	(282.4)	0.0
Rental income from third parties	0.0	1.6	0.0	1.6
	0.1	1.6	0.0	1.7
EBIT	**12.2**	**85.4**	**(0.1)**	**97.5**
	(4.8)	95.0	0.0	90.2
Depreciation and amortization/write-ups	**45.1**	**31.0**	**0.0**	**76.1**
	48.4	23.8	0.0	72.2
EBITDA	**57.3**	**116.5**	**(0.1)**	**173.6**
	43.6	118.8	0.0	162.4
Assets	**1,408.9**	**917.1**	**(377.7)**	**1,948.3**
	1,460.2	845.7	(349.3)	1,956.6
of which: non-current assets[*)]	522.7	596.9	(0.1)	1,119.5
	511.4	508.5	(0.1)	1,019.8
Investments [1)]	**58.4**	**117.7**	**0.0**	**176.1**
	189.2	121.4	0.0	310.5

[*)] These involve property, plant and equipment, investment property, intangible assets and non-current deferrals and accruals. This item does not include non-current income tax receivables of € 0.0 million (2015/2016: € 1.7 million) for the Germany region.

[1)] Investments include additions resulting from the capitalization of finance leases amounting to € 19.0 million (2015/2016: € 171.7 million).

Notes on the Consolidated Income Statement

(1) Sales

Sales mainly involve revenues in the Retail segment. Furthermore, revenues of € 1,626k (2015/2016: € 1,711k) from the letting of real estate have also been reported under sales.

The sales of the Group broken down into business fields and regions have been depicted in the segment report.

(2) Cost of goods sold

The cost of goods sold represents the expenses required for the generation of sales and is structured as follows:

	2016/2017 € 000s	2015/2016 € 000s
Expenses for auxiliary materials and purchased goods	2,270,314	2,156,309
Expenses for services rendered	58,537	47,329
	2,328,851	**2,203,638**

(3) Selling and store expenses

Selling and store expenses include those costs incurred in connection with the operation of DIY stores with garden centers. These mainly involve personnel expenses, costs of premises and advertising expenses, as well as depreciation and amortization. Moreover, this item also includes general operating expenses, such as transport costs, administration expenses, maintenance and upkeep.

(4) Pre-opening expenses

Pre-opening expenses mainly relate to those expenses arising at or close to the time of the construction up to the opening of new DIY stores with garden centers. Pre-opening expenses mainly consist of personnel expenses, costs of premises, and administration expenses.

(5) General and administration expenses

General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of DIY stores with garden centers which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses.

(6) Other income and expenses

Other income and expenses are structured as follows:

1)	2016/2017 € 000s	2015/2016 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	2,193	1,617
Income from allocations within the HORNBACH HOLDING Group	1,692	1,607
Income from disposal of non-current assets	859	880
Income from damages	1,472	1,586
Income from payment differences	899	957
Miscellaneous other income	13,103	12,870
	20,218	**19,517**
Other income from non-operating activities		
Income from disposal of real estate	0	20
	0	**20**
Other income	**20,218**	**19,537**

1) Previous year's figures adjusted; please see "Amendments in statement".

Miscellaneous other income principally relates to ancillary revenues at the DIY stores with garden centers, income from disposal activities, income from retirements of liabilities, income from the reversal of impairments of receivables, and income from personnel grants.

1)	2016/2017 € 000s	2015/2016 € 000s
Other expenses from operating activities		
Losses due to damages	2,041	2,440
Impairments and defaults on receivables	1,161	1,211
Losses on disposal of non-current assets	1,473	558
Expenses from payment differences	471	354
Miscellaneous other expenses	2,185	1,566
Other expenses	**7,330**	**6,129**
Net income from other income and expenses	**12,888**	**13,408**

(7) Net financial expenses

	2016/2017 € 000s	2015/2016 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	483	483
Other	421	293
of which: from affiliated companies	150	150
	904	**776**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	16,720	12,025
Interest expenses on financial instruments used as hedging instruments	733	1,925
Interest expenses from compounding of provisions	196	208
Other	946	946
of which: to affiliated companies	50	54
	18,595	**15,104**
Net interest expenses	**(17,691)**	**(14,328)**
Other financial result		
Gains/losses on derivative financial instruments	(1,055)	1,447
Gains and losses from foreign currency exchange	517	1,054
	(538)	**2,501**
Net financial expenses	**(18,229)**	**(11,827)**

Other interest income includes interest income of € 271k on tax refund claims (2015/2016: € 143k).

In line with IAS 17 "Leases", finance leases are recognized under property, plant and equipment, with the interest component of the leasing installments, amounting to € 8,173k (2015/2016: € 843k) being recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,880k in the year under report (2015/2016: € 2,059k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. The average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 4.2 % (2015/2016: 4.4 %).

(Deferred) interest payments on interest swaps included as a hedging instrument within cash flow hedges pursuant to IAS 39 are netted for each swap contract and recognized on the basis of their net amount either as interest income or interest expenses.

Gains/losses on derivative financial instruments include gains and losses of € -1,055k on derivative currency instruments (2015/2016: € 1,447k).

The gains and losses from foreign currency exchange for the 2016/2017 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 1,840k (2015/2016: income of € 578k). Furthermore, this item also includes realized exchange rate gains of € 8,692k (2015/2016: € 9,920k) and realized exchange rate losses of € 6,335k (2015/2016: € 9,443k).

(8) Taxes on income

The taxes on income reported include the taxes on income paid or payable in the individual countries, as well as deferred tax accruals.

The German companies included in the HORNBACH Baumarkt AG Group are subject to an average trade tax rate of approximately 14.7 % of their trading income (2015/2016: 14.6 %). The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. The income tax rates applied to foreign companies range from 16 % to 29 % (2015/2016: 16 % to 31 %).

The actual income tax charge of € 26,429k (2015/2016: € 5,962k) is € 2,641k higher (2015/2016: € 17,547k lower) than the expected tax charge of € 23,788k (2015/2016: € 23,509k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Baumarkt AG (2015/2016: 30 %) to the Group's pre-tax earnings of € 79,293k (2015/2016: € 78,363k).

Deferred tax assets have been stated for losses carried forward amounting to € 4,737k (2015/2016: € 39,084k). HORNBACH Baumarkt AG expects it to be possible to offset the tax losses arising and carried forward in individual countries against future earnings in full.

No deferred tax assets have been reported in the case of losses carried forward amounting to € 30,623k (2015/2016: € 5,414k), as future realization of the resultant benefit is not expected. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated. Losses carried forward amounting to € 2,908k for which no deferred taxes had been recognized were utilized (2015/2016: € 2,678k).

Deferred tax assets of € 6,237k for losses carried forward whose utilization is no longer deemed likely were derecognized in the 2016/2017 financial year. In the previous year, deferred tax assets of € 6,531k were recognized for losses carried forward whose utilization was previously not deemed possible.

Taxes on income due in future in connection with planned profit distributions at subsidiaries have been recognized as deferred tax liabilities. A budgeting horizon of one year has been assumed. The distributions for which deferred tax liabilities have been recognized at the HORNBACH Baumarkt AG Group are subject to German taxation at 5 %. No deferred tax liabilities have been recognized for retained profits of € 323,634k at subsidiaries (2015/2016: € 313,521k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of the tax charge:

	2016/2017 € 000s	2015/2016 € 000s
Current taxes on income		
Germany	3,373	(56)
Other countries	18,312	14,405
	21,685	**14,349**
Deferred tax expenses/income		
due to changes in temporary differences	(2,318)	(159)
due to changes in tax rates	(4)	(398)
due to losses carried forward	7,066	(7,830)
	4,744	**(8,387)**
Taxes on income	**26,429**	**5,962**

The transition from the expected to the actual income tax charge is as follows:

	2016/2017		2015/2016	
	€ 000s	%	€ 000s	%
Expected income tax charge	23,788	100.0	23,509	100.0
Difference between local tax rate and group tax rate	(7,398)	(31.1)	(8,713)	(37.1)
Tax-free income	(413)	(1.7)	(928)	(3.9)
Tax reductions/increases due to changes in tax rates	(4)	0.0	(398)	(1.7)
Tax increases attributable to expenses not deductible for tax purposes	3,850	16.2	3,708	15.8
Tax effects on losses carried forward	(133)	(0.6)	(429)	(1.8)
Non-period current and deferred taxes	6,739	28.3	(10,787)	(45.9)
Taxes on income	**26,429**	**111.1**	**5,962**	**25.4**
Effective tax rate in %	33.3		7.6	

The non-period current tax expenses of € 338k (2015/2016: income of € 4,181k) chiefly result from back payments of income taxes following definitive tax assessments (tax expenses of € 910k) and from the increase in trade tax credits on foreign dividends (tax income of € 572k).

The non-period deferred tax expenses of € 6,401k (2015/2016: income of € 6,606k) chiefly result from the derecognition of deferred tax assets for losses carried forward in Sweden that were previously deemed utilizable. The previous year's figure largely resulted from the capitalization of deferred tax assets for the losses carried forward in Sweden.

The taxes recognized directly in equity in the financial year under report relate to the following items:

	2016/2017 € 000s	2015/2016 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	1,974	(3,602)
Change in deferred taxes	(367)	486
	1,607	**(3,116)**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	725	1,810
Change in deferred taxes	(210)	(531)
	515	**1,279**
Measurement of available for sale financial assets		
Changes in fair value of available for sale financial assets before taxes	1,788	1,881
Change in deferred taxes	(27)	(28)
	1,761	**1,853**
Exchange differences arising on the translation of foreign subsidiaries	**2,565**	**(2,857)**
Other comprehensive income, net after taxes	**6,448**	**(2,841)**
of which: other comprehensive income before taxes	7,052	(2,768)
of which: change in deferred taxes	(604)	(73)

(9) Earnings per share

Basic earnings per share are calculated in line with IAS 33 “Earnings per Share” by dividing the consolidated net income allocable to the shareholders of HORNBACH Baumarkt AG by the weighted average number of shares in circulation during the financial year. As in the previous year, there were no dilutive effects.

	2016/2017	2015/2016
Weighted number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG (in €)	52,863,504	72,401,186
Earnings per share in €	**1.66**	**2.28**

(10) Other disclosures on the income statement

Non-operating items

As outlined in "Amendments in statement", individual expense items also include the following non-operating items:

2016/2017 financial year € 000s	Impairment of assets (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Income from reversal of provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Total
Selling and store expenses	(1,338)	0	(3,664)	0	0	0	(5,003)
Pre-opening expenses	0	0	0	0	0	(312)	(312)
	(1,338)	**0**	**(3,664)**	**0**	**0**	**(312)**	**(5,315)**

2015/2016 financial year € 000s	Impairment of assets (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Income from reversal of provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Total
Selling and store expenses	(12,373)	863	(224)	2,967	0	0	(8,767)
Pre-opening expenses	0	0	0	0	0	(126)	(126)
General and administration expenses	(261)	0	0	0	0	0	(261)
Other income and expenses	0	0	0	0	20	0	20
	(12,633)	**863**	**(224)**	**2,967**	**20**	**(126)**	**(9,134)**

Personnel expenses

The individual expense items include the following personnel expenses:

	2016/2017 € 000s	2015/2016 € 000s
Wages and salaries	541,558	521,142
Social security contributions and pension expenses	118,620	112,606
	660,178	**633,748**

Depreciation and amortization

	2016/2017 € 000s	2015/2016 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	74,784	60,431
Impairment of property, plant, and equipment, intangible assets and investment property	1,338	12,633
	76,122	**73,064**

The impairment losses recognized in the 2016/2017 financial year relate to plant and office equipment. In the previous year, impairment losses related to properties used for operations, properties not used for operations, plant and office equipment, and intangible assets. Reference is also made to the disclosures on intangible assets and property, plant and equipment in Notes 11 and 12 respectively.

Depreciation and amortization is included in the following items in the income statement:

2016/2017 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	204	66,820	67,024
Pre-opening expenses	0	20	20
General and administration expenses	2,457	6,620	9,078
	2,662	**73,461**	**76,122**

2015/2016 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	1,550	62,794	64,344
Pre-opening expenses	0	20	20
General and administration expenses	2,658	6,042	8,700
	4,208	**68,856**	**73,064**

Notes on the Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2015/2016 and 2016/2017 financial years was as follows:

€ 000s	Franchises, industrial property rights, and similar rights and values as well as licenses to such rights and values	Goodwill	Assets under construction	Total
Cost				
Balance at March 1, 2015	82,993	3,271	172	86,436
Additions	2,339	0	2,695	5,034
Disposals	43	0	0	43
Reclassifications	62	0	(49)	13
Foreign currency translation	(1)	0	0	(1)
Balance at February 29/March 1, 2016	**85,350**	**3,271**	**2,818**	**91,439**
Additions	2,678	0	3,901	6,579
Disposals	247	0	939	1,186
Reclassifications	233	0	(21)	212
Foreign currency translation	2	0	0	2
Balance at February 28, 2017	**88,016**	**3,271**	**5,759**	**97,046**
Amortization				
Balance at March 1, 2015	75,229	0	0	75,229
Additions	4,208	0	0	4,208
Disposals	42	0	0	42
Foreign currency translation	(1)	0	0	(1)
Balance at February 29/March 1, 2016	**79,394**	**0**	**0**	**79,394**
Additions	2,662	0	0	2,662
Disposals	247	0	0	247
Foreign currency translation	2	0	0	2
Balance at February 28, 2017	**81,811**	**0**	**0**	**81,811**
Carrying amount at February 28, 2017	**6,205**	**3,271**	**5,759**	**15,235**
Carrying amount at February 29, 2016	5,956	3,271	2,818	12,045

Additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values and to assets under construction mainly relate to the acquisition of software licenses and expenses incurred to prepare the software for its intended use.

As in the previous year, there are no major restrictions on ownership and disposition rights.

The goodwill relates to two garden centers in the Netherlands, with around 50 % of the respective figure being allocable to each of these. As in the previous year, the mandatory annual impairment test performed on goodwill in the 2016/2017 financial year did not identify any impairment requirement. The recoverable amounts of the two cash generating units are based in each case on their value in use. This is calculated using the discounted cash flow method by reference to Level 3 input data.

The pre-tax discount rates applied in the 2016/2017 financial year amounted to 9.3 % and 6.2 % (2015/2016: 8.8 % and 6.8 %).

As in the previous year, the changes deemed possible in key assumptions (increase in discount rate or reduction in gross profit) would not result in any impairments at the two locations.

In the previous year, an impairment requirement was identified for software in the Germany region. The items were written down by € 1,211k to their net realizable values. Alongside intangible assets, impairment losses were also recognized on items of property, plant and equipment in the previous year. Further information about the impairment losses recognized on property, plant and equipment can be found in the following section.

(12) Property, plant and equipment and investment property

The development in property, plant and equipment in the 2015/2016 and 2016/2017 financial years was as follows:

€ 000s	Land, leasehold rights, and buildings on third-party land	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost					
Balance at March 1, 2015	811,699	19,270	566,900	19,973	1,417,842
Reclassifications to/from non-current assets held for sale	0	(448)	0	0	(448)
Additions	232,621	594	48,039	24,219	305,473
Disposals	(302)	0	27,211	171	27,080
Reclassifications pursuant to IAS 40	952	(952)	0	0	0
Reclassifications	5,771	0	8,626	(14,410)	(13)
Foreign currency translation	(2,090)	0	(470)	(31)	(2,591)
Balance at February 29/March 1, 2016	**1,049,255**	**18,464**	**595,884**	**29,580**	**1,693,183**
Changes in scope of consolidation	8,189	0	0	0	8,189
Additions	98,870	1,390	37,273	23,773	161,306
Disposals	24	0	27,554	101	27,679
Reclassifications	17,934	0	6,683	(24,829)	(212)
Foreign currency translation	2,537	0	165	31	2,733
Balance at February 28, 2017	**1,176,761**	**19,854**	**612,451**	**28,454**	**1,837,520**
Depreciation					
Balance at March 1, 2015	200,183	3,882	440,711	0	644,776
Reclassifications to/from non-current assets held for sale	0	(248)	0	0	(248)
Additions	27,208	87	41,561	0	68,856
Write-ups	0	0	(862)	0	(862)
Disposals	(437)	0	25,997	0	25,560
Reclassifications pursuant to IAS 40	152	(152)	0	0	0
Foreign currency translation	52	0	(420)	0	(368)
Balance at February 29/March 1, 2016	**228,032**	**3,569**	**454,993**	**0**	**686,594**
Additions	31,033	59	42,369	0	73,461
Disposals	24	0	26,361	0	26,385
Foreign currency translation	300	0	223	0	523
Balance at February 28, 2017	**259,312**	**3,628**	**471,253**	**0**	**734,193**
Carrying amount at February 28, 2017	**917,449**	**16,226**	**141,198**	**28,454**	**1,103,327**
Carrying amount at February 29, 2016	821,223	14,895	140,891	29,580	1,006,589

The impairment losses included in depreciation relate to assets whose carrying amounts exceed their recoverable amounts. This depreciation is allocated to the relevant functional cost item (see Note 10).

Where the carrying amount of the cash generating unit exceeded its value in use, the net realizable values of any real estate attributable to the CGUs were also determined by reference to external real estate surveys. Values were determined using the capitalized earnings method pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). No write-down requirements were identified on real estate in the 2016/2017 financial year.

Due to a lack of utilizability by third parties, a net realizable value of zero has been assumed for marketing-oriented and sales promotional plant and office equipment. Given the useful lives selected, the net realizable values of other items of plant and office equipment included in the tests did not fall short of their carrying amounts, as a result of which the net realizable values basically correspond to the current carrying amounts.

As a result of the impairment tests, impairment requirements were identified in the 2016/2017 financial year for marketing-oriented and sales promotional plant and office equipment at three stores in the Germany region, which each constitute cash generating units, and at two stores in Austria. The items were written down by € 1,338k to their net realizable values. The recoverable amount for these locations amounts to € 28,773k.

In the previous year, impairment requirements were identified for marketing-oriented and sales promotional plant and office equipment and on real estate at nine stores in the Germany region and at one store in the Czech Republic. These items were written down by € 11,423k to their net realizable values. The recoverable amount for these locations amounted to € 41,295k.

As in the previous year, no impairment losses to net realizable value were recognized for items of investment property in the 2016/2017 financial year.

In the previous year, write-ups of € 862k were recognized in the Retail segment. These involved the reversal of impairment losses recognized in previous years for marketing-oriented and sales promotional plant and office equipment at four stores in the Romania region and one store each in the Germany and Sweden regions. The recoverable amount for these locations amounted to € 145,321k. The recoverable amounts of the cash generating units at which write-ups were recognized are based in each case on their value in use. This is determined using the discounted cash flow method by reference to Level 3 input data. Depending on the country involved, the pre-tax discount rates used in the previous year to test the recovery in value when calculating the value in use ranged from 7.1 % to 11.7 %.

Impairment losses are included under non-current asset items in the corresponding segments as follows:

	2016/2017	2015/2016
Retail segment		
Intangible assets	0	1,211
Other equipment, plant, and office equipment	1,338	2,671
	1,338	**3,882**
Real estate segment		
Land	0	5,060
Buildings	0	3,074
Outdoor facilities	0	616
	0	**8,751**
Total	**1,338**	**12,633**

Reference is made to Note 7 with regard to capitalized financing costs.

The real estate assets are predominantly owned by HORNBACH Baumarkt AG and by real estate companies established for this purpose.

Other equipment and plant and office equipment mainly relate to HORNBACH Baumarkt AG in the case of German consolidated companies and to HORNBACH Baumarkt GmbH, HORNBACH Baumarkt Luxemburg SARL, HORNBACH Baumarkt CS spol s.r.o., Hornbach Bouwmarkt (Nederland) B.V., Hornbach Baumarkt (Schweiz) AG, HORNBACH-Baumarkt SK spol s.r.o., Hornbach Byggmarknad AB, and HORNBACH Centrala SRL in the case of foreign consolidated companies.

Investment property mainly relates to retail properties at various locations in Germany. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to approximately € 18.5 million (2015/2016: € 18.5 million). The fair values have been determined by independent external surveyors, who generally calculate the capitalized earnings value pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). The calculation is based on Level 3 input data. Key input factors include future rental income, the property rate, and operating costs. Irrespective of this, application is also made of the comparative method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

Rental income of € 1,545k was generated on properties let to third parties in the year under report (2015/2016: € 1,163k). Expenses of € 469k were incurred for the maintenance of the properties let to third parties (2015/2016: € 424k). Expenses of € 35k were incurred for all other items of investment property (2015/2016: € 23k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 36.6 million (2015/2016: € 36.6 million).

As in the previous year, contractual amendments and new rental contracts were negotiated for several existing locations in the 2016/2017 financial year. The existing lease agreements were classified as operating leases. Due to the amendments and the new agreements, these contracts now require classification as finance leases.

The net carrying amount of finance leases included in the "Land, leasehold rights and buildings, and buildings on third-party land" asset class at the balance sheet date totals € 176,385k (2015/2016: € 170,514k).

The leases mainly relate to land and buildings that are let and provide for basic rental periods of 15 years. Furthermore, the leases include up to three options to extend the contractual terms by five years in each case, as well as indexing provisions customary to the market and based on the development in consumer price indices.

The following table provides disclosures on finance lease obligations. Further information about operating lease obligations can be found in Notes 30 and 31.

2016/2017 financial year **€ 000s**	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	18,004	70,806	157,475
Discounting	(7,772)	(26,362)	(26,417)
Present value	**10,232**	**44,444**	**131,057**

2015/2016 financial year € 000s	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	16,201	63,898	157,303
Discounting	(7,333)	(25,294)	(28,871)
Present value	**8,868**	**38,604**	**128,432**

(13) Financial assets

The development in financial assets in the 2015/2016 and 2016/2017 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2015	1,989	1,989
Measurement of available for sale financial assets	1,881	1,881
Balance at February 29/March 1, 2016	**3,871**	**3,871**
Measurement of available for sale financial assets	1,788	1,788
Balance at February 28, 2017	**5,659**	**5,659**
Carrying amount at February 28, 2017	**5,659**	**5,659**
Carrying amount at February 29, 2016	3,871	3,871

Financial assets include a ten-percent shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic, which is classified as an available-for-sale financial asset and measured at fair value. Information about the measurement assumptions can be found in the information about financial instruments in Note 33. The other financial assets of € 1k (2015/2016: € 1k) involve investments in non-operating companies. These are measured at cost as there is no active market for such investments and their fair values cannot be reliably determined.

The Group currently has no intention to sell financial assets.

(14) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of deposits of € 2,254k (2015/2016: € 2,185k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum remaining term of 3 years.

Furthermore, other non-current receivables and assets also include deferred expenses of € 275k (2015/2016: € 519k) in connection with a syndicated credit line of € 250 million with a term running until April 15, 2019, which was extended in the 2014/2015 financial year but has not yet been utilized.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2017 Assets € 000s	2.28.2017 Liabilities € 000s	2.29.2016 Assets € 000s	2.29.2016 Liabilities € 000s
Intangible assets and property, plant, and equipment	528	31,248	543	31,067
Finance leases	1,275	0	268	0
Inventories	639	4,341	630	4,204
Other provisions	9,027	35	7,960	187
Liabilities	411	458	296	581
Other assets and liabilities	660	899	834	599
Losses carried forward	834	0	8,012	0
	13,374	**36,981**	**18,543**	**36,638**
Set-off	(9,526)	(9,526)	(8,048)	(8,048)
Total	**3,848**	**27,455**	**10,495**	**28,590**

(16) Inventories

	2.28.2017 € 000s	2.29.2016 € 000s
Auxiliary materials and supplies	1,693	1,625
Unfinished products, unfinished services	1,439	1,239
Finished products and merchandise	631,966	594,635
Inventories (gross)	**635,098**	**597,499**
less valuation allowances	9,012	9,059
Inventories (net)	**626,086**	**588,440**
Carrying amount of inventories measured at net realizable value	28,748	29,370

Expenses of € 2,261,303k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2016/2017 financial year (2015/2016: € 2,147,250k).

(17) Current financial assets

This item includes short-term deposits not allocated to cash and cash equivalents. There were no indications of any impairment requirement as of the balance sheet date.

(18) Trade receivables and other current assets

This item comprises the following items:

	2.28.2017 € 000s	2.29.2016 € 000s
Trade receivables	6,767	9,941
Receivables from affiliated companies	1,454	1,920
Positive fair values of derivative financial instruments	29	102
Other receivables and assets	43,100	46,726
	51,350	**58,689**

Trade receivables include receivables of € 1,414k (2015/2016: € 1,409k) assigned within factoring agreements that have not been derecognized as all of the credit risk remains at the HORNBACH Baumarkt AG Group. A corresponding liability has been recognized in the same amount. Given the short-term nature of the relevant receivables and the corresponding liability, their fair values are basically equivalent to their carrying amounts.

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 22k (2015/2016: € 29k) that represents the likely liability risk. Any liability-related issues are generally addressed shortly after the assignment of the receivable. The maximum risk of loss amounted to € 1,499k as of February 28, 2017 (2015/2016: € 1,513k) and was based on the total loss of all relevant receivables. This amount was derived by multiplying the balance of receivables thereby assigned with the respective liability quota. The company does not generate any gain or loss at the time at which the receivable is assigned. The expenses recognized in the 2016/2017 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 278k (2015/2016: € 419k).

Other receivables and assets mainly consist of receivables in connection with pledged funds, receivables from credit card companies, deferred charges and prepaid expenses, credit notes for goods, bonus agreements, and tax refund claims.

As in the previous year, there are no major restrictions on ownership or disposition rights in respect of the receivables and other assets reported.

The following tables provide an analysis of the financial assets included under receivables and other assets. Only those receivables for which individual allowances have been recognized have been portrayed as impaired. The HORNBACH Baumarkt AG Group also accounts for credit risks by recognizing portfolio-based allowances.

2.28.2017 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	6,767	2,832	2,523	229	308	0
Receivables from affiliated companies	1,454	1,454				
Positive fair values of derivative financial instruments	29	29				
Other receivables and assets	31,316	28,738	1,112	99	130	85
	39,566	**33,054**	**3,635**	**328**	**438**	**85**

2.29.2016 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	9,941	2,608	3,361	3,576	183	99
Receivables from affiliated companies	1,920	1,920				
Positive fair values of derivative financial instruments	102	102				
Other receivables and assets	35,537	33,602	628	348	156	41
	47,500	**38,231**	**3,989**	**3,924**	**339**	**139**

There were no indications of impairment at the balance sheet date for financial assets that were neither impaired not overdue.

Allowances for trade receivables and for other receivables and assets developed as follows:

€ 000s	Trade receivables		Other receivables and assets	
	2016/2017	2015/2016	2016/2017	2015/2016
Allowances at March 1	**516**	**692**	**2,003**	**2,023**
Utilization	46	338	81	73
Reversals	178	223	215	98
Additions	397	387	269	152
Foreign currency translation	0	(2)	0	(1)
Balance of write-downs on February 28/29	**689**	**516**	**1,976**	**2,003**

The complete retirement of receivables resulted in expenses of € 572k (2015/2016: € 727k). The receipt of receivables already derecognized resulted in income of € 231k (2015/2016: € 54k).

(19) Cash and cash equivalents

	2.28.2017 € 000s	2.29.2016 € 000s
Cash balances at banks	90,977	252,152
Checks and cash on hand	22,057	30,845
	113,033	**282,998**

(20) Non-current assets held for sale

This item includes assets which are highly likely to be sold in the coming financial year.

As in the previous year, no items were reclassified out of property, plant and equipment in the 2016/2017 financial year.

(21) Shareholders' equity

The development in the shareholders' equity of the HORNBACH Baumarkt AG Group is shown in the statement of changes in group equity for the 2015/2016 and 2016/2017 financial years.

Share capital

The Annual General Meeting held on July 7, 2011 resolved the creation of Authorized Capital I and Authorized Capital II in line with the following provisions. Authorized Capitals I and II, which were authorized until July 7, 2016, both expired in the 2016/2017 financial year.

The Annual General Meeting on July 7, 2016 resolved the creation of Authorized Capital I and Authorized Capital II in line with the following provisions:

- The Board of Management is authorized until July 7, 2021, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 15,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash contributions (Authorized Capital I). Shareholders' subscription rights may be excluded in specified circumstances.

- The Board of Management is authorized until July 7, 2021, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 30,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash or non-cash contributions (Authorized Capital II). Shareholders' subscription rights may be excluded in specified circumstances.

Total authorized capital therefore amounts to € 45,000,000. As in the previous year, this is equivalent to 47.16 % of the current share capital.

On the basis of a resolution adopted by the Board of Management on September 5, 2016, the employees of HORNBACH Baumarkt AG and its foreign subsidiaries were offered employee shares at a preferential price of € 15.50 per share. A total of 47,860 shares were acquired via the stock exchange at an average price of € 27.06 and subsequently assigned to employees. An amount of € 85k was recognized in equity to account for the difference between the acquisition price and the stock market price upon the date on which the shares were assigned to employees. The difference per share between the preferential sale price and the stock market price (€ 13.35) has been recognized through profit or loss.

WpHG voting right notifications

§ 21 (1) of the German Securities Trading Act (WpHG) requires shareholders to disclose the fact that they have reached, exceeded, or fallen short of specific disclosure thresholds within four trading days. The disclosure thresholds amount to 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 %, and 75 %. Similar disclosure obligations are set out in § 25 and § 25a WpHG for the bearers of financial instruments once they reach, exceed, or fall short of the aforementioned disclosure thresholds with the exception of the 3 % threshold.

Pursuant to § 26 WpHG, HORNBACH Baumarkt AG is obliged to publish such notifications immediately, and no later than three trading days after receipt. We did not receive or publish any such notifications in the reporting period from March 1, 2016 to February 28, 2017. When applicable, these notifications can be found in the "NEWS" section of the company website at www.hornbach-group.com (filtered by catchword "voting right notification").

Capital reserve

The capital reserve includes the equity components generated over and above the par value of the shares issued.

Revenue reserves

Revenue reserves include the “statutory reserve”, “other revenue reserves”, and accumulated earnings and equity components recognized directly in equity.

Disclosures concerning capital management

The capital management practiced by HORNBACH Baumarkt AG pursues the aim of maintaining a suitable equity base in the long term. The equity ratio is viewed as representing an important key figure for investors, analysts, banks and rating agencies. The company aims on the one hand to achieve the growth targets it has set itself while maintaining healthy financing structures and a stable dividend policy, and on the other hand to achieve long-term improvements in its key rating figures. The capital management instruments deployed include active debt capital management.

The company has entered into covenants towards some providers of debt capital which, among other conditions, require it to maintain an equity ratio of at least 25 %. The equity ratio, interest cover, debt/equity ratio and company liquidity (cash and cash equivalents plus available committed credit lines) are monitored monthly as part of the company’s internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2016/2017 financial year. The equity ratio amounted to 51.6 % as of February 28, 2017 (2015/2016: 49.0 %).

No changes were made to the company’s capital management approach in the financial year under report.

(22) Distributable earnings and dividends

The distributable amounts involve the unappropriated net profit reported in the balance sheet of HORNBACH Baumarkt AG prepared in accordance with German commercial law.

HORNBACH Baumarkt AG concluded the 2016/2017 financial year with an annual net surplus of € 53,637,871.49.

Following the allocation of € 26,818,000.00 to other revenue reserves, the unappropriated net profit amounts to € 26,819,871.49.

The Board of Management and the Supervisory Board of HORNBACH Baumarkt AG will propose to the Annual General Meeting that the unappropriated net profit of HORNBACH Baumarkt AG reported as of February 28, 2017 be appropriated as follows:

	€
Dividend of € 0.68 on 31,807,000 shares	21,628,760.00
Additional allocation to revenue reserves	5,191,111.49
	26,819,871.49

By resolution of the Annual General Meeting held on July 7, 2016, a dividend of € 0.68 (2015/2016: € 0.60) per share was distributed on a total of 31,807,000 (2015/2016: 31,807,000) individual shares in the 2016/2017 financial year. The total amount distributed thus amounted to € 21,629k (2015/2016: € 19,084k).

(23) Financial debt

Total current and non-current financial debt is structured as follows:

€ 000s	Maturities			Carrying amount 2.28.2017
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Bonds	0	248,231	0	248,231
Liabilities to banks	16,966	587	0	17,553
Liabilities in connection with finance leases	10,232	44,444	131,057	185,733
Negative fair values of derivative financial instruments	1,378	0	0	1,378
Total	**28,575**	**293,262**	**131,057**	**452,895**

€ 000s	Maturities			Carrying amount 2.29.2016
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Bonds	0	247,620	0	247,620
Liabilities to banks	84,423	3,622	0	88,045
Liabilities in connection with finance leases	8,868	38,604	128,432	175,904
Negative fair values of derivative financial instruments	1,194	217	0	1,411
Total	**94,485**	**290,063**	**128,432**	**512,980**

The HORNBACH Baumarkt AG Group had current financial debt amounting to € 28.6 million at the balance sheet date on February 28, 2017 (2015/2016: € 94.5 million). This consists of the portion of long-term financing facilities maturing in the short term, amounting to € 13.3 million (2015/2016: € 92.5 million), current financing facilities of € 13.5 million (2015/2016: € 0.0 million), liabilities of € 1.4 million relating to the measurement of derivative financial instruments (2015/2016: € 1.2 million), and interest deferrals of € 0.4 million (2015/2016: € 0.8 million).

HORNBACH Baumarkt AG took up a seven-year corporate bond of € 250 million on February 15, 2013. The bond has an interest coupon of 3.875%. In combination with the issue price of 99.25 %, this results in a yield of 4.00 % p.a. The total costs of € 2,355k arising in connection with the corporate bond and the disagio of € 1,875k have been spread over the term using the effective interest method. The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2015/2016: € 371k).

Alongside the aforementioned bond, the Group has further non-current liabilities, generally secured by mortgages, to banks.

Liabilities to banks, originally of a non-current nature, are structured as follows:

2016/2017 financial year	Currency	Interest agreement in % (including swap)	Maturity	**Amount 2.28.2017 € 000s**
Mortgage loans	EUR	5.57	2017	1,864
	CZK	5.08	2018	1,760
				3,624

2015/2016 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.29.2016 € 000s
Loans	EUR	4.86	2016	79,968
Mortgage loans	EUR	5.57	2017	4,350
	CZK	5.08	2018	2,929
				87,247

Non-current liabilities to banks either have fixed interest rates, or have floating interest rates based on the short-term Euribor, or a corresponding foreign currency Ibor, plus a bank margin of 0.75 percentage points (2015/2016: 0.75 to 2.75 percentage points). Interest swaps have been concluded to secure the interest rate on non-current liabilities with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

As of February 28, 2017, the HORNBACH Baumarkt AG Group had total credit lines of € 339.1 million (2015/2016: € 286.8 million) on customary market terms. Unutilized credit lines amounted to € 321.0 million (2015/2016: € 282.3 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits amounting to USD 40.0 million (2015/2016: USD 40.0 million). Of this, an amount of USD 8.0 million had been drawn down as of the balance sheet date (2015/2016: USD 8.1 million).

The credit lines at the HORNBACH Baumarkt AG Group include a syndicated credit line of € 250 million at HORNBACH Baumarkt AG that is due to mature on April 15, 2019. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 50 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBACH Baumarkt AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line.

Land charges amounting to € 36.6 million have been provided as security for liabilities to banks (2015/2016: € 36.6 million).

No assets have been provided as security for the credit lines or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities. In the case of the syndicated credit line, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH Baumarkt AG Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report.

The transition of future leasing payments for finance leases has been presented in Note 12 "Property, plant and equipment and investment property".

(24) Pensions and similar obligations

As a result of legal requirements in individual countries and individual commitments made to members of its Board of Management, the HORNBACH Baumarkt AG Group has obligations relating to defined benefit and defined contribution pension plans.

Defined contribution plans

Apart from payment of contributions, the defined contribution plans do not involve any further obligations on the part of the HORNBACH Baumarkt AG Group. The total of all defined contribution pension expenses amounted to € 50,312k in the 2016/2017 financial year (2015/2016: € 48,095k). Of this total, an amount of € 29,025k involved the employer's share of contributions to the state pension scheme in Germany (2015/2016: € 28,330k).

Multiemployer defined benefit pension plans

Joint pension plans are in place for staff employed in the Netherlands. As the pension providers for these plans do not provide the necessary information in the form required for recognition as defined benefit plans, these plans are recognized as defined contribution plans. Consistent with the requirements of this plan, HORNBACH Baumarkt AG has no obligation to assume liability for the contributions of other employers participating in the plan. No probable material risks have been identified in connection with the multiemployer defined benefit pension plan. The company expects to pay contributions of € 3,625k in the 2017/2018 financial year.

Defined benefit plans

Switzerland

The HORNBACH Baumarkt AG Group has one fund-financed pension plan which is financed via an external pension provider. This pension plan exists due to legal requirements in Switzerland (Swiss Occupational Pensions Act - BVG) and grants old-age, invalidity and fatality pensions and payments for 826 beneficiaries.

The pension plan offers benefits that exceed the statutory minimum requirements under the BVG legislation. The employee covers around 35 % of the premiums to be paid for the savings balances, as well as further clearly defined costs. The remaining expenses are covered by the employer. Retirement pension contributions are age-dependent and rise with increasing age. Risk and cost premiums are calculated by the insurance company on an individual basis and reassessed each year. The actuarial risk in connection with this plan is borne by HORNBACH Baumarkt AG. The pension plan must be fully covered on the basis of a statistical evaluation performed in accordance with BVG provisions. In the event of a shortfall, the pension authority is required to take measures such as setting additional employer and employee contributions or payments.

The pension provider constitutes a separate legal entity. This is responsible for managing the pension plan and has issued investment regulations defining the respective investment strategy. The highest decision-making body for the pension provider is the Board of Trustees. This consists of an equal number of employer and employee representatives from the companies participating in the plan.

Germany

Since the 2011/2012 financial year, HORNBACH Baumarkt AG has undertaken to provide members of its Board of Management with a fund-financed pension plan. This model offers the opportunity of increasing pension claims, while the company simultaneously guarantees a minimum return of 2 % p.a. for members of its Board of Management. The assets contributed by the company or additionally paid in by members of the Board of Management are held in a fiduciary capacity and invested in diversified funds by Allianz Treuhand GmbH, Frankfurt am Main. The funds are invested in line with a capital investment concept jointly defined by HORNBACH Baumarkt AG and Allianz Treuhand GmbH. Provided that amendments to the capital investment concept do not contravene the fiduciary objective, HORNBACH Baumarkt AG is itself entitled to have such amendments made. The risk that the trust assets do not generate the minimum return of 2 % p.a. is borne by HORNBACH Baumarkt AG.

The scope of obligation towards plan beneficiaries has been set in each case at a maximum of the fund assets and the present value of contributions paid, including the guaranteed return. To this end, the contributions paid by the employer and by the Board of Management are compared with the fund assets.

Furthermore, company employees also have the possibility of participating in a "working time account model". Salary claims can be converted into so-called value credits in line with individual employees' requirements. Directly before the termination of the employment relationship for age-related reasons, these credits can then be used to enable the employee to retire early. Non-disbursed salary claims can be invested in various investment funds in line with the individual employee's risk preference. HORNBACH Baumarkt AG guarantees the value retention of amounts contributed to value credits and thus bears the investment risk. Salary components contributed by the company or employees are managed within a so-called double fiduciary model by Allianz Treuhand GmbH, Frankfurt am Main. Provisions for obligations in connection with working time accounts have been offset as of the balance sheet date against the corresponding cover assets in the form of fund shares.

Pensions and similar obligations are structured as follows:

	2016/2017 € 000s	2015/2016 € 000s
Present value of pension obligation	69,593	62,643
less fair value of plan assets	(54,377)	(48,073)
Pension commitments as reported in balance sheet	**15,216**	**14,570**
of which: pension provisions	15,216	14,570

The plan assets were structured as follows at the balance sheet date:

	2.28.2017 %	2.29.2016 %
Debt securities	79.8	84.2
Shares	4.2	3.7
Real estate	11.2	9.7
Other	4.9	2.4
	100.0	**100.0**

Change in pension obligation

	2016/2017 € 000s	2015/2016 € 000s
Present value of pension obligation at the beginning of the period	62,643	55,561
Current service cost of employer	5,328	4,762
Past service cost	0	(947)
Employee contributions	2,709	2,929
Payments from the plan	(1,000)	(1,647)
Interest cost	502	527
Remeasurement effects because of:		
Changes in demographic assumptions	(2,170)	0
Changes in financial assumptions	1,537	3,766
From experience adjustments	(246)	220
Insurance premiums	(1,138)	(1,231)
Foreign currency translation	1,428	(1,297)
Present value of pension obligation at the end of the period	**69,593**	**62,643**

Change in plan assets

	2016/2017 € 000s	2015/2016 € 000s
Plan assets at beginning of period	48,073	44,423
Employer contributions	3,752	3,621
Employee contributions	2,709	2,929
Payments from the plan	(1,000)	(1,647)
Interest income	424	432
Return on plan assets (excluding interest income)	584	503
Insurance premiums	(1,138)	(1,231)
Foreign currency translation	974	(956)
Plan assets at the end of the period	**54,377**	**48,073**

Responsibility for the plan asset investment strategy has been assigned to Allianz Treuhand GmbH for the German plans and to the top management body (Board of Trustees) at the BVG-Sammelstiftung Swiss Life for the Swiss plans. These external asset managers perform portfolio risk management and synchronize the development in plan assets and pension obligations in line with the conceptual and legal structure of the defined benefit plans.

HORNBACH Baumarkt AG analyses the portfolio structure and performance at regular intervals in order to identify any need for action.

The expenses for defined benefit plans are presented below. As well as expenses and income recognized through profit or loss under personnel expenses and net financial expenses, these also include plan-related amounts recognized in other comprehensive income within equity.

	2016/2017 € 000s	2015/2016 € 000s
Current service cost of employer	5,328	4,762
Past service cost	0	(947)
Interest cost	502	527
Interest income	(424)	(432)
Effects recognized in P&L	**5,407**	**3,911**
Remeasurement effects because of:		
Changes in demographic assumptions	2,170	0
Changes in financial assumptions	(1,537)	(3,766)
From experience adjustments	246	(220)
Return on plan assets (excluding interest income)	584	503
Effects recognized in OCI	**1,463**	**(3,483)**
Costs for defined benefit plans	**3,944**	**7,394**

The amounts recognized through profit or loss are included in the income statement in the personnel expenses for the following functional areas and in net financial expenses:

	2016/2017 € 000s	2015/2016 € 000s
Selling and store expenses	4,039	2,601
General and administration expenses	1,290	1,214
Net financial expenses	79	96
	5,407	**3,911**

Actuarial assumptions

The calculation has been based on the following actuarial assumptions. These vary depending on the country in which the plan is based.

	2.28.2017		2.29.2016	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.7 %	0.5 % to 1.6 %	0.8 %	0.6 % to 2.0 %
Future salary increases	1.7 %	1.5 % to 3.0 %	1.7 %	1.5 % to 3.0 %
Future pension increases	0.3 %	0.0 % to 2.0 %	0.3 %	0.0 % to 2.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 2005 G". Swiss plans are governed by the "BVG 2015 Generationentafel".

Sensitivity analysis

The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in present value of pension obligation

€ 000s	2.28.2017		2.29.2016	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,741)	2,982	(2,483)	2,706
Rate of pension increase (0.10 basis points change)	912	n/a	755	n/a
Mortality (+ 1 year)	1,203	n/a	1,065	n/a

Future cash flows

Payments of contributions amounting to € 3,549k are expected for the 2017/2018 financial year.

Expected payments	2.28.2017 € 000s
2017/2018	375
2018/2019	508
2019/2020	519
2020/2021	594
2021/2022	5,869
2022 to 2026	8,468

Expected payments	2.29.2016 € 000s
2016/2017	376
2017/2018	414
2018/2019	520
2019/2020	605
2020/2021	726
2021 to 2025	13,110

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 28,087k (2015/2016: € 25,894k). These include personnel provisions, provisions for contractually assumed structural maintenance obligations, and a provision required by law for the storage of business documents. The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

The development in provisions is presented in Note 28.

This item also includes accruals of € 8,172k (2015/2016: € 6,177k). These mainly relate to incentive payments received in connection with extensions or amendments to real estate rental agreements classified as operating leases. The accruals are being written back in instalments over the non-terminable rental period. Furthermore, this item also includes accruals relating to graduated rental agreements.

Non-current personnel provisions have been recognized mainly for the statutory reserve required in Austria to cover potential claims on the part of employees in the event of their leaving the company (severance pay). This item also includes provisions of € 428k for part-time early retirement obligations in Austria (2015/2016: € 197k).

Severance payments

Upon reaching retirement age (or if their employment is terminated), employees at Austrian subsidiaries are entitled to severance payments provided that they joined the company by December 31, 2002. The level of severance payment entitlement is based on the number of years of service and the most recent level of compensation from the employment relationship. The volume of obligation is reviewed annually and adjusted accordingly on the basis of an external survey. The actuarial risks associated with this plan are borne by HORNBACH Baumarkt AG.

Severance payments represent other defined benefit post-employment benefits and are therefore recognized under other non-current liabilities. The provision for severance payments is measured at the present value of the pension obligation.

Change in pension obligation and costs of plan

	2016/2017 € 000s	2015/2016 € 000s
Present value of pension obligation at the beginning of the period	6,061	5,243
Current service cost of employer	360	361
Payments from the plan	(358)	(231)
Interest cost	98	92
Remeasurement effects because of:		
Changes in demographic assumptions	38	0
Changes in financial assumptions	(448)	(9)
From experience adjustments	(102)	127
Transfers	0	478
Present value of pension obligation at the end of the period	**5,649**	**6,061**

The transfers in the previous year resulted from the locations taken over by HORNBACH Baumarkt AG.

	2016/2017 € 000s	2015/2016 € 000s
Current service cost of employer	360	361
Interest cost	98	92
Expense from Transfers	0	91
Effects recognized in P&L	**458**	**545**
Remeasurement effects because of:		
Changes in demographic assumptions	(38)	0
Changes in financial assumptions	448	9
From experience adjustments	102	(127)
Effects recognized in OCI	**512**	**(118)**
Total costs for the plan	**(54)**	**663**

The average remaining term of the obligation amounts to 14.5 years (2015/2016: 14.1 years).

Actuarial assumptions and sensitivity analysis

	2.28.2017	2.29.2016
Discount interest rate	1.7 %	1.6 %
Future salary increases	2.3 %	2.7 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The biometric calculation has been based on "AVÖ 2008 P – Rechnungsgrundlage für die Pensionsversicherungen".

The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in the present value of the pension obligation

€ 000s	2.28.2017		2.29.2016	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(380)	420	(405)	447
Rate of salary increase (0.25 basis points change)	222	(213)	231	(221)

(26) Trade payables and other current liabilities

	2.28.2017 € 000s	2.29.2016 € 000s
Trade payables and advance payments received for orders	260,262	273,121
Liabilities to affiliated companies	34	275
Other liabilities	66,798	62,165
of which: other taxation	23,008	22,189
of which: social security contributions	4,064	3,766
	327,094	**335,561**

Trade payables and other current liabilities have remaining terms of less than one year.

Trade payables are secured by reservations of title to the customary extent.

Other taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions particularly include contributions yet to be remitted to the social security funds. In addition to the aforementioned items, other liabilities mainly include deposits and pledged funds, merchandise credits not yet redeemed, and amounts due for outstanding invoices.

(27) Income tax receivables and liabilities

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes for previous financial years. Current income tax provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Tax provisions for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The "German act on fiscal measures accompanying the introduction of the European Company and amending further tax legislation (SEStEG)" came into force on December 13, 2006. Among other aspects, this act allows refunds of corporate income tax credits resulting from the retention of profit in accordance with previous corporation tax law requirements no longer to be linked to the distribution of profits. Furthermore, due to the 2010 Annual Tax Act, corporate income tax claims previously viewed as irrecoverable and amounting to a – discounted – total of € 3.0 million were recognized in the 2010/2011 financial year. The final annual amount of the corporate income tax credits will be disbursed on September 30, 2017. As of February 28, 2017, the HORNBACH Baumarkt AG Group had corporate income tax refund claims amounting to € 1.7 million in total (2015/2016: € 3.3 million). In the previous year, non-current tax receivables were also capitalized. Due to the low level of interest rates, the amount capitalized corresponded to the present value of the respective receivable.

The income tax receivables of € 1.7 million reported in the 2015/2016 financial year in connection with trade tax credits on foreign dividends have largely been refunded. As in the previous year, the other income tax receivables mainly comprise prepayments.

Reference is made to the information about deferred taxes included in Note 15 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(28) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2016/2017 financial year:

€ 000s	Opening balance at 3.1.2016	Utilization	Reversals	Additions	Interest com-pounding	Foreign currency translation	Closing balance at 2.28.2017	of which: non-current
Other provisions								
Personnel	10,203	1,609	15	1,365	98	1	10,043	10,043
Miscellaneous	20,545	7,125	892	13,704	(13)	28	26,246	18,045
	30,748	**8,734**	**907**	**15,069**	**85**	**28**	**36,289**	**28,087**
Accrued liabilities								
Other taxes	374	99	92	994	0	(1)	1,176	0
Personnel	49,159	47,192	925	45,198	0	(107)	46,133	0
Miscellaneous	20,880	17,171	1,909	19,408	0	11	21,218	0
	70,413	**64,462**	**2,926**	**65,600**	**0**	**(97)**	**68,527**	**0**
	101,161	**73,196**	**3,833**	**80,669**	**85**	**(69)**	**104,816**	**28,087**

Miscellaneous other current provisions mainly relate to provisions for onerous contracts, at € 3,914k (2015/2016: € 676k), for customers' expected utilization of their rights of return, recognized at € 1,554k (2015/2016: € 1,727k), and for litigation risks, at € 730k (2015/2016: € 579k).

Reference is made to Note 25 with regard to details of non-current provisions.

Other taxes largely involve the deferral of land tax.

The accrued liabilities for personnel obligations primarily relate to outstanding vacation entitlements, contributions to employer's liability insurance associations, vacation pay, Christmas bonuses, and employee bonuses.

Miscellaneous accrued liabilities relate in particular to the costs of gas, water, electricity, property duties and advertising, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(29) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2017.

(30) Other financial obligations

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2017 Total
Purchase obligations for investments	90.3	25.3	0.0	115.6
Obligations under rental, leasehold and leasing contracts	152.2	457.4	403.5	1,013.1
Other financial obligations	13.2	0.0	0.0	13.2
	255.7	**482.7**	**403.5**	**1,141.9**

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.29.2016 Total
Purchase obligations for investments	92.2	42.9	0.0	135.1
Obligations under rental, leasehold and leasing contracts	153.8	473.2	389.8	1,016.8
Other financial obligations	10.2	0.4	0.0	10.6
	256.2	**516.5**	**389.8**	**1,162.5**

HORNBACH Baumarkt AG agreed a credit line of up to € 50 million with HORNBACH Immobilien AG within the framework of its expansion strategy. The agreement has a term running up to and including June 29, 2018. No funds had been drawn down as of the balance sheet date on February 28, 2017.

The obligations resulting from rental, hiring, leasehold and leasing contracts relate exclusively to those rental contracts in which the companies of the HORNBACH Baumarkt AG Group do not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly relate to DIY stores in Germany and abroad. The terms of the rental agreements mostly amount to 15 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 151,685k, excluding ancillary expenses, was recognized in the 2016/2017 financial year as rental expenses in connection with operating lease agreements (2015/2016: € 166,181k).

(31) Future income from rental and leasing contracts

Future income from rental and leasing contracts is structured as follows:

Rental income from third parties € 000s	Maturities Current < 1 year	 Non-current 1 to 5 years	 Non-current > 5 years	Total
February 28, 2017	3,134	4,688	194	8,016
February 29, 2016	3,431	5,669	271	9,371

Rental income results from the letting of retail real estate. The rental contracts mostly have terms of between 5 and 15 years.

Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

(32) Legal disputes

HORNBACH Baumarkt AG does not anticipate that it or any of its group companies will be involved in current or foreseeable court or arbitration proceedings which could have any material effect on the economic situation of the Group. Moreover, appropriate provisions have been stated and adequate insurance benefits are anticipated at the relevant group companies for any financial charges in connection with other legal or arbitration proceedings. Such charges are therefore not expected to have any material impact on the financial position of the Group.

(33) Supplementary disclosures on financial instruments

The following tables show the carrying amounts of the financial instruments in each IAS 39 measurement category, and their fair values broken down by balance sheet category:

in € 000s [1]	Category	Carrying amount 2.28.2017	Fair value 2.28.2017	Carrying amount 2.29.2016	Fair value 2.29.2016
Assets					
Financial assets	AfS	5,659	5,659	3,871	3,871
Current financial assets	LaR	30,009	30,009	0	0
Trade receivables	LaR	8,221	8,221	11,860	11,860
Other current and non-current assets					
Derivatives without hedge relationship	FAHfT	29	29	102	102
Other assets	LaR	33,994	33,994	38,232	38,232
Cash and cash equivalents	LaR	113,033	113,033	282,998	282,998
Equity and liabilities					
Financial debt					
Bonds	FLAC	248,231	272,310	247,620	267,325
Liabilities to banks	FLAC	17,553	17,641	88,045	88,222
Liabilities in connection with finance leases	n.a.	185,733	215,260	175,904	181,845
Derivatives with hedge relationship	n.a.	48	48	1,089	1,089
Derivatives without hedge relationship	FLHfT	1,329	1,329	323	323
Trade payables	FLAC	244,468	244,468	257,363	257,363
Other current and non-current liabilities	FLAC	25,538	25,538	23,121	23,121
Accrued liabilities	FLAC	21,218	21,218	20,880	20,880

[1] Previous year's figures adjusted; please see "Amendments in statement".

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2015/2016: € 371k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 12,738k (2015/2016: € 12,441k), other current and non-current liabilities of € 93,498k (2015/2016: € 87,152k), and accrued liabilities of € 47,310k (2015/2016: € 49,532k).

Aggregate totals by measurement category € 000s	Category	Carrying amount 2.28.2017	Carrying amount 2.29.2016
Loans and receivables	LaR	185,257	333,090
Available for sale financial assets	AfS	5,659	3,871
Financial assets held for trading	FAHfT	29	102
Financial liabilities measured at amortized cost	FLAC	557,008	637,029
Financial liabilities held for trading	FLHfT	1,329	323

Cash and cash equivalents, trade receivables, other assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date.

Available for sale financial assets include shareholdings recognized at cost due to the lack of an available fair value. One exception relates to a ten-percent company shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic. This company lets out several DIY store properties and is not publicly listed. Its fair value has largely been determined by reference to Level 3 input data. To calculate the fair value, application was made of the discounted cash flow method. To this end, the cash flows resulting from company-specific planning were discounted by a risk-adjusted interest rate (WACC). In the 2016/2017 financial year, the discount rate amounted to 5.6 % after taxes (2015/2016: 6.2 %). Furthermore, account was taken of a growth factor of 1.0 %. The cash flows derived from company-specific planning mainly result from rental income within long-term letting arrangements and cash flows relating to the company's operations.

The development in the available for sale financial assets measured at fair value on the basis of Level 3 input data is presented below.

Changes in financial assets level 3 input data	2016/2017	2015/2016
As of March 1	**3,870**	**1,988**
Change in valuation (OCI)	1,788	1,882
Balance at February 28/29	**5,658**	**3,870**

The increase in the amount recognized is chiefly due to the lower discount rate and the reduction in financial debt.

The changes in fair value resulting from changes in the most important input factors at the respective reporting date are presented in the following sensitivity analysis.

€ 000s	2.28.2017		2.29.2016	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	853	(853)	774	(774)
Discount rate (50 basis point change)	(990)	1,232	(786)	960

The derivative financial instruments within hedges recognized in the balance sheet involve interest hedges (interest swaps). Derivative financial instruments outside of hedges include foreign currency items for outstanding orders and measurement items for outstanding forward exchange transactions. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of finance leases have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk premiums available on the market.

The fair value of the publicly listed bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet or the notes.

€ 000s		2.28.2017	2.29.2016
Assets			
Valuation based on level 2 input data			
Derivatives without hedge relationship	FAHfT	29	102
Valuation based on level 3 input data			
Financial assets	AfS	5,658	3,870
Liabilities			
Valuation based on level 1 input data			
Bonds	FLAC	272,310	267,325
Valuation based on level 2 input data			
Liabilities to banks	FLAC	17,641	88,222
Liabilities in connection with finance leases	n.a.	215,260	181,845
Derivatives with hedge relationship	n.a.	48	1,089
Derivatives without hedge relationship	FLHfT	1,329	323

The following net results have been recognized in the income statement:

Net result by measurement category	2016/2017 € 000s	2015/2016 € 000s
Loans and receivables (LaR)	878	391
Financial instruments held for trading (FAHfT and FLHfT)	(1,055)	1,447
Financial liabilities measured at amortized cost (FLAC)	34	1,092

The net results of the measurement category “financial instruments held for trading” are attributable to derivative financial instruments. The net results of the measurement categories “loans and receivables”, and “financial liabilities measured at amortized cost” involve foreign currency translation items, the results of disposals and write-downs. Furthermore, in the 2016/2017 financial year measurement changes of € 1,788k relating to “available-for-sale financial assets” were recognized directly in equity (2015/2016: € 1,882k).

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap transactions and forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions. As in the previous year, the negative current fair values of the swap transactions, amounting to € 48k (2015/2016: minus € 1,089k) mean that it would not be possible to net these transactions were the triggering event to occur.

The following table presents the financial netting volume for derivatives without hedge relationships. This is attributable to outstanding forward exchange transactions. There were no forward exchange transactions capable of netting in the previous year.

2.28.2017 € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	29	0	29	(29)	0	0
Equity and liabilities						
Derivatives without hedge relationship	1,329	0	1,329	29	0	1,300

(34) Risk management and financial derivatives

Risk management principles

The assets, liabilities and planned financial transactions of the HORNBACH Baumarkt AG Group are subject in particular to risks resulting from changes in exchange rates and interest rates.

The aim of the company's risk management is therefore to minimize these market risks by means of suitable financial market-based hedging activities. To achieve this aim, derivative financial instruments are deployed to limit interest rate and foreign currency risks. In general, however, the company only hedges those risks which could impact materially on its financial result.

The necessary decisions may only be taken on the basis of the strategic requirements determined by the Chief Financial Officer. These requirements focus on hedging interest rate and foreign currency risks. Moreover, these requirements do not permit financial transactions to be undertaken for speculative purposes. Furthermore, certain transactions also require prior approval by the Supervisory Board.

The Treasury department regularly reviews and monitors the current and future interest charge and the foreign exchange requirements of the overall Group. The Board of Management is informed of its findings on a regular basis.

Market risks

For the presentation of market risks, IFRS 7.40 "Financial Instruments: Disclosures" requires the hypothetical impact on profit and loss and equity which would have resulted if those changes in the relevant risk variables (e.g. market interest rates or exchange rates) which could reasonably be assumed to be possible at the balance sheet date had actually materialized to be presented on the basis of sensitivity analyses. The market risks faced by the HORNBACH Baumarkt AG Group consist of foreign currency risks and interest rate risks. The company does not face any other price risks.

Foreign currency risks

Foreign currency risks, i.e. potential reductions in the value of a financial instrument or future cash flow due to changes in foreign exchange rates, particularly apply wherever monetary financial instruments, such as receivables or liabilities, exist in a currency other than the local currency of the company, or will exist in the scheduled course of business. The foreign currency risks of the HORNBACH Baumarkt AG Group mainly result from financing measures and from the company's business operations. Exchange rate differences arising from the translation of financial statements into the group currency do not constitute a foreign currency risk as defined by IFRS 7.

In cases where long-term financing requirements are involved, the group companies are largely financed by means of external financing measures denominated in the functional currency of the corresponding group company (natural hedging). Moreover, there are also intra-group loans denominated in euros, thus resulting in foreign currency risks at those group companies which have a functional currency other than the euro. These risks are basically not hedged.

The foreign currency risks faced by the HORNBACH Baumarkt AG Group in its business operations mainly relate to the purchase of goods in the Far East using US dollars and from intragroup supplies and services, which are basically handled in euros. The US dollar currency risk is hedged with fixed deposits denominated in US dollars and forward exchange transactions.

Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

€ 000s	2.28.2017	2.29.2016
EUR	(47,083)	(59,384)
USD	17,324	12,627
CZK	(627)	(1,046)

The above EUR currency position results from the following currency pairs: SEK/EUR € -23,201k (2015/2016: € -21,423k), RON/EUR € -18,758k (2015/2016: € -23,970k), CZK/EUR € -10,116k (2015/2016: € -27,114k), USD/EUR € -999k (2015/2016: € 0k), and CHF/EUR € 5,991k (2015/2016: € 13,123k).

The most important exchange rates have been presented under "Foreign currency translation".

In the sensitivity analysis provided below for foreign currency risks, it has been assumed that the foreign currency holdings as of the balance sheet date are representative of the financial year as a whole.

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 6,206k lower (2015/2016: € 4,451k). Conversely, if the euro had **depreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 6,206k higher (2015/2016: € 4,451k). The hypothetical impact on earnings of € +6,206k (2015/2016: € +4,451k) is the result of the following sensitivities: EUR/SEK € 2,327k (2015/2016: € 2,129k), EUR/RON € 1,888k (2015/2016: € -636k), EUR/USD € 1,632k (2015/2016: € 1,700k), EUR/CZK € 948k (2015/2016: € 2,596k), and EUR/CHF € -589k (2015/2016: € -1,338k).

Interest rate risks

At the end of the year, the Group was principally financed by a euro bond with a nominal total of € 250,000k Furthermore, the Group also has short-term and long-term fixed-interest euro loans amounting to € 1,864k (2015/2016: € 4,350k), and CZK loans amounting to € 1,760k (2015/2016: € 2,929k). The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments. Moreover, the Group had current liabilities to banks of € 13,541k at the balance sheet date (2015/2016: € 0k).

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

In the sensitivity analysis for interest rate risks, it has been assumed that the volumes as of the balance sheet date are representative of the financial year as a whole. A parallel shift in the interest rate curve has been assumed.

If the market interest rate had been **100 basis points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 774k higher (2015/2016: € 2,521k) and equity before deferred taxes would have been € 5k higher (2015/2016: € 37k). Due to the low level of interest rates currently, a parallel shift in the interest rate curve by 100 basis points downwards in some cases produces negative interest rates. This severely limits the meaningfulness of any such simulation. For the current financial year, the company has therefore rather simulated the hypothetical impact on earnings of a shift in the interest rate curve by 10 basis points downwards. If the market interest rate had been **10 basis points lower** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 78k lower (2015/2016: € 252k) and equity before deferred taxes would have been € 0k lower (2015/2016: € 4k).

Credit risk

Credit risk involves the risk that a contractual party is unable to comply in part or in full with the obligations entered into upon the conclusion of a financial instrument. The credit risk of the Group is strictly limited to the extent that financial assets and derivative financial instruments are as far as possible only concluded with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

Liquidity risks

The following tables show the contractually agreed (undiscounted) outflows of cash for primary and derivative financial liabilities:

€ 000s	Carrying amount 2.28.2017	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	248,231	9,688	269,401	0
Liabilities to banks	17,553	16,651	598	0
Liabilities in connection with finance leases	185,733	18,004	70,806	157,475
Trade payables	244,468	244,468	0	0
Other current and non-current liabilities	25,538	25,386	152	0
Accrued liabilities	21,218	21,218	0	0
	742,741	**335,414**	**340,957**	**157,475**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	1,329	10,749	0	0
Interest derivatives in connection with cash flow hedges	48	48	0	0
	1,378	**10,796**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	29	5,627	0	0
	29	**5,627**	**0**	**0**
		351,837	**340,957**	**157,475**

in € 000s[1)]	Carrying amount 2.29.2016	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,620	9,688	279,089	0
Liabilities to banks	88,045	84,853	3,702	0
Liabilities in connection with finance leases	175,904	16,202	63,900	157,305
Trade payables	257,363	257,363	0	0
Other current and non-current liabilities	23,121	23,118	3	0
Accrued liabilities	20,880	20,880	0	0
	812,933	**412,104**	**346,694**	**157,305**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	323	323	0	0
Interest derivatives in connection with cash flow hedges	1,089	1,066	50	0
	1,412	**1,389**	**50**	**0**
		413,493	**346,744**	**157,305**

1) Previous year's figures adjusted; please see "Amendments in statement".

All financial liabilities held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities. Floating-rate interest payments were calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies were translated at the relevant reporting date rate.

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2015/2016: € 371k). The corresponding outflows of cash have been recognized in the bond line item.

With regard to the management of liquidity risk, reference is made to Note 23 and to the disclosures on the financial situation in the management report.

Hedging measures

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

Cash flow hedge – interest rate risk

Payer interest swaps are concluded for major long-term financial liabilities with floating interest rates. These enable the variable interest rates on the loans to be converted into fixed interest rates. Creditworthiness risks are not hedged.

At the end of the 2016/2017 financial year, the Group had interest swaps amounting to € 1,864k (2015/2016: € 84,350k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -48k as of February 28, 2017 (2015/2016: € -1,089k) and has been recognized under financial debt.

All interest rate swaps met hedge accounting requirements as of February 28, 2017. Fair value changes are recognized in the hedging reserve in equity up to recognition of the results of the hedged transaction.

The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.28.2017 in € 000s	Nominal value at 2.29.2016 in € 000s	Reference rate
9.30.2002	9.30.2017	1,110	2,590	3-month Euribor
9.30.2002	9.30.2017	754	1,760	3-month Euribor
30.6.2011	30.6.2016	0	80,000	6-month Euribor

The HORNBACH Baumarkt AG Group meets the hedge accounting requirement set out in IAS 39 in that it already documents the relationship between the derivative financial instrument deployed as a hedging instrument and the hedged item, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also includes an assessment of the effectiveness of the hedging instruments thereby deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

Other hedging measures – foreign currency risks

The HORNBACH Baumarkt AG Group also deploys hedging measures which do not meet the hedge accounting requirements set out in IAS 39, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line with its risk management principles. For example, the HORNBACH Baumarkt AG Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by concluding forward exchange transactions or making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including embedded forward exchange transactions, amounts to € -1,300k (2015/2016: € -220k). Of this total, € 29k has been recognized under other assets (2015/2016: € 102k) and € -1,329k under financial debt (2015/2016: € -323k).

No fair value hedges or net investment in a foreign operation hedges have been undertaken to date.

Derivatives

The following table provides an overview of the nominal and fair values of derivative financial instruments as of the balance sheet date. The values of opposing transactions, such as foreign exchange purchases or sales, have been shown on a net basis. Nominal value totals are shown in the nominal value line without offsetting any opposing transactions.

2.28.2017	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	17,000	37,182	1,864	56,046
Fair value in € 000s (before deferred taxes)	(64)	(1,236)	(48)	(1,348)

2.29.2016	Embedded forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	34,573	84,350	118,923
Fair value in € 000s (before deferred taxes)	(220)	(1,089)	(1,308)

As all interest swaps are included in effective hedging relationships, the changes in their value, less deferred taxes, have basically been recognized in the hedging reserve within equity. The ineffective portion is recognized through profit or loss under net financial expenses.

(35) Sundry disclosures

Employees

The average number of employees was as follows:

	2016/2017	2015/2016
Salaried employees	16,997	16,370
Trainees	836	806
	17,833	**17,176**
of which: part-time employees	4,981	4,788

In terms of geographical regions, 10,280 of the average workforce were employed in Germany during the 2016/2017 financial year (2015/2016: 10,116) and 7,553 in other European countries (2015/2016: 7,060).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBACH Baumarkt AG, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the year under report were as follows:

	2016/2017 € 000s	2015/2016 € 000s
Auditing of financial statements	508	488
Other certification services	7	0
Tax advisory services	44	62
Other services	6	8
	565	**558**

The annual and consolidated financial statements of HORNBACH Baumarkt AG have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, since the 1997/1998 financial year. Peter Meurer (partner) has been the responsible auditor without interruption since the 2014/2015 financial year.

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBACH Baumarkt AG in December 2016 and made available to shareholders on the company's homepage.

(36) Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, HORNBACH Baumarkt AG has direct or indirect relationships with associated companies in the course of its customary business activities. These include the parent company HORNBACH Holding AG & Co. KGaA and its direct and indirect subsidiaries.

The associated companies are:

HORNBACH-Familien-Treuhandgesellschaft mbH
HORNBACH Management AG

Parent company

HORNBACH Holding AG & Co. KGaA

Associates

HORNBACH Immobilien AG
HORNBACH Baustoff Union GmbH

Subsidiaries and second-tier subsidiaries of associates

Union Bauzentrum Hornbach GmbH
Ruhland-Kallenborn & Co. GmbH
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH
Robert Röhlinger GmbH
Etablissements Camille Holtz et Cie S.a.
Saar-Lor Immobilière S.C.I.
HORNBACH Baustoff Union Grundstücksentwicklungs GmbH
HIAG Immobilien Jota GmbH
HIAG Fastigheter i Göteborg AB
HIAG Fastigheter i Helsingborg AB
HIAG Fastigheter i Stockholm AB
HIAG Fastigheter i Göteborg Syd AB
HIAG Fastigheter i Botkyrka AB
HO Immobilien Omega GmbH
HR Immobilien Rho GmbH
HC Immobilien Chi GmbH
HM Immobilien My GmbH
HORNBACH Real Estate Nederland B.V.
HORNBACH Immobilien HK s.r.o.
HORNBACH Immobilien SK-BW s.r.o.
HORNBACH Imobiliare SRL
HB Immobilien Bad Fischau GmbH

The following principal transactions were performed with associates:

	2016/2017 € 000s	2015/2016 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	76,290	75,943
Interest charge for group financing	50	54
Interest income for group financing	150	150
Allocations paid for administration expenses	897	915
Allocations received for administration expenses	2,292	2,558
Supplies and deliveries to HORNBACH Holding AG & Co. KGaA and its subsidiaries	195	250
Supplies and deliveries by HORNBACH Holding AG & Co. KGaA and its subsidiaries	680	659

At February 28, 2017, there were receivables of € 1,454k (2015/2016: € 1,920k) and liabilities of € 34k (2015/2016: € 275k) due to HORNBACH Holding AG & Co. KGaA and its subsidiaries. All transactions are undertaken at normal market prices and with customary delivery conditions.

HORNBACH Holding AG & Co. KGaA has provided guarantee declarations for liabilities at the HORNBACH Baumarkt AG Group amounting to € 10,022k (2015/2016: € 13,291k). Guarantee fees of € 50k (2015/2016: € 54k) were recognized as expenses at the HORNBACH Baumarkt AG Group in this respect during the year under report.

Some of the companies included in the consolidated financial statements of HORNBACH Baumarkt AG make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 13k were performed by the seminar hotel in the 2016/2017 financial year (2015/2016: € 19k). These services were invoiced at customary rates. Liabilities of € 0k were outstanding at the balance sheet date on February 28, 2017 (2015/2016: € 5k).

(37) Events after the balance sheet date

The consolidated financial statements of HORNBACH Baumarkt AG for the 2016/2017 financial year were approved for publication by the Board of Management on May 15, 2017.

(38) Supervisory Board and Board of Management

Members of the Board of Management:

Steffen Hornbach Chairman
Strategic Development, Operative Store Management,
Sales and Services

Roland Pelka Deputy Chairman
Finance, Accounting, Tax, Controlling, Risk Management
Loss Prevention, Group Communications

Susanne Jäger
Procurement, Imports, Store Planning, Store Development,
Quality Assurance, Environmental Issues

Wolfger Ketzler
Labor Director
Personnel, Real Estate, Construction, Technical Procurement,
Internal Audit, Legal, Compliance

Karsten Kühn
Marketing, Market Research, Internal Communications

Ingo Leiner
Logistics

Dr. Andreas Schobert
Technology

Compensation of the Board of Management for the 2016/2017 financial year totals € 5,687k (2015/2016: € 5,719k). Of this, € 2,805k (2015/2016: € 2,800k) relates to fixed compensation and € 2,882k (2015/2016: € 2,919k) to performance-related components. Post-employment benefits (pension provision endowment) of € 663k were incurred for active Board members in the 2016/2017 financial year (2015/2016: € 663k).

Pension provisions for former members of the Board of Management amounted to € 1,268k in the 2016/2017 financial year (2015/2016: € 1,247k).

All pension provisions are offset by corresponding value credits (Note 11).

Based on a shareholder resolution for a limited period up to and including the 2020/2021 financial year, individualized disclosure of the compensation of members of the Board of Management has been waived.

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach — Chairman
Chairman of the Board of Management
HORNBACH Management AG

Dr. Wolfgang Rupf — Further Deputy Chairman
Managing Partner, Rupf Industries GmbH,
Rupf Engineering GmbH und Rupf ATG Casting GmbH

Dr. John Feldmann
Supervisory Board Chairman of KION Group AG
Former Management Board member at BASF SE

Erich Harsch
CEO
dm-drogerie markt GmbH & Co. KG

Georg Hornbach
Head of Controlling Department at Universitätsklinikum Köln

Martin Hornbach
Managing Partner
Corivus Gruppe GmbH

Joerg Walter Sost
Managing Partner
J.S. Consulting GmbH

Prof. Dr.-Ing. Jens P. Wulfsberg
Professor of Production Technology
Universität der Bundeswehr Hamburg

As representatives of the employees

Kay Strelow Section Manager, Berlin-Marzahn Store	Deputy Chairman for trade unions
Monika Di Silvestre (since April 5, 2017) State Retail Section Head at ver.di Rheinland-Pfalz-Saarland	for trade unions
Mohamed Elaouch Section Manager, Mainz Store	for salaried employees
Martin Fischer Professional Customer Advisor, Kempten Store	for salaried employees
Christian Garrecht Security Specialist	for salaried employees
Kerstin Holfert Section Manager, Dresden Store	for salaried employees
Hans Kroha († April 5, 2017) State Retail Section Head at ver.di Rheinland-Pfalz-Saarland	for trade unions
Brigitte Mauer Section Manager, Tübingen Store	for salaried employees
Michael Reiland Sales Director at HORNBACH Compact	for senior employees

The total compensation of the Supervisory Board for the 2016/2017 financial year amounted to € 515k (2015/2016: € 515k). Of this sum, € 390k (2015/2016: € 390k) related to basic compensation and € 125k (2015/2016: € 125k) to committee activities.

Mandates in supervisory boards and other control bodies
(Disclosures pursuant to § 285 Number 10 HGB)

Members of the Supervisory Board

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Albrecht Hornbach

a) HORNBACH Immobilien AG (Chairman)
b) Inception Exploration Ltd. (Member of Board)
Rheinland-Pfalz Bank (Member of Advisory Board)

Dr. Wolfgang Rupf

a) HORNBACH Holding AG & Co. KGaA (Chairman)
HORNBACH Management AG (Chairman)
IVA Valuation & Advisory AG (Deputy Chairman)
b) Inception Exploration Ltd. (Member of Board)

Monika Di Silvestre (since April 5, 2017)

a) WASGAU Produktions & Handels AG

Dr. John Feldmann

a) Bilfinger SE (until May 2016)
HORNBACH Holding AG & Co. KGaA
HORNBACH Management AG
KION Group AG (Chairman)

Erich Harsch

a) HORNBACH Holding AG & Co. KGaA
HORNBACH Management AG

Georg Hornbach

a) HORNBACH Management AG

Martin Hornbach

a) Corivus AG (Chairman)
HORNBACH Holding AG & Co. KGaA (Deputy Chairman)
b) Corivus Swiss AG (Chairman of Administrative Board)

Hans Kroha († April 5, 2017)

a) WASGAU Produktions & Handels AG

Joerg Walter Sost

a) DUOPLAST AG
HORNBACH Holding AG & Co. KGaA
HORNBACH Management AG

b) Atreus GmbH (Member of Advisory Board)
Bürger GmbH (Chairman of Advisory Board)
DUOPLAST Holding GmbH (Member of Advisory Board)
ECF GmbH (Chairman of Advisory Board)
Norafin Industries GmbH (Chairman of Advisory Board since September 2016)
VR Equitypartner GmbH (Chairman of Advisory Board since November 2016)
Weisshaar GmbH (Member of Advisory Board since June 2016)
ZT Management Holding GmbH (Member of Advisory Board)

Prof. Dr.-Ing. Jens P. Wulfsberg

a) HORNBACH Management AG

Members of the Board of Management

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Steffen Hornbach

a) HORNBACH Immobilien AG

Roland Pelka

a) HORNBACH Immobilien AG (Deputy Chairman)
WASGAU Produktions & Handels AG
b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Susanne Jäger

a) VR Bank Südliche Weinstraße eG

Wolfger Ketzler

a) Med 360° AG (previously: RNR AG) (Chairman)

Bornheim bei Landau/Pfalz, May 15, 2017

HORNBACH Baumarkt AG
The Board of Management

Steffen Hornbach	Roland Pelka
Susanne Jäger	Wolfger Ketzler
Karsten Kühn	Ingo Leiner
Dr. Andreas Schobert	

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We hereby affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair picture of the assets, liabilities, financial position and results of operations of the Group in accordance with the applicable reporting principles, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bornheim bei Landau/Pfalz, May 15, 2017

HORNBACH Baumarkt Aktiengesellschaft
The Board of Management

Steffen Hornbach

Roland Pelka

Susanne Jäger

Wolfger Ketzler

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Hornbach Baumarkt AG, Bornheim bei Landau/Pfalz, comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements and its report on the position of the company and the Group for the business year from March 1, 2016 to February 28, 2017. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

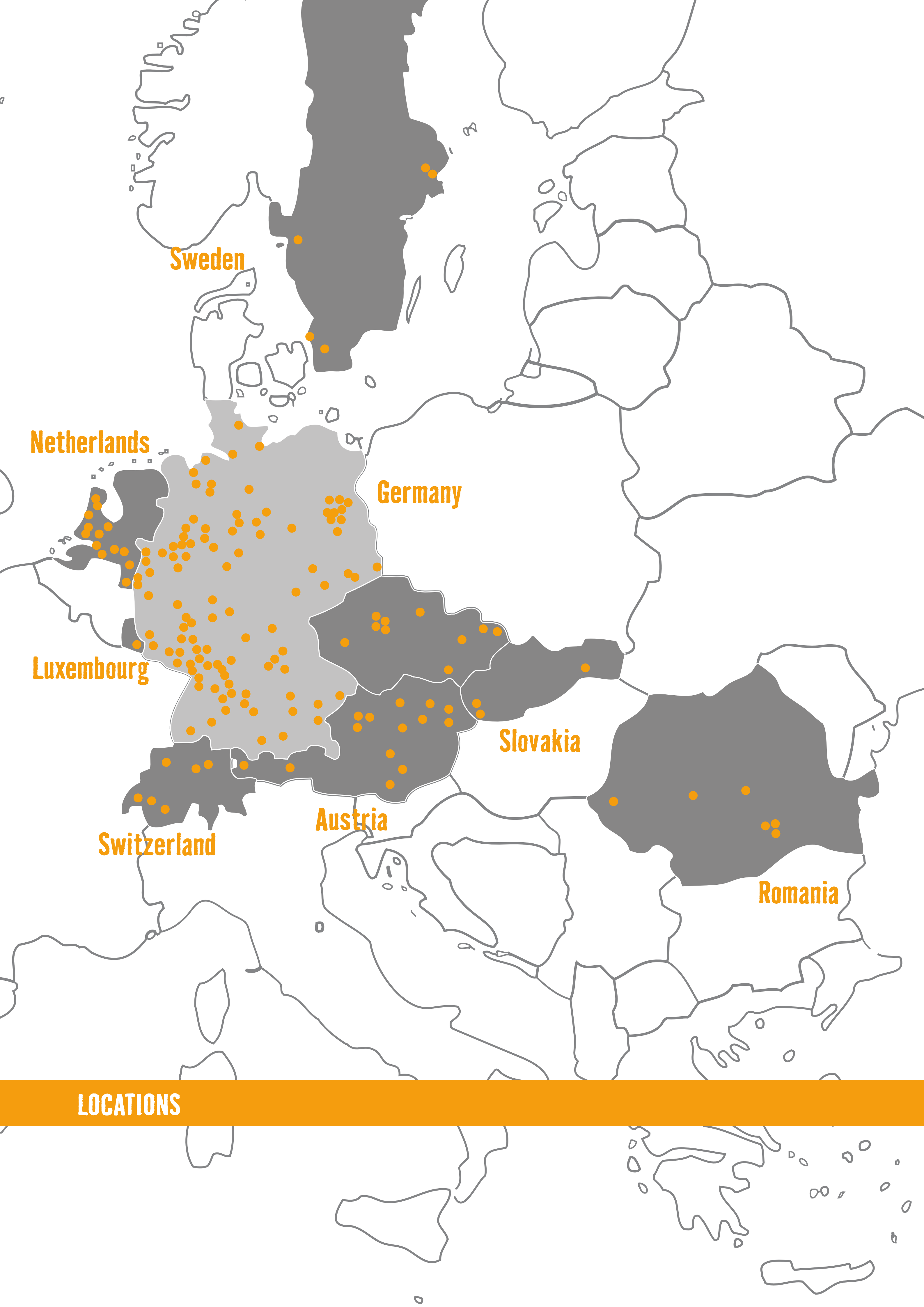
We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system in respect of the financial reporting process and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined, primarily on a test basis, within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, May 15, 2017
KPMG AG, Wirtschaftsprüfungsgesellschaft

Meurer	Palm
German Public Auditor	German Public Auditor


Sweden
Netherlands
Germany
Luxembourg
Slovakia
Austria
Switzerland
Romania

LOCATIONS

Germany

Baden-Württemberg
Binzen
Esslingen
Göppingen
Heidelberg
Karlsruhe-Grünwinkel
Karlsruhe-Hagsfeld
Ludwigsburg
Mosbach
Pforzheim
Remseck
Rottweil
Schwetzingen
Sindelfingen
Sinsheim
Tübingen
Ulm

Bavaria
Altötting
Bamberg
Erlangen
Fürth
Ingolstadt
Kempten
Munich-Freiham
Munich-Fröttmaning
Neu-Ulm
Nuremberg
Passau
Schwabach
Straubing
Würzburg

Berlin
Berlin-Bohnsdorf
Berlin-Mariendorf
Berlin-Marzahn
Berlin-Neukölln
Berlin-Weissensee

Brandenburg
Fredersdorf-Vogelsdorf
Ludwigsfelde
Marquardt
Velten

Bremen
Bremen, Duckwitzstraße
Bremen, Weserpark
Bremerhaven

Hamburg
Hamburg-Eidelstedt

Hesse
Darmstadt
Frankfurt, Hanauer Landstr.
Frankfurt-Niedereschbach
Hanau
Lohfelden
Wiesbaden-Mainz-Kastel
Wiesbaden-Biebrich

Lower Saxony
Braunschweig
Garbsen
Hanover-Linden
Isernhagen-Altwarmbüchen
Lüneburg
Oldenburg
Osnabrück
Wilhelmshaven
Wolfsburg

North Rhine-Westphalia
Bielefeld
Datteln
Dortmund
Duisburg
Essen
Gelsenkirchen
Gütersloh
Herne
Kamen
Krefeld
Moers
Mönchengladbach, Künkelstr.
M'gladbach-Reststrauch
Münster
Niederzier
Oberhausen
Paderborn
Wuppertal

Rhineland-Palatinate
Alzey
Bad Bergzabern
Bornheim
Kaiserslautern
Koblenz
Ludwigshafen
Mainz-Bretzenheim
Pirmasens
Trier
Worms

Saarland
Neunkirchen
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Dresden-Prohlis
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Kosice

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