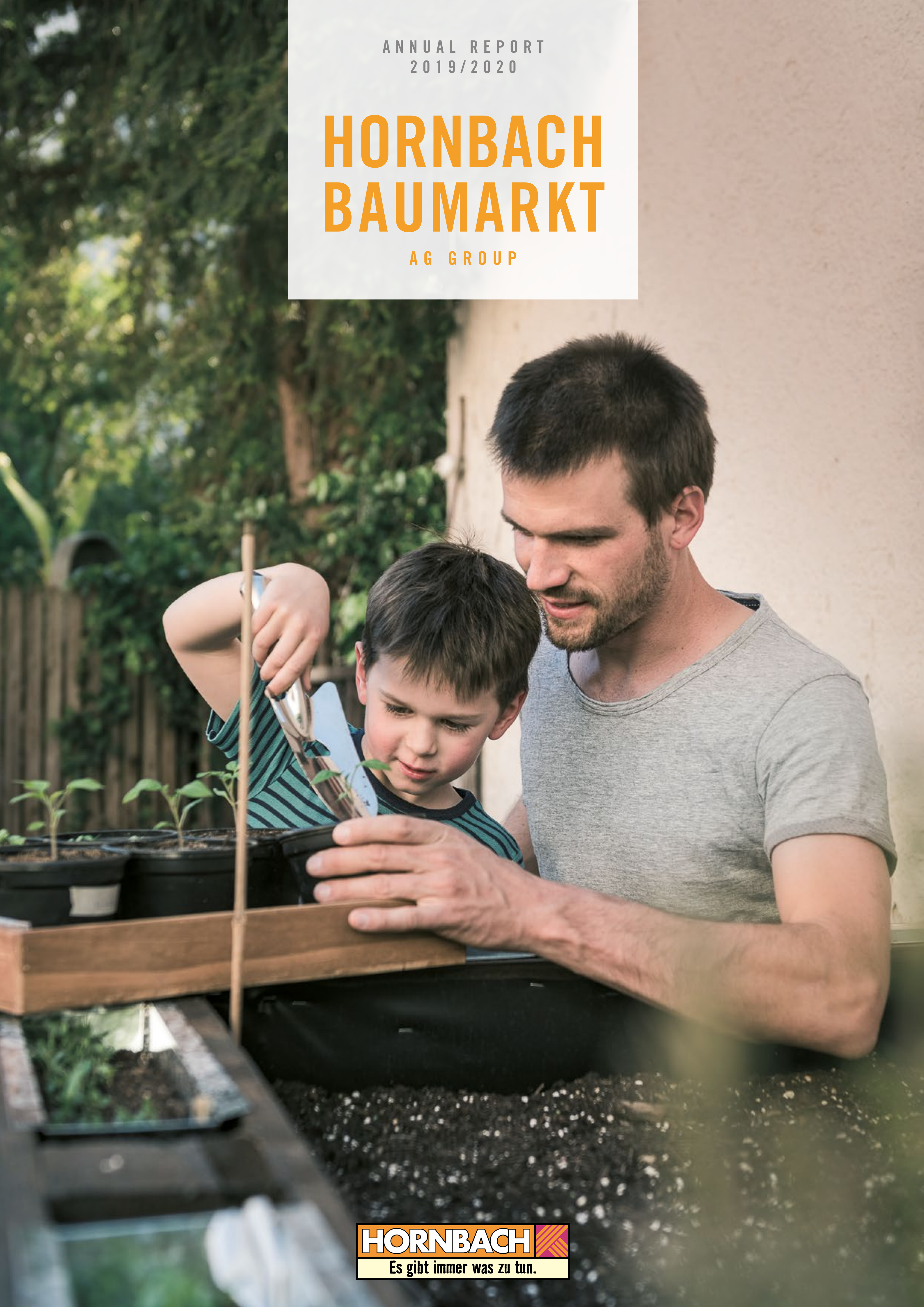
ANNUAL REPORT
2019/2020

HORNBACH BAUMARKT

AG GROUP



HORNBACH
Es gibt immer was zu tun.

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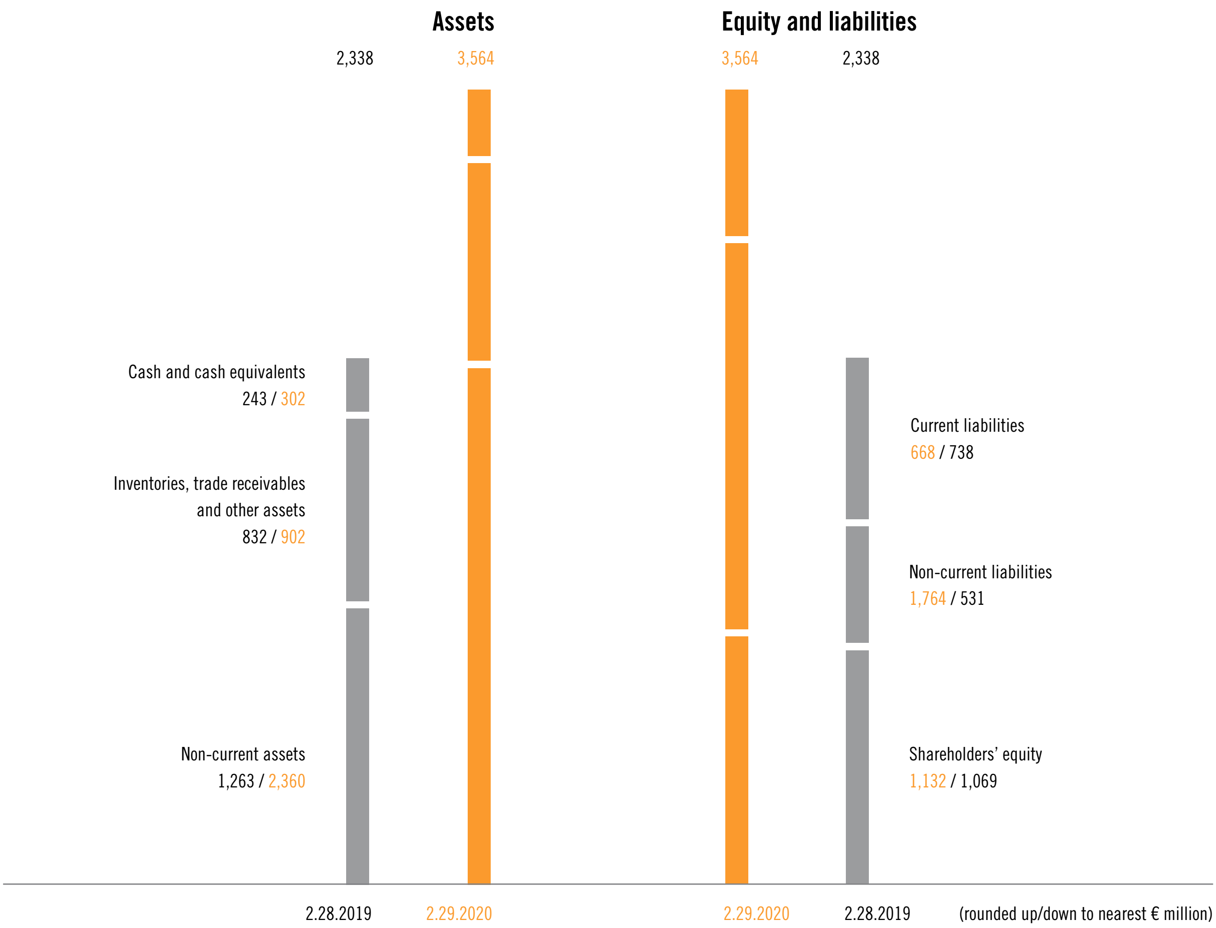
Key Group, Financial and Operating Data

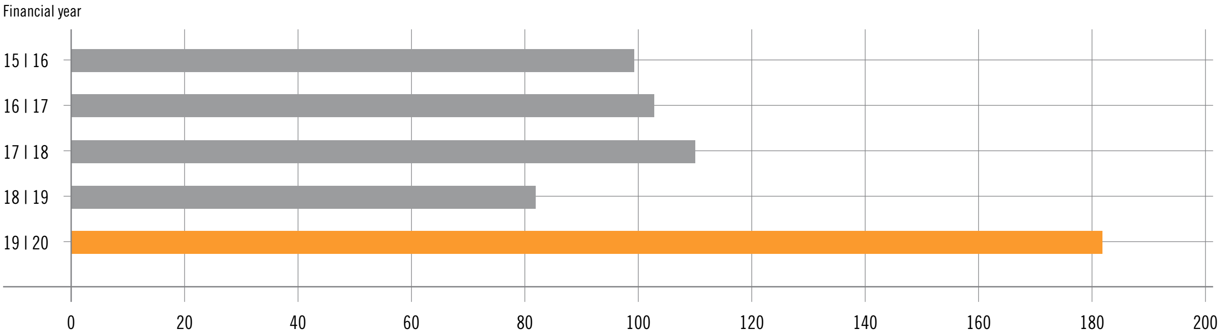
Amounts shown in € million unless otherwise stated	Change financial year 2019/20 on previous year	IFRS									
		2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
Sales and earnings figures											
Net sales	8.1 %	4,428	4,096	3,891	3,710	3,535	3,357	3,152	3,020	3,001	2,836
of which in other European countries	10.4 %	2,183	1,977	1,820	1,670	1,524	1,390	1,325	1,279	1,272	1,195
Sales growth as % of net sales		8.1	5.3	4.9	5.0	5.3	6.5	4.4	0.6	5.8	5.6
EBITDA	>100 %	414	159	183	174	162	167	161	156	184	173
as % of net sales		9.3	3.9	4.7	4.7	4.6	5.0	5.1	5.2	6.1	6.1
EBIT	>100 %	164	67	102	98	90	110	105	99	128	119
as % of net sales		3.7	1.6	2.6	2.6	2.6	3.3	3.3	3.3	4.3	4.2
Adjusted EBIT [1]	>100 %	182	82	110	103	99	115	111	101	132	120
as % of net sales		4.1	2.0	2.8	2.8	2.8	3.4	3.5	3.3	4.4	4.2
Earnings before taxes	>100 %	106	52	81	79	78	95	87	74	106	102
as % of net sales		2.4	1.3	2.1	2.1	2.2	2.8	2.8	2.5	3.5	3.6
Net income for the year	92.2 %	79	41	59	53	72	70	56	52	77	76
as % of net sales		1.8	1.0	1.5	1.4	2.0	2.1	1.8	1.7	2.6	2.7
Gross margin as % of net sales		36.6	36.7	37.3	37.2	37.7	38.0	37.4	37.3	37.4	37.4
Store expenses as % of net sales		28.1	29.9	29.6	29.8	30.2	29.8	29.4	29.7	29.0	29.3
Costs of central administration as % of net sales		5.1	5.4	5.3	5.0	5.0	4.7	4.5	4.7	4.3	4.2
Pre-opening expenses as % of net sales		0.2	0.2	0.1	0.2	0.3	0.4	0.3	0.3	0.2	0.1
Cash flow figures											
Cash flow from operating activities	>100 %	327	4	134	115	107	107	144	95	104	153
Investments [2]	(47.8)%	96	184	129	157	139	100	72	117	104	68
Proceeds from divestments		2	4	2	2	2	1	5	3	11	38
Earnings potential [3]	>100 %	335	10	139	121	117	122	155	105	111	158
as % of net sales		7.6	0.2	3.6	3.3	3.3	3.6	4.9	3.5	3.7	5.6
Dividend distribution	0.0 %	21.6	21.6	21.6	21.6	19.1	19.1	15.9	15.9	15.9	15.9
Balance sheet and financial figures											
Total assets	52.5 %	3,564	2,338	1,998	1,960	1,986	1,731	1,670	1,597	1,628	1,592
Non-current assets	87.4 %	2,349	1,253	1,165	1,124	1,023	786	729	722	668	621
Inventories	7.8 %	814	756	658	626	588	533	505	482	476	459
Cash and cash equivalents	24.6 %	302	243	102	113	283	335	371	317	404	423
Shareholders' equity	5.9 %	1,132	1,069	1,049	1,011	973	922	862	823	792	730
Shareholders' equity as % of total assets		31.8	45.7	52.5	51.6	49.0	53.3	51.6	51.5	48.6	45.9
Return on shareholders' equity based on net income - in %		7.2	3.9	5.7	5.5	7.6	7.8	6.7	6.5	10.2	10.9
Net working capital	7.3 %	651	607	469	471	408	382	345	349	358	319
Additions to non-current assets [5]	>100 %	1,341	184	129	176	312	100	72	117	104	68
Inventory turnover rate per year		3.8	3.9	3.8	3.9	4.0	4.1	4.0	4.0	4.0	4.0
Retail store data											
Number of stores		160	158	156	155	153	146	141	138	134	133
of which in Germany		96	97	98	98	99	97	92	92	91	92
of which in other European countries		64	61	58	57	54	49	49	46	43	41
Like-for-like sales growth in %		7.7	4.2	3.6	3.0	2.6	4.4	2.7	(1.4)	2.8	2.6
Sales area in m² (based on BHB)	1.9 %	1,888,545	1,853,068	1,821,807	1,805,729	1,771,480	1,704,187	1,646,712	1,597,949	1,549,085	1,513,722
Weighted average net sales per m² in €	7.6 %	2,386	2,218	2,135	2,068	2,023	1,985	1,940	1,912	1,933	1,903
Average store size in m²	0.6 %	11,803	11,728	11,678	11,650	11,578	11,673	11,679	11,579	11,560	11,381
Weighted average sales per store		28.2	26.0	24.9	24.1	23.4	23.2	22.7	22.1	22.3	21.7
Other information											
Employees - annual average - converted into full-time equivalents	5.0 %	17,039	16,229	15,431	15,016	14,570	13,967	13,390	12,674	12,188	11,520
Sales per employee in € 000s	3.0 %	260	252	252	247	243	240	239	238	246	246
Number of shares [4]		31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	15,903,500
Earnings per share in € [4]		2.47	1.29	1.84	1.66	2.28	2.19	1.77	1.64	2.43	4.76

[1] Adjusted for non-operating earnings items
[2] Excluding investment in short-term financial deposits (2016/17 financial year: € 30 million)
[3] Cash flow from operating activities plus pre-opening expenses
[4] Starting in the 2011/12 financial year: change in number of shares following issue of bonus shares as of July 29, 2011
[5] Starting in the 2019/20 financial year: including right-of-use assets (IFRS 16)

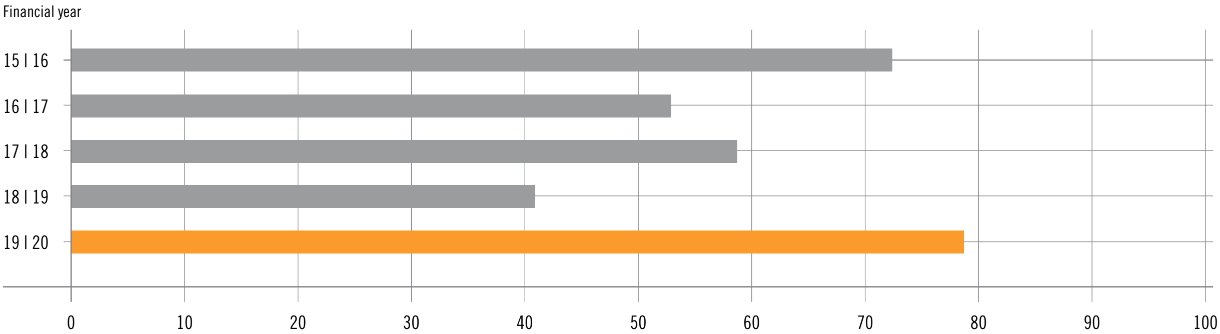
Structure of consolidated balance sheet
(€ million)

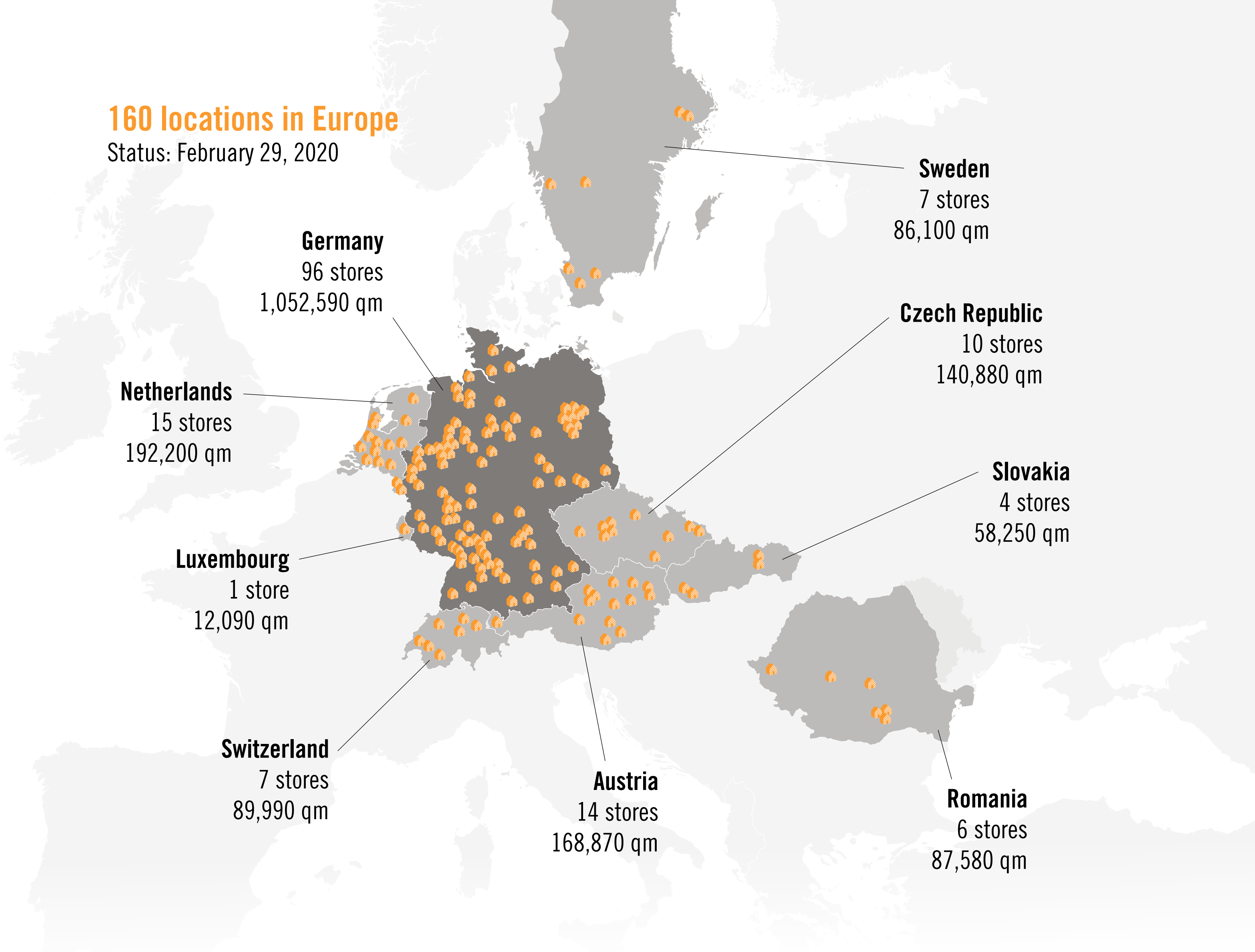


Adjusted EBIT
(€ million)



Net income for the year
(€ million)





Company Profile

HORNBACH is one of the leading DIY retail groups in Germany and Europe, with 160 DIY stores and garden centers in nine European countries. HORNBACH's megastores and online shops offer DIY enthusiasts and professionals a broad product range of around 200,000 high-quality articles at permanently low prices. HORNBACH supplements its products with a wide range of project-based advice and services.

1968

50 years ago, the first combined DIY store and garden center opens its doors in Bornheim/Pfalz.

€ 4.4 billion

Consolidated sales rose by 8.1 % in the 2019/20 financial year.

€ 2,386

HORNBACH is the German DIY market leader in terms of sales per square meter.

Dividend gem

Since its IPO in 1993, HORNBACH Baumarkt AG Group has each year distributed a dividend at least as high as the year before.

No. 1

HORNBACH regularly receives top rankings for its product range and prices in customer satisfaction surveys.

59%

HORNBACH owns more than half the properties used for its retail operations.

TO OUR SHAREHOLDERS

Letter from the CEO

Dear Ladies and Gentlemen,
Dear Colleagues,

Erich Harsch

This is my first letter to our shareholders in my new role as CEO of HORNBACH Baumarkt AG. Having spent many years working at dm-drogerie markt, I was delighted to take up this new challenge on January 1, 2020. Given my involvement in the Supervisory Board, I have a longstanding association with HORNBACH and have dealt closely with the company itself and the DIY sector. In that sense, moving from shower gel and diapers to power saws and cement is not as difficult as you might think, not least as HORNBACH and dm have much in common: Both are people-driven companies with family traditions that think and plan on a long-term basis. Both focus consistently on their customers and understand that, to satisfy your customers, you also need to satisfy your employees. And both have recognized digitalization as an opportunity to satisfy their customers' wishes even more closely. It therefore comes as no surprise that both companies are regularly ranked top in customer satisfaction surveys in their respective segments.

Business success and a focus on people are no contradiction! On the contrary, fairness and reliability towards customers and employees alike are the prerequisite for sustainable business success. It matters little whether the company is publicly listed or not. As investors, you too stand to benefit from dedicated employees and loyal customers who do not wait for the next discount campaign before stopping by.

The figures speak for themselves: With surface productivity now at € 2,386 per square meter, HORNBACH is Germany's most productive DIY chain. In the past 2019/20 financial year, HORNBACH generated like-for-like growth of 6.5 % in Germany, leaving the sector more than two percentage points behind. Particularly pleasing from our perspective is the fact that our like-for-like growth in Germany has approached the above-average level achieved in other European countries for years now (2019/20: +8.9 %). We reported increased customer totals and higher average spends in all nine countries across Europe in which we operate. And that is just as true for the online business as for our stationary business.

Thanks to this pleasing sales growth and greater cost transparency and control, we were also able to generate clearly positive earnings in our home market of Germany again. We lowered our group-wide general operating expenses by around 11 % year-on-year. We also succeeded in curbing the increase in our administration expenses. The adjusted EBIT margin rose from 2.0 % to 4.1 %. Even excluding the positive impact on EBIT of converting to the new IFRS 16 lease accounting, it is clear that around 78 % of our adjusted EBIT growth was driven by the striking improvement in our operating earnings strength! Earnings per share grew from € 1.29 to € 2.15.

In normal times, these figures would be something to celebrate. Given the coronavirus pandemic, though, past success rapidly recedes into the background. The measures taken to contain the pandemic brought economic and social activity virtually to a halt across Europe, and that for many weeks. In what was a difficult situation, HORNBACH was more fortunate than many: Around 60 %, or 96, of our 160 stationary stores across Europe remained open for private end customers, while around 90 %, or 142, of our stores were consistently open for commercial customers. Most of the stores subject to temporary closures were able to reopen in the course of April. Since May 6, 2020, our entire store network has once again been open to all customers across Europe.

It was and still is clear that, during the coronavirus crisis, there is an enormous need for the products offered by DIY stores. Customers rushing to DIY stores and garden centers, whether stationary or online, show that the DIY sector performs a system-relevant function for the economy and consumers. Not only that, by placing orders with suppliers the sector also helps to secure livelihoods in these times of extreme crisis.

Consumers are spending far more time at home than before and are using this not least to tackle long-deferred repairs or home improvement projects in their houses and gardens. Many commercial customers are buying materials to implement hygiene-related measures in their own firms. For their part, construction professionals are increasingly turning to our stores to procure their goods. Together, all these factors led to correspondingly high demand from our customers which, in March and April 2020, met with a very wide variety of regional restrictions on sales activities. The longest restrictions on our activities were in Switzerland and Slovakia, where we only returned to full operations at the end of April and beginning of May 2020 respectively.

During the 2020 spring quarter, the sales growth we generated at the HORNBACH stores that remained open and at our online shops meant we more than made up for sales lost at stores where our stationary business with private customers in particular was interrupted. We owe this not least to our interconnected retail strategy. This way, we quickly found solutions enabling private customers in the catchment areas of closed stores to buy products via "reserve and collect" or alternative concepts. What's more, in just a few days we significantly scaled up our logistics capacities for direct deliveries, enabling us to satisfy increased demand at our online shops.

We know we have been very lucky with our business performance in 2020/21 to date. But we also worked hard to achieve this success. Each day, we made the best of the situation and helped our customers to cope with the crisis in ways that added value, provided meaning and, in terms of their actual shopping, kept them well protected. For me, one important aspect is the fact that the measures we took to implement hygiene regulations, enforce distancing rules, and limit customer totals on the sales areas at our stores actually set standards in the retail sector. These helped to convince politicians and the authorities that, by offering exemplary safety standards, the retail sector can be responsibly organized, also in times of coronavirus.

Here, I would like to underline my absolute respect for those employees who, in these difficult conditions and with inexhaustible commitment and great dedication, secured and mastered operations at our DIY stores, online shops, logistics and service centers. Ultimately, it is thanks to them that we have so far managed to survive the coronavirus crisis unscathed, and that in the immensely important spring season. This way, we can provide a very stable perspective for jobs at HORNBACH. I am proud of this team and confident that, whatever risks still lie ahead, we will emerge from this crisis in even stronger shape.

Yours faithfully,

Erich Harsch
CEO of HORNBACH Baumarkt AG

Report of the Supervisory Board

Albrecht Hornbach

Dear Ladies and Gentlemen,

The report of the Supervisory Board of HORNBACH Baumarkt AG on the 2019/20 financial year is actually a success story which tells about one of the best years in the company's history. The company clearly demonstrated its ability to consistently enhance and implement its successful long-term strategy and thus create sustainable value for all of its stakeholders.

HORNBACH Baumarkt AG clearly exceeded its sales and earnings targets in the 2019/20 financial year and significantly improved its position in the markets in which it operates in the past year. The company's focus on offering well-qualified advice to customers who are tackling projects and professional customers was a key driver of this success in the market, as was its permanent low price guarantee. This was made possible by competent and committed employees who are guided by customers' wishes and who have now been provided with greater scope to structure their activities. The substantial investments made in the online shops now available in all our country markets are beginning to pay off in the form of rapidly growing sales and increasing profitability. Alongside impressive sales growth, spending discipline and a focus on investments in the future were the driving forces that enabled the company to significantly exceed its earnings targets in the 2019/20 financial year and to set a new standard – one that can now be improved on further in future.

After nearly thirty years of working at the company, Steffen Hornbach stood down from his position as CEO of HORNBACH Baumarkt AG based on mutual agreement at the end of 2019. In Erich Harsch, the Supervisory Board of HORNBACH Baumarkt AG has appointed a competent and experienced manager as CEO of HORNBACH Baumarkt AG. The Supervisory Board would like to thank Steffen Hornbach for his successful work, which culminated in the superb results for 2019/20, and wishes Erich Harsch every success in further developing and suitably implementing the company's strategy.

At the beginning of 2020, when the Supervisory Board discussed the targets for the 2020/21 financial year with the Board of Management, it became apparent that there was a strong foundation to build on. The dynamic sales performance in the final quarter gave us reason to expect pleasing full-year results for 2019/20. For the 2020/21 planning period, we expected to further develop our position in the markets in which we operate based on the agreed strategies and to further increase the Group's earnings capacity.

A short time later, in mid-March 2020, the escalation in the Covid-19 pandemic placed a large question mark over our original planning for 2020/21. Critical assessment at the outbreak of the coronavirus crisis initially focused on aspects of value chains and logistics concepts. Due to subsequent developments, our risk assessment quickly shifted to the potential implications for our stationary business operations of the measures taken by the authorities to contain the pandemic. Unlike initially feared, our DIY retail business was then less severely affected by the lockdown imposed on large sections of social life and economic activity. In several of the countries and regions in which operate, HORNBACH DIY stores and garden centers were required to interrupt their stationary business for several weeks, or to close for private consumers. However, customers could still purchase goods via the online shop and, thanks to interconnected retail, for example, collect goods they had reserved online. In most cases, it was also still possible to generate sales with commercial customers. As a result, none of our locations suffered a complete shutdown. Not only that, we witnessed substantial sales growth at the stores that were open and at our online shops. In view of this, we can expect the pandemic to have a limited negative impact on the first quarter of 2020/21. The 2020/21 financial year is nevertheless still subject to great uncertainty. Upon completion of this report in May 2020, there was still no cause to signal the all-clear. The risk of a pandemic-induced setback in the foreseeable future is too great. The Supervisory Board is nevertheless convinced that, when the time comes, the company will be able to latch onto its success in the past year and further enhance its market position and earnings strength.

In the past 2019/20 financial year, we again 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 the Chief Executive Officer, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

The Supervisory Board held a total of six meetings in the 2019/20 financial year. All members attended more than half the meetings of the Supervisory Board and of the committees to which they belonged in the year under report. Average attendance at the meetings of the Supervisory Board and its committees amounted around 98 % and 100 % respectively. Only one meeting of the Supervisory Board had an attendance rate of less than 100 % due to the legitimate absence of Anke Matrose and Georg Hornbach. Individualized disclosures on meeting attendance by Supervisory Board members can be found in the Corporate Governance Report. 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 explained and measures discussed.

At the meeting held in May 2019 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 2020. 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 corporate governance declaration (simultaneously the joint corporate governance report of the Board of Management and the Supervisory Board pursuant to the German Corporate Governance Code in the version dated February 7, 2017; referred to hereinafter as "corporate governance declaration"), the risk report, and the compliance report were discussed and approved at this meeting. We also approved the agenda for the Annual General Meeting, including proposed resolutions.

At the meeting directly before the Annual General Meeting in July 2019, the Board of Management reported on the current situation of the Group and the intended refinancing of a corporate bond. The dates of scheduled meetings up to and including the 2020/21 financial year were also agreed at the meeting.

Two unscheduled Supervisory Board meetings were held in August 2019. The object of these meetings was the premature retirement of the CEO, Steffen Hornbach, as of December 31, 2019 and organizing the succession. Consistent with the recommendation made by the Personnel Committee, at the second of these two August meetings, we appointed Erich Harsch to succeed Steffen Hornbach from January 1, 2020 until December 31, 2024.

In October 2019, the Supervisory Board provided written approval for the issuing of a new corporate bond of up to € 300 million.

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Declarations of Conformity

In December 2019, the current business situation, risk report, and compliance report were discussed. A further change in the Board of Management of HORNBACH Baumarkt AG in this financial year related to Wolfger Ketzler, who stood down from his position as of February 29, 2020. The Supervisory Board provided its approval at this meeting. At the same meeting, we discussed the efficiency of the Supervisory Board's 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 declaration was made permanently available on the company's homepage. HORNBACH Baumarkt AG largely complied with and continues to comply with the recommendations of the German Corporate Governance 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 Supervisory Board in the "Corporate Governance" chapter. To account for the German Second Shareholder Rights Directive Implementing Act and the new version of the German Corporate Governance Code, substantial sections of which were already available at the time, in line with the recommendation made by the Personnel Committee and after its own detailed discussion the Supervisory Board stipulated the terms and conditions for employment contracts with members of the Board of Management due to take effect as of March 1, 2020. The resolution concerning the new remuneration system for the Board of Management pursuant to § 87a AktG was adopted at the meeting on May 19, 2020.

Corporate Governance
Corporate Governance Declaration

At its final meeting in the past 2019/20 financial year, held in February 2020, the Supervisory Board discussed the Group's current business situation as well as the budget for the financial years 2020/21 to 2024/25. Based on a recommendation made by the Personnel Committee, the target values for variable remuneration of members of the Board of Management were laid down for the coming financial year.

At its meeting on May 19, 2020, the Supervisory Board adopted resolutions in connection with the entry into effect of the German Second Shareholder Rights Directive Implementing Act and the new version of the German Corporate Governance Code dated December 16, 2019, which was published in the Federal Gazette on March 20, 2020.

Committees and committee meetings

The Supervisory Board has established four committees. The current composition of the committees can be found in the "Directors and Officers" chapter of this Annual Report.

Directors and Officers
Supervisory Board committees

The Audit Committee met five times in the year under report, namely in May, June, September, December, and February.

At its meeting in May 2019, 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 also included the risk and compliance reports of the Board of Management, group internal audit reports, reports from 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 statement for the first quarter was discussed and in September 2019 the half-year financial report was addressed in the presence of the auditors and the key audit focuses were specified for the audit of the consolidated financial statements. Having closely inspected the relevant documents, which were circulated among its members, in September 2019 the Audit Committee adopted a recommendation for the Supervisory Board concerning the issue of a new corporate bond of up to € 300 million.

In December 2019, the Audit Committee held detailed discussions concerning the statement for the first nine months and also discussed the risk report, the compliance report, and the financial situation. The auditor reported on the current status of the work already begun on the audit of the financial statements. In February 2020, the budget for the financial years 2020/21 to 2024/25 was addressed in detail. At the same meeting, the Audit Committee received reports on the latest status and implications of the coronavirus pandemic and on the challenges arising, particularly in the fields of procurement and logistics, and also discussed the internal audit plan for the 2020/21 financial year.

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

The Personnel Committee held three meetings in the year under report. The object of the meeting in August 2019 was the premature retirement of CEO Steffen Hornbach on the basis of mutual agreement as of December 31, 2019 and the organization of the succession. After in-depth discussions, at this meeting the Personnel Committee adopted a recommendation to the Supervisory Board that Erich Harsch, to date a member of the Supervisory Board, should be appointed as a new member of the Board of Management and CEO as of January 1, 2020. Furthermore, the Committee Chairman, Dr. John Feldmann, informed members about the preparations underway to amend the contracts with members of the Board of Management to account for the requirements of the German Corporate Governance Code and legal requirements such as the upcoming German Second Shareholders Rights Directive Implementing Act. The Personnel Committee meeting in December 2019 examined the results of discussions concerning the new remuneration system for the Board of Management. It agreed recommendations to the Supervisory Board concerning the terms and conditions for the new employment contracts with members of the Board of Management. The committee also addressed the retirement of Wolfger Ketzler from his position on the Board of Management based on mutual agreement at the end of the 2019/20 financial year. In February 2020, recommendations were made for the target values for

Directors and Officers
Board of Management

variable remuneration payable to members of the Board of Management for the coming financial year. The resolution concerning the future allocation of responsibilities within the Board of Management due to the retirement of Wolfger Ketzler was also adopted at the February meeting. The current composition of the Board of Management and its areas of responsibility can be found in the "Directors and Officers" chapter in this Annual Report.

The Nomination Committee did not hold any meetings in the year under report.

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

Composition of Board of Management

In August 2019, company CEO Steffen Hornbach informed the Supervisory Board that, due to personal reasons, he would like to stand down from his position as CEO and member of the Board of Management of HORNBACH Baumarkt AG in agreement with the Supervisory Board as of December 31, 2019. At the recommendation of the Personnel Committee, it was swiftly decided to appoint Erich Harsch, at the time a Supervisory Board member, to succeed Steffen Hornbach as the new CEO as of January 1, 2020. This way, Erich Harsch also took over those areas for which Steffen Hornbach was previously responsible.

Wolfger Ketzler, responsible for real estate, construction, technical procurement, internal audit, legal, and compliance, stood down from his position on the Board of Management based on mutual agreement and with the approval of the Supervisory Board as of February 29, 2020. The Board of Management, which previously comprised seven members, has been reduced to six members from the 2020/21 financial year, with the areas previously within the responsibility of Wolfger Ketzler being reallocated to the remaining members of the Board of Management.

The Supervisory Board thanks the two retiring members of the Board of Management, Steffen Hornbach and Wolfger Ketzler, for their longstanding commitment to the company and spirited cooperation. It warmly welcomes the new CEO Erich Harsch and wishes him every success with his new tasks.

Composition of Supervisory Board

We are pleased to have gained Simona Scarpaleggia as a member of the Supervisory Board of HORNBACH Baumarkt AG to succeed Erich Harsch, who moved from the Supervisory Board to the Board of Management. Her appointment by court order is limited until the conclusion of the next Annual General Meeting in July 2020. Simona Scarpaleggia will be able to contribute her extensive experience in the retail sector. Her detailed CV has been published on the company's website (www.hornbach-group.com).

The company suitably supported all members of the Supervisory Board with training measures upon their appointment to their positions. Simona Scarpaleggia received separate training on the rights and obligations of the Supervisory Board.

Annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim (Deloitte), audited the annual financial statements and the consolidated financial statements of HORNBACH Baumarkt AG as of February 29, 2020, as well as the combined management report and group management report of HORNBACH Baumarkt AG for the 2019/20 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, Deloitte confirmed that the Board of Management had suitably implemented the measures required by § 91 (2) 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 audit focuses in the 2019/20 financial year included the recoverability of location properties and measurement of inventories in respect of the annual financial statements and the recoverability of location properties and right-of-use assets for location properties, the measurement of inventories, and the first-time application of IFRS 16 in respect of the consolidated financial statements.

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 19, 2020 and at the subsequent meeting of the Supervisory Board held 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. Furthermore, Deloitte reported on the preliminary planning for the audit of the financial statements for the 2020/21 financial year. 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 Deloitte's audit findings. We approve the annual and consolidated financial statements of HORNBACH Baumarkt AG prepared by the Board of Management as of February 29, 2020; 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 AktG. Neither this review nor Deloitte's audit gave rise to objections. Deloitte 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 company's performance in the transactions listed in the report was not incommensurately high."

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 AktG.

The HORNBACH Baumarkt AG Group showed an impressive return to its former strength in the past 2019/20 financial year and significantly improved its asset, financial, and earnings position compared with the previous year. The Supervisory Board is convinced that the company is well positioned not only to master the challenges presented by a dramatically changing market climate in the interests of all its stakeholders, but actually to help shape these developments on a sustainably profitable basis.

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 2020

The Supervisory Board

Albrecht Hornbach
Chairman

Corporate Governance Report with Corporate Governance Declaration

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 the financial markets. The standards and guidelines we adhere to over and above legal requirements are summarized in the Corporate Governance Declaration (§ 289f HGB), which includes the Corporate Governance Report of the Board of Management and the Supervisory Board (Point 3.10 of the German Corporate Governance Code in the version dated February 7, 2017).

1. Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 AktG dated December 2019

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

The recommendations of the “German Corporate Governance Code” in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 have basically been complied with since submission of the previous Declaration of Conformity in December 2018 and will continue to be complied with in future. No application was or will be made of the recommendations in Points 3.8 (3), 4.2.3 (2) Sentence 3, 4.2.5 (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. The recommendation made in Point 3.8 (3) was and is therefore not followed.

b) Point 4.2.3 (2) Sentence 3:
According to Point 4.2.3 (2) Sentence 3, variable components of management board remuneration should generally have a multiple-year assessment basis that essentially has forward-looking characteristics. Based on the employment contracts currently in place, the company has deviated and continues to deviate from this recommendation. The adjustments to employment contracts with members of the Board of Management required to comply with this recommendation at a later point in time have nevertheless been prepared. It is also intended to present the new remuneration system to the next Annual General Meeting. In considering the structure of the new remuneration system, the Supervisory Board accounted for the recommendations made by the German Corporate Governance Code in the version expected to be valid in the near future.

c) Point 4.2.5 (3):
The remuneration paid to the Board of Management was and 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 remuneration. For this reason, no use was or is made of the "model tables" included in the "German Corporate Governance Code".

d) Point 5.4.6 (3) Sentence 1:
In Point 5.4.6 (3) Sentence 1, the Code recommends that the remuneration 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 remuneration paid to the Supervisory Board is governed by the Articles of Association, we did not and do not see any need to disclose individual remuneration packages.

Bornheim bei Landau, December 2019

HORNBACH Baumarkt AG
The Supervisory Board — The Board of Management

The above Declaration of Conformity dated December 2019 has been published on our website together with all earlier Declarations of Conformity and is also available as a download.

www.hornbach-group.com
Investor Relations >
Corporate Governance >
Declarations of Conformity

2. 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.

3. Structure and Modus Operandi of Company Boards

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.

3.1 Supervisory Board
The Supervisory Board of HORNBACH Baumarkt AG comprises sixteen members and, consistent with the German Codetermination Act (MitbestimmG), includes equal numbers of shareholder and employee representatives. The CVs of the Supervisory Board members have been published on our website. 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, if renewed voting also produces 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 Codes of Procedure for the Supervisory Board and the Board of Management contain 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 AG in the 2019/20 financial year.

Directors and Officers
Supervisory Board committees

Report of the Supervisory Board
Committees and committee meetings

The Supervisory Board has the following committees:
- Mediation Committee
- Personnel Committee
- Audit Committee
- Nomination Committee

The composition of the committees and a detailed description of their activities have been provided in the "Directors and Officers" and "Report of the Supervisory Board" chapters.

The Supervisory Board performs an efficiency review/self-assessment of its activities once a year. Based on a catalogue of questions prepared in advance, the Supervisory Board discusses the effectiveness of the work it and its committees perform in order to identify any potential improvements. This process was carried out at the December meeting.

3.1.1 Targets for the composition of the Supervisory Board, competence profile, diversity concept, and manner of implementation

Taking due account of the recommendations made in Point 5.4.1 of the German Corporate Governance Code (in the version dated February 7, 2017; corresponds to Recommendation C.1 in the version dated December 16, 2019), on December 19, 2017 the Supervisory Board adopted the targets for its composition, including a competence profile for the overall board. The corresponding Supervisory Board resolution also includes the diversity concept for the Supervisory Board, which has set the objective of creating space for younger members without losing experienced members. Given the diverse composition thereby envisaged and the resultant variety of viewpoints and perspectives accounted for, the concept is intended to ensure that the Supervisory Board can optimally perform its tasks.

Pursuant to the competence profile, the Supervisory Board of HORNBACH Baumarkt AG must possess the expertise needed to fulfill its supervisory function and to assess and monitor the transactions performed by the company. To this end, the Supervisory Board members must collectively be familiar with the sector in which the company operates. This particularly includes knowledge, skills, and professional expertise in operating large-scale retail stores, especially DIY stores and home improvement centers, with or without garden centers, specialist stores, other specialist retail businesses, and e-commerce. This also includes expertise in the fields of digitalization and technology, as well as in accounting, auditing, financing, and corresponding legal expertise, including expertise in the field of tax law.

In view of these factors, and to compile its competence profile, the Supervisory Board listed the following objectives for its composition which are both specific and tailored to the company's individual situation:

- Supervisory Board members must be reliable, possess the expertise needed to fulfill their supervisory function and to assess and monitor the transactions performed by HORNBACH Baumarkt AG, and must have sufficient time to dedicate to their duties as members of the Supervisory Board.
- The Supervisory Board must collectively have the knowledge, skills, and professional expertise required to properly perform its duties. In particular, expertise in matters relating to the operation of a retail company must be available in the Supervisory Board, as must management experience, experience in managing and organizing companies, and experience in working in Supervisory Boards.
- The Supervisory Board must avoid potential conflicts of interest, and will continue to do so in future.
- The Supervisory Board should not include any members who hold directorships or perform advisory functions at any significant competitors.
- The composition of the Supervisory Board accounts for the diversity criterion, in particular with regard to the ages, genders, educational and career backgrounds of its members.
- As a general rule, the Supervisory Board should only include individuals who were no older than 70 at the time of their election.
- As a general rule, the Supervisory Board should only include individuals who have not been members of the Supervisory Board for four full terms already at the time of their election.
- The Supervisory Board should include a suitable number of independent members. The Supervisory Board believes that it is sufficient in this respect if at least half of its shareholder representative members are independent.
- Shareholder representatives who have been members of the Supervisory Board for more than three terms in office are now no longer deemed as independent in this respect.

With regard to the two final objectives and to the recommendations made in the German Corporate Governance Code in the version dated December 16, 2019, the Supervisory Board resolved on May 19, 2020 that since publication of the aforementioned recommendations in the Federal Gazette on March 20, 2020 more than half of the shareholder representatives should be independent of the company and its Board of Management and at least two shareholder representatives should be independent of HORNBACH Holding AG & Co. KGaA. Furthermore, shareholder representatives who have been members of the Supervisory Board for longer than 12 years should, as a general rule, no longer be viewed as independent.

Supervisory Board proposals to the Annual General Meeting should – and will – take due account of these objectives and the diversity concept, while at the same time endeavoring to ensure that the competence profile for the Board as a whole is satisfied.

3.1.2 Implementation status for (i) the objectives underlying the composition of the Supervisory Board, (ii) the diversity concept, and (iii) the competence profile, as well as disclosures on the independence of shareholder representatives on the Supervisory Board

The current composition of the Supervisory Board meets the aforementioned composition-related objectives, complies with the diversity concept, and satisfies the competence profile. The members of the Supervisory Board complement one another in terms of their ages, educational, and career backgrounds, experience, and expertise in such a way that the Board as a whole can draw on a highly varied wealth of experience and broad range of skills. No members of the Supervisory Board of HORNBACH Baumarkt AG hold any directorships or perform advisory functions at significant competitors. The regular periods of membership and regular age limits are laid down in the Code of Procedure of the Supervisory Board and are complied with.

Assuming that the holding of a Supervisory Board mandate as an employee representative does not give rise to any doubts concerning satisfaction of the independence criteria set out in Point 5.4.2 of the Code (in the version dated February 7, 2017), the Supervisory Board currently includes thirteen independent members, of which five, i.e. more than half, of the shareholder representatives. These are Dr. John Feldmann, Simona Scarpaleggia, Vanessa Stützle, Melanie Thomann-Bopp, and Prof. Dr. Jens Wulfsberg. Prof. Dr. Jens Wulfsberg has been a member of the Supervisory Board for longer than 12 years. Given his contributions, which are always carefully weighed up, and his voting behavior, which has always clearly been guided by the company's best interests, the Supervisory Board nevertheless views him as independent in the aforementioned sense.

3.1.3 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Albrecht Hornbach, Chairman	6/6	100.00
Kay Strelow, Deputy Chairman	6/6	100.00
Dr. John Feldmann, Deputy Chairman	6/6	100.00
Mohamed Elaouch	6/6	100.00
Christian Garrecht	6/6	100.00
Erich Harsch, member until December 31, 2019	5/5	100.00
Georg Hornbach	5/6	83.33
Martin Hornbach	6/6	100.00
Markus Lass	6/6	100.00
Jörg Manns	6/6	100.00
Anke Matrose	5/6	83.33
Brigitte Mauer	6/6	100.00
Johannes Otto	6/6	100.00
Simona Scarpaleggia, member since January 1, 2020	1/1	100.00
Vanessa Stützle	6/6	100.00
Melanie Thomann-Bopp	6/6	100.00
Prof. Dr. Jens Wulfsberg	6/6	100.00
Total		98.04

Audit Committee	Meetings attended	Attendance in %
Melanie Thomann-Bopp, Chairwoman	5/5	100.00
Dr. John Feldmann	5/5	100.00
Erich Harsch, member until December 31, 2019	4/4	100.00
Albrecht Hornbach	5/5	100.00
Georg Hornbach, member since January 1, 2020	1/1	100.00
Martin Hornbach	5/5	100.00
Markus Lass	5/5	100.00
Kay Strelow	5/5	100.00
Vanessa Stützle	5/5	100.00
Total		100.00

Personnel Committee	Meetings attended	Attendance in %
Dr. John Feldmann, Chairman	3/3	100.00
Christian Garrecht	3/3	100.00
Albrecht Hornbach	3/3	100.00
Martin Hornbach	3/3	100.00
Markus Lass	3/3	100.00
Total		100.00

Directors and Officers
Members of the Board of Management and their areas of responsibility

3.2 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 2019/20 financial year. At the beginning of the 2020/21 financial year (starting on March 1, 2020), the Board of Management was reduced to six members following the retirement from office of Wolfger Ketzler. 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 Chief Executive Officer 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. The CVs of the members of the Board of Management have been published on our website.

Objectives for the composition of the Board of Management, diversity concept, manner and status of implementation, and succession planning

The Supervisory Board adopted its objectives for the composition of the Board of Management and a diversity concept for the Board of Management on December 19, 2017. Accordingly, the composition of the Board of Management must take due account of the challenges faced by the company in its specific situation and of long-term succession planning. Alongside customary specialist qualifications, the criteria to be referred to when selecting candidates particularly include their leadership qualities and achievements to date. Due account should be taken of diversity, particularly with regard to the educational and professional backgrounds, gender, and age of candidates:

- The members of the Board of Management should collectively have longstanding experience in the fields of store operations, finance, procurement, personnel management, logistics, marketing, and technology, and should be able to contribute experience from a variety of professions.
- The Supervisory Board has laid down a target for the share of women on the Board of Management. This should be complied with.
- The regular age limit for members of the Board of Management is 65.

The diversity concept aims on the one hand to retain experienced members of the Board of Management and on the other hand to create space for younger members. The diversity of composition accounted for in the concept is intended to ensure that the company is optimally managed on account of the resultant variety of viewpoints and perspectives.

In its decisions concerning the appointment of members of the Board of Management, the Supervisory Board should and will take due account of these objectives and implement the diversity concept.

We are convinced that the aforementioned objectives were fully satisfied in the year under report and that the diversity concept has been suitable implemented.

Overall, the Board of Management, which also includes one female member, has the knowledge, skills and professional expertise needed to properly perform its duties. No member of the Board of Management exceeds the targeted regular age limit.

The Personnel Committee deals on an ongoing basis with succession planning in the Board of Management, particularly in light of the respective terms in office, such as when age considerations mean that an existing appointment is not proposed for extension, and regularly discusses these matters with the Board of Management. Taking due account of the requirements profile, potential candidates from within and outside the company are assessed, with support also being obtained from external consultants. The current status and results are discussed with the Supervisory Board on an ongoing basis.

3.3 Share of women in senior management positions

HORNBACH Baumarkt AG is obliged under the "Act on the Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions" to set targets for the share of women on its Board of Management and next two senior management tiers. The company set its first targets in this respect in summer 2015. These were to be met by June 30, 2017. In the meantime, the company has reviewed these targets and extended them through to February 28, 2022. With regard to the share of women on the Supervisory Board, the fact that HORNBACH Baumarkt AG is subject to codetermination and publicly listed means that it applies the statutory requirement of a fixed minimum quote of 30 %. Specifically:

3.3.1 Women on the Board of Management and Supervisory Board

At its meeting on July 8, 2015, the company's Supervisory Board had set the target share of women on the Board of Management to be reached by June 30, 2017 at no less than 1/7 pursuant to § 111 (5) AktG. At its meeting on May 23, 2017, the company's Supervisory Board confirmed this target, which was achieved, and extended the target of no less than 1/7, while upholding the current status, to February 28, 2022. Since March 1, 2020, the share of women on the Board of Management has amounted to 1/6.

The Supervisory Board currently includes five female members (status: May 2020). The legal requirement for the Supervisory Board to meet the minimum share of female members in terms of its overall composition was rejected. In line with the requirements then applicable, both the employee and the shareholder representatives on the Supervisory Board each include at least two female members.

3.3.2 Women in the two management tiers below the Board of Management

In May 2017, the Board of Management of HORNBACH Baumarkt AG adopted a resolution pursuant to § 76 (4) AktG which set the share of women to be achieved in the two management tiers below the Board of Management by February 28, 2022, while upholding the current status, at no less than 9 % in the first management tier and no less than 13 % in the second management tier.

3.4 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 and approval of the actions 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. As a rule, the Annual General Meeting is 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.

4. Reporting and Auditing of 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 the Group's half-year financial report. 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.

5. 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, results, and any material changes in its business situation. The HORNBACH Baumarkt AG Group reports 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.

www.hornbach-group.com
Investor Relations
and Financial Calendar

The documents and dates of relevance to the company's regular financial reporting activities are published on our homepage. 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 as insider information pursuant to Article 17 of the Market Abuse Regulation (MAR). All individuals working on behalf of the company and with access to insider information in the course of their activities are informed of the resultant obligations for them under insider law.

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Investor Relations >
Mandatory Disclosures

Members of the Board of Management and the Supervisory Board of HORNBACH Baumarkt AG and individuals closely related to such are required by Article 19 of the Market Abuse Regulation (MAR) to disclose transactions involving shares in the company or related financial instruments. In the year under report, the company was notified of two transactions by directors or individuals closely related to such. The transactions executed by Susanne Jäger and Ingo Leiner, both members of the Board of Management, were published on our website within the relevant deadlines.

6. Relevant Corporate Governance Practices

www.hornbach-group.com
Investor Relations >
Corporate Governance

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 on our website.

6.1 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 corporate social responsibility. 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.

6.2 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. The principles included in the "HORNBACH Foundation" are fleshed out in the "HORNBACH Values". 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 made available to all employees.

www.hornbach-group.com
Investor Relations > Corporate Governance > Compliance

The "Accepting and Granting Gratuities" code of conduct sets out guiding principles which make clear what HORNBACH expects of its managers and employees in this regard. This code of conduct has been communicated on a top-down basis and distributed to employees in the form of a leaflet compiled in the relevant national language.

Upon joining the company, our employees are informed about compliance-related topics with the assistance of the HORNBACH Values and the codes of conduct.

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 and further developing 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. Once a year, the Chief Compliance Officer holds a meeting with the compliance officers to coordinate compliance-related topics.

Compliance activities have a particular focus on the risks of "Improper conduct/corruption" and "Cartel law violations". Compliance Officers are surveyed to assess the development in risks which are already known and the potential materialization of new risks. The approach taken here was amended in the 2019/20 year under report. At meetings held on location and attended by the compliance officers and the relevant managers, the existing risks are surveyed in a structured manner and jointly assessed. Suitable measures are laid down to reduce the risks.

Since mid-2017, the compliance system has been supported by an internet-based whistleblower system. This provides employees, service providers, and suppliers worldwide with a further possibility of communicating directly with the Chief Compliance Officer. This way, potential infringements of compliance requirements can be reported, also anonymously if preferred.

Notifications received via existing channels of communication - for example by employees informing their direct managers or their departmental compliance officers - and those received via the whistleblower system are assessed by the Chief Compliance Officer. Where there are legitimate grounds to suspect a compliance-related infringement, the Group Internal Audit department investigates the matter. In this regard, measures are identified to prevent similar compliance infringements from arising at the outset. Where compliance infringements are actually detected, the company generally initiates labor law, criminal law, and civil law proceedings. In the year under report, there was a low single-digit number of confirmed compliance infringements at the HORNBACH Baumarkt AG Group.

7. Remuneration Report

www.hornbach-group.com
Investor Relations >
Corporate Governance >
Remuneration Report

The remuneration report presents the basic features and structure of the remuneration of the Board of Management and the Supervisory Board. It forms a constituent component of the group management report and is available on our website.

8. Directors and Officers

Supervisory Board

Albrecht Hornbach
Chairman
Chief Executive Officer
HORNBACH Management AG

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

Dr. John Feldmann
Further Deputy Chairman
Supervisory Board Chairman of KION Group AG
(until May 9, 2019)
Former Executive Board member of BASF SE

Mohamed Elaouch*
Section Manager, Mainz Store

Christian Garrecht*
Operative Head of Workplace Safety and Fire Protection

Erich Harsch (until December 31, 2019)
CEO of dm-drogerie markt GmbH & Co. KG
(until December 31, 2019)
CEO of HORNBACH Baumarkt AG
(since January 1, 2020)

Georg Hornbach
Head of Controlling Department and
Head of Finance and Procurement Division
Universitätsklinikum Köln

Martin Hornbach
Managing Partner
Corivus Gruppe GmbH

Markus Lass*
District Director

Jörg Manns*
Sales Employee, Wiesbaden Store

Anke Matrose*
Checkout Assistant, Bremen Store

Brigitte Mauer*
Section Manager, Tübingen Store

Johannes Otto*
Assistant Store Director, Schwetzingen Store

Simona Scarpaleggia (since January 1, 2020)
Director of Global Initiative "Future of Work"
at Ingka Group (IKEA)

Vanessa Stützle
Managing Director of E-Commerce/Omni-Channel
Parfümerie Douglas GmbH

Melanie Thomann-Bopp
Chief Financial Officer (CFO)
Sonova Retail Deutschland GmbH

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

* Employee representative

Supervisory Board committees

Audit Committee

Melanie Thomann-Bopp Chairwoman	
Dr. John Feldmann	
Erich Harsch	until December 31, 2019
Albrecht Hornbach	
Georg Hornbach	since January 1, 2020
Martin Hornbach	
Markus Lass	
Kay Strelow	
Vanessa Stützle	

Personnel Committee

Dr. John Feldmann	Chairman
Christian Garrecht	
Albrecht Hornbach	
Martin Hornbach	
Markus Lass	

Mediation Committee

Dr. John Feldmann	Chairman
Albrecht Hornbach	
Johannes Otto	
Kay Strelow	

Nomination Committee

Albrecht Hornbach	Chairman
Dr. John Feldmann	
Martin Hornbach	
Melanie Thomann-Bopp	

Board of Management

Members and their areas of responsibility

Steffen Hornbach until December 31, 2019
CEO
Strategic Development, Operative Store Management, Sales and Services

Erich Harsch since January 1, 2020
CEO
Strategic Development, Operative Store Management, Sales and Services; since March 1, 2020: Real Estate

Roland Pelka
Deputy Chairman
Finance, Accounting, Tax, Controlling, Risk Management, Loss Prevention, Investor Relations;
since March 1, 2020: Internal Audit, Legal, Compliance

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

Wolfger Ketzler until February 29, 2020
Real Estate, Construction, Technical Procurement, Internal Audit, Legal, Compliance

Karsten Kühn
Marketing, Market Research, Internal Communications, Public Relations, Organizational Development, Personnel and Labor Director

Ingo Leiner
Logistics; since March 1, 2020: Construction, Technical Procurement

Dr. Andreas Schobert
Technology

www.hornbach-group.com
Investor Relations >
Corporate Governance

CVs of Directors and Officers

CVs of the members of the Board of Management and Supervisory Board can be found under "Corporate Governance" in the "Investor Relations" section of our website at www.hornbach-group.com (see "Board of Management" and "Supervisory Board" in the item overview).

The HORNBACH Baumarkt Share

Key figures for the HORNBACH Baumarkt share		2019/20	2018/19	2017/18	2016/17	2015/16
Year-end price[1]	€	17.00	18.26	30.50	29.72	25.77
12-month high[1]	€	23.50	31.25	33.32	31.50	38.60
12-month low[1]	€	15.45	16.82	28.90	23.69	24.51
Shares issued	Number	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000
Market capitalization	€ 000s	540,719	580,796	970,114	945,304	819,666
Earnings per share	€	2.47	1.29	1.84	1.66	2.28
Price / earnings ratio[2]		6.9	14.2	16.6	13.0	11.3
Book value per share	€	35.59	33.60	32.97	30.59	30.59
Price-to-book ratio[3]		0.5	0.5	0.9	1.0	0.8
Cash flow from operating activities per share	€	10.30	0.12	4.22	3.62	3.35
Price / cash flow ratio[4]		1.7	157.2	7.2	8.2	7.7
Dividend per share[5]	€	0.68	0.68	0.68	0.68	0.68
Distribution total[5]	€ 000s	21,629	21,629	21,629	21,629	21,629
Payout ratio[5,6]	%	27.5	52.7	37.0	41.0	29.8
Dividend yield[7]	%	4.0	3.7	2.2	2.3	2.6
Performance including dividend	%	(3.2)	(37.9)	4.8	18.6	(19.5)
Performance excluding dividend	%	(6.9)	(40.1)	2.6	15.3	(21.0)
Average daily trading volume[1]	Number	22,164	6,884	5,399	8,201	10,246

[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] 2019/20: proposal to 2020 Annual General Meeting
[6] Dividend per share ÷ earnings per share
[7] Dividend per share ÷ year-end price

2019/20 on the stock markets

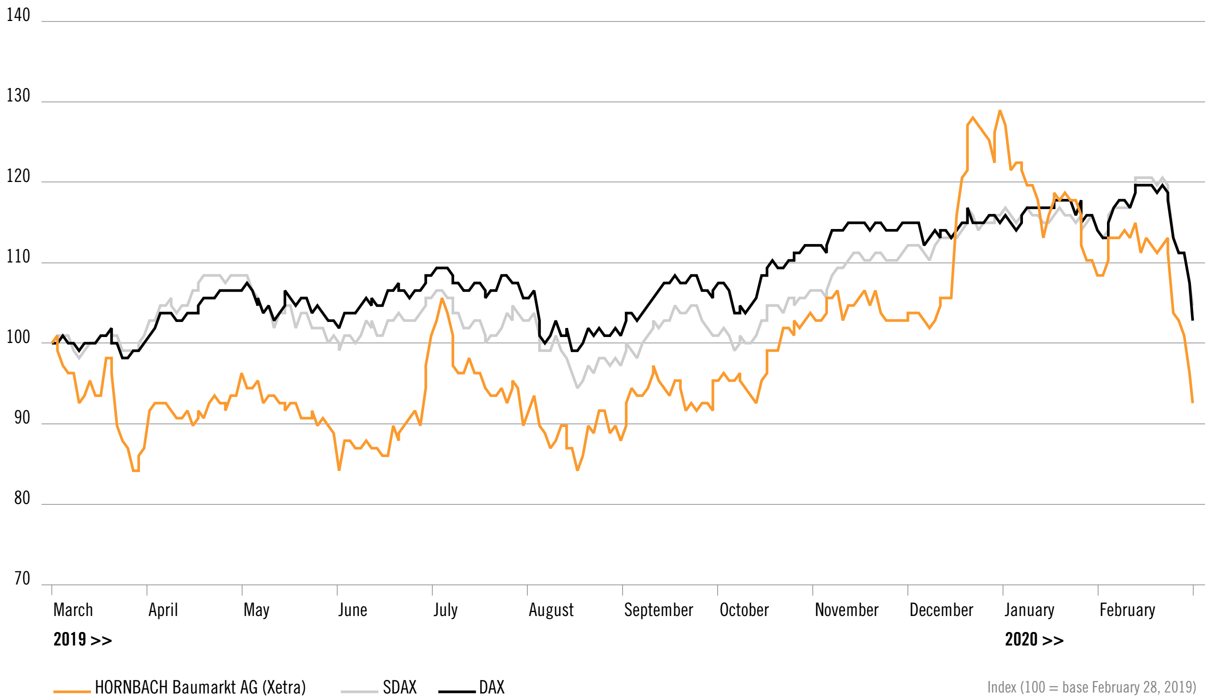
Setback in February after good year on markets in 2019

Global stock markets rose significantly in the 2019 calendar year, and that although political risks such as Brexit, growing populism, the US-Chinese trade conflict, and weak macroeconomic signals repeatedly led to uncertainty. Given the expansive monetary policies maintained by central banks, however, investors had few alternatives. The DAX, Germany's lead index, rose by around 25 % to 13,249 points at the end of 2019. Given the spread of the coronavirus and fears of sustained supply shortages, share prices then fell sharply in February 2020. The DAX lost around 10 % and closed at 11,890 points at the end of February.

HORNBACH Baumarkt share price performance

The HORNBACH Baumarkt share price fell by 6.9 % during the 2019/20 financial year (March 1, 2019 to February 29, 2020). Including the distribution, and assuming reinvestment of the dividend, the reduction amounted to 3.2 %. Despite the very good business performance, the share price underperformed its comparative indices: DAX (+3.3 %), SDAX (+4.9 %), and the PRIME Xetra Retail Index (+29.1 %).

Share price performance: March 1, 2019 to February 28, 2020



The first months of the 2019/20 financial year were influenced by the previous year's unsatisfactory earnings performance, which made it necessary to publish a profit warning on March 20, 2019. The HORNBACH Baumarkt share price fell to its annual low at € 15.45 on June 3, 2019. After positive Q1 results, the share briefly reached an interim high in early July before shedding most of these gains again by mid-August. The company's continued strong business performance in the first half, followed by a positive profit warning on December 10, 2019, then led to a significant rise in the share price and to its annual high at € 23.50 on December 30, 2019. In January and February 2020, the share price lost significant ground again, with this being due in part to the general downward trend in connection with the coronavirus crisis. The share closed the financial year on February 29, 2020 at € 17.00 in Xetra trading (2018/19: € 18.26). The market capitalization thus amounted to € 541 million at the end of the financial year (2018/19: € 581 million). The positive profit warning on March 19, 2020 and first measures to ease the coronavirus lockdown in April provided renewed momentum. On April 30, 2020, the share was listed at € 19.66.

Interesting for value investors

The parent company HORNBACH Holding AG & Co. KGaA still owns 76.4 % of the total of around 31.8 million ordinary shares issued. Based on the definition of the German stock exchange, the free float therefore amounted to 23.6 % at the end of the financial year. These shares are held in particular by international institutional investors. HORNBACH shares are especially interesting to value investors with a long-term focus, as they see the further sustainable growth potential harbored by the business model.

Share buyback for employee stock program

The annual issue of employee shares has a long tradition at HORNBACH. Since the 1993/94 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 2,679 HORNBACH Group employees participated in last year's employee stock program, with a total of 52,670 shares being transferred.

Analysts' assessments

As of the balance sheet date on February 29, 2020, the HORNBACH Baumarkt share was regularly covered by two financial analysts (2018/19: two) in research reports and studies. Both analysts recommended buying the share as of the balance sheet date. Their average share price target amounted to € 26.00, implying upward potential of more than 50 % compared with the closing price at the end of our 2019/20 financial year. The current list of banks and research institutes regularly reporting on HORNBACH and their recommendations for the share can be viewed at the HORNBACH Group's website.

www.hornbach-group.com
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 9, 2020. The distribution total of € 21,629k corresponds to a distribution quota of 27.5 % (2018/19: 52.7 %) of earnings per share.

Financial communications

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 statements, annual reports, press releases, and additional financial information were published on the website of the HORNBACH Group. The Annual General Meeting, the annual results press conference, analysts' press conferences, and meetings with investors give us the 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.

www.hornbach-group.com
Investor Relations

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

FINANCIAL CALENDAR 2020

May 27, 2020	Annual Results Press Conference 2019/20 Publication of Annual Report DVFA Analysts' Conference
June 26, 2020	Quarterly Statement: 1st Quarter of 2020/21 as of May 31, 2020
July 9, 2020	Annual General Meeting (virtual)
September 29, 2020	Half-Year Financial Report 2020/21 as of August 31, 2020
December 22, 2020	Quarterly Statement: 3rd Quarter of 2020/21 as of November 30, 2020

Investor Relations
Axel Müller
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COMBINED MANAGEMENT REPORT

Group Fundamentals

1. 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 29, 2020, the Group operated 160 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 96 locations are in Germany. A further 64 stores are located in the following other European countries: Austria (14), the Netherlands (15), Luxembourg (1), the Czech Republic (10), Switzerland (7), Sweden (7), Slovakia (4), and Romania (6). With total sales areas of around 1.89 million m², the average size of a HORNBACH DIY store with a garden center amounts to around 11,800 m². In all of the countries in which it operates, HORNBACH combines its stationary retail business with its online stores (e-commerce) to act as a multichannel DIY retailer, an approach we also refer to as interconnected retail.

160
locations across Europe

In the 2019/20 financial year (March 1, 2019 to February 29, 2020), the HORNBACH Baumarkt AG Group generated net sales of more than € 4.4 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 29, 2020, the HORNBACH Baumarkt AG Group had a total of 20,438 employees across Europe (including passive employment relationships), of which 9,395 outside Germany.

€ 4.4 bn
consolidated sales

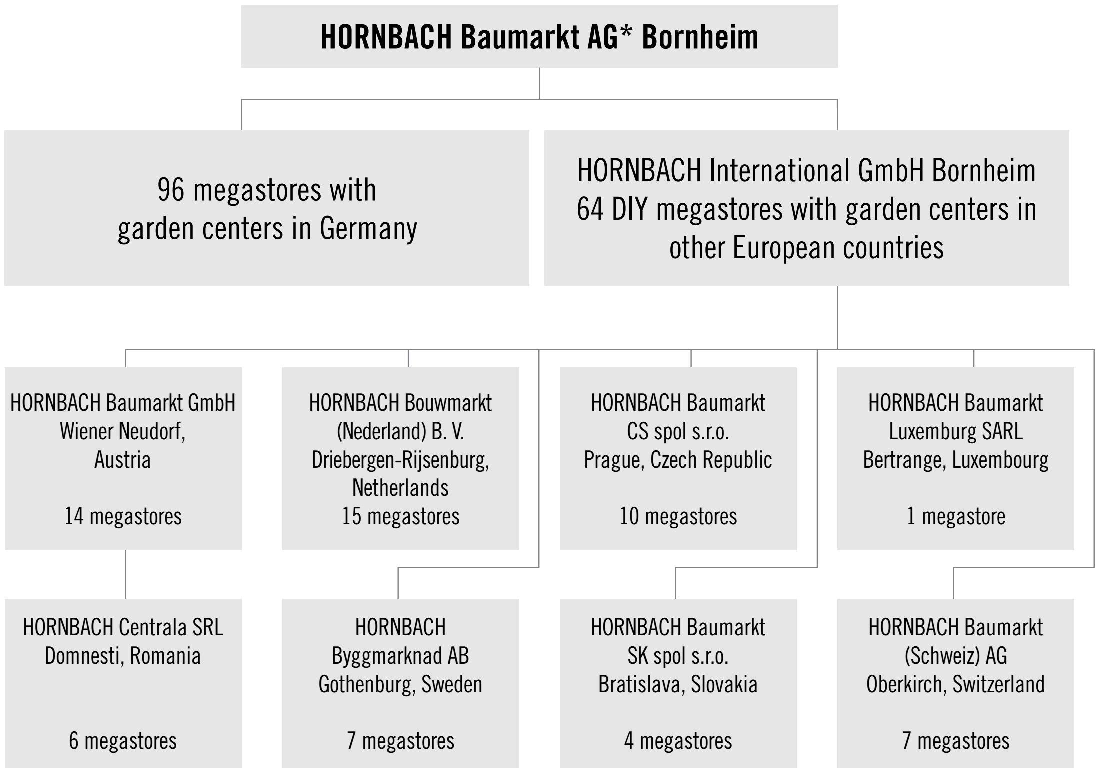
The diagram on the following page presents the current group structure and provides an overview of the most important shareholdings of HORNBACH Baumarkt AG. Full details about the scope of consolidation and consolidated shareholdings are provided in the notes to the consolidated financial statements.

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 29, 2020). The company was founded in 1877 and has been listed in the Prime Standard at Frankfurt Stock Exchange since 1993.

2. Group Business Model

2.1 Retail activities

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 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 relies not just on its stationary retail business, but also draws on the development potential harbored by e-commerce. HORNBACH's online store – a high-performing virtual DIY store and garden center – is available in all of the countries in which we have stationary DIY retail operations.



* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 29, 2020

Key focus on project customers

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 stationary and online activities are tailored to these target groups. HORNBACH thus particularly offers its customers a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, reliable and transparent permanently low prices, 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 consumer surveys. HORNBACH's product range encompasses an average of around 50,000 articles at its stationary stores and up to around 200,000 articles online. Products are available in the five divisions of Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

2.2 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 29, 2020, 32 % of sales areas were owned by the Group. HORNBACH Immobilien AG and its subsidiaries owned a further 27 % 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.

2.3 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 comprises the 160 DIY megastores with garden centers pooled at the HORNBACH Baumarkt AG Group (2018/19: 158) 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 and logistics center owned and rented 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 shown in the columns "Corporate Functions" and “Consolidation".

3. Management System

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

3.1 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.

Since the beginning of the 2018/19 financial year, **adjusted EBIT** (adjusted operating earnings) has been the Group's most important key earnings figure. This corresponds to earnings before interest and taxes (EBIT) adjusted to exclude non-operating earnings items. In the income statement, EBIT is calculated as gross profit in euros less costs (selling, store, pre-opening, general, and administration expenses) plus other income and expenses. The elimination of non-operating earnings items involves adding non-operating expenses (e.g. impairment losses on right-of-use assets, properties, or advertising-related assets) and deducting non-operating income (e.g. income from disposals of properties, income from write-ups of assets impaired in previous years). Adjusted EBIT is therefore particularly useful for management purposes and for comparing the operating earnings performance over time or in forecasts.

Group Management Report
Business Report
Earnings Position

3.2 Alternative key performance indicators

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.

3.2.1 Key performance indicators for 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 twelve months and on sales in the online business. 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.

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.

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. Allocable non-operating income and expenses have been recognized in the relevant functional expense items. 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 and expenses for 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-business) 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 expenses, these expenses also include project-related expenses, and in particular expenses for digitalization and interconnected retail (please also see information in "3.1 Sales performance" in the Business Report).

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 of property, plant and equipment, right-of-use assets, and intangible assets, has a cash flow character, as non-cash-effective depreciation and amortization are added to operating earnings (EBIT).

EBIT is also commented on as an alternative key performance indicator in the presentation of our earnings position. As non-operating, unscheduled one-off items may lead EBIT to fluctuate substantially between individual reporting periods, this key figure is not used a key management figure in the company's planning or as the central reporting figure for budget/actual comparisons or annual earnings forecasts.

Given IFRS 16 lease accounting, earnings before taxes (**EBT**) are becoming increasingly important as a performance indicator and have now been added to the catalogue of alternative key performance indicators. EBT is the key earnings figure which shows the impact on the income statement of IFRS 16 effects; these comprise depreciation of right-of-use assets and interest expenses for the financial debt. EBT thus accounts for the negative frontloading effect arising at the beginning of the lease due to the effective interest method. This effect reverses over time and has no impact on earnings over the total term of lease.

3.2.2 Key performance indicators for financial and asset position

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 in comparison with the sector.

Net financial debt is an alternative key performance figure used to comment on the financial position. 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).

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 office 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 cost of goods sold 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.

Table
GDP growth rates

Business Report

1. Macroeconomic and Sector-Specific Framework

1.1 International framework

The European economy grew more slowly in the 2019 calendar year than one year earlier. Based on figures released by the European Union statistics authority (Eurostat), gross domestic product (GDP) grew by 1.5 % (2018: 2.1 %) in the European Union as a whole (EU 27) and by 1.2 % (2018: 1.9 %) in the euro area. The rates of GDP growth achieved by the nine European countries in which HORNBACH operates also fell short of the previous year's figures, with the HORNBACH regions in Eastern Europe continuing to report above-average growth rates. Private consumer spending in the EU 27 and euro area countries grew by 1.5 % and 1.2 % respectively in real terms. At 1.2%, the annual HICP rate of inflation for the euro area was somewhat lower than in the previous year (plus 1.8 %).

The European construction sector showed stronger growth than the overall economy. According to estimates compiled by Eurostat, construction output grew by 2.4 % in the EU 27 and by 1.8 % in the euro area in 2019. Based on the assessment of the Euroconstruct Group, European construction volumes in its 19 partner countries grew by 2.3 % in 2019, with substantial growth in civil engineering in particular. In the building sector, new construction once again grew faster than construction work on existing buildings.

Non-food retail volumes (excluding motor fuels) rose by 3.9 % in the EU 27 and by 3.5 % in the euro area in 2019. In terms of the countries in which HORNBACH operates, the retail sector reported sales growth in all countries except Slovakia. The figures for Romania and the Czech Republic were notably ahead of the European average. According to figures released by the GfK consumer research association for the 2019 calendar year, do-it-yourself (DIY) retail sales grew by 3.6 % in Germany, by 4.3 % in Austria, by 0.0 % in Switzerland (in national currency), by 2.7 % in the Netherlands, and by 6.3 % in the Czech Republic. No data was available for the other countries in which HORNBACH operates.

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

Percentage change in GDP on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2019	2nd Quarter 2019	3rd Quarter 2019	4th Quarter 2019	Calendar Year 2019 vs. 2018
Germany	**0.5**	**(0.2)**	**0.2**	**0.0**	**0.6**
Austria	0.5	0.1	0.2	0.2	1.6
Czech Republic	0.6	0.5	0.4	0.3	2.4
Luxembourg	0.5	1.9	0.3	0.4	2.3
Netherlands	0.4	0.4	0.4	0.4	1.7
Romania	1.1	0.9	0.6	1.5	4.1
Slovakia	0.6	0.3	0.4	0.6	2.3
Sweden	0.0	0.2	0.4	0.2	1.2
Switzerland	0.4	0.4	0.4	0.3	0.9
Euro area (EA 19)	**0.5**	**0.1**	**0.3**	**0.1**	**1.2**
EU 27	**0.5**	**0.2**	**0.4**	**0.2**	**1.5**

1.2 Business framework in Germany

1.2.1 Macroeconomic climate
While the pace of economic growth in Germany may have slowed in the 2019 calendar year, this was mainly due to the export-driven industrial sector; construction and the service sector showed strong growth. Based on calculations compiled by the Federal Statistical Office, real-term gross domestic product (GDP) rose by an annual average of 0.6 % in 2019 (2018: plus 1.5 %). Thanks to continuing favorable conditions on the labor market and an increase in real-term disposable incomes, (price-adjusted) private consumer spending rose by 1.6 %.

1.2.2 Construction activity and construction trade
Ongoing high demand for real estate and low lending rates lent further momentum to the construction sector in the past year. According to calculations compiled by the German Institute for Economic Research (DIW), housing construction volumes rose by 8.8 % in nominal terms in 2019, with disproportionate growth of 9.5 % in new construction volumes. The market for refurbishment, renovation, and modernization measures at existing buildings, which is more relevant for the DIY store sector, grew by 8.5 %. The share of construction output attributable to existing buildings amounted to around 68 % in 2019.

The high level of capacity utilization in the construction industry and higher material costs were reflected in rising prices for construction work. Sales in the main construction and finishing trades each grew by 5.1 % in 2019, while the number of employees rose by just 1.9 % and 1.6 % respectively.

1.2.3 Retail and DIY
Based on figures released by the Association of German Retailers (HDE), net aggregate sales in the German retail sector increased to € 543.6 million in 2019. Sector sales therefore grew by 3.2 % in nominal terms and by 2.6 % on a price-adjusted basis compared with 2018. Online retail (e-commerce) showed further strong growth of 8.9 % to € 58.0 billion (2018: € 53.3 billion). Online sales thus accounted for a 10.7 % share of total retail sales in 2019 (2018: 10.1 %).

According to figures published by the BHB sector association, large-scale DIY stores with sales areas of more than 1,000 m² increased their gross nominal sales by 3.6 % to € 19.46 billion in the 2019 calendar year (2018: € 18.78 billion). On a like-for-like basis, i.e. excluding stores newly opened, closed or subject to substantial conversion measures in the year under report, the sector reported even stronger growth of 3.8 %. There were slight overall reductions in the number of DIY store locations (minus 0.6 %) and total sales areas (minus 0.2 %). Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) rose by 2.7 % to € 4.14 billion (2018: € 4.03 billion). The market volume of all DIY and home improvement stores thus grew by 3.5 % to € 23.60 billion in 2019.

3.6 %
sales growth at large-scale DIY stores in 2019

E-commerce with home improvement, construction materials, and garden product ranges continued to show dynamic growth. According to figures compiled by market researchers at Teipel Research & Consulting, the online shops of stationary retailers, mail order players and pure online retailers ("pure players") generated gross sales of € 4.0 billion with core DIY product ranges in Germany in 2019 (2018: € 3.67 billion). That represents growth of 9.0 % compared with 2018. Key growth drivers here particularly included DIY stores chains with stationary operations, which reported disproportionate online sales growth of around 20 % to more than € 850 million and thus raised their share of the e-commerce market – at the expense of pure players – from 19.3 % in 2018 to 21.4 % most recently.

2. Summary of 2019/20 Business Performance

2.1 Overall assessment of the Group's economic position

The 2019/20 financial year (March 1, 2019 to February 29, 2020) was characterized by favorable underlying conditions. The weather played along for large parts of the year, allowing an early start to the gardening season in March 2019 and also offering sufficient opportunities to implement DIY and home improvement projects between the hot spells in summer 2019. Moreover, the 2019/20 winter months, which were free of frost in many areas, also impacted positively on customer demand. Given favorable financing conditions and undiminished private household purchasing power, the new construction and renovation market remained robust. This also benefited DIY retail, which showed significantly stronger growth than the overall economy in the 2019 calendar year. The coronavirus crisis did not yet have any discernible impact on the 2019/20 financial year.

Against this backdrop, the HORNBACH Baumarkt AG Group showed a very pleasing performance. Net sales rose by 8.1 % to € 4,428 million. Group-wide like-for-like sales rose by 7.7 %, the highest level of growth in 26 years. The same applies for Germany, where our like-for-like growth of 6.5 % was clearly ahead of the DIY sector, enabling us to increase our market share even without opening any new stores. Thanks to this performance, our German DIY stores with garden centers approached the above-average growth shown by the international HORNBACH locations, whose like-for-like sales growth net of currency items, at 8.9 %, was higher than at any time since the 2000/01 financial year.

Average annual sales at HORNBACH's DIY stores with garden centers increased from € 26.0 million to € 28.2 million in the year under report. Surface productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,218 to € 2,386 per m² (plus 7.6 %). Online retail, which we link closely to our stationary retail business, contributed to the Group's overall performance with growth of around 18 %.

Comparison of our principal asset, financial, and earnings key figures with previous financial years is rendered more difficult by the first-time application of IFRS 16, the new lease accounting standard, from the 2019/20 financial year. We have provided extensive explanations of IFRS 16 conversion effects in the relevant sections of our combined management report and our consolidated financial statements. By way of an overall assessment of the past 2019/20 financial year we can nevertheless establish: **In a tough competitive climate, the HORNBACH Baumarkt AG Group regained its former operating strength and thus significantly improved its asset, financial, and earnings position compared with the previous year.**

Thanks to this strong sales growth and improved cost ratios, HORNBACH significantly boosted its operating earnings strength compared with the previous year. Operating earnings adjusted to exclude non-operating one-off items (adjusted EBIT) more than doubled to € 181.8 million. The adjusted EBIT margin rose from 2.0% to 4.1%, thus clearly exceeding the long-term average of 3.5% since the conversion to IFRS accounting in 2001/02. Of the improvement in earnings by around € 100 million, around 78% was attributable to the operating business and only 22 % to first-time application of the new IFRS 16 lease accounting requirements. Consolidated operating earnings (EBIT) increased by 144.1 % to € 163.9 million. This figure includes non-operating unscheduled charges on earnings relating in particular to IAS 36 impairments (in the previous year also provisions pursuant to IAS 37), which rose from € 14.7 million in the 2018/19 financial year to € 17.9 million. Consolidated net income increased by 92.2 % to € 78.7 million. Earnings per share grew from € 1.29 to € 2.47.

In line with expectations, the Group reduced its cash-effective investments to € 97 million in the 2019/20 year under report (2018/19: € 184 million). This followed the significant increase in the previous year's budget due to unscheduled purchase opportunities (buyback of three leased stores, purchase of land in

Switzerland). Almost half of investments related to land and buildings, while the remainder was mainly channeled into plant and office equipment for new and existing stores.

To refinance a historic bond due to mature on February 15, 2020, on October 17, 2019 HORNBACH Baumarkt AG placed a corporate bond with a volume of € 250 million and a seven-year term (ISIN DE000A255DH9). Based on a coupon of 3.250% p.a. and an issue price of 99.232%, the yield on the security, which was issued in denominations of € 100,000, amounted to 3.375% p.a. The bond is guaranteed by Hornbach International GmbH and was admitted for trading on the Regulated Market at the Luxembourg Stock Exchange on October 25, 2019.

The Group's reinvigorated earnings and financial position is also clearly reflected in its cash flow statement, where the operating cash flow surged from € 3.7 million to € 327.5 million in the 2019/20 financial year. From an operating perspective, this was mainly driven by the increase in consolidated net income for the period, as well as by the significantly positive development shown by effects resulting from changes in working capital, which rose from minus € 125.1 million to minus € 4.4 million. Given the conversion to IFRS 16, since March 1, 2019 the cash flow from operating activities has no longer included any significant volume of rental payments. If the cash flow statement is adjusted to exclude the positive IFRS 16 effects of € 128.7 million, then the free cash flow comparable with the previous year's figure came to € 103.9 million in 2019/20, as against minus € 175.9 million in the 2018/19 financial year.

The total assets of the HORNBACH Baumarkt AG Group grew to € 3,564.3 million as of February 29, 2020 (balance sheet date on February 28, 2019: € 2,337.9 million). This growth was mainly due to the first-time recognition of right-of-use assets for leased items and lease liabilities pursuant to IFRS 16. Despite this extension in the balance sheet, the equity ratio remained at a satisfactory level of 31.8 % (February 28, 2019: 45.7 %).

Net financial debt – excluding IFRS 16 lease liabilities – decreased to € 289.7 million at the balance sheet date (February 28, 2019: € 355.6 million). In view of our broad spectrum of financing sources, we still enjoy an adequate degree of security and flexibility to finance our further growth.

2.2 Major events

2.2.1 Development in HORNBACH's stationary store network

Two new DIY stores with garden centers were opened in September 2019, in this case in Prešov (Slovakia; store owned) und Kristianstad (Sweden; store let). This increased the total number of locations in Slovakia to four and in Sweden to seven. In January 2020, our 15th location in the Netherlands opened in Duiven (store owned). A small-scale location in Neunkirchen (Saarland) was closed at the end of August. Furthermore, existing stores were converted and expanded within the customary modernization program. Among other measures, further stores were extended to include drive-in and/or construction material collection facilities.

Including stores newly opened and closed in the year under report, we operated a group-wide total of 160 retail stores as of February 29, 2020 (February 28, 2019: 158), of which 96 (97) in Germany and 64 (61) in other European countries. Total sales areas at the HORNBACH Baumarkt AG Group amounted to around 1.89 million m² as of February 29, 2020 (February 28, 2019: around 1.85 million m²).

2.2.2 Development in interconnected retail

In the 2019/20 financial year, we supplemented all of our online shops with additional articles, and further expanded our interconnected retail services throughout the Group's European network:

- Online configurators for customized products were significantly extended. Among others, individually customized shower cabins, windows, doors, marquees, and worktops can now be ordered online.
- The self-scan process using the HORNBACH app introduced in the previous year was rolled out further and is directly integrated at all newly opened stores.
- The use of virtual reality (VR) in bathroom planning was rolled out further and supplemented with new contents.
- Alongside the article finder with image recognition available in the HORNBACH app, stationary image recognition machines have now been installed in several stores. This way, customers can scan articles they have brought with them and be shown the same or similar articles at the store.

2.2.3 Changes in the Board of Management and Supervisory Board

Erich Harsch (58), previously a member of the Supervisory Board of HORNBACH Baumarkt AG, was appointed as a regular member of the Board of Management and as Chief Executive officer of HORNBACH Baumarkt AG as of January 1, 2020. He succeeded Steffen Hornbach (62), who stood down from his position on the Board of Management due to health reasons as of December 31, 2019.

Wolfger Ketzler (62) stood down from his position on the Board of Management as of February 29, 2020. He was most recently responsible for Real Estate, Construction, Technical Procurement, Internal Audit, Legal, and Compliance. The Board of Management of HORNBACH Baumarkt AG, which previously comprised seven members, was thus reduced to six members.

Upon the departure of Wolfger Ketzler, responsibilities within the Board of Management were amended as of March 1, 2020. Erich Harsch additionally assumed responsibility for Real Estate and Work Safety. The Internal Audit, Legal, and Compliance functions are now the responsibility of CFO Roland Pelka. Ingo Leiner is additionally responsible for the Construction and Technical Procurement functions.

Simona Scarpaleggia, Director of the global initiative "Future of Work" at Ingka Group (IKEA) was appointed by court order to the Supervisory Board of HORNBACH Baumarkt AG as of March 24, 2020.

2.3 Target achievement in 2019/20

The comparison of the actual with the forecast business performance is summarized in the table below.

2.3.1 Targets and results of the HORNBACH Baumarkt AG Group in the 2019/20 financial year

	Targets for 2019/20	Results in 2019/20
Expansion	**Stationary DIY business**: ■ 3 new store openings	**Stationary DIY business**: ■ **Prešov** (Slovakia), **Kristianstad** (Sweden), and **Duiven** (Netherlands) opened ■ **Neunkirchen** (Saarland) closed
Investments	**€ 100 million – € 120 million**	**€ 97.1 million**
Sales performance		
Consolidated sales	■ Original forecast: growth in **medium single-digit** percentage range ■ Updated forecast (09.26.2019): growth in **medium to upper single-digit** percentage range	**Plus 8.1 %** to € 4.4 billion
Like-for-like sales net of currency items	■ Group-wide growth in **low to medium** single-digit percentage range ■ Sales growth in Other European Countries higher than in Germany	■ **Group: plus 7.7 %** ■ Germany: plus 6.5 % ■ Other European countries: plus 8.9 %
Earnings performance		
Adjusted EBIT	■ **Original forecast:** more than 30 % higher than level in 2018/19 financial year (€ 81.9 million) ■ **Updated forecast (09.26.2019):** more than 40 % higher than level in 2018/19 financial year (€ 81.9 million) ■ **Updated forecast (12.10.2019):** increase in medium to upper double-digit percentage range ■ **Preliminary earnings figures (03.20.2020):** increase by more than 100 %	**Plus 122.1 %** to € 181.8 million Improvement by € 100.0 million ■ of which operative: € 78.5 million ■ of which: IFRS 16 conversion effect: € 21.5 million

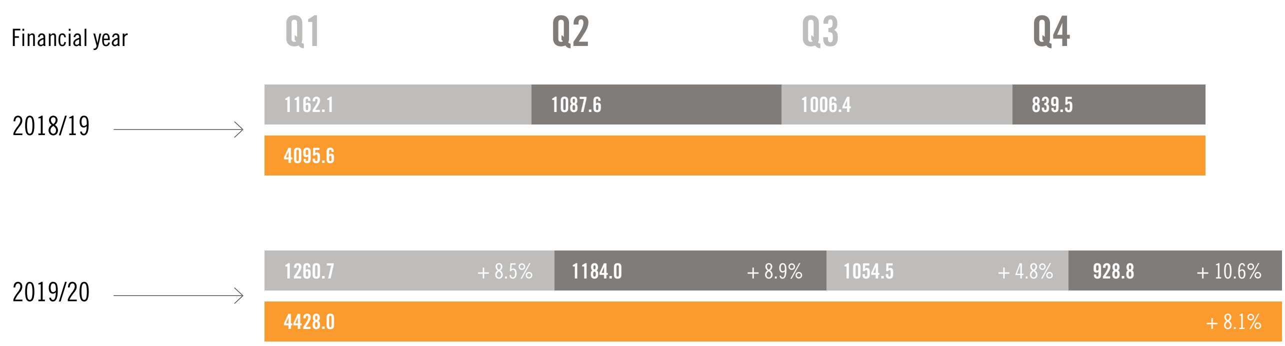
Note: For **sales** "at previous year's level" refers to changes of -1 % to +1 %, while "slight" changes involve changes of 2 % to 5 %. To enhance the distinctions within the "slight" category, we use the phrase "in a low single-digit percentage range" to refer to changes of 2 % to 3 % and the phrase "in a medium single-digit percentage range" to refer to changes of 4 % to 6 %. "Significant" corresponds to changes of more than 6 %. For **earnings figures**, "at previous year's level" refers to changes of -1 % to +1 %. "Slight" corresponds to changes of 2 % to10 %, while "significant" is equivalent to changes of more than 10 %.

2.3.2 Budget/actual comparison for annual financial statements (HGB)

In the annual 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 2019/20 financial year envisaged sales growth in a low to medium single-digit percentage range. With sales growth of 5.9 % to € 2,757 million, we met this target. Assuming that the earnings transferred from HORNBACH International GmbH would remain stable, we expected the annual net surplus on the level of HORNBACH Baumarkt AG to rise slightly. Despite lower earnings transferred from HORNBACH International GmbH, the actual annual net surplus of € 31.9 million in the 2019/20 financial year was significantly higher than the figure of € 9.1 million in the 2018/19 financial year.

3. Earnings Position

Sales and growth by quarter
(€ million / %)



3.1 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", which mainly comprises our activities in eight countries outside Germany.

3.1.1 Seasonal and calendar-related fluctuations

The 2019/20 year under report had an average of 0.7 business days more than the previous year. The resultant calendar effect was distributed among the quarters as follows:

- 1st quarter (Q1): plus 1.3 business days
- 2nd quarter (Q2): minus 1.3 business days
- 3rd quarter (Q3): plus/minus 0 business days
- 4th quarter (Q4): plus 0.7 business days

Overall, weather conditions had a positive effect on the DIY retail business in HORNBACH's European network in the 2019/20 year under report. Unlike in the previous year, March 2019, which was blustery at first but mild overall, facilitated an early start to the gardening season. Changeable weather conditions in April and May were followed by a very warm and dry summer characterized by repeated heatwaves and record temperatures measured across many parts of Europe, particularly at the end of July. The fall of 2019 provided overwhelmingly favorable conditions, with highly changeable conditions in some regions, but mild weather overall. Last but not least, the winter, which was mostly free of frost, also offered good weather conditions for the DIY sector.

3.1.2 Net sales

The HORNBACH Baumarkt AG Group increased its net sales by 8.1 % to € 4,428 million in the 2019/20 financial year (2018/19: € 4,096 million). Net sales in the Germany region grew by 6.0 % to € 2,245 million in the period under report (2018/19: € 2,119 million). Outside Germany (Other European Countries region) and including three newly opened DIY megastores, we reported sales growth of 10.4 % to € 2,183 million (2018/19: € 1,977 million). Due to the higher rate of growth compared with Germany, the international stores' share of consolidated sales increased from 48.3 % to 49.3 %.

3.1.3 Like-for-like sales

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. We most recently generated around one tenth of the Group's like-for-like sales in the online business or from its connection to the stationary DIY retail business (interconnected retail – ICR). This includes all sales generated from online mail order, click & collect ("reserve online & collect at store"), and other online transactions involving store contact. ICR sales are fully accounted for in the calculation of the like-for-like sales performance.

The Group's like-for-like sales rose by 7.7 % in the 2019/20 financial year net of currency items (including currency items: 7.8 %). The geographical breakdown of our sales performance provides impressive evidence that our success with customers was generated throughout our European store network. Both the Germany region and all eight countries in the Other European Countries region significantly increased their like-for-like sales in the 2019/20 reporting period.

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

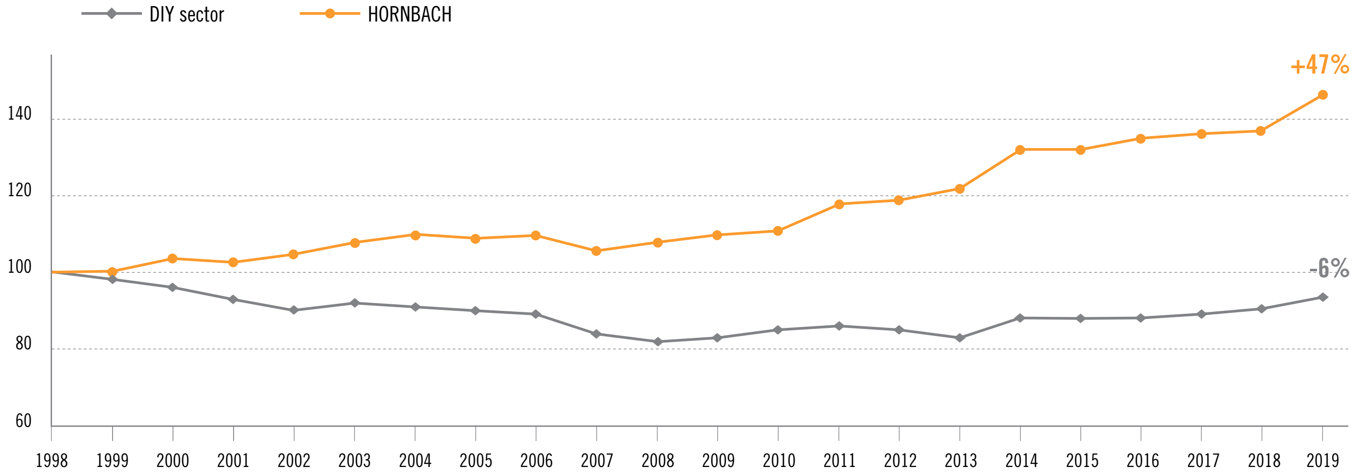
2019/20 financial year 2018/19 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**7.8**	**8.8**	**4.6**	**9.7**	**7.7**
	2.3	3.4	6.2	5.9	4.2
Germany	**6.9**	**8.0**	**3.3**	**7.9**	**6.5**
	(0.2)	1.2	4.4	4.7	2.2
Other European Countries	**8.7**	**9.6**	**5.9**	**11.6**	**8.9**
	5.2	5.8	8.2	7.1	6.5

* Excluding currency items

- **Germany**
  In terms of their sales performance in the 2019/20 financial year, HORNBACH's DIY stores and garden centers in Germany significantly exceeded the previous year's comparative figures and the DIY sector average. The HORNBACH DIY stores and garden centers in the Germany region increased their like-for-like sales by 6.5 %. This enabled the Germany region to move closer to the high growth achieved in the Other European Countries region. Sales grew strongly compared with the low previous year's basis in the first half of the financial year; this trend then continued unabated despite increasingly challenging base effects in the third and fourth quarters. Due not least to mild weather, in January and February 2020 we achieved the highest growth rates in the second half of the year.

6.5 %
like-for-like sales growth at HORNBACH DIY stores and garden centers in Germany

Like-for-like sales performance in Germany
(Index: 1998 = 100 %, calendar year)



HORNBACH significantly outperformed the average for the do-it-yourself sector in Germany in 2019. In its "DIY Total Store Report", the GfK determines the sales performance of German DIY stores and garden centers for the calendar year on behalf of the BHB sector association. According to this report, like-for-like sales in the DIY sector showed average like-for-like growth of 3.8 % in the period from January to December 2019. Based on direct comparison, HORNBACH's growth rate of 6.1 % was 230 base points ahead of this figure (previous year: 40 base points). If the 1998 calendar year is taken as an index value of 100 %, by 2019 HORNBACH had increased its like-for-like sales in Germany to 147 %. By contrast, the overall sector only reached an index value of 94 % in 2019.

In the year under report, HORNBACH benefited particularly clearly from the consistent way it has dovetailed its stationary DIY retail with its online business to provide interconnected retail (ICR). The aim here is to offer customers what they happen to be looking for and need for their construction or renovation projects, and that at every point of their customer journeys. Customers can inform themselves online about articles, their prices, and availability, for example, and also compare articles. Not only that, they can have their articles delivered directly to their homes by mail order or opt for our "Reserve online and collect at the store" service. Professional customers in particular see the benefits of being able to collect all articles available at their desired HORNBACH store generally no later than two hours after reservation. The expertise required for this increasingly digitalized business model and the ICR infrastructure are becoming ever more of a competitive advantage. In Germany, ICR sales once again grew more rapidly overall than net sales in the region. The share of ICR sales most recently amounted to more than 10 %.

HORNBACH's positive sales performance continues to be driven by the great popularity of its DIY stores and garden centers among home improvement enthusiasts and construction professionals in Germany. In Kundenmonitor Deutschland, Germany's most prestigious consumer survey for the country's retail sector, HORNBACH came first in terms of overall satisfaction in 2019 and also received the top ranking in 21 of the total of 36 assessment categories. Customers awarded us the best grades in individual criteria including "Value for Money", "Selection and Product Variety", "Quality of Merchandise and Products", and "Quality of Private Label Products".

In terms of the aggregate gross sales of the DIY store sector in Germany (including online sales at stationary DIY competitors), we slightly expanded our position in the 2019 calendar year without opening any new stationary stores. After one location closure, the total number of our stores fell from 97 to 96. Overall, our sales areas in Germany decreased by around 860 m². Based on aggregate sales at all DIY stores and garden centers (2019: € 23.6 billion), our market share grew from 11.1 % to 11.3 %. In the segment of German DIY stores and garden centers with sales areas of more than 1,000 m² (2019: € 19.5 billion), we have a market share of 13.7 % (2018: 13.4 %).

- **Other European Countries**

The growth trend in our Other European Countries region continued at a high level in the 2019/20 year under report. Growth rates in our international network beat the previous year's figure for what is now the seventh consecutive year and were once again higher than in the Germany region. In the eight countries outside Germany, the HORNBACH DIY stores and garden centers increased their like-for-like sales net of currency items by 8.9 % in the 2019/20 financial year (2018/19: 6.5 %). Including currency items, like-for-like sales grew by 9.2 % (2018/19: 5.6 %). Sales momentum within the financial year showed developments similar to those in Germany, and that although the base effects due to far higher growth rates in the previous year's quarters had a comparatively greater impact in the international business. The sales curves pointed upwards, in most cases clearly so, in all eight countries in the Other European Countries region.

HORNBACH further boosted its market position in key country markets in the past financial year, as is apparent when our sales performance is compared with sector developments in individual countries. Based on the sales indicators available to us for four countries in our network outside Germany, we outperformed the DIY sector averages, in most cases significantly so, in the 2019 calendar year.

This is due on the one hand to the great popularity which our established stationary DIY stores with garden centers continue to enjoy. In some countries with less diverse and specialized sales structures than in Germany, our stores often assume the role of specialist retailers. This situation harbors potential for us to participate in developments in the construction sector more extensively and directly than in Germany. In the countries outside Germany in which it operates, HORNBACH enjoys a strong reputation among its customers as a project partner, particularly when it comes to implementing larger-scale modernization and renovation projects in their houses, apartments, and gardens. Numerous international consumer surveys, such as Kundenmonitor (Germany, Austria, and Switzerland), or the vote on Retailer of the Year (Germany, Austria, Switzerland, and the Netherlands), document the high level of customer satisfaction with the HORNBACH brand once again in the 2019/20 year under report. Top marks for the assessment criteria of "Overall Satisfaction", "Selection and Product Variety", "Product Quality", and "Value for Money" are the common thread running through the survey results in recent years.

On the other hand, our interconnected retail activities are influencing our sales performance to an ever greater extent in our international business as well. Our ICR growth rates outside Germany were higher than in Germany in the 2019/20 financial year, and that both as percentages and in absolute terms. Here, we also benefited from the best practice experience already gained during comparable development stages in Germany and other countries.

Key earnings figures of the HORNBACH Baumarkt AG Group

Key figure (€ million, unless otherwise stated)	2019/20	2018/19	Change
Net sales	4,428	4,096	8.1 %
EBITDA	413.8	159.1	160.0 %
EBIT	163.9	67.2	144.1 %
Adjusted EBIT	181.8	81.9	122.1 %
Consolidated earnings before taxes	105.8	51.6	104.9 %
Consolidated net income	78.7	40.9	92.2 %
EBITDA margin	5.6 %	3.9 %	
EBIT margin	3.7 %	1.6 %	
Tax rate	20.7 %	20.7 %	

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

3.2 Earnings performance

The key operating earnings figures of the HORNBACH Baumarkt AG Group for the 2019/20 financial year significantly exceeded the comparative figures for the previous year. This was mainly due to strong like-for-like sales growth, as well as to stricter cost management.

The first-time application of IFRS 16 led to material changes in the income statement of the HORNBACH Baumarkt AG Group. Rental payments for operating lease agreements were previously mainly recognized as expenses within selling and store expenses. Since March 1, 2019, the recognition of rental expenses has been replaced by depreciation of right-of-use assets (selling and store expenses) and interest expenses for the lease liability (net financial expenses). Assuming all other factors remain unchanged ("ceteris paribus"), IFRS 16 raises EBITDA and EBIT while lowering net financial expenses. All IFRS 16 effects, including the interest effect, which is negative in the initial phase, but neutral over the full term of the lease liability, are therefore included in earnings before taxes (EBT). EBT has therefore become more meaningful as a key management figure. Application has been made of the modified retrospective method, which means that the comparative figures for the previous year have not been adjusted.

3.2.1 Earnings performance of the HORNBACH Baumarkt AG Group

Due to the improvement in operating earnings and positive conversion effect resulting from first-time application of IFRS 16, consolidated earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose by 160.0 % to € 413.8 million (2018/19: € 159.1 million). The EBITDA margin (as a percentage of net sales) increased from 3.9 % to 9.3 %. An amount of around € 161.0 million is attributable to the IFRS 16 conversion effect. EBITDA calculated on a comparable basis with the previous year's figure (pre-IFRS 16) would amount to € 252.8 million (plus 58.8 %) and the comparable EBITDA margin would amount to 5.7 %.

Adjusted EBIT, i.e. operating earnings before non-operating one-off items, increased by 122.1 % to € 181.8 million (2018/19: € 81.9 million). Of this earnings growth of just under € 100.0 million, an amount of € 78.5 million (78 %) was attributable to the operating business and € 21.5 million (22 %) to the IFRS 16 conversion effect. The adjusted EBIT margin more than doubled to 4.1 % in the 2019/20 financial year (2018/19: 2.0 %).

Non-operating charges on earnings, which chiefly related to IAS 36 impairments, and in the previous year also to additions to provisions pursuant to IAS 37, rose from € 14.7 million to € 17.9 million in the 2019/20 year under report. This increase was mainly due to changes in the budget scenarios on the level of individual cash generating units (CGUs). Furthermore, the calculation parameters (discount rates) changed compared with the previous year.

Consolidated operating earnings before interest and taxes (EBIT) including one-off non-operating earnings items showed a significant increase of 144.1 % to € 163.9 million (2018/19: € 67.2 million). The EBIT margin climbed from 1.6 % to 3.7 %.

The following table presents the reconciliation of consolidated operating earnings (EBIT) with adjusted EBIT, i.e. EBIT adjusted to eliminate non-operating one-off items.

Notes to Consolidated Financial Statements
Note 10

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

2019/20 in € million 2018/19 in € million	Retail segment	Real Estate segment	Corporate functions	Consolidation	HORNBACH Baumarkt AG Group
Operating earnings (EBIT)	**94.1**	**87.3**	**(17.5)**	**0.0**	**163.9**
	6.5	71.6	(10.8)	0.0	67.2
Non-operating earnings items	**0.4**	**17.5**	**0.0**	**0.0**	**17.9**
	11.6	3.1	0.0	0.0	14.7
Adjusted EBIT	**94.5**	**104.8**	**(17.5)**	**0.0**	**181.8**
	18.0	74.7	(10.8)	0.0	81.9

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

Net financial expenses decreased from minus € 15.5 million in the previous year to minus € 58.2 million in the year under report, a development mainly due to the first-time recognition of the interest portion of lease expenses (IFRS 16 conversion), which accounted for around minus € 34.9 million in the year under report. The remaining increase in interest expenses chiefly related to the measures taken in 2019 to step up refinancing within the HORNBACH Baumarkt AG Group. On the one hand, the interest on two promissory note loans issued with a total volume of € 200 million in February 2019 was payable for the full year in 2019/20 (2018/19: only for one month). On the other hand, net financial expenses deteriorated due to the duplicate interest charge incurred during the four-month overlap of the 2013 corporate bond (maturity: February 15, 2020) and the 2019 corporate bond (maturity: October 25, 2026), each with a volume of € 250 million. Despite the negative IFRS 16 conversion effect of € 13.3 million, **consolidated earnings before taxes** increased by 104.9 % to € 105.8 million (2018/19: € 51.6 million).

Consolidated net income rose by 92.2 % to € 78.7 million (2018/19: € 40.9 million). Taxes on income amounted to € 27.1 million (2018/19: € 10.7 million). The effective tax rate on Group level increased from 20.7 % to 25.6 %. The Group-wide return on sales rose from 1.0 % to 1.8 %. Earnings per Baumarkt share are reported at € 2.47 (2018/19: € 1.29).

Notes to Consolidated Financial Statements
Notes 8 and 9

3.2.2 Earnings performance of the Retail segment

The Retail segment comprises the operating retail business within the Group. At the balance sheet date on February 29, 2020, we operated a total of 160 DIY retail outlets across Europe (2018/19: 158) and online retail in the nine countries within our European network. Given the introduction of IFRS 16 lease accounting, since the 2019/20 financial year the external rental expenses previously charged directly to the Retail segment have been replaced by imputed rental expenses in the same amount, which are now charged on to the Retail segment by the Real Estate segment.

Key earnings figures of the Retail segment

Key figure (€ million, unless otherwise stated)	2019/20	2018/19	Change
Net sales	4,424	4,092	8.1 %
of which: in Germany	2,245	2,119	6.0 %
of which in Other European countries	2,179	1,973	10.4 %
Like-for-like sales growth	7.7 %	4.2 %	
EBITDA	148.7	48.7	>100 %
EBIT	94.1	6.5	>100 %
Adjusted EBIT	94.5	18.0	>100 %
EBIT margin	2.1 %	0.2 %	
Adjusted EBIT margin	2.1 %	0.4 %	
Gross margin	36.5 %	36.6 %	
Store expenses as % of net sales	30.0 %	31.6 %	
Pre-opening expenses as % of net sales	0.2 %	0.1 %	
General and administration expenses as % of net sales	4.7 %	5.1 %	

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

- **Sales performance:**
  Net sales in the Retail segment increased by 8.1 % to € 4,424 million in the 2019/20 financial year (2018/19: € 4,092 million). Sales in this segment are largely congruent with consolidated sales. Further comments on our sales performance can be found in Chapter 3.1.

- **Gross margin:**
  Gross profit rose by 7.8 %, and thus less rapidly than sales, to € 1,615.9 million in the 2019/20 financial year (2018/19: € 1,499.4 million). The gross margin was maintained at a virtually unchanged level of 36.5 % (2018/19: 36.6 %). Higher procurement prices and the structural change in our product mix due to the rising share of sales generated by our online shops were largely offset by adjustments to sales prices and positive currency items. It should be noted that the gross margin for the previous year's period includes fixed-price terms in connection with the 50th anniversary of HORNBACH's DIY stores and garden centers.

- **Selling and store, pre-opening and administration expenses:**
  Selling and store expenses in the Retail segment grew significantly less rapidly than sales, rising by 2.9 % to € 1,328.4 million (2018/19: € 1,291.4 million). The store expense ratio fell by more than 150 base points from 31.6 % to 30.0 %. Personnel expenses (excluding bonuses) rose less rapidly than sales. The improvement in the cost ratios was substantially due to general operating expenses, which were around € 27 million lower than in the previous year. One major reason for this reduction related to the measures introduced in the year under report to enhance cost transparency and achieve more efficient cost management. The sharply disproportionate increase in general operating expenses in the 2018/19 financial year, relating above all to conversion and maintenance measures and changes made to the presentation of product ranges, was one of the main causes of the poorer earnings situation one year ago. Depreciation and amortization increased by 26 % to € 50.3 million (2018/19: € 39.9 million). One key reason for this increase involved the depreciation of right-of-use assets required by IFRS 16 in connection with the leasing of outdoor advertising space and plant and office equipment.

Furthermore, selling and store expenses in the Retail segment also benefited from the reclassification of non-operating earnings components as a result of IFRS 16. Since the 2019/20 financial year, operating expenses in the Retail segment have no longer included provisions for onerous rental contracts (IAS 37). In the 2018/19 financial year, these still came to around € 11.1 million. Instead, in the event of any impairment requirement the right-of-use assets requiring recognition under IFRS 16 for leased DIY store properties are written down under real estate expenses in the Retail Estate segment (see Chapter 3.2.3.).

After three new DIY store openings and one store closure, **pre-opening expenses** increased from € 4.9 million to € 7.1 million in the 2019/20 financial year. The pre-opening expense ratio amounted to 0.2 % (2018/19: 0.1 %).

Notes to Consolidated Financial Statements
Note 4

Administration expenses decreased by 1.4 % to € 206.1 million (2018/19: € 209.0 million). The administration expense ratio fell from 5.1 % to 4.7 %. This reduction was due in particular to greater focusing and prioritization of the strategic projects implemented at central functions. This enabled savings to be achieved with external advisory expenses in particular. Furthermore, structural improvements in the interaction between central functions and the Germany operating region also contributed to the reduction in the administration expense ratio in the year under report.

- **Key earnings figures:**
  Thanks to substantial like-for-like sales growth and the noticeably slower development in expenses, key operating earnings figures in the Retail segment showed significant growth. EBITDA more than tripled from € 48.7 million to € 148.7 million in the 2019/20 financial year. This corresponds to an EBITDA margin of 3.4 % (2018/19: 1.2 %). It should be noted that the previous year's figure still included non-operating charges on earnings of € 11.6 million, while the figure for the year under report only includes a non-operating result of minus € 0.4 million. Segment EBIT adjusted to exclude non-operating earnings items (adjusted EBIT) is reported at € 94.5 million (2018/19: € 18.0 million). The adjusted EBIT margin amounted to 2.1 % (2018/18: 0.4 %). Operating earnings (EBIT) including non-operating one-off items jumped from € 6.5 million to € 94.1 million. This resulted in an EBIT margin of 2.1 % (2018/19: 0.2 %).

3.2.3 Earnings performance of the Real Estate segment

All real estate activities at 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. The respective DIY store properties are charged to the Retail segment on rental and other terms customary to the market (imputed rent).

The first-time application of IFRS 16 led to material changes in the income statement of the Real Estate segment. The presentation of rental expenses and rental income in internal reporting was adjusted as of March 1, 2019. Starting in the 2019/20 financial year, rental payments also include imputed rental payments for stores let from third parties and whose rental payments were previously charged directly to the Retail segment. This significantly increased rental income in the 2019/20 financial year. Conversely, the depreciation included in real estate expenses increased as the new lease accounting requires the recognition of depreciation of right-of-use assets rather than rental expenses. Interest expenses for lease liabilities are recognized under net financial expenses. Assuming all other factors remain unchanged ("ceteris paribus"), IFRS 16 raises EBITDA and EBIT while lowering net financial expenses. All IFRS 16 effects, including the interest effect, which is negative in the initial phase, but neutral over the full term of the lease liability, are included in earnings before taxes (EBT). EBT has therefore become more meaningful as a key figure for the Real Estate segment. Application has been made of the modified retrospective method, which means that the comparative figures for the previous year have not been adjusted.

Key earnings figures of the Real Estate segment

Key figure (€ million, unless otherwise stated)	2019/20	2018/19	Change
Rental income	280.7	178.5	57.3 %
Real estate expenses	206.7	105.8	95.4 %
Net rental income	74.0	72.6	1.9 %
Disposal gains/losses	(0.1)	0.8	>(100)%
Net real estate income	73.9	73.4	0.7 %
EBITDA	271.2	111.0	>100 %
EBIT	87.3	71.6	21.9 %
Adjusted EBIT	104.8	74.7	40.3 %

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

- **Earnings from rental activities and real estate earnings:**
Largely due to the first-time application of IFRS 16, rental income in the Real Estate segment, 98 % of which comprises internal rental income, showed a marked increase of € 102.2 million to € 280.7 million in the year under report (2018/19: € 178.5 million). Real estate expenses grew by € 85.8 million to € 191.7 million (2018/19: € 105.8 million). Chiefly as a result of the first-time recognition of right-of-use assets, depreciation and amortization jumped from € 40.1 million to € 183.7 million. Depreciation and amortization also include non-operating earnings items of € 17.5 million (2018/19: € 3.1 million). These mostly relate to impairment losses on right-of-use assets for DIY store properties let from third parties (IAS 36 impairments), which due to IFRS 16 required recognition for the first time in the Real Estate segment. In the 2018/19 financial year (pre-IFRS 16), provisions for pending losses in connection with onerous lease contracts were recognized pursuant to IAS 37 (2018/19: € 11.1 million) in the Retail segment. Conversely, IFRS 16 also led rental expenses to drop from € 56.5 million to € 1.0 million. The measures to achieve greater cost transparency and more efficient cost management led to a reduction in general operating expenses in the Real Estate segment as well, in this case by 28.1 % to € 6.4 million (2018/19: € 8.9 million). Earnings from rental activities rose by 22.6 % to € 89.0 million in the 2019/20 financial year (2018/19: € 72.6 million). There were no real estate disposal gains in the year under report (2018/19: € 0.8 million). Real estate earnings grew by 21.1 % to € 88.9 million (2018/19: € 73.4 million).

- **Key earnings figures:**
Mainly as a result of the positive IFRS 16 effect, earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose from € 111.0 million to € 271.2 million in the period under report (March 1, 2019 to February 29, 2020). EBIT in the Real Estate segment increased by 22.0 % to € 87.3 million (2018/19: € 71.6 million). EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) rose by 40.3 % to € 104.8 million (2018/19: € 74.7 million). Mainly due to the IFRS 16-related deterioration in net financial expenses from minus € 7.3 million to minus € 42.2 million, earnings before taxes (EBT) decreased by 29.7 % to € 45.2 million (2018/19: € 64.3 million).

3.2.4 Earnings performance by geographical regions

In the 2019/20 financial year, we significantly increased our profitability both in the Germany region and in the Other European Countries region. Thanks to the very pleasing development in sales and costs, we achieved our declared aim of returning operating earnings (EBIT) in the Germany region to positive territory in the year under report already.

EBITDA in **Germany** more than quintupled from € 32.7 million to € 172.6 million. The domestic share of the Group's EBITDA doubled from 21 % to 42 %. EBIT in the Germany region reversed from minus € 22.1 million to plus € 26.5 million. The domestic share of operating earnings amounted to 16 % (2018/19: minus 33 %). We improved the EBIT margin from minus 1.0 % to plus 1.2 %. Non-operating charges on earnings rose from € 8.7 million to € 9.0 million in the 2019/20 financial year. EBIT for the Germany region adjusted for non-operating earnings items increased from minus € 13.5 million to plus € 35.4 million in the 2019/20 financial year. The adjusted EBIT margin in Germany therefore advanced from minus 0.6 % to plus 1.6 %.

Other European Countries generated EBITDA of € 241.5 million (2018/19: € 126.5 million) and thus accounted for around 58 % of the HORNBACH Baumarkt AG Group's EBITDA in the period under report (2018/19: 80 %). We increased our EBIT outside Germany by 54.3 % to € 137.8 million (2018/19: € 89.3 million). The international share of EBIT amounted to 84 % (2018/19: 133 %). The EBIT margin for Other European Countries is reported at 6.3 % (2018/19: 4.5 %). Non-operating charges on earnings, which in the 2018/19 financial year still amounted to € 6.0 million, rose to € 8.9 million in the year under report. Adjusted EBIT outside Germany increased by 53.8 % to € 146.7 million (2018/19: € 95.4 million), while the adjusted EBIT margin reached 6.7 % (2018/19: 4.8 %).

3.3 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 planned to be held on July 9, 2020. The company thus intends to uphold its principle of dividend continuity for the 2019/20 financial year as well.

€ 0.68
dividend proposal for 2019/20 financial year

4. Financial Position

4.1 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.

Notes to Consolidated Financial Statement
Note (12): Property, plant and equipment and investment property

External financing generally takes the form of unsecured loans from banks and on the capital market and, where applicable, real estate sales (sale and leaseback). Consistent with HORNBACH's forward-looking financial policy, financial liabilities due to mature are refinanced if 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.

4.2 Financial debt

The HORNBACH Baumarkt AG Group had financial debt of € 1,875.5 million at the balance sheet date on February 29, 2020 (2018/19: € 762.1 million). Net financial debt increased from € 519.6 million to € 1,573.3 million. Cash and cash equivalents rose from € 242.5 million in the previous year to € 302.2 million in the year under report.

The current financial debt (up to 1 year) of € 189.6 million (2018/19: € 314.8 million) comprises the portion of loans and bonds maturing in the short term, at € 47.1 million (2018/19: € 302.4 million), current lease liabilities of € 138.7 million (2018/19: € 10.8 million), interest deferrals of € 3.5 million (2018/19: € 1.0 million), and the measurement of derivative financial instruments, at € 0.3 million (2018/19: € 0.5 million). The significant reduction in current financial debt is mainly due to the refinancing of the corporate bond maturing in February 2020 at HORNBACH Baumarkt AG and the resultant reclassification to non-current financial debt. The significant increase in overall financial debt chiefly results from the amended recognition of lease liabilities pursuant to IFRS 16. Further information about this can be found in Note 13 "Leases" in the notes to the consolidated financial statements.

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	2.29.2020 Total	2.28.2019 Total
Short-term bank debt[1]	3.5	0.0	0.0	0.0	0.0	0.0	3.5	1.0
Mortgage loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other loans[2) 3)]	47.1	0.0	0.0	177.6	0.0	116.7	341.4	347.1
Bonds[2)]	0.0	0.0	0.0	0.0	0.0	246.6	246.6	249.5
Negative fair values of derivative financial instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.5
Lease liabilities	138.7	137.3	141.3	144.4	146.5	575.4	1,283.6	164.0
Total financial debt	**189.6**	**137.3**	**141.3**	**322.0**	**146.5**	**938.7**	**1,875.5**	**762.1**
Cash and cash equivalents							302.2	242.5
Net financial debt							**1,573.3**	**519.6**

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

1) Current account liabilities, time loans and interest deferrals
2) Loans not secured with mortgages
3) The costs relating to the taking up of the facilities have been spread pro rata temporis over the respective terms.

HORNBACH enjoys great financing flexibility and draws where necessary on a wide range of different financing instruments. At the balance sheet date on February 29, 2020, the company had the following main financing facilities:

- the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until October 25, 2026 and an interest rate of 3.25 %
- two promissory note bonds at HORNBACH Holding B.V. with volumes of € 52 million and € 43 million and terms until September 13, 2023 and September 15, 2025
- two promissory note bonds at HORNBACH Baumarkt AG with volumes of € 126 million and € 74 million and terms until February 22, 2024 and February 23, 2026
- a short-term loan of CHF 50 million (€ 47 million) at HORNBACH Baumarkt (Schweiz) AG with a term until November 18, 2020.

The HORNBACH Baumarkt AG Group had no financing facilities secured by land charges at the balance sheet date (2018/19: € 0.0 million). In the year under report, no land charges were registered as security (2018/19: € 0.0 million).

4.2.1 Credit lines

At the balance sheet date on February 29, 2020, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 379.5 million (2018/19: € 380.4 million) on customary market terms. These include an as yet unused syndicated credit line of € 350 million at HORNBACH Baumarkt AG, which has a term running until December 22, 2024. To ensure the maximum possible degree of flexibility, all major group companies have the possibility of acceding to the syndicated credit line at HORNBACH Baumarkt AG via supplementary bilateral loan agreements of up to € 70 million.

€ 380 m
free credit lines

4.2.2 Covenants

No assets have been provided as security for the credit lines, the promissory note bonds, or the corporate bond. The 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 change of control, cross default, and cross acceleration 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. Pursuant to the definition in the syndicated loan agreement, lease liabilities classified as "operating leases" under IFRS principles prior to January 1, 2019 will not be viewed as financial liabilities. As a result, these obligations are not included in calculations such as the key financial ratios for the term of the loan facility.

Maximum limits comparable to those applicable to the syndicated credit line in terms of financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed for the promissory note bonds.

The corporate bond at HORNBACH Baumarkt AG is also subject to a comparable limit on financing facilities secured by land charges.

Notes to Consolidated Financial Statements
Note 23: Financial debt

The interest cover, 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 the notes to the consolidated financial statements.

4.3 Cash and cash equivalents

Cash and cash equivalents totaled € 302.2 million at the balance sheet date (2018/19: € 242.5 million). In the past financial year, liquidity was mainly held in the form of time, overnight, and notice deposits on the money market with a maximum investment horizon or notice period of three months. To avoid or reduce negative interest rates, in individual cases amounts have also been invested for longer periods. To increase security, maximum deposit limits per bank have been defined.

Key financial figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.29.2020	2.28.2019
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	1,573.3	519.6
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		11.6	9.7

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

* EBITDA excluding changes in non-current provisions and gains/losses on the disposal of non-current assets as reported in the cash flow statement and, pursuant to existing covenants, excluding historic operating lease obligations in place prior to IFRS 16.

4.4 Cash flow statement and investments

The HORNBACH Baumarkt AG Group invested a total of € 97.1 million in the 2019/20 financial year (2018/19: € 183.6 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at DIY stores with garden centers under construction. The funds of € 97.1 million (2018/19: € 183.6 million) required for cash-effective investments were fully covered in the year under report by the cash flow of € 327.5 million from operating activities (2018/19: € 3.7 million). Around 48 % of total investments were channeled into new real estate, including properties under construction, while around 52 % were invested largely in replacing and expanding plant and office equipment.

€ 97 m
Investments

The most significant investment projects related to the acquisition of land for the Group's further expansion, 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, investments in plant and office equipment, and in intangible assets, especially software.

The inflow of funds from operating activities showed significant year-on-year growth, rising from € 3.7 million to € 327.5 million in the 2019/20 financial year. Funds from operations increased to € 331.8 million (2018/19: € 128.8 million). This significant increase is due on the one hand to sales growth and strict cost management, as a result of which store and administration expenses rose significantly less rapidly than sales. On the other hand, the first-time application of IFRS 16 led to changes in the income statement, and thus also to an improvement in operative key figures by € 128.7 million. The impact of the change in the net balance of other non-cash income and expenses decreased from € 11.4 million to € 6.1 million. The change in working capital resulted in an outflow of funds of € 4.3 million (2018/19: € 125.1 million). This was mainly due to the increase in inventories for the spring season in the subsequent year, a development that was only partly offset by an increase in trade payables. In the previous year, the significantly higher outflow of funds for working capital was due to a more substantial increase in inventories and a reporting date effect resulting from the settlement of supplier liabilities.

Cash flow statement (abridged) € million	2019/20	2018/19
Cash flow from operating activities	327.5	3.7
of which: funds from operations[1)]	331.8	128.8
of which change in working capital[2)]	(4.3)	(125.1)
Cash flow from investing activities	(94.9)	(179.6)
Cash flow from financing activities	(174.3)	316.3
Cash-effective change in cash and cash equivalents	**58.3**	**140.4**

(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 income/expenses
2) Difference between "Change in inventories, trade receivables and other assets" and "Change in trade payables and other liabilities"

The outflow of funds for investing activities fell from € 179.6 million to € 94.9 million. Cash-effective investments in non-current assets decreased to € 97.1 million (2018/19: € 183.6 million). The proceeds from disposals of non-current assets and of non-current assets held for sale fell to € 2.2 million (2018/19: € 3.9 million). As in the previous year, short-term finance planning did not give rise to any movements in financial fund investments in the period under report.

The outflow of funds from financing activities totaled € 174.3 million in the 2019/20 financial year, compared with an inflow of € 316.3 million in the previous year. Scheduled repayments of € 259.4 million for non-current financial debt were countered by taking up new long-term loans of € 248.1 million. The repayment of current and non-current lease liabilities led to an outflow of € 139.7 million (2018/19: € 10.3 million). At € 21.6 million, the dividends paid to shareholders remained at the previous year's level.

4.5 Rating

BB/Ba3
rating of HORNBACH Baumarkt AG Group

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. In its most recent publication, Standard & Poor's rated the HORNBACH Baumarkt AG Group at "BB" with a stable outlook. Moody's, by contrast, reduced its rating to "Ba3" with a negative outlook in its latest publication.

5. Asset Position

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

€ million	2.29.2020	2.28.2019	Change
Non-current assets	2,360.3	1,261.5	87.1 %
Current assets	1,203.9	1,076.4	11.9 %
Assets	**3,564.3**	**2,337.9**	**52.5 %**
Shareholders' equity	1,132.1	1,068.6	5.9 %
Non-current liabilities	1,764.3	531.4	232.0 %
Current liabilities	667.9	737.9	(9.5) %
Equity and liabilities	**3,564.3**	**2,337.9**	**52.5 %**

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

The Group's total assets grew year-on-year by € 1,226.4 million from € 2,337.9 million to € 3,564.3 million (plus 52.5 %). This main reason for this increase was the first-time recognition of right-of-use assets for leased properties and lease liabilities pursuant to IFRS 16. The equity of the Group as stated in the balance sheet amounted to € 1,132.1 million at the end of the financial year (2018/19: € 1,068.6 million). Due to the extension in the balance sheet resulting from application of IFRS 16, the equity ratio fell from 45.7 % in the previous year to 31.8 % at the end of the 2019/20 financial year.

5.1 Non-current and current assets

Non-current assets amounted to € 2,360.3 million at the balance sheet date (2018/19: € 1,261.5 million) and thus accounted for around 66 % of total assets (2018/19: 54 %). Property, plant and equipment including right-of-use assets and investment property rose by € 1,093.9 million from € 1,228.3 million to € 2,322.2 million (plus 89.1 %). The additions of € 1,167.4 million resulting from the first-time recognition of right-of-use assets for leased properties and additions of € 169.4 million to property, plant and equipment were countered by depreciation of € 243.9 million, disposals of assets amounting to € 15.5 million, and an amount of minus € 0.4 million due to changes in the scope of consolidation. Adjustments to account for exchange rate movements led property, plant and equipment and investment property to increase by € 17.0 million.

Other non-current receivables and assets mainly involve deferrals of credit line expenses and deferred tax assets. The change in deferred tax assets was chiefly due to the recognition of temporary measurement differences for right-of-use assets for leased properties and of lease liabilities due to their first-time recognition pursuant to IFRS 16, as well as to adjustments to losses carried forward and the recognition of provisions.

Current assets increased by 11.9 % from € 1,076.4 million to € 1,203.9 million, or around 34 % of total assets (2018/19: 46 %). Due to the Group's expansion and seasonal preparations, inventories rose from € 755.7 million to € 814.4 million. Cash and cash equivalents rose year-on-year by € 59.6 million from € 242.5 million to € 302.2 million in the year under report. Despite the increase in inventories, the inventory turnover rate could be maintained at 3.8, and thus almost unchanged on the previous year's high level (3.9). Current receivables, contract assets, and other assets (including income tax receivables) rose by € 9.1 million to € 87.3 million. This was mainly due to the increase in other current assets.

5.2 Non-current and current liabilities

Liabilities, including provisions, amounted to € 2,432.2 million at the balance sheet date, as against € 1,269.3 million in the previous year. Non-current liabilities rose from € 531.4 million to € 1,764.3 million. This was primarily due to the recognition of IFRS 16 lease liabilities of € 1,144.9 million. In the previous year, lease liabilities of € 153.2 million were recognized pursuant to IAS 17. Non-current financial debt due to banks and for corporate bonds rose from € 294.2 million to € 540.9 million. The corporate bond at HORNBACH Baumarkt AG, which in the previous year was recognized under current financial debt, was refinanced in the year under report with a new corporate bond of the same amount. This is reported under non-current financial debt. Provisions for pensions rose to € 24.2 million, up from € 14.2 million in the previous year. The deferred tax liabilities included in non-current liabilities fell year-on-year from € 17.5 million to € 12.6 million. Due to derecognition of the previous corporate bond repaid in February 2020, current liabilities decreased from € 737.9 million to € 667.9 million, with current financial debt falling by € 253.0 million to € 50.9 million. Current lease liabilities pursuant to IFRS 16 came to € 138.7 million. Trade payables, contract liabilities, and other liabilities amounted to € 361.1 million at the balance sheet date, as against € 328.2 million in the previous year. Primarily as a result of higher provisions for employee bonuses, other provisions and deferred liabilities rose by € 13.6 million from € 85.9 million in the previous year to € 99.5 million. The net debt of the HORNBACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, rose from € 519.6 million to € 1,573.3 million. Excluding lease liabilities, net debt fell from € 355.6 million to € 289.7 million.

Key balance sheet figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.29.2020	2.28.2019
Equity ratio	Equity / Total assets	%	31.8	45.7
Return on equity	Annual net income / Average equity	%	7.2	3.9
Return on total capital	NOPAT[1)]/ Average total capital[2)]	%	5.3	3.2
Debt / equity ratio (gearing)	Net debt / Equity	%	139.0	48.6
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	1,341.2	183.6
Net working capital	Inventories and receivables less trade payables	€ million	651.1	606.8
Inventory turnover rate	Cost of goods sold / Average inventories		3.8	3.9

1) Net operating profit after tax, defined as EBIT minus standardized tax rate of 30 % at the HORNBACH Group.
2) Average total capital, defined as average equity plus average net debt.
3) From FY 2019/20: Including right-of use assets for leased properties pursuant to IFRS 16

6. Notes to the Annual Financial Statements of HORNBACH Baumarkt AG (HGB)

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

€ 000s	2019/20	2018/19
Sales	2,756,503	2,602,595
Other own work capitalized	456	278
Other operating income	26,270	22,690
Cost of materials	1,886,371	1,777,952
Gross profit	**896,858**	**847,611**
Personnel expenses	469,795	430,770
Depreciation and amortization	39,017	43,850
Other operating expenses	364,650	393,251
Operating result	**23,396**	**(20,260)**
Financial result	2,385	36,271
Taxes	(7,241)	5,961
Earnings after taxes	**33,022**	**10,050**
Other taxes	1,082	979
Annual net surplus	**31,940**	**9,071**
Allocation to (2018/19: withdrawal from) revenue reserves	10,311	12,558
Net profit	**21,629**	**21,629**

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

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 central functions at the Group, such as finance, accounting, information technology, tax, legal, and personnel.

6.1 Business framework

The macroeconomic and sector-specific framework for our operating business in Germany is described in detail in Chapter 1. "Macroeconomic and Sector-Specific Framework" of this Business Report.

Group Management Report
Business Report
Macroeconomic and
Sector-Specific Framework

6.2 Development in the store network

HORNBACH did not open any new DIY stores with garden centers in Germany in the 2019/20 year under report. One small-scale store (HORNBACH compact) in Neunkirchen (Saarland) was closed in August due to a lack of development prospects. We thus operated a total of 96 retail outlets across Germany as of February 29, 2020 (February 28, 2019: 97). Sales areas in Germany totaled 1,052,590 m² (2018/19: 1,053,452 m²).

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Earnings Position

6.3 Earnings position

6.3.1 Sales performance

Net sales (excluding sales tax) at HORNBACH Baumarkt AG grew by 5.9 % from € 2,603 million to € 2,757 million in the 2019/20 year under report. Sales include an amount of € 448 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2018/19: € 421 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 Chapter 3.1.3 "Like-for-like sales".

6.3.2 Earnings performance

The other operating income reported in the income statement increased by € 3.6 million to € 26.3 million (2018/19: € 22.7 million). This mainly relates to income from damages payments, reversals of provisions, exchange rate gains, and the retirement of liabilities. Income from damages payments rose significantly in the 2019/20 financial year due to the insurance compensation received for a burned-out DIY store.

Cost of materials rose by 6.1 % to € 1,886.4 million (2018/19: € 1,778.0 million). Gross profit totaled € 896.9 million, or 32.5 % of net sales, as against € 847.6 million, or 32.6 % in the previous year. Due to the higher average number of employees and higher variable remuneration, personnel expenses showed disproportionate growth compared with net sales, rising by 9.0 % from € 430.8 million to € 469.7 million. At € 39.0 million, depreciation and amortization were 11.0% lower than the previous year's figure (€ 43.9 million), which included impairment losses of € 4.6 million recognized on a DIY store property.

Other operating expenses fell to € 364.7 million, down from € 393.3 million in the previous year. This was mainly due to lower maintenance expenses and lower external advisory and service expenses.

At plus € 23.4 million, the operating result was significantly higher than the previous year's figure (minus € 20.3 million). This was mainly due to significantly higher gross profit (plus € 49.2 million), lower other operating expenses (minus € 28.6 million), and lower depreciation and amortization (minus € 4.8 million). These factors were countered by significantly higher personnel expenses (plus € 39.0 million).

The financial result (including income from investments) fell by € 33.9 million to € 2.4 million in the year under report (2018/19: € 36.3 million). This reduction was chiefly due to the income from investments falling from € 45.4 million to € 19.8 million as a result of a lower transfer of profit from HORNBACH International GmbH.

In the 2019/20 financial year, profit distributions to HORNBACH International GmbH decreased from € 47.1 million to € 27.3 million.

Interest income and income from loans of financial assets fell from € 3.6 million to € 3.0 million. Due to the measures taken to accelerate refinancing (see disclosures in Chapter 4.2), the interest expenses of € 20.1 million in the year under report were higher than in the previous year (€ 12.7 million).

Given the factors outlined above and negative taxes on income of minus € 7.2 million (2018/19: € 6.0 million) – after the recognition of deferred tax assets (€ 11.1 million) – the annual net surplus rose from € 9.1 million to € 32.0 million in the 2019/20 financial year.

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

Assets	2.29.2020 € 000s	2.28.2019 € 000s
Intangible assets	11,250	12,421
Property, plant and equipment	324,077	339,633
Financial assets	258,492	239,416
Non-current assets	**593,819**	**591,470**
Inventories	505,036	481,565
Receivables and other assets	112,596	132,212
Cash holdings, credit balances at banks, and checks	156,060	188,884
Current assets	**773,692**	**802,661**
Deferred expenses and accrued income	6,514	4,838
Deferred tax assets	11,069	0
Total assets	**1,385,094**	**1,398,969**
Equity and liabilities		
Shareholders' equity	606,315	595,887
Provisions	88,597	65,283
Liabilities	683,824	730,284
Deferred income and accrued expenses	6,358	7,491
Deferred tax liabilities	0	24
Total equity and liabilities	**1,385,094**	**1,398,969**

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

6.3.3 Asset position

At € 1,385.1 million, total assets as of February 29, 2020 were € 13.9 million, or 1.0 %, lower than the previous year's figure (€ 1,399.0 million).

Non-current assets stood at € 593.8 million, or 42.9 % of total assets, at the balance sheet date (2018/19: € 591.5 million / 42.3 %). Mainly due to depreciation of € 34.1 million accompanied by investments of € 20.3 million, property, plant and equipment decreased to € 324.1 million (2018/19: € 339.6 million).

Financial assets increased, with this chiefly being due to the granting of long-term intragroup loans of € 18.9 million, and amounted to € 258.5 million at the balance sheet date (2018/19: € 239.4 million).

Current assets amounted to € 773.7 million at the balance sheet date (2018/19: € 802.7 million). Due to the company's expansion and seasonal preparations, inventories rose by 4.9 %, or € 23.5 million to € 505.0 million (2018/19: € 481.6 million). At 3.8, the inventory turnover rate in the 2019/20 financial year was lower than the previous year's figure of 3.9. Receivables from affiliated companies fell by € 27.6 million to € 54.5 million (2018/19: € 82.1 million). The reduction in receivables in the 2019/20 financial year was chiefly attributable to the year-on-year decrease in short-term financing of group companies. Cash and cash equivalents fell year-on-year by € 32.8 million from € 188.9 million to € 156.1 million.

The company had deferred tax assets of € 11.1 million at the end of the financial year (2018/19: none). An amended usability assessment meant that, unlike in the previous year, these assets were capitalized.
At € 606.4 million, shareholders' equity as of February 29, 2020 was 1.8 % higher than in the previous year (2018/19: € 595.9 million). The equity ratio is reported at 43.8 % (2018/19: 42.6 %). Provisions increased from € 65.3 million to € 88.5 million at the balance sheet date. This was mainly due to higher provisions for bonuses and anniversary payments.

Liabilities are reported at € 683.8 million at the balance sheet, and thus € 46.5 million lower than the previous year's figure (2018/19: € 730.3 million). At € 202.9 million, liabilities to banks were at virtually the same level as in the previous year (2018/19: € 200.5 million). Trade payables amounted to € 151.8 million (2018/19: € 154.9 million). Liabilities to affiliated companies, mainly resulting from group financing, decreased from € 77.5 million to € 25.7 million in the 2019/20 financial year.

6.3.4 Financial position

Group Management Report
Business Report
Financial Position

Information about the principles and objectives of financial management, an explanation of financial debt, and the capital structure can be found in Chapter 4.1.

Shareholders' equity (after the planned dividend distribution) covers around 98 % of non-current assets. In the 2019/20 financial year, HORNBACH Baumarkt AG invested a total of € 43.4 million (2018/19: € 92.5 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 0.8 million, while a further sum of € 16.7 million was channeled into replacing and expanding plant and office equipment. Of total investments, € 3.8 million (2018/19: € 4.3 million) related to intangible assets acquired in return for payment. Due to the granting of intragroup loans, financial assets increased by € 19.1 million from € 239.4 million to € 258.5 million.

6.4 Overall assessment of earnings, asset, and financial position of HORNBACH Baumarkt AG

Based on a positive sales performance and significantly higher gross profit accompanied by lower depreciation and amortization and lower other operating expenses, the operating earnings of HORNBACH Baumarkt AG increased significantly in the 2019/20 financial year. This factor was countered by the disproportionate rise in personnel expenses. Despite lower income from investments, the annual net surplus increased from € 9.1 million to € 32.0 million. Non-current assets and around 57 % 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 position is satisfactory.

Risk Report

1. 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.

2. Risk Policy Principles

Generating 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. Unavoidable risks 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.

3. 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 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.

4. Internal Control and Risk Management System in respect of the Group Financial Reporting Process (pursuant to § 315 (4) 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 its subsidiaries 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 in forums such as 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. 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 the Group Accounting 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 assurance concerning the identification and management of risks.

Overview of overall risks*

	Probability of occurrence	Potential implications
Financial risks		
Exchange rate risks	possible	moderate
Liquidity risks	rare	critical
Credit risks	occasional	moderate
External risks		
Macroeconomic and sector-specific risks	frequent	noticeable
Natural hazards	improbable	severe
Coronavirus pandemic	possible	critical
Operating risks		
Location and turnover 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.

Risks relating to the coronavirus pandemic have been added since the previous year (see Section 6.3). All other risk categories are unchanged.

5. Financial Risks

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

5.1 Exchange rate risks

In general, HORNBACH is exposed to exchange rate 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.

5.2 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 € 350 million with a term running until December 22, 2024, a short-term loan of CHF 50 million (€ 47 million) at HORNBACH Baumarkt (Schweiz) AG, whose term expired on November 18, 2020, two new promissory note bonds at HORNBACH Holding B.V. with a total volume of € 95 million and terms running until 2023 and 2025, two new promissory note bonds at HORNBACH Baumarkt AG with a total volume of € 200 million and terms running until 2024 and 2026, and the € 250 million bond issued by HORNBACH Baumarkt AG in October 2019, whose term runs until October 25, 2026.

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 in the form of liquid funds and free credit lines. No security in the form of assets was granted in connection with the corporate bond, the syndicated credit line at HORNBACH Baumarkt AG or the promissory note bonds. 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. Comparable maximum limits were agreed for the promissory note bonds at HORNBACH Baumarkt AG and HORNBACH Holding B.V. Apart from this, these bonds are only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. As of February 29, 2020, the equity ratio amounted to 31.8 % (2018/19: 45.7 %) and interest cover came to 11.6 (2018/19: 9.7).

Maximum limits for financing facilities secured by land charges similar to those applicable to the syndicated credit line were agreed for the corporate bond. Apart from this, the bond is only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2019/20 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.

Notes to Consolidated Financial Statements
Note (33):
Risk management and financial derivatives

5.3 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 reduce the risk of bank deposit default. This approach was also maintained in the 2019/20 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 the notes to the consolidated financial statements.

6. External Risks

6.1 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, economic, and social 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 first quarter of the financial year.

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

6.2 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 thereby arising are covered by group-wide insurance policies.

6.3 Coronavirus pandemic

The intensification in the coronavirus pandemic since March 2020 is expected to have an adverse impact on the company's sales, earnings, and liquidity position in the 2020/21 financial year. Over and above the implications expected from a current perspective, there is the risk that the pandemic will have a significantly more prolonged and severe impact on the company's sales, earnings, and liquidity position than that currently foreseeable. This depends in particular on the number of DIY stores with garden centers ordered to close by the authorities and the duration of such closures. To mitigate the effects of these closures, expenses not required for operations are to be avoided. If deemed necessary, the company can also draw on government support ("short-time work") in the event of longer-term site closures and, to the extent permitted by law, endeavor to agree lease reductions with external lessors. The risks due to location closures are nevertheless countered by opportunities resulting from consumers "making up" for previous purchases once operations recommence in full (see comments in Opportunity Report). To secure liquidity, the company plans to extend its credit lines and agree new facilities. From a current perspective, it does not expect its earnings, financial, and asset position to be sustainably impaired beyond the 2020/21 financial year.

7. Operating Risks

7.1 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.

7.2 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 our 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 wholly excluded.

The overall Group has several distribution centers 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.

8. Legal Risks

8.1 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.

8.2 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 significantly impact on the Group's economic situation.

9. Management and Organizational Risks

9.1 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.

9.2 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. Employee qualification levels are continually improved with appropriate training and development measures. Bonus models support the company in reaching its objectives. 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.

10. 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 2019/20 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 over several years.

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. 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. This is subject in particular to the assumption that societies and economies around the world are able to normalize after passing through the coronavirus crisis (see Note 36 in Notes to Consolidated Financial Statements). Having said that, the crisis itself has also opened up new opportunities for the DIY store and garden center sector. With the escalation of the pandemic, customer flows were rechanneled in large areas of the retail sector during the lockdown phase.

1. Sector-Specific Opportunities

The growing need for modernization work plays a major role for DIY store and garden center operators, as do trends among consumers. 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. Furthermore, opportunities are also presented by market consolidation in regions with particularly intense competition, such as Germany and Austria.

1.1 Construction activity

Construction work on existing buildings (the refurbishment, modernization, and renovation market) is a prominent factor in the business performance of DIY and garden stores, with more than half of all housing construction investments in Europe relating to this market segment. While new housing construction was the driving force for European construction activity in recent years, the European research and consulting network Euroconstruct expects construction work on existing buildings to show stronger growth compared with new housing construction once again in the years ahead.

In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Based on calculations compiled by the German Institute for Economic Research (DIW), two thirds of the housing construction volumes of around € 245 billion in 2019 involved construction work on existing buildings.

The growth drivers outlined below indicate fundamental development opportunities and should benefit the business performance of the DIY sector in the long term. It is currently not foreseeable whether the implications of the coronavirus crisis for the labor market, consumer behavior, and real estate market will lead to divergent developments in the 2020/21 financial year or in the medium term.

- The **age structure of real estate** indicates an increasing need for maintenance and modernization, also in the longer term. In Germany, for example, more than 80 % of all houses and apartments are more than 30 years old. Interest rates, still low by long-term standards, continue to increase the financial scope of private households in all of the countries in which HORNBACH operates. In Germany, the DIW expects to see strong growth rates in the years ahead, and that both for construction work on existing residential buildings and for new housing construction activity.

- The construction industry is working at the limits of its capacity in many regions in which HORNBACH operates. According to a study published by the Federal Statistical Office, the backlog of construction work in Germany more than doubled from a nationwide total of around 320,000 residential units that had been approved but not yet completed in 2008 to 693,000 such units in 2018. Particularly in the finishing trade, it is difficult to expand output given the availability of more attractive new construction orders. In recent years, this has led to substantial price increases for finishing, maintenance, and repair work, a situation that offers opportunities for market entries. The number of **"mobile all-rounders"** has therefore risen steadily in Germany in recent years. These tradespeople, who do not have their own workshops, are far more likely to procure their materials at DIY stores than are traditional trade companies. The Dutch statistical authorities have also registered a sharp increase in the number of single-person businesses. Not only that, the volume of construction **work performed by clients** under their own steam has also risen. With a volume of € 51.1 billion, own-account work made up 13.7 % of construction investments in Germany in 2019.

- Increasing momentum can also be expected from the renovation of buildings to improve their energy efficiency. Given the long-term increase in energy costs and climate protection, this is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. In Germany, for example, costs incurred for energy refurbishments of own-use residential properties have been partly deductible for tax purposes since January 1, 2020. At the same time, the Kreditanstalt für Wiederaufbau (KfW) has increased its subsidies for refurbishing old residential buildings. **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. According to figures released by the Federal Statistical Office, only 2.4% of homes in Germany were barrier-free in 2018.

1.2 Consumer trends

Consumers' changing lifestyles and patterns of consumption due to the megatrends of digitalization, individualization, and sustainability are creating opportunities for developing new business models and differentiation from competitors. By offering suitable concepts, new technologies, and innovative products, the DIY store sector can benefit from new market opportunities here.

Online retail has reported by far the strongest growth rates within the overall retail sector, with DIY product ranges showing an above-average performance in this respect. Experts expect online sales with typical DIY store product groups in Germany to grow by around 7 % to around € 4.3 billion in 2020, while the BHB sector association has forecast sales growth of 1.5% for the DIY store sector. In interconnected retail, it will increasingly be about handling customers' online orders as conveniently and quickly as possible, while at the same time turning store shopping into an inspiring experience by offering individual advice and events. This approach requires investments in a high-performance IT infrastructure and logistics, as well as further developing the stationary store network and the advice and services provided.

Another trend driven by digitalization is that towards home automation. According to a survey conducted by Bitkom, Germany's digital association, 31 % of people living in Germany already had at least one smart home application in 2019 (2018: 26 %). This creates opportunities for DIY stores and garden centers to expand their ranges of smart home products, installation services, or proprietary gateway solutions such as "Smart Home by HORNBACH".

The increasing use of digital technology in day-to-day life is also leading to consumers to rediscover the value of real-life experiences and manual activity. As an opportunity for creative self-expression within their own four walls, home improvement is still a popular trend among consumers. The growing range of self-assembly furniture is aimed at this market. In its "Werkstück" series, for example, HORNBACH offers high-quality designer furniture for consumers to recreate themselves. Via its private label BUILDIFY, the company also offers materials and instructions for furniture made of pallets, boxes, and scaffolding.

Not only that, our customers increasingly value products that are sustainable in both ecological and economic terms. A suitable product selection, product certification, transparent product information and advice, and environmentally-friendly packaging are key competitive factors here. Sustainability used to be the preserve of lifestyle-driven, middle-aged and older customer groups with solid incomes. Since the Swedish climate protection activist Greta Thunberg burst onto the scene with her “Fridays for Future” movement, however, awareness of sustainability has now permeated younger age groups as well and thus become omnipresent.

1.3 Competition and consolidation

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 € 47 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. Not only that, there is growing competition from pure players that are continually gaining market share in the DIY segment and stepping up the competitive pressure. Given these factors, further consolidation can be expected. Above all, this can be expected to benefit those companies that combine high-performing stationary retail with e-commerce in a multichannel retail business.

€ 47 bn
core DIY market in 2019

The coronavirus crisis has impacted positively on the way customers view the DIY store sector. While the shutdown and/or lockdown ordered by the authorities meant that large sections of the retail sector had to remain closed to end consumers over several weeks, exceptions applied in many areas for stationary DIY stores and garden centers. This led to a marked shift in customer demand back to DIY retailers and away from alternative competing sales channels. Here, competitors with cross-channel concepts for connecting stationary retail with their online businesses have the greatest potential to sustainably attract new customers. Not only that, many consumer households are thought to have higher budgets available for DIY projects, as they are spending less money on vacations, leisure activities, and eating and drinking out during the coronavirus lockdown.

2. 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 an internationally successful retail format. On the one hand, this involves focusing on the strategic enhancement of our concept and expanding our store network at locations offering above-average growth potential in Germany and abroad. On the other hand, we intend to further promote our online retail activities in Germany and other European countries to sustainably boost our competitive position as an omni-channel retailer.

2.1 Unmistakable concept

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 guaranteeing the best market price across our entire product range on a permanent basis, with identical prices in our stationary and online stores. Our permanent low price strategy applies not only to prices at stationary competitors, but also for online offerings. 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. That is not possible with temporary discount campaigns.

2.2 Sustainable products

Our focus on the quality and sustainability of our product ranges and the professional advice we offer means that we are particularly well able to meet our customers' ever higher expectations. For our private label products, we accord high priority to responsible procurement, sustainable product features, and environmentally-compatible product packaging and disposal. We are the leading player in the DIY sector, for example, when it comes to retailing FSC-certified timber products. Not only that, we are working to reduce the use of packaging as far as possible and paying attention to the recyclability of the material.

We believe that HORNBACH is excellently positioned in the sector as a partner for renovation and modernization projects, also with regard to the increasingly strict legal requirements governing building energy efficiency. We will continue to present complex projects, such as the insulation of facades, the replacement of windows and doors, or smart home concepts, at our stores in future as well. Via our online stores, we also provide detailed guidelines which explain DIY projects on a step-by-step basis. Our product range offers customers the opportunity to select low-emission products for their construction and renovation projects and thus to minimize the volume of noxious substances in their homes and living space. Not only that, we also offer energy and water-saving products.

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.

2.3 Accessing new customer groups

We are continually 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 ("Women at Work"). 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. 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.

We see the do-it-for-me (DIFM) market segment as offering promising growth opportunities, also within the broader context of the ageing population in Germany and other parts of Europe. 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. Our tradesman service aims to tap this potential. HORNBACH cooperates at all of its locations with regional trade companies that implement the projects for our customers at fixed prices and assume the warranty for these projects. This way, customers receive the full service from a single source.

2.4 Digitalization of business model

Interconnected retail

Over the past ten years, the HORNBACH Baumarkt AG Group has forged consistently ahead with digitalizing its business model and developing its online retail business. Thanks to these efforts, we have sustainably boosted our competitive position within the DIY sector and made the entire company fit for the future.

Measured in terms of online sales generated by stationary DIY store chains, we believe that we are the German market leader in DIY online retail. Since its launch in Germany in December 2010, we have built up our online store (www.hornbach.de) into a high-performing virtual DIY store and garden center which we combine with our stationary retail business to provide an interconnected retail solution. We have now rolled out our e-commerce activities to all of the countries in which HORNBACH operates and offer all customers the option of implementing their projects across all channels.

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. Furthermore, customers can have articles delivered directly to their homes by mail order or opt for our "Reserve online and collect 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. With a product range of up to around 200,000 articles, the online shop also offers significantly greater selection than is possible on limited sales space. To assist in the article search, the HORNBACH app has an image search function enabling customers to find suitable products in the online shop on the basis of a photo. Using virtual reality (VR), it will also be possible in future to present additional products on site at the stores. HORNBACH already uses VR at some stores to present bathroom design schemes.

Not only that, direct mailing gives us the opportunity to acquire new customers outside our store network catchment areas and arouse their interest in the HORNBACH brand. Linking up social media channels offers a further means to intensify customer relationships, for example by enabling customers to share their experience with projects, products, and prices, as well as with service and quality standards. What's more, digitalization enables us to address customers on an increasing personalized basis, a development which may impact positively both on customer satisfaction and on demand.

Efficiency due to digital processes

Moreover, we expect the digitalization of store organization, sales, and the associated dovetailing of these processes with procurement and logistics to sustainably benefit the Group's sales and earnings performance. In digitalizing our supply chains, the key focus is on reducing or eliminating manual work steps by automating procurement, provision, and data processing. We are particularly looking into using artificial intelligence (AI) to improve process control and identify sales opportunities by analyzing products and services.

By equipping all sales staff at our stores with mobile multifunction devices, for example, we have significantly reduced their manual work steps and movements, enabling them to spend more time advising customers. Our self-service checkouts serve the same purpose, as does the HORNBACH self-scanning app, which enables customers to scan their articles while shopping already, which considerably speeds up the payment process at the checkout, particularly when large numbers of products are involved.

Customer relationship management

By expanding customer accounts and including all online and offline transactions, we provide our customers with a transparent overview of their purchases. This way, we can also tailor our range of products and services even more closely to our customers. Not only that, the customer account enables customers to participate in the "fair price" scheme. In this, customers benefit from any price cuts made by HORNBACH up to one month after they purchase their article.

New business fields

In its Smart Home business, HORNBACH offers a neutral, open platform for customers and suppliers that is continually being extended with new product ranges and functions. This way, we can combine our retail expertise in traditional DIY product ranges with digital solutions. This means that we provide our project customers not just with the technical equipment, but can also offer mechanical locks or doors that function in combination with each other, for example.

2.5 Internationalization

Our expansion into foreign markets will provide us with additional growth prospects in future as well. These markets offer greater sales potential and higher profitability compared with the saturated German market and enable us to achieve a better distribution of regional market risks. 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 each of our stores as efficiently as possible. Suppliers are able make 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 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.

2.6 Private labels

We are tapping additional earnings potential by increasingly developing private labels in partnership with suppliers. These enable us to offer attractive value for money to customers while at the same time differentiating ourselves from competitors. Further benefits include our independence from manufacturers' brands in terms of innovation and quality, brand management, product lifecycle management, and not least a higher gross margin. HORNBACH currently has a portfolio of around 50 private label brands which accounted for a 24.1 % share of sales in the 2019/20 financial year. In the medium term, it is planned to raise the share of private label products to around 30 %.

Assessment of opportunities in connection with the coronavirus pandemic

The general strategic opportunities facing our company and outlined in Sections 2.1 to 2.6 are thought to have become even more valid since the outbreak of the coronavirus pandemic in the spring of 2020 than in the past. As we explain in detail in the information provided on events after the balance sheet in Note 36 of the Notes to the Consolidated Financial Statements, in most regions within our European network the HORNBACH DIY stores and garden centers were able to remain open following the introduction of lockdown measures by the authorities in mid-March 2020. The number of stores permitted to open rose steadily through April 2020 until, as of May 6, 2020, all 160 stores were finally open to customers again. The significant year-on-year increase in demand since the beginning of the new 2020/21 financial year allows us to conclude that we have successfully addressed and convinced new customers who, prior to the crisis, still handled their purchases via competing chains or sales channels. Thanks to our interconnected retail activities, we benefited from this development in both our stationary and online channels. Specifically, it became apparent that order volumes in the online retail business settled down at higher levels even after full stationary operations had been relaunched in various regions. We have the impression that, particularly during the coronavirus crisis, HORNBACH has positively established itself as a brand among customers and the general public.

3. Explanatory Comments on Risk and Opportunity Report of HORNBACH Baumarkt AG

With the exception of exchange rate risk, the risks and opportunities at HORNBACH Baumarkt AG are largely consistent with those presented for the HORNBACH Baumarkt AG Group.

Outlook

1. 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 activity 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 the economy and consumers' 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.

Finally, exogenous shocks, such as the coronavirus pandemic currently raging since spring 2020, can have a massive impact on our company's business performance. At present, it is not yet possible to assess the consequences of the coronavirus crisis for the European economy with sufficient reliability. Depending on the intensity and duration of the sickness wave, economic researchers fear differing degrees of recessionary effects for the economy, with uncertain downstream implications for employment and consumption. Unless explained otherwise, the forward-looking statements below refer in some cases to pre-crisis scenarios.

1.1 Business framework in Europe

Economy on brink of recession

In April 2020, Germany's leading economic research institutes forecast a downturn in economic output by 5.1% in the EU 27 countries and 5.3 % in the euro area. Given the measures taken to contain the epidemic, private household consumption is expected to show a particularly sharp reduction. The economic researchers assumed that the spread of the virus in those countries where the number of cases is still rising rapidly can be significantly slowed within several weeks and that global economic activity will gradually recover at the latest from the middle of the year.

The construction industry has been affected to a comparatively limited extent by the restrictions imposed to contain coronavirus. In its forecast dated November 2019, the Euroconstruct research and consulting network expected European construction volumes to grow by 1.1 % in the 2020 calendar year, compared with 2.3 % in the previous year (prior to impact of coronavirus). Within construction, work on existing buildings is set to grow significantly faster than new construction for the first time in 2020.

1.2 Business framework in Germany

Germany's leading economic research institutes expect the coronavirus crisis to lead to a 4.2 % reduction in the country's gross domestic product in the 2020 calendar year. After a striking downturn in the second quarter, the economic researchers expect to see significantly positive growth rates in the second half of the year. Given rising rates of unemployment and increasing numbers of furloughed employees, private consumer spending is expected to fall by 5.7 %. Private household spending power will be supported by lower upward pressure on prices resulting above all from the collapse in crude oil prices.

The coronavirus crisis is expected to impact negatively on retail sales in the current year – and here in particular on retailers affected by closures and with little or no online business. In January, and thus without considering the coronavirus crisis, the Association of German Retailers (HDE) forecast nominal sales growth of 2.5 % to a net total of € 557.2 billion. Online retail sales were expected to grow by 8.6 % to € 63.0 billion, while stationary retail sales were forecast to rise by 1.8 % to € 494.2 million.

Given ongoing high demand for living space, the economic research institutes expect the crisis to have a relatively mild impact on investments in residential buildings. Shortages of labor and materials may nevertheless lead to projects being postponed, as may delays in issuing building permits and placing orders. At the beginning of the year (prior to impact of coronavirus), the German Institute for Economic Research forecast 7.7 % nominal growth in construction volumes for 2020 (2019: 8.8%). Growth of 7.6 % was expected in the modernization market (2019: 8.5 %), while new construction volumes were forecast to rise by 8.0 % (2019: 9.5 %).

Trade companies and DIY retailers can basically expect to benefit from any growth in the modernization market. The BHB sector association forecast nominal sales growth of 1.5 % to 1.8 % (prior to impact of coronavirus) for the German DIY store sector in 2020. The BHB saw garden product ranges in particular as offering potential for sales growth in the DIY store sector in 2020. Given ongoing high willingness to invest in private renovation and housing construction, traditional home improvement product ranges were also expected to perform well. For e-commerce sales with DIY product ranges (home improvement, construction materials, and garden products), the market researchers had initially expected lower momentum and forecast growth of 6.9 % to almost € 4.3 billion. Given the partial or full closures of DIY stores for private customers in several federal states, however, online sales are expected to post more substantial growth in 2020.

+1.5 % to +1.8 %

sales growth forecast for German DIY store sector in 2020

The DIY store sector benefited from mild weather conditions in January and February 2020 and significantly increased its sales. March 2020 was characterized by opposing developments: Very lively demand on the part of consumers met with a more or less restricted supply at stationary retailers due to the different measures taken by individual federal states to contain the coronavirus. In some regions, DIY stores were only allowed to open for commercial customers. In other regions, private purchases were still permitted, which led to substantial sales growth. Given strict requirements in terms of hygiene measures, access restrictions, and distance rules, the DIY sector witnessed lower customer frequency rates. Overall, the positive factors outweighed the negative factors in March 2020 and, based on BHB/GfK disclosures, enabled the German DIY sector to generate like-for-like sales growth of 5.3 % in the month and 6.0 % in the first quarter of the calendar year. Due to the uncertainty surrounding developments in terms of COVID-19, it was not possible to make any statements concerning the second quarter of the calendar year and beyond.

1.3 Overall assessment of the expected implications for the Group's business performance

In view of the coronavirus crisis, upon the completion of this report it was not possible to assess the extent of economic disruption which the pandemic will trigger on the labor, procurement, and sales markets. Based on our assessment, consumer demand in Europe and the sector-specific framework will in all likelihood impact negatively on the sales and earnings performance of the HORNBACH Baumarkt AG Group in the 2020/21 financial year.

2. Forecast Business Performance in 2020/21

The statements made concerning the expected performance of the HORNBACH Baumarkt AG Group in the 2020/21 financial year are based on the medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The budget for the financial years 2020/21 to 2024/25, into which the annual budget for 2020/21 is integrated, was adopted by the Board of Management at the end of January 2020 and approved by the Supervisory Board at the end of February 2020, i.e. before it would have been possible to account for the potential implications of the COVID-19 pandemic in the budget for the 2020/21 financial year.

Notes to Consolidated Financial Statements
Note 36: Events After Balance Sheet Date

Various scenarios presenting the potential impact of the COVID-19 pandemic on the company's income statement and financial planning were drafted in March. Given the highly dynamic spread of the virus and daily changes in the news, the assumptions and probabilities of occurrence underlying the scenarios had to be continually reviewed. The developments presented in the report on events after the balance sheet date meant that the risk assessment upon completion of this report was more positive than at the beginning of the pandemic.

The probability of occurrence for store closures lasting several weeks and affecting most or all stores, with critical implications for the business performance in 2020/21, was initially classified as "frequent" (>50 %) and associated with considerable uncertainties. In the period March to April 2020, however, stationary operations were restricted to a significantly less severe extent than previously feared. Sales and earnings showed pleasingly robust developments in the two-month period. The risk of a significant downturn in sales and earnings in the full-year 2020/21 due to the store closures ordered from mid-March to the end of April tended towards zero.

The assessment of the external COVID-19 risk for the business performance in 2020/21 then shifted to the question as to whether stores would be required to close again in future due to a renewed lockdown in response to a massive deterioration in case numbers or a second wave of infections. The probability of occurrence for a scenario of this nature was most recently classified as "possible" (> 20% to ≤ 50%). Upon the completion of this report, no renewed store closures were apparent in HORNBACH's store network in May 2020. Actual developments therefore moved closer to the original planning.

The following disclosures on our one-year company planning reflect our "normal" planning scenario (prior to impact of coronavirus), from which our actual performance is nevertheless likely to deviate in the 2020/21 financial year due to significant changes in the macroeconomic framework arising in the interim period and numerous measures taken by the company to address what is an unprecedented global crisis. In what follows, we have provided indicative assessments where possible of factors potentially influencing actual developments due to the coronavirus pandemic. These assessments are provided in *italics* in the context of the respective key figures.

2.1 Expansion

In the one-year forecast period we will continue to 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 rise only marginally, not least as a result of planned closures for new replacement locations. The key focus of our medium-term expansion and investment activities will be outside Germany.

One international new store opening, a DIY megastore with a garden center in Oradea (Romania), is planned for the 2020/21 financial year. Overall, the group-wide total number of DIY stores with garden centers should rise to 161 by February 28, 2021 (February 29, 2020: 160), of which 65 in other European countries.

Depending on the duration and severity of the coronavirus crisis, there is the possibility that the expansion program will be adjusted in the 2020/21 financial year, with individual projects being postponed to a later point in time.

2.2 Investments

The original budget provided for gross investments of between € 150 million and € 170 million at the HORNBACH Baumarkt AG Group in the 2020/21 financial year. The overwhelming share of these funds was to be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure.

HORNBACH enjoys great flexibility in its investment financing. Alongside the cash flow from operating activities, the company's cash resources and free credit lines mean that a large volume of liquidity is available. The corporate bond maturing in February 2020 was refinanced in October 2019 with a new corporate bond with a seven-year term. No sale and leaseback transactions are planned in the 2020/21 financial year.

It is likely that the investment budget will be adjusted slightly downwards in the 2020/21 financial year as a result of the coronavirus crisis.

2.3 Sales forecast for the HORNBACH Baumarkt AG Group

In our normal scenario we assumed that, due to our expansion, higher sales growth at existing stores, and growing online sales, consolidated sales in the 2020/21 financial year would exceed the figure for the 2019/20 year under report (€ 4,428 million). Driven by disproportionate organic growth and new store openings, the share of sales in international regions (2019/20: 49.3 %) was expected to rise further. Prior to the impact of the coronavirus, we expected consolidated sales, including sales at stores newly opened, closed, or significantly extended, to show growth in a medium single-digit percentage range in the 2020/21 financial year. We expected like-for-like sales net of currency items to show growth in a low to medium single-digit percentage range.

From a geographical perspective, we expected the like-for like sales growth in **Germany** to fall short of the Group average once again in the 2020/21 financial year, while the growth rates in like-for-like sales net of currency items in **Other European Countries** were expected to exceed the Group average.

Until recently, it was still uncertain whether the Group's sales performance in Germany and Other European Countries would be impaired by a renewed coronavirus-induced lockdown on social and economic activity. The restrictions to our retail activities outlined in the report on events after the balance sheet date were mainly effective until the end of April 2020, but did not have any significantly negative impact on our sales performance in the 2020/21 financial year.

As the pandemic intensified, it became clear that, due to official restrictions on contact, people would have to spend significantly more time in their own four walls. For end consumers and professional customers alike, DIY stores and garden centers count as important sources of supplies for products that are also needed in times of crisis, for example to repair the water supply, lighting, or sanitary facilities. Not only that, the fact that home improvement is a worthwhile leisure activity, and one still permitted despite the crisis, seems to have boosted demand for home improvement products, and that in both the stationary and the online businesses. Consumer spending on competing activities, such as visits to restaurants, *cultural events, and vacations was postponed. Over and above the demand seen in the period after the balance sheet date through to the completion of this report, further effects may arise due to customers catching up with projects or diverting their spending.*

Weighing up all aspects, upon completion of this report it is considered likely that, should the lock-down-related restrictions on business activities last only a few days to weeks, then sales at the HORNBACH Baumarkt AG Group will approximately match the level reported for the 2019/20 financial year (€ 4.4 billion). Should a coronavirus-induced setback arise, however, with a comprehensive lockdown lasting several months, then consolidated sales are expected to decrease significantly.

2.4 Earnings performance at the HORNBACH Baumarkt AG Group

2.4.1 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.

Based on our original expectations, the **gross margin** in the 2020/21 financial year should fall slightly short of the previous year's level. The development in the gross margin is being influenced by tough competition in the stationary and online DIY retail businesses. E-commerce is gradually gaining in significance throughout our European network and provides customers with maximum price transparency. HORNBACH has positioned itself here with a consistently implemented permanent low price policy and offers identical article prices to its customers both online and in its stationary business. 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. The rising share of the Group's online retail sales generated in the international regions with higher margins is nevertheless having a stabilizing effect. To support the gross margin in the long term, we intend to continually increase the share of sales generated with our private label products, among other measures.

Due to the coronavirus crisis, the development in the gross margin could diverge from original expectations. Given falling demand from industry, commodity prices can be expected to decline overall. Due to lower manufacturing costs, this could lead to more favorable purchasing terms on procurement markets. There is the converse risk, however, that in response to a global economic downturn suppliers reduce their production capacities, leading to shortages in the supply chain and higher procurement prices. The costs of transport might also rise if global supply chain capacities were to be reduced. Finally, it can be assumed that, thanks to higher order volumes from existing and new customers, the share of sales in the lower-margin e-commerce business will rise compared with the stationary business.

According to our 2020/21 annual budget (prior to impact of coronavirus), **selling and store expenses** were set to rise less rapidly than sales. 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. Rental expenses will be at around the same level as in the previous year. Advertising expenses are expected to rise slightly in the 2020/21 budget year. General operating expenses were subject to a detailed review in the 2019/20 year under report, with conversion and maintenance work only being executed on a highly restrictive basis. As a result, general operating expenses fell by around € 27 million. These expenses are budgeted to grow in a low double-digit million euro range in the 2020/21 financial year. This disproportionate increase is due in part to logistical expenses resulting from the growing share of direct mailing, as well as to higher expenses for maintenance measures and revisions to the product range resulting in part from catch-up effects. Greater transparency and stricter prioritization of measures at the stores should lead to enhanced cost control.

Due to the coronavirus crisis, the development in selling and store expenses could diverge from original expectations. It will be a matter of mitigating the negative impact on sales of store closures and falling numbers of customers with cost saving measures. In the event of a massive lockdown on store operations, for example, avoidable costs such as operating and advertising expenses in particular would be minimized to the greatest possible extent. Should large numbers of working hours be lost due to renewed coronavirus-induced store closures, the company would also consider drawing on measures to protect jobs (furloughing). This could impact positively on selling and store expenses. Irrespective of this, securing jobs is a key objective of our corporate social responsibility.

At 0.2 %, the **pre-opening expense ratio** budgeted for 2020/21 was at around the same level as in the previous year.

Due to the coronavirus crisis, changes in the expansion program could lead to a lower pre-opening expense ratio.

According to the 2020/21 budget, the **administration expense ratio** should decrease slightly (2019/20: 4.7 %). In the 2019/20 financial year, one-off expenses were incurred for compensation packages and for the conversion of an administration building in Bornheim. Recurring head office expenses were set to rise significantly more slowly than sales. This was to be achieved with a range of measures already initiated in the year under report. Above all, these measures involve improving efficiency in the interaction between the company headquarters and the operating regions. One particular focus involves structural reorganization measures in the Germany region where, among other aspects, a more restrictive recruitment policy and normal staff turnover should contribute to a significant improvement in the earnings situation. Strategic projects are being systematically analyzed and prioritized in terms of their customer relevance and economic viability. The projects are reviewed by the Board of Management at regular intervals in terms of their focus, targeted progress, and costs, with adjustments made where necessary.

To secure its future viability, in the event of a prolonged coronavirus-induced setback and store closures HORNBACH is prepared to cut back administrative services performed for the operating business. Should work have to be stopped in corporate functions, the company has also taken precautions enabling it to apply for furloughing or comparable income compensation schemes. This could impact positively on central administration expenses. Here too, securing jobs is a primary objective of our social responsibility.

According to the annual budget for 2020/21 as adopted in February 2020, EBIT adjusted to exclude non-operating earnings items (**adjusted EBIT**) in the Retail segment was expected to slightly exceed the previous year's figure (€ 94.5 million) in the one-year forecast period.

Given the exceptionally high degree of uncertainty surrounding the implications of COVID-19 for its asset, financial, and earnings position, the Group's forecasting capability is severely limited. Due to the cumulative coronavirus-related items through to the end of April, it is nevertheless deemed likely that adjusted EBIT in the Retail segment in the 2020/21 forecast period will fall slightly short of the figure for the 2019/20 financial year. Should any coronavirus-related setback materialize in summer 2020 or the second half of the 2020/21 financial year, however, adjusted EBIT can be expected to fall significantly short of the previous year's figure.

2.4.2 Real Estate segment

According to the original budget, **rental income** should rise slightly in the 2020/21 financial year (2019/20: € 280.7 million). **Adjusted EBIT** should also show a slight increase (2019/20: € 104.8 million).

In the event of a closure scenario resulting from a severe coronavirus-related setback, we are prepared to discuss options for rent reductions customary to the market by reaching partnership-based agreements with external lessors. Depending on the discount rates applicable in each case, this may lead to an improvement in adjusted EBIT both in the Real Estate segment and on the level of the HORNBACH Baumarkt AG Group.

2.4.3 Corporate Functions segment

Central administration expenses are set to fall slightly in the 2020/21 financial year. The figure for the 2019/20 financial year included the costs of extensively refurbishing and modernizing the old head office building at the Bornheim location. These measures were completed in 2020. **Adjusted EBIT** in the Corporate Functions segment is expected to improve significantly (2019/20: minus € 17.5 million).

Crisis-induced savings measures in central administration expenses could lead to additional cost savings over and above the savings already included in the 2020/21 annual budget and thus impact positively on the earnings position.

2.4.4 Earnings forecast for the HORNBACH Baumarkt AG Group

In the 2020/21 annual budget adopted in February 2020, we assumed that EBIT adjusted to exclude non-operating earnings items (**adjusted EBIT**) for the one-year forecast period would be at around the same high level as in the 2019/20 financial year (€ 181.8 million). This figure should be positively influenced by the budgeted sales growth and improved cost management.

The implications of the coronavirus crisis for the Group's business performance in 2020/21 were highly uncertain even until very recently. Forecasting capability is highly limited, also on Group level. Overall, the Board of Management believes that one likely scenario involves the adjusted EBIT of the HORNBACH Baumarkt AG Group for the 2020/21 financial year falling slightly short of the level achieved in the 2019/20 financial year. Should any severe coronavirus-related setback materialize in summer 2020 or the second half of the 2020/21 financial year, however, the adjusted EBIT of the HORNBACH Baumarkt AG Group can be expected to fall significantly short of the previous year's figure.

2.5 Sales and earnings forecast for HORNBACH Baumarkt AG (annual financial statements - HGB)

In the annual financial statements of HORNBACH Baumarkt AG, which will be shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, it is possible – assuming a less severe course of the coronavirus crisis – that sales for the 2020/21 financial year will be at the previous year's level and that the annual net surplus will fall slightly short of the previous year's figure. Should the crisis take a more severe course, then sales and the annual net surplus can be expected to fall significantly.

Remuneration Report

The remuneration report presents the basic features and structure of the remuneration 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 remuneration, is based on the recommendations of the German Corporate Governance Code.

1. Remuneration of Board of Management

1.1 Remuneration system at HORNBACH Baumarkt AG

Remuneration 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 Remuneration (VorstAG), taking due account of levels of remuneration customary in the market. Total remuneration of members of the Board of Management comprises the components of fixed annual salary, annual variable remuneration, plus ancillary benefits customary to the market and the company. The appropriateness of total remuneration is regularly reviewed by the Supervisory Board of HORNBACH Baumarkt AG.

- **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 remuneration:**
  Alongside fixed annual salaries, members of the Board of Management also receive annual variable remuneration 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 remuneration is average consolidated net income (IFRS) at HORNBACH Baumarkt AG. Variable remuneration is calculated on the basis of the three-year average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG.

  Individual variable remuneration 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 remuneration 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 remuneration 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 remuneration is capped at a maximum of 150 % of the respective fixed salary of the individual member of the Board of Management. No further variable remuneration is granted.

1.2 Internal ratio of remuneration components

No specific ratio of fixed salary to variable remuneration 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 remuneration.

The structure of annual variable remuneration ensures that the overwhelming share of such remuneration (75 %) is based on long-term factors, complying with the predominantly multiyear nature called for in the relevant legislation. In individual cases, the remuneration 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.

1.3 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 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 remuneration components due in future in unspecified amounts up to a maximum of one total annual remuneration package.

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

From January 2018, employment contracts newly agreed or extended with members of the Board of Management will provide for caps on the remuneration paid in the event of their activity on the Board of Management being terminated prematurely. The recommendations made in Point 4.2.3 (4) of the German Corporate Governance Code will therefore be complied with in future.

1.5 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 remuneration in event of sickness or death
- Claim to provision of a company car for work-related and private use or to settlement based on the average monthly costs of providing a company car.

1.6 Remuneration of the Board of Management for the 2019/20 financial year

Total remuneration of the Board of Management for the 2019/20 financial year amounted to € 8,766k (2018/19: € 5,209k). Of this sum, € 2,938k (2018/19: € 2,903k) was fixed remuneration, € 1,911k (2018/19: € 2,306k) related to performance-related components, and € 3,917k involved one-off payments. Post-employment benefits of € 689k were incurred for active members of the Board of Management in the 2019/20 financial year (pension provision endowment) (2018/19: € 689k). Pension provisions for former members of the Board of Management total € 2,541k (2018/19: € 1,245k). The major share of pension provisions are offset by corresponding value credits.

Given the company's size and its market position, we believe that the total remuneration 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 remuneration of members of the Board of Management on an individual basis up to and including the 2020/21 financial year (opting-out clause).

1.7 New remuneration for the Board of Management from the 2020/21 financial year

On December 17, 2019, the Supervisory Board approved a new remuneration system for members of the Board of Management of HORNBACH Baumarkt AG. This new system, which takes effect as of March 1, 2020 and will also disclose remuneration on an individualized basis in future, will be explained in the remuneration report in the 2020/21 Annual Report.

2. Remuneration of the Supervisory Board

Supervisory Board remuneration 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 remuneration 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 remuneration.

Supervisory Board members who also sit on a Supervisory Board committee receive additional fixed committee remuneration 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 remuneration is retrospectively payable together with the fixed remuneration. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the respective committee remuneration.

Remuneration of the Supervisory Board for the 2019/20 financial year totals € 515k (2018/19: € 515k). Of this, € 390k (2018/19: € 390k) is basic remuneration and € 125k (2018/19: € 125k) for committee activity. Remuneration totaling € 277k (2018/19: € 313k) was paid for the 2019/20 financial year for further Supervisory Board positions at HORNBACH Holding AG & Co. KGaA or HORNBACH Management AG. Of this, € 215k (2018/19: € 238k) is basic remuneration and € 62k (2018/19: € 75k) for committee activity.

Other Disclosures

1. Disclosures under § 315a and § 289a 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 § 315a and § 289a of the German Commercial Code (HGB).

1.1 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.

1.2 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 29, 2020.

1.3 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.

1.4 Change of control

Material 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.

1.5 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 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 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 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.

2. Corporate Governance Declaration pursuant to § 315d and § 289f, at the same time Corporate Governance Report

www.hornbach-group.com
Investor Relations >
Corporate Governance

The Corporate Governance Declaration requiring submission pursuant to § 315d and § 289f of the German Commercial Code (HGB) is available on our website. Pursuant to § 317 (2) Sentence 3 HGB, the contents of the disclosures made under § 315d and § 289f HGB have not been included in the audit performed by the auditor.

3. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2019/20 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."

Non-Financial Statement

www.hornbach-group.com/NFS

HORNBACH Baumarkt AG has drawn on the option provided for in § 289b (2) and § 315b (2) HGB of exempting itself from the obligation to extend the combined management report with a combined non-financial declaration. HORNBACH Baumarkt AG is included in the group management report of its parent company HORNBACH Holding AG & Co. KGaA. HORNBACH Holding AG & Co. KGaA has submitted a non-financial group declaration for the 2019/20 financial year pursuant to § 315b HGB. This will be published at the same time as the Annual Report as a separate non-financial group report on the company's homepage (www.hornbach-group.com/NFS).

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, 2019 to February 29, 2020

	Notes	2019/20 € 000s	2018/19 € 000s	Change %
Sales	1	4,428,038	4,095,535	8.1
Cost of goods sold	2	2,807,689	2,592,713	8.3
Gross profit		**1,620,349**	**1,502,822**	**7.8**
Selling and store expenses	3/10	1,244,781	1,222,952	1.8
Pre-opening expenses	4/10	7,692	6,542	17.6
General and administration expenses	5/10	226,088	220,535	2.5
Other income and expenses	6/10	22,137	14,358	54.2
Earnings before interest and taxes (EBIT)		**163,926**	**67,151**	**144.1**
Other interest and similar income		796	706	12.7
Other interest and similar expenses		59,819	17,050	>100
Other financial result		867	807	7.4
Net financial expenses	**7**	**(58,156)**	**(15,538)**	**274.3**
Consolidated earnings before taxes		**105,770**	**51,614**	**104.9**
Taxes on income	8	27,085	10,684	>100
Consolidated net income		**78,685**	**40,930**	**92.2**
Basic/diluted earnings per share (€)	9	2.47	1.29	91.5

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2019 to February 29, 2020

	Notes	2019/20 € 000s	2018/19 € 000s
Consolidated net income		**78,685**	**40,930**
Actuarial gains and losses on defined benefit plans	24/25	(8,675)	(3,338)
Measurement of equity instruments	14/32	3,149	791
Deferred taxes on income and expenses recognized directly in equity that will not be reclassified		1,308	301
Other comprehensive income that will not be recycled at a later date		**(4,218)**	**(2,246)**
Exchange differences arising on the translation of foreign subsidiaries		10,482	983
Other comprehensive income that will possibly be recycled at a later date		**10,482**	**983**
Total comprehensive income		**84,949**	**39,667**

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 29, 2020

Assets [1]	Notes	2.29.2020 € 000s	2.28.2019 € 000s
Non-current assets			
Intangible assets	11	15,864	17,394
Property, plant, and equipment[1]	12	1,097,684	1,072,688
Investment property	12	6,712	6,561
Right-of-use assets[1]	13	1,217,832	149,006
Financial assets	14/32	10,483	7,334
Other non-current receivables and assets	15	1,291	2,205
Deferred tax assets	16	10,442	6,356
		2,360,309	**1,261,544**
Current assets			
Inventories	17	814,438	755,676
Trade receivables	18	11,613	11,333
Contract assets	18	1,566	1,569
Other current assets	18	72,110	59,957
Income tax receivables	27	2,059	5,322
Cash and cash equivalents	19	302,162	242,530
		1,203,948	**1,076,387**
		3,564,257	**2,337,931**

Equity and liabilities [1]	Notes	2.29.2020 € 000s	2.28.2019 € 000s
Shareholders' equity	**21**		
Share capital		95,421	95,421
Capital reserve		143,623	143,623
Revenue reserves		893,010	829,573
		1,132,054	**1,068,616**
Non-current liabilities			
Non-current financial debt[1]	23	540,949	294,162
Non-current lease liabilities[1]	23	681,693	153,221
Non-current lease liabilities related to affiliated companies[1]	23	463,231	0
Provisions for pensions	24	24,234	14,226
Deferred tax liabilities	16	12,648	17,461
Other non-current liabilities	25/28	41,522	52,360
		1,764,277	**531,430**
Current liabilities			
Current financial debt[1]	23	50,915	303,954
Current lease liabilities[1]	23	78,549	10,796
Current lease liabilities to affiliated companies[1]	23	60,148	0
Trade payables	26	250,710	227,021
Contract liabilities	26	34,388	30,874
Other current liabilities	26	76,024	70,257
Income tax liabilities	27	17,644	9,065
Other provisions and accrued liabilities	28	99,549	85,917
		667,926	**737,884**
		3,564,257	**2,337,931**

[1] Previous year's figures adjusted due to IFRS 16; see "Adjustment to presentation in balance sheet and cash flow statement" in the notes on the basis of preparation for the consolidated financial statements.

Statement of Changes in Equity of the HORNBACH Baumarkt AG Group

2018/19 financial year € 000s	Notes	Share capital	Capital reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2018		**95,421**	**143,623**	**36,344**	**773,414**	**1,048,802**
Adjustments due to IFRS 15					1,760	1,760
Adjustments due to IFRS 9					206	206
Balance at March 1, 2018 (adjusted)		**95,421**	**143,623**	**36,344**	**775,380**	**1,050,768**
Consolidated net income					40,930	40,930
Actuarial gains and losses on defined benefit plans	24/25				(3,025)	(3,025)
Measurement of available for equity instruments, net after taxes	14/32				779	779
Exchange differences arising on the translation of foreign subsidiaries				983		983
Total comprehensive income				**983**	**38,684**	**39,667**
Dividend distribution	22				(21,629)	(21,629)
Treasury stock transactions	21				(190)	(190)
Balance at February 28, 2019		**95,421**	**143,623**	**37,327**	**792,245**	**1,068,616**

2019/20 financial year **€ 000s**	Notes	Share capital	Capital reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2019		**95,421**	**143,623**	**37,327**	**792,245**	**1,068,616**
Consolidated net income					78,685	78,685
Actuarial gains and losses on defined benefit plans	24/25				(7,320)	(7,320)
Measurement of available for equity instruments, net after taxes	14/32				3,102	3,102
Exchange differences arising on the translation of foreign subsidiaries				10,482		10,482
Total comprehensive income				**10,482**	**74,467**	**84,949**
Dividend distribution	22				(21,629)	(21,629)
Treasury stock transactions	21				117	117
Balance at February 29, 2020		**95,421**	**143,623**	**47,809**	**845,200**	**1,132,054**

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2019/20 € 000s	2018/19 € 000s [1]
Consolidated net income		**78,685**	**40,930**
Depreciation and amortization of property, plant, and equipment and intangible assets [1]	10	83,764	80,501
Depreciation of right-of-use assets [1]	13	166,069	12,521
Change in provisions		8,436	6,003
Gains/losses on disposals of non-current assets and of non-current assets held for sale		831	275
Change in inventories, trade receivables and other assets		(65,268)	(109,749)
Change in trade payables and other liabilities		61,008	(15,369)
Other non-cash income/expenses		(6,050)	(11,416)
Cash flow from operating activities		**327,475**	**3,695**
Proceeds from disposal of non-current assets and of non-current assets held for sale		2,246	3,911
Payments for investments in property, plant, and equipment		(92,751)	(179,201)
Payments for investments in intangible assets		(4,348)	(4,349)
Cash flow from investing activities		**(94,853)**	**(179,639)**
Dividends paid	22	(21,629)	(21,629)
Proceeds from taking up long-term debt [1]	23	248,080	347,933
Repayment of long-term debt	23	(259,422)	(619)
Repayment of current and non-current lease liabilities [1]	13/23	(139,709)	(10,342)
Payments for transaction costs		(1,557)	(840)
Change in current financial debt [1]		(71)	1,795
Cash flow from financing activities		**(174,308)**	**316,298**
Cash-effective change in cash and cash equivalents		58,314	140,354
Change in cash and cash equivalents due to changes in exchange rates		1,317	38
Cash and cash equivalents at March 1		242,530	102,138
Cash and cash equivalents at balance sheet date		**302,162**	**242,530**

[1] Previous year's figures adjusted; see "Adjustment to presentation in balance sheet and cash flow statement" in the notes on the basis of preparation for the consolidated financial statements.

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, the updating of financing expenses deferred using the effective interest method, expenses for interest deferrals, non-cash income/expenses for leases, and unrecognized exchange rate differences.

The cash flow from operating activities was reduced by income tax payments of € 22,984k (2018/19: € 27,391k) and interest payments of € 58,761k (2018/19: € 18,518k) and increased by interest received of € 796k (2018/19: € 706k). Of interest payments, € 42,386k (2018/19: € 7,304k) involve interest paid on leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

HORNBACH Baumarkt AG, whose legal domicile is at Hornbachstrasse 11, Bornheim bei Landau/Pfalz, Germany, and its subsidiaries develop and operate DIY megastores with garden centers on an international basis. The company is entered in the Commercial Register (No. HRB 2311) at Landau/Pfalz District Court. Shares in HORNBACH Baumarkt AG are listed in the Prime Standard and traded under ISIN DE0006084403 on the Xetra and Frankfurt am Main exchanges.

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 Federal Gazette (*Bundesanzeiger*).

Basis of preparation

In line with § 315e (1) 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 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 2019/20 financial year. The consolidated financial statements and group management report of HORNBACH Baumarkt AG are published in the Federal Gazette (*Bundesanzeiger*).

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 items. 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 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 18, 2020. The period in which adjusting events could be accounted for thus expired as of this date.

Adjustment to presentation in balance sheet and cash flow statement

Due to the first-time application of IFRS 16 and to enhance transparency, new line items have been added to the balance sheet. Furthermore, the net balances stated for IAS 17 finance lease arrangements as of February 28, 2019 have been reclassified. Further details can be found in the comments on changes to accounting policies due to IFRS 16 "Leases".

In the cash flow statement, depreciation of right-of-use assets will from now on be reported as a separate line item, as will repayments of current and non-current lease liabilities. In this context, an amount of € 12,521k has been reclassified for the 2018/19 financial year from depreciation and amortization of property, plant and equipment and intangible assets to depreciation of right-of-use assets, while € 10,342k has been reclassified from change in current financial debt to repayment of current and non-current lease liabilities. Furthermore, the proceeds from the taking up of a CHF loan of CHF 60 million (€ 52,933k), which is classified as current, have been reclassified from change in current financial debt to proceeds from taking up of financial loans.

Changes to accounting policies due to new accounting requirements

The following policies require mandatory application from the 2019/20 financial year onwards:

- IFRS 16 "Leases"
- IFRIC 23 "Uncertainty over Income Tax Treatments"
- Amendment to IAS 19 "Employee Benefits"
- Amendment to IAS 28 "Investments in Associates and Joint Ventures"
- Amendment to IFRS 9 "Financial Instruments"
- Annual Improvements to IFRS, 2015-2017 Cycle

The implications of the first-time application of IFRS 16 are presented below. The other policies requiring application for the first-time in the 2019/20 financial year did not have any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

Changes to accounting policies due to IFRS 16 "Leases"

Due to IFRS 16, all leases with few exceptions require recognition in the balance sheet at lessees. At HORNBACH, this particularly affects those property rental agreements previously classified as operating leases. Their recognition in the balance sheet materially increased the volume of non-current assets and financial debt as of March 1, 2019. Furthermore, changes also arose within the income statement. Rental payments for operating lease agreements were previously mainly recognized as expenses within selling and store expenses. From now on, depreciation of right-of-use assets is recognized, as are interest expenses for the financial debt item. Depreciation of right-of-use assets continues to be recognized within functional expenses (mainly selling and store expenses). By contrast, interest expenses relating to leases are recognized in net financial expenses, thus leading to an increase in EBIT.

In the cash flow statement, the outflows of funds for "rental payments" are longer recognized in the cash flow from operating activities. These outflows are rather split into interest and principal repayment portions. Interest payments are recognized in the cash flow from operating activities, while principal repayments are recognized in the cash flow from financing activities. This increases the inflow of funds from operating activities. The outflow of funds for financing activities has also risen.

The Group applied IFRS 16 for the first time as of March 1, 2019 and used the modified retrospective method. Comparative information has not been adjusted. Upon initial recognition, right-of-use assets are capitalized in the amount of the lease liabilities thereby determined and reduced by lease payments paid in advance or deferred.

To enhance comparability and given the materiality involved in the presentation of leases, new line items were added to the balance sheet upon first-time application of IFRS 16. From now on, right-of-use assets are recognized as a separate line item within non-current assets. Furthermore, non-current and current lease liabilities are recognized separately from non-current and current financial debt. This presentation also takes due account of the relationship of such items to affiliated companies. In the cash flow statement, depreciation of right-of-use assets and principal payments on lease liabilities are now presented as separate line items. The previous year's presentation with respect to IAS 17 finance leases has been adjusted by analogy with the aforementioned methodology.

This resulted in the following conversion effects in the balance sheet as of March 1, 2019:

€ million	Carrying amount IAS 17 2.28.2019	Reclassification	Conversion effect for leases previously not requiring recognition	Carrying amount IFRS 16 3.1.2019
Non-current assets				
Property, plant, and equipment	1,221.7	(149.0)	0.0	1,072.7
Right-of-use assets	0.0	149.0	1,167.4	1,316.4
Current assets				
Other current assets	60.0		(0.3)	59.7
Non-current liabilities				
Non-current financial debt	447.4	(153.2)	0.0	294.2
Non-current lease liabilities	0.0	153.2	587.2	740.4
Non-current lease liabilities to affiliated companies	0.0		480.8	480.8
Other non-current liabilities	52.4		(19.9)	32.5
Current liabilities				
Current financial debt	314.8	(10.8)	0.0	304.0
Current lease liabilities	0.0	10.8	66.1	76.9
Current lease liabilities to affiliated companies	0.0		58.5	58.5
Other current liabilities	70.3		(0.6)	69.7
Other provisions and accrued liabilities	85.9		(4.9)	81.0

As of the conversion date, around 99 % of right-of-use assets requiring recognition related to land, leasehold rights, and buildings, as well as buildings on third-party land. The remaining share involved advertising space and other plant and office equipment.

The items capitalized upon first-time application took due account of the practical expedient concerning impairment testing. As of March 1, 2019, the provision recognized for onerous rental agreements was therefore offset against the carrying amount of the corresponding right-of-use asset. This reduced right-of-use assets by € 18.2 million. Furthermore, incentive payments received and deferred as liabilities through to February 28, 2019 and deferred obligations relating to graduated rental agreements were offset against the corresponding right-of-use assets, reducing the latter item by € 7.2 million.

Accounting for conversion and current effects (and excluding the effects of finance lease contracts already recognized in accordance with IAS 17 and write-downs of right of use assets), EBIT for the 2019/20 financial year was positively affected by € 21.6 million, while earnings per share were negatively affected by € 0.33. First-time application of the new standard increased the cash flow from operating activities by € 128.7 million.

Reconciliation of lease liabilities (€ million)	
Off-balance sheet lease obligations as of 2.28.2019	**1,039.3**
Properties not yet available for use	(8.1)
"Low value" and "short-term" leases	(0.3)
Purchase options for equipment which are reasonably certain	0.2
Extension or termination options which are reasonably certain (reassessed)	373.4
Lease liabilities as of 3.1.2019 (undiscounted)	**1,404.5**
Discounting	(212.0)
Lease liabilities resulting from first-time application of IFRS 16 as of 3.1.2019	**1,192.5**
Lease liabilities relating to IAS 17 finance leases as of 2.28.2019	164.0
Total lease liabilities as of 3.1.2019	**1,356.5**

Upon initial application, the weighted average incremental borrowing rate amounted to 3.1 %.

The following further options were exercised:

- Application of "low-value" and "short-term" exemptions for all leased items except for items in the "advertising space" asset class
- No application of the standard to leases involving intangible assets
- Separation of lease and non-lease components except for items in the "advertising space" asset class
- Application of a portfolio approach for the "advertising space" asset class, as the Group does not expect any material variance compared with item-specific recognition
- No reassessment as of March 1, 2019 concerning the appraisal of existing leases
- No consideration of directly allocable costs at time of initial application.

Standards and interpretations not applied prematurely

The IASB and the IFRS IC have issued new standards, revisions to existing standards, and interpretations which only require mandatory application in later financial years and which the HORNBACH Baumarkt AG Group has also not applied prematurely.

The following provisions require mandatory application from the 2020 financial year:

- Amendment to IAS 1 "Presentation of Financial Statements"
- Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement"
- Amendment to IFRS 3 "Definition of a Business"
- Amendment to IFRS 7 "Financial Instruments: Disclosures"
- Amendment to IFRS 9 "Financial Instruments"
- Amendments to References to the Conceptual Framework in IFRS Standards

These provisions are not expected to have any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

The following provisions had been published by the International Accounting Standards Board as of the balance sheet date but not yet endorsed by the European Union:

- IFRS 17 "Insurance Contracts"
- Amendments to IAS 1 "Classification of Liabilities as Current or Non-Current".

If endorsed, these new amendments are currently not expected to have any material implications for the Group's asset, financial, and earnings position.

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. Subsidiaries have been included in the consolidated financial statements in accordance with IFRS 10.

Business combinations have been recognized using 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 at cost in accordance with IFRS 9. There were no interests in companies requiring recognition at equity at the balance sheet date.

In addition to HORNBACH Baumarkt AG, the consolidated financial statements include 7 domestic and 29 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 2019/20 financial year.

Changes in the scope of consolidation

HORNBACH Beteiligungen GmbH, Bornheim, was included in the consolidated financial statements for the first time in the 2019/20 financial year. This company was founded in the 2019/20 financial year. Furthermore, HB Services GmbH, Bornheim, was renamed as BODENHAUS GmbH, Essingen, while HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim, was renamed as HORNBACH Forst GmbH, Bornheim.

The HORNBACH Group sold 100 % of the shares in HIAG Fastigheter i Trollhättan AB, Gothenburg, Sweden, to Retail utveckling 1 Holding AB, Boras, Sweden, as of October 31, 2019. The resultant retirement mainly involved property, plant and equipment for the uncompleted development of a location property project. The disposal resulted in a loss of € 228k, which has been recognized as non-operating expenses within pre-opening expenses. HORNBACH received the purchase price of € 187k in liquid funds.

The development in the scope of consolidation was as follows:

	2019/20	2018/19
March 1	**37**	**37**
Companies consolidated for the first time	1	0
Companies sold	1	0
February 28/29	**37**	**37**

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
HORNBACH Beteiligungen GmbH, Bornheim	100	7,809	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	100[5]	44	EUR
HB Reisedienst GmbH, Bornheim	100[5]	7,281	EUR
BODENHAUS GmbH, Essingen	100[5]	(788)	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100[5]	281	EUR
HORNBACH Forst GmbH, Bornheim	100[5]	(547)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100[4]	3,728,748	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	57,705	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	14,113	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	100	1,708	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	10,837	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	145,613	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	100	27,524	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	160,924	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	27,912	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	100	12	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	100	15	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,615	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	1,436	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	1,205	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	1,778	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	1,093	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	2	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(2,311)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	1,226	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	1,179	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,550	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	555	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,517	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,349	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	732	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(77)	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	23,081	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100[3]	153,787	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100	10,564	HKD

[1] Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Asia Ltd., 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.
[5] Of which direct shareholding to HORNBACH Beteiligungen GmbH

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

Foreign 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	
	2.29.2020	2.28.2019	2019/20	2018/19
RON Romania	4.8130	4.7434	4.75437	4.66621
SEK Sweden	10.6738	10.4844	10.61918	10.34089
CHF Switzerland	1.0614	1.1335	1.10221	1.14991
CZK Czech Republic	25.3900	25.6010	25.57998	25.69596
USD USA	1.0977	1.1416	1.11325	1.16638
HKD Hong Kong	8.5550	8.9613	8.70980	9.14648

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 principle
Assets	
Goodwill	Impairment only approach
Intangible assets	
with indefinite useful lives	Impairment only approach
with finite useful lives	At amortized cost
Property, plant, and equipment	At amortized cost
Right-of-use assets	At amortized cost
Investment property	At amortized cost
Financial assets (current/non-current)	
Equity instruments	At fair value
Debt instruments	At amortized cost or fair value depending on business model
Assets from derivatives	At fair value
Inventories	Lower of cost and fair value less costs to sell
Trade receivables	At amortized cost or fair value depending on business model
Contract assets	At amortized cost
Other current assets	
Other receivables (financial instruments)	At amortized cost
Assets from derivatives	At fair value
Non-financial items	At amortized cost
Cash and cash equivalents	At amortized cost
Non-current assets held for sale	Lower of carrying amount and fair value less costs to sell
Equity and liabilities	
Financial liabilities (current/non-current)	
Liabilities to banks	At amortized cost
Liabilities from derivatives	At fair value
Lease liabilities	At amortized cost
Provisions	
Provisions for pensions	Present value of future obligations (projected unit credit method)
Other provisions	Expected settlement amount
Trade payables	At amortized cost
Contract liabilities	At amortized cost
Other liabilities	At amortized cost
Refund liabilities	Expected refund
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. The goodwill impairment test is performed on the basis of the cash generating units, which represent the lowest level within the company for which goodwill is monitored for internal management purposes. 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 in proportion to their respective carrying amounts. 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. Further details can be found under "Impairment of non-current non-financial assets".

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. Further details can be found under "Impairment of non-current non-financial assets".

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".

Lease contracts

Since March 1, 2019, leases have been recognized in accordance with IFRS 16 requirements. As a result, essentially all leases not covered by a practical expedient or an exemption are recognized in the balance sheet with a right-of-use asset for the leased item and a lease liability for the (discounted) payment obligation thereby assumed. The previous year's figures have been recognized using the accounting policy previously applied pursuant to IAS 17.

The application of practical expedients permits expenses for leases identified as short-term according to the definition provided in IFRS 16 and low-value leases to continue to be recognized in the functional expenses in the income statement in the period in which they are incurred. One exception involves the advertising space asset class, for which no application has been made of the aforementioned practical expedients. Furthermore, the Group has not applied the standard to leases involving intangible assets. Apart from the advertising space asset class, in leases which contain non-lease components, the non-lease components have been separated from the lease components.

The calculation of lease liabilities accounts for the following lease payments, which have been discounted using the interest rate implicit in the lease, where this can be determined:

- Fixed payments, less any lease incentives to be paid by the lessor
- Variable payments that depend on an index or interest rate
- Expected residual value payments for residual value guarantees
- The exercise price of a purchase option if such option is assessed as being reasonably certain to be exercised
- Payments of penalties for terminating the lease, if the lease term reflects the exercising of such option.

If the interest rate implicit in the lease cannot be determined, application is made of the lessee's incremental borrowing rate. The lease liability develops on an annuity basis in accordance with the contractually agreed conditions. Interest expenses resulting from compounding are recognized under net financial expenses.

The volume of right-of-use assets is determined on the basis of the following components:

- Lease liabilities
- Lease payments made upon or prior to provision of the asset, less any lease incentives received
- Initial direct costs
- Dismantling obligations not involving regular maintenance.

In subsequent periods, right-of-use assets are measured at amortized cost. Depreciation is recognized on right-of-use assets on a straight-line basis over the term of the contract. Depreciation is recognized in the functional areas to which the assets refer. If there are indications of impairment and if the recoverable amount falls short of amortized cost, then impairment losses are recognized for the right-of-use asset pursuant to IAS 36.

Real estate leases in particular contain extension or termination options which influence the determination of the contractual term and thus the level of right-of-use asset and lease liability. Changes to the term resulting from the exercising or non-exercising of such options are only accounted for when they are reasonably certain. A reassessment is only made if a significant event or significant change in circumstances arises which is within the Group's control or an extension or termination option is actually exercised or not exercised. The reassessment of extension and termination options is performed in accordance with the company's strategic planning. In this respect, the actual values stated also include terms offering extension/termination options for which such options have not yet been legally exercised. From a legal perspective, the company therefore still has the possibility to avoid the respective obligations. The amounts recognized therefore entail opportunity.

For leases in which the Group acts as lessor, it is first reviewed pursuant to IFRS 16 to ascertain whether the leases are operating or finance leases. If substantially all of the risks and rewards incidental to ownership are assigned, the lease is a finance lease and the Group recognizes the assets relating to this lease in the amount of the net investment under other assets in its balance sheet.

Assets relating to leases classified as operating leases are recognized at amortized cost under property, plant and equipment. The respective lease instalments are recognized within the relevant functional area in the period in which they are incurred.

Consistent with the management approach, external and intragroup leases within the Retail segment continue to be presented as operating leases pursuant to IAS 17. In this respect, the Retail segment exclusively reports imputed rental charges. As well as imputed rental income, the Real Estate segment also reports IFRS 16 effects when external leases are involved. For intragroup leases, depreciation and any financing expenses relating to the asset thereby owned are presented in the Real Estate segment.

Impairment of non-current non-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 a cash generating unit is calculated by reference to the discounted future cash flows of the 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 % (2018/19: 1.0 % to 1.5 %) unless the assets in question have finite useful lives. 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 developments in and future expectations as to those procurement terms which significantly determine the expected gross profit (key assumptions).

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 accounts for a risk premium appropriate to 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. 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 3.5 % to 11.2 % after taxes (2018/19: 4.5 % to 9.5 %) and from 3.9 % to 13.4 % before taxes (2018/19: 5.7 % to 11.3 %). 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 is determined by reference to external surveys and assessments based on past experience.

For real estate at individual locations that is owned by the Group and investment property, the net realizable value is determined by external independent surveyors. These determine the fair value (net realizable value) by reference to Level 3 input data using internationally acknowledged methods. These include the comparative value method, capitalized earnings value, and asset value methods. The net realizable value of real estate at individual locations and investment property has been derived used the capitalized earnings value method.

The capitalized earnings value method is based on the achievable rent per annum, adjusted to eliminate property management expenses and other items (administration and rent default risk, return on land value). The earnings derived on this basis are capitalized using the applicable multiplier. Adding the capitalized earnings value to the land value produces the net realizable value. Alongside the input data already mentioned, the surveyors also apply additional premiums and discounts to account for the individual property-specific features (e.g. size, situation, conversion or demolition costs still required).

In the comparative value method, the land value is determined by comparing the prices of properties suitable for comparison or by committees of surveyors referring to corresponding sales of land. The land value determined in this way is also accounted for in the aforementioned capitalized earnings value method.

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.

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. Supplier compensation requiring measurement as a reduction to cost is recognized 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. This is assessed by reference to the strategic five-year planning. Recognized and unrecognized deferred tax assets are reviewed at each balance sheet date to ascertain whether any adjustment in their current values is required.

For recognized leases, the tax deduction potential is allocated to the respective right-of-use assets. Should net consideration of the right-of-use asset and lease liability give rise to temporary differences upon subsequent measurement, then deferred taxes are recognized to the extent that IAS 12 requirements are met.

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.

Risks in connection with legal disputes and court cases are recognized under provisions if the requirements of IAS 37 are met. The amount of provision is measured on the basis of an assessment of the circumstances relevant to the case and represents the likely scope of obligation, including estimated legal expenses. To determine the obligation, the management regularly analyzes the information available on the legal disputes and court cases. Both in-company and external attorneys are involved in this assessment. In deciding whether it is necessary to recognize a provision, the management accounts for the likelihood of an unfavorable outcome and the possibility of estimating the amount of obligation with sufficient reliability.

Provisions are recognized for structural maintenance obligations when the company was contractually obliged to do so. To determine the amount of provision, the company refers to historic information about comparable properties and draws on the expertise of real estate specialists. Additions to the provision are generally recognized on a straight-line basis over the term of the contract in order to account for the pattern of consumption of the underlying rental property.

In the case of accrued liabilities, the date and level of the respective obligation 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 measured 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 assets include financial investments in equity instruments and debt instruments.

Classification
Pursuant to IFRS 9, the classification and measurement of financial assets are determined by reference to the company's business model and the characteristics of the cash flows from the respective financial assets. Upon initial recognition, HORNBACH therefore classifies financial assets either as "measured at amortized cost", "measured at fair value through other comprehensive income", or "measured at fair value through profit or loss".

Financial assets are recognized as of the settlement date. The Group only reclassifies debt instruments when the business model for managing such assets also changes.

Measurement
Upon initial recognition, HORNBACH measures a financial asset at fair value plus – for financial assets not subsequently measured at fair value through profit or loss – the transaction costs directly attributable to the acquisition of the asset. One exception relates to trade receivables not including significant financing components, which are measured at their transaction prices. Transaction costs of assets measured at fair value through profit or loss are directly expensed in the consolidated income statement.

Debt instruments
Depending on the business model and cash flow characteristics involved, the subsequent measurement of debt instruments is as follows:

Subsequent measurement at amortized cost: Assets held to collect contractual cash flows for which such cash flows exclusively comprise interest and principal payments are measured at amortized cost. Interest income on these financial assets is recognized under financial income with due application of the effective interest method. Gains or losses upon derecognition are recognized directly in the income statement.

Subsequent measurement at fair value through other comprehensive income: Assets held to collect contractual cash flows and for sale of the financial assets for which the cash flows exclusively comprise interest and principal payments are recognized at fair value through other comprehensive income. Changes in the carrying amount are recognized through other comprehensive income with the exception of impairment gains or losses, interest income, and exchange rate gains or losses, which are recognized through profit or loss. Upon derecognition of the financial asset, the gain or loss previously recognized through other comprehensive income is reclassified to profit or loss (recycling). Interest income on these financial assets is recognized under financial income with due application of the effective interest method. The Group currently makes no application of this category and only expects to make limited use of it in future.

Subsequent measurement at fair value through profit or loss: Assets which do not meet the criteria for the "measured at amortized cost" or "measured at fair value through other comprehensive income" categories are classified to the "measured at fair value through profit or loss" category. Gains or losses in this category are netted and recognized through profit or loss in the period in which they arise.

Impairments of financial assets are determined using the expected credit loss model. The principle underlying this model is the portrayal of any deterioration or improvement in the credit quality of financial instruments, with expected losses already being accounted for. Apart from for debt instruments with subsequent measurement through profit or loss, the IFRS 9 impairment model is applied to all debt instruments.

The IFRS 9 model draws on a three-level approach to allocate impairments:

- Level 1: 12-month credit losses: applicable to all items (since initial recognition) for which the credit quality has not deteriorated significantly. This involves the recognition of that share of lifetime expected credit losses for the instrument attributable to any default within the next twelve months.
- Level 2: lifetime credit losses – creditworthiness not impaired: applicable when a financial instrument or group of financial instruments has witnessed a significant increase in credit risk but whose creditworthiness is not impaired. This involves the recognition of the lifetime expected credit losses for the financial instrument as an impairment.
- Level 3: lifetime credit losses – creditworthiness impaired: should there be objective indications of any impairment requirement for assets (based on individual consideration), the consideration must be based on the lifetime of the financial instrument.

For Levels 1 and 2, effective interest is calculated on the basis of the gross carrying amount. In Level 3, by contrast, effective interest is calculated by reference to the net carrying amount, i.e. the carrying amount less the risk allowance.

For trade receivables and contract assets, application is made of the simplified approach. This model does not require changes in the credit risk to be tracked. Instead, HORNBACH is required to recognize a risk allowance in the amount of the lifetime expected credit losses both upon initial recognition and at each subsequent balance sheet date. To measure the expected credit risk, the assets are grouped on the basis of their existing credit risk characteristics and respective maturity structures.

The Group has excluded those financial instruments that have only low default risk upon addition (investment grade) from application of the three-stage impairment model. Instead, these assets are always allocated to Level 1 of the impairment model and risk allowances are recognized in the amount of 12-month expected credit losses. These instruments particularly include credit balances at banks, as these funds are exclusively held on a short-term basis at highly creditworthy banks covered by collective deposit security arrangements.

Equity instruments

The Group subsequently measures all of the equity instruments it holds at fair value.

For equity instruments not held for trading, HORNBACH has uniformly exercised the option of recognizing future changes in fair value through other comprehensive income in the consolidated statement of comprehensive income. Upon derecognition of these equity instruments, the gains and losses unrecognized for these instruments through to the time of derecognition are reclassified to revenue reserves and not shown in the income statement (no recycling). Dividends on these instruments continue to be recognized through profit or loss under other income if the Group's claim to receipt of such payments is substantiated.

In a small number of cases, cost may represent an appropriate estimate of fair value. Investments and prepayments for financial assets (equity instruments) are recognized at cost when insufficient new information is available to measure fair value or when a wide range of possible fair value measurements is available and cost represents the best estimate within this range.

Derecognition
HORNBACH derecognizes a financial asset when there is no substantiated expectation that the other party to the contract will meet its contractual obligation. Here, HORNBACH takes discretionary decisions based on the individual case to assess the extent to which the respective contract can be expected to be fulfilled.

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.

Trade receivables and other assets (except derivatives) are initially recognized at fair value or – if they do not include any significant financing component – at their transaction price and subsequently measured at amortized cost using the effective interest method and less any impairments. Impairments are recognized for all identifiable risks. These are determined on the basis of probability-weighted estimates of credit losses and individual risk assessments. The calculation takes account of the best available information and the time value of money. Specific cases of default lead to the receivable in question being derecognized. Write-ups are recognized when the reasons for impairments previously recognized no longer apply.

Claims relating to the retrieval of assets (returns) have been recognized under other assets. The amount of the asset corresponds to the cost of the goods supplied and which are expected to be returned, taking due account of the costs incurred to handle the return and the losses resulting from sale of these goods.

Impairment accounts are maintained for 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.

Contract assets result from tradesman service orders not yet completed for customers. Given that the services are partly unperformed, HORNBACH does not yet have any unconditional claim. In general, contract assets have the same risk characteristics as trade receivables for the same types of contract. The Group has therefore concluded that the expected loss rates for trade receivables represent an appropriate approximation of the loss rates for contract assets.

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 or 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. Other liabilities include those refund liabilities which may arise due to expected returns and retrospective price discounts. They are recognized in the amount of the consideration to which the Group is expected not to be entitled and which is thus not included in the transaction price. 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.

Contract liabilities comprise prepayments received for customer orders and liabilities for customer vouchers and are basically measured at amortized cost. Furthermore, the measurement of customer vouchers also accounts for the IFRS 15 requirements concerning expected non-utilization (breakage).

Derivative financial instruments

Derivative financial instruments, such as forward exchange transactions, are used to hedge exchange rate 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 directly expensed.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 or IFRS 9 are 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.

In applying IFRS 9 for the first time, HORNBACH has exercised the option of continuing to apply IAS 39 hedge accounting requirements rather than IFRS 9 requirements.

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 of the notes to the consolidated financial statements.

Sales

As a DIY retail company, the Group generates the vast share of its sales in simple merchandise and service agreements at its stationary and online retail outlets. These contracts generally do not have any long-term fulfillment characteristics. Control of the goods and services generally passes to the customer at a specific time. That regularly involves the time at which the merchandise is transferred or delivered to the customer or at which the service is performed.

Sales are recognized on a net basis, i.e. net of sales tax, on the basis of the consideration stipulated in the contract and taking due account of expected returns and variable consideration. These include discounts and price reductions due to volume and competition-related factors.

The predominant share of the Group's sales is settled by way of cash and carry or comparable payment forms executed at specific points in time. For transactions in which a period of time separates the transfer of the promised goods or services and payment by the customer, this period of time does not amount to more than 12 months at the start of the contract. The Group therefore foregoes adjusting the promised consideration to account for the time value of money.

As well selling goods and services that are fulfilled at a specific point in time, the Group also offers services that are fulfilled over time. These services involve tradesmen services which HORNBACH sells to end consumers alongside goods to enable projects to be implemented. The period of time over which the service is performed generally only amounts to a few days. The percentage of completion is not continually reviewed. Through to completion, sales are recognized in the amount of the expenses incurred without accounting for any margins. In the balance sheet, the respective items are recognized as contract assets and netted with contract liabilities if a prepayment was made.

Service obligations still to be performed mainly relate to customer orders not yet completed as of the balance sheet date and outstanding customer credits in the form of vouchers. The Group generally expects these service obligations to be fulfilled within the next 12 months. Settlement of customer credit, by contrast, is at the discretion of the customer and may thus involve a longer period.

The Group sells its products with a **right of return** amounting to 30 days for end consumers and to 3 months for holders of the ProjektWelt loyalty card. It recognizes a refund liability (other current liabilities) and a right of recourse for the merchandise (other current assets) for expected returns, with a corresponding reduction to gross profit. Potential returns are estimated using the expected value method on a country-specific basis. To this end, experience values are aggregated in a portfolio for each country and used to determine likely rates of return. The measurement includes daily sales which are deemed highly likely to be reversed. These are multiplied with the probable rates of return to determine the reduction in sales. Application is also made of the current country-specific gross margin to determine the reduction in merchandise input. The assumptions thereby made are validated on an ongoing basis, with adjustments being made where necessary to account for future measurements.

With its **permanent low price guarantee**, HORNBACH offers its customers the possibility of participating in price reductions up to 30 days after purchasing the respective good or service. To account for expected utilization, it recognizes a refund liability (other current liabilities), with a corresponding reduction to sales. The amounts recognized are quantified by reference to experience values on portfolio level for each country. The cost ratios for the permanent low price guarantee are based on historic information and are multiplied by the daily sales generated in the aforementioned period. The assumptions thereby made are validated on an ongoing basis, with adjustments being made where necessary to account for future measurements.

For **customer credits from vouchers** (contract liability), the share of sales for which non-utilization is deemed possible is recognized through profit or loss. This item is recognized within sales and in parallel with the utilized share of the customer credit. The amounts recognized are quantified by reference to experience values on portfolio level for each country. The non-utilization quotas are based on historic information. The assumptions thereby made are validated at regular intervals, with adjustments being made where necessary to account for future measurements.

Other income

Other income is recognized at the time at which control over the promised good or service is transferred to a business partner. The amount of income recognized is based on the fair value of the consideration received, taking due account of variable consideration.

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

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.

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 determining the term of leases and calculating the incremental borrowing rate. In determining the term of leases, all facts and circumstances that could provide HORNBACH with an economic incentive to exercise an extension option or not exercise a termination option are duly accounted for and assessed. In calculating the incremental borrowing rate, both the calculation of the risk-free interest rate and the determination of the risk premium are subject to discretionary decisions. More detailed information can be found in Notes 13 and 23.

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 & 13), the recognition and measurement of provisions (Notes 24, 25 & 28), the calculation of the recoverable amount to determine the amount of any impairments of non-current non-financial assets (Notes 10, 11, 12 & 13), the determination of the net realizable price for inventories (Note 17), and the ability to obtain future tax relief (Notes 8, 16 & 27). Further information can be found in the accounting policies relating to the respective topic and 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 160 (2018/19: 158) DIY megastores and garden centers grouped together in the HORNBACH Baumarkt AG Group and the online shops in 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. Administration items not allocable to the two aforementioned segments and consolidation items are further subdivided into the "Corporate functions" and "Consolidation adjustments" categories.

Segment earnings

As the Group's key earnings figure, adjusted 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. Items allocable to central administration are presented in the "Corporate functions" column. Items eliminated between segments are presented in the "Consolidation adjustments" column. Investments relate to the non-current assets allocable to the respective segment.

2019/20 in € million 2018/19 in € million	Retail	Real Estate	Corporate functions	Consolidation adjustments	HORNBACH Baumarkt AG Group
Segment sales	**4,423.6**	**280.7**	**0.0**	**(276.3)**	**4,428.0**
	4,092.1	178.4	0.0	(175.0)	4,095.5
Sales to third parties	4,423.6	0.0	0.0	0.0	4,423.6
	4,092.1	0.0	0.0	0.0	4,092.1
Rental income from third parties	0.0	4.4	0.0	0.0	4.5
	0.0	3.4	0.0	0.0	3.4
Rental income from affiliated companies	0.0	276.3	0.0	(276.3)	0.0
	0.0	175.0	0.0	(175.0)	0.0
EBIT	**94.1**	**87.3**	**(17.5)**	**0.0**	**163.9**
	6.5	71.6	(10.9)	0.0	67.2
of which: depreciation and amortization/write-ups	54.6	183.9	11.3	0.0	249.9
	42.3	39.4	10.3	0.0	92.0
Segment earnings (adjusted EBIT)	**94.5**	**104.8**	**(17.5)**	**0.0**	**181.8**
	18.1	74.7	(10.9)	0.0	81.9
Segment assets	**1,230.3**	**2,143.9**	**177.6**	**0.0**	**3,551.7**
	1,045.8	1,058.0	222.4	0.0	2,326.3
of which: credit balances at banks	142.2	0.0	118.5	0.0	260.6
	61.8	0.0	157.3	0.0	219.0
Investments	**37.7**	**75.2**	**60.8**	**0.0**	**173.8**
	45.2	128.6	9.7	0.0	183.5
Segment liabilities	**452.5**	**1,646.4**	**303.0**	**0.0**	**2,401.9**
	403.1	552.4	287.3	0.0	1,242.8
of which: financial debt	0.0	1,628.5	247.0	0.0	1,875.5
	0.0	512.2	250.0	0.0	762.1

Reconciliation EBIT <> adjusted EBIT in € million	2019/20	2018/19
EBIT	**163.9**	**67.2**
Impairment of assets (IAS 36)	18.2	6.5
Reversal of impairment losses (IAS 36)	0.0	(1.0)
Additions to provisions for onerous contracts	0.0	11.1
Result from sale or valuation of non-operating real-estate	0.1	(0.8)
Other	(0.4)	(1.0)
Segment earnings (adjusted EBIT)	**181.8**	**81.9**

Reconciliation in € million	2019/20	2018/19
Segment earnings (adjusted EBIT)	**181.8**	**81.9**
Non-operating items	(17.9)	(14.7)
Net financial expenses	(58.2)	(15.5)
Consolidated earnings before taxes	**105.8**	**51.6**
Segment assets	**3,551.7**	**2,326.3**
Deferred tax assets	10.4	6.4
Income tax receivables	2.1	5.3
Total assets	**3,564.2**	**2,338.0**
Segment liabilities	**2,401.9**	**1,242.8**
Deferred tax liabilities	12.6	17.5
Income tax liabilities	17.6	9.1
Total liabilities	**2,432.2**	**1,269.3**

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.

2019/20 in € million 2018/19 in € million	Germany	Other European countries	Consolidation adjustments	HORNBACH Baumarkt AG Group
Sales	**2,568.0**	**2,183.4**	**(323.4)**	**4,428.0**
	2,421.5	1,977.1	(303.1)	4,095.5
Sales to third parties	2,244.9	2,178.7	0.0	4,423.6
	2,118.6	1,973.5	0.0	4,092.1
Sales to affiliated companies	323.0	0.3	(323.3)	0.0
	302.8	0.3	(303.0)	0.0
Rental income from third parties	0.2	4.3	0.0	4.5
	0.1	3.3	0.0	3.4
EBIT	**26.5**	**137.8**	**(0.4)**	**163.9**
	(22.1)	89.3	(0.1)	67.2
Depreciation and amortization/write-ups	146.1	103.7	0.0	249.8
	54.8	37.2	0.0	92.0
Segment earnings (adjusted EBIT)	**35.4**	**146.7**	**(0.3)**	**181.8**
	(13.5)	95.4	0.0	81.9
EBITDA	**172.6**	**241.5**	**(0.4)**	**413.8**
	32.7	126.5	(0.1)	159.1
Assets	**2,180.9**	**1,681.2**	**(310.3)**	**3,551.7**
	1,595.7	1,124.4	(393.9)	2,326.3
of which: non-current assets[*)]	1,160.1	1,179.0	(0.2)	2,338.9
	555.7	691.7	(0.1)	1,247.3
Investments	**76.1**	**97.7**	**0.0**	**173.8**
	93.1	90.5	0.0	183.5

[1)] These involve property, plant and equipment, investment property, right-of-use assets, intangible assets, and non-current deferrals and accruals.

Notes to Consolidated Income Statement

(1) Sales

Sales mainly involve revenues from contracts with customers in the Retail segment. Furthermore, income of € 4,460k (2018/19: € 3,452k) from the letting of real estate has also been reported under sales.

Sales include revenues of € 26,390k which were recognized at the beginning of the period as contract liabilities (2018/19: € 22,542k). Furthermore, these also include retrospective sales of € 2,107k for performance obligations pursuant to IFRS 15 that were satisfied in previous years (2018/19: € 801k).

The following table presents the breakdown of sales by segment:

External sales 2019/20 in € million	Retail	Real Estate	Group figure
of which: Germany	2,244.9	0.2	2,245.1
of which: Other European Countries	2,178.7	4.3	2,183.0
	4,423.6	**4.5**	**4,428.0**

External sales 2018/19 in € million	Retail	Real Estate	Group figure
of which: Germany	2,118.3	0.1	2,118.4
of which: Other European Countries	1,973.8	3.3	1,977.1
	4,092.1	**3.4**	**4,095.5**

(2) Cost of goods sold

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

	2019/20 € 000s	2018/19 € 000s
Expenses for auxiliary materials and purchased goods	2,713,616	2,511,198
Expenses for services rendered	94,073	81,515
	2,807,689	**2,592,713**

(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:

	2019/20 € 000s	2018/19 € 000s
Other income from operating activities		
Income from damages	14,026	2,883
Income from allocations within the HORNBACH HOLDING Group	1,952	1,828
Income from advertising allowances and other reimbursements of suppliers	1,674	1,967
Income from payment differences	1,171	1,550
Income from disposal of non-current assets	864	836
Miscellaneous other income	17,392	14,427
	37,079	**23,491**
Other income from non-operating activities		
Income from disposal of real estate	0	824
Income from write-ups to property, plant, and equipment and investment property	0	390
	0	**1,214**
Other income	**37,079**	**24,705**

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 personnel grants, and income from the reversal of impairments of receivables.

	2019/20 € 000s	2018/19 € 000s
Other expenses from operating activities		
Losses due to damages	8,766	3,094
Impairments and defaults on receivables	1,869	2,400
Losses on disposal of non-current assets	934	1,845
Expenses from payment differences	144	80
Miscellaneous other expenses	3,228	2,928
Other expenses	**14,941**	**10,347**
Net balance (income) of other income and other expenses	**22,137**	**14,358**

(7) Net financial expenses

	2019/20 € 000s	2018/19 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	545	705
Other	251	1
	796	**706**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	15,827	8,443
of which: to affiliated companies	0	1
Interest expenses from lease liabilities, measured at amortized cost	42,386	7,304
of which: to affiliated companies	17,007	0
Interest expenses from compounding of provisions	230	240
Other	1,376	1,063
of which: to affiliated companies	38	39
	59,819	**17,050**
Net interest expenses	**(59,023)**	**(16,345)**
Other financial result		
Gains/losses on derivative financial instruments	1,726	(118)
Gains and losses from foreign currency exchange	(859)	925
	867	**807**
Net financial expenses	**(58,156)**	**(15,538)**

Other interest income mainly includes interest income of € 240k on tax refund claims (2018/19: € 1k).

In line with IFRS 16 "Leases", the interest component of the lease instalments, amounting to € 42,386k (2018/19: € 7,304k) is 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 € 2,409k in the year under report (2018/19: € 2,799k) 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 2.3 % (2018/19: 2.5 %).

The gains and losses from foreign currency exchange for the 2019/20 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 540k (2018/19: net income of € 413k). Furthermore, this item also includes realized exchange rate gains of € 5,191k (2018/19: € 7,334k) and realized exchange rate losses of € 5,510k (2018/19: € 6,823k).

(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 unchanged average trade tax rate of approximately 13.6 % of their trading income (2018/19: 13.4 %). 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 8.5 % to 27 % (2018/19: 8.5 % to 28 %).

The actual income tax charge of € 27,085k (2018/19: € 10,684k) is € 4,646k lower (2018/19: € 4,800k) than the expected tax charge of € 31,731k (2018/19: € 15,484k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Baumarkt AG (2018/19: 30 %) to the Group's pre-tax earnings of € 105,770k (2018/19: € 51,614k).

Deferred tax assets have been stated for losses carried forward amounting to € 18,971k (2018/19: € 32,339k). 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 € 48,436k (2018/19: € 42,831k), 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 € 61k for which no deferred taxes had been recognized were utilized (2018/19: € 8k).

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 € 468,065k at subsidiaries (2018/19: € 379,767k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of tax charge:

	2019/20 € 000s	2018/19 € 000s
Current taxes on income		
Germany	4,058	873
Other countries	30,768	20,887
	34,826	**21,760**
Deferred tax expenses/income		
due to changes in temporary differences	(11,920)	(3,944)
due to changes in tax rates	101	(551)
due to losses carried forward	4,078	(6,581)
	(7,741)	**(11,076)**
Taxes on income	**27,085**	**10,684**

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

	2019/20		2018/19	
	€ 000s	%	€ 000s	%
Expected income tax charge	31,731	100.0	15,484	100.0
Difference between local tax rate and group tax rate	(11,391)	(35.9)	(8,276)	(53.4)
Tax-free income	(708)	(2.2)	(306)	(2.0)
Tax reductions/increases due to changes in tax rates	101	0.3	(551)	(3.5)
Tax increases attributable to expenses not deductible for tax purposes	4,818	15.2	3,893	25.1
Tax effects on losses carried forward	1,512	4.8	2,032	13.1
Non-period current and deferred taxes	1,022	3.2	(1,592)	(10.3)
Taxes on income	**27,085**	**85.4**	**10,684**	**69.0**
Effective tax rate in %	25.6		20.7	

The non-period current tax income of € 201k (2018/19: tax expenses of € 825k) chiefly results from adjustments to provisions for the external tax audit concluded for the years from 2012 to 2016 (€ 287k).

The non-period deferred tax expenses of € 1,223k (2018/19: tax income of € 2,417k) chiefly result from the derecognition of deferred tax assets which are no longer expected to be realized in future.

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

	2019/20 € 000s	2018/19 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	(8,675)	(3,339)
Change in deferred taxes	1,355	313
	(7,320)	**(3,026)**
Measurement of available for sale financial assets		
Measurement of equity instruments	3,149	791
Change in deferred taxes	(47)	(12)
	3,102	779
Initial application of IFRS 9 & 15		
Changes in value due to first-time application of IFRS 9 & 15	0	2,671
Change in deferred taxes	0	(705)
	0	1,966
Exchange differences arising on the translation of foreign subsidiaries	**10,482**	**983**
Other comprehensive income, net after taxes	**6,264**	**703**
of which: other comprehensive income before taxes	4,956	1,106
of which: change in deferred taxes	1,308	(403)

(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.

	2019/20	2018/19
Weighted number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG (in €)	78,685,117	40,929,629
Earnings per share in €	**2.47**	**1.29**

(10) Other disclosures on the income statement

Non-operating items

The overview below outlines the allocation of those reconciliation items arising between EBIT and the Group's key earnings figure of adjusted EBIT to the individual functional areas:

2019/20 financial year € 000s	Impairments due to impairment test (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(18,163)	0	0	0	0	1,619	(16,544)
Pre-opening expenses	0	0	0	(132)	(533)	(678)	(1,343)
Other income and expenses	0	0	0	0	0	0	0
	(18,163)	**0**	**0**	**(132)**	**(533)**	**941**	**(17,887)**

2018/19 financial year € 000s	Impairments due to impairment test (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(6,493)	656	(11,074)	0	0	2,379	(14,532)
Pre-opening expenses	0	0	0	0	0	(1,390)	(1,390)
Other income and expenses	0	390	0	824	0	0	1,214
	(6,493)	**1,046**	**(11,074)**	**824**	**0**	**989**	**(14,708)**

Personnel expenses

The individual functional expense items include the following personnel expenses:

	2019/20 € 000s	2018/19 € 000s
Wages and salaries	657,283	598,955
Social security contributions and pension expenses	144,947	130,002
	802,230	**728,957**

Depreciation and amortization

	2019/20 € 000s	2018/19 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment, investment property, and right-of-use assets	231,538	86,529
Impairments of intangible assets, property, plant and equipment, investment property, and right-of-use assets	18,295	6,493
	249,833	**93,022**

The impairment losses recognized in the 2019/20 financial year relate to intangible assets, land, buildings, right-of-use assets, and plant and office equipment. In the previous year, impairment losses related to intangible assets, land, buildings, outdoor facilities, and plant and office equipment. Reference is also made to the disclosures on intangible assets, property, plant and equipment, and right-of-use assets in Notes 11, 12, and 13 respectively.

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

2019/20 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	856	69,652	163,534	234,042
Pre-opening expenses	0	289	0	289
General and administration expenses	5,030	7,937	2,536	15,503
Other income and expenses	0	0	0	0
	5,885	**77,878**	**166,069**	**249,833**

2018/19 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	175	67,312	12,521	80,009
Pre-opening expenses	0	135	0	135
General and administration expenses	5,043	7,836	0	12,879
	5,218	**75,283**	**12,521**	**93,022**

Items of € 12,521k were reclassified in the previous year from the "Property, plant and equipment and investment property" line item to the "Right-of-use assets" line item.

Notes to Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2018/19 and 2019/20 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, 2018	98,656	3,271	2,427	104,354
Additions	3,790	0	559	4,349
Disposals	180	0	631	811
Reclassifications	1,317	0	(1,315)	2
Foreign currency translation	(2)	0	0	(2)
Balance at February 28/March 1, 2019	**103,581**	**3,271**	**1,040**	**107,892**
Additions	2,801	0	1,547	4,348
Disposals	503	0	0	503
Reclassifications	117	0	(105)	12
Foreign currency translation	8	0	0	8
Balance at February 29, 2020	**106,004**	**3,271**	**2,482**	**111,757**
Amortization				
Balance at March 1, 2018	85,462	0	0	85,462
Additions	5,218	0	0	5,218
Disposals	180	0	0	180
Foreign currency translation	(2)	0	0	(2)
Balance at February 28/March 1, 2019	**90,498**	**0**	**0**	**90,498**
Additions	5,885	0	0	5,885
Disposals	502	0	0	502
Foreign currency translation	7	0	0	7
Balance at February 29, 2020	**95,893**	**0**	**0**	**95,893**
Carrying amount at February 29, 2020	**10,111**	**3,271**	**2,482**	**15,864**
Carrying amount at February 28, 2019	13,083	3,271	1,040	17,394

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 2019/20 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. The pre-tax discount rates applied in the 2019/20 financial year amounted to 8.7 % and 4.7 % (2018/19: 8.6 % and 6.1 %). 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 2019/20 financial year, impairment requirements were identified for intangible assets in the Austria region. These were written down by € 766k to their net realizable value (2018/19: € 105k). Furthermore, reference is made to the information on property, plant and equipment in Note 12.

(12) Property, plant and equipment and investment property

Property, plant and equipment developed as follows in the 2018/19 and 2019/20 financial years:

€ 000s	Land, leasehold rights, and buildings, including buildings on third-party land	Right-of-use assets	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost						
Balance at March 1, 2018	1,027,411	188,034	21,870	633,674	51,711	1,922,700
Reclassifications to/from non-current assets held for sale	(600)	0	(776)	0	0	(1,376)
Additions	116,017	0	0	48,061	15,123	179,201
Disposals	4,077	0	0	24,772	102	28,951
Reclassifications pursuant to IAS 40	12,001	0	(12,001)	0	0	0
Reclassifications	29,323	0	0	4,674	(33,999)	(2)
Foreign currency translation	750	(263)	0	(815)	548	220
Balance at February 28/March 1, 2019	**1,180,824**	**187,771**	**9,093**	**660,822**	**33,281**	**2,071,792**
Adjustments due to IFRS 16	0	1,167,401	0	0	0	1,167,401
Balance at March 1, 2019 adjusted	**1,180,824**	**1,355,172**	**9,093**	**660,822**	**33,281**	**3,239,193**
Changes in scope of consolidation	0	0	0	0	(380)	(380)
Additions	33,246	76,683	0	44,968	14,537	169,434
Disposals	178	16,542	0	22,411	910	40,041
Reclassifications pursuant to IAS 40	(324)	0	324	0	0	0
Reclassifications	8,758	0	0	1,227	(9,997)	(12)
Foreign currency translation	13,433	4,077	0	2,457	850	20,817
Balance at February 29, 2020	**1,235,759**	**1,419,390**	**9,417**	**687,063**	**37,381**	**3,389,011**
Depreciation						
Balance at March 1, 2018	266,821	26,278	3,178	487,323	0	783,600
Additions	29,031	12,521	134	46,118	0	87,804
Write-ups	(305)	0	(390)	(351)	0	(1,046)
Disposals	3,327	0	0	22,846	0	26,173
Reclassifications pursuant to IAS 40	390	0	(390)	0	0	0
Reclassifications	(9)	0	0	9	0	0
Foreign currency translation	27	(34)	0	(641)	0	(648)
Balance at February 28/March 1, 2019	**292,628**	**38,765**	**2,532**	**509,612**	**0**	**843,537**
Additions	29,698	166,069	146	48,034	0	243,947
Disposals	66	3,662	0	20,771	0	24,499
Reclassifications pursuant to IAS 40	(27)	0	27	0	0	0
Reclassifications	103	0	0	(108)	0	(5)
Foreign currency translation	1,571	386	0	1,845	0	3,802
Balance at February 29, 2020	**323,907**	**201,558**	**2,705**	**538,612**	**0**	**1,066,782**
Carrying amount at February 29, 2020	**911,852**	**1,217,832**	**6,712**	**148,451**	**37,381**	**2,322,229**
Carrying amount at February 28, 2019	888,197	149,006	6,561	151,210	33,281	1,228,255

Assets of € 149,006k were reclassified in the previous year from the "Land, leasehold rights and buildings, including buildings on third-party land" asset class to "Right-of-use assets".

Further information about and disclosures on the right-of-use assets can be found in Note 13.

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 exceeds its value in use, the net realizable values of the CGUs were also determined. The value of any real estate allocable to the CGU was determined by reference to external property valuations. Values were determined using the capitalized earnings method pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). The surveyors based their calculations on the following parameters:

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m²)	5.25 €	5.75 €
Outside area (€/m²)	1.31 €	1.44 €
Administrative costs (% per annual earnings)	1.00 %	1.00 %
Maintenance costs (€/m²)	0.98 €	2.64 €
Real estate interest rate	5.25 %	5.50 %

Due to the lack of third-party utilization options, a net realizable value of zero was stated for marketing-oriented and sales promotional plant and office equipment. Given the useful lives selected, the net realizable value of the other plant and office equipment included in the calculation did not fall short of its carrying amount, as a result of which the net realizable value basically corresponds to the current carrying amount.

Due to changes in the planning scenarios on the level of individual cash generating units, the impairment tests performed in the 2019/20 financial year resulted in the identification of impairment requirements on intangible assets, marketing-oriented and sales promotional plant and office equipment, right-of-use assets, and real estate at 18 stores, which each constitute cash generating units, in the Germany region, at two stores in Austria, and at one store in Sweden. These items were written down by € 6,400k to their net realizable values, which were determined by reference to Level 3 input data. Furthermore, write-downs of € 11,763k to the values in use were recognized. These were calculated using the discounted cash flow method. The pre-tax discount rates used to determine the values in use ranged between 4.7 % and 11.9 %. The total recoverable amount for these locations amounts to € 41,490k.

In the previous year, impairment requirements were identified for intangible assets, marketing-oriented and sales promotional plant and office equipment, and for real estate at three stores in the Germany region, and at one store in Austria. These items were written down by € 5,549k to their net realizable values, which were determined by reference to Level 3 input data. The recoverable amount for these locations amounted to € 22,777k. Furthermore, a write-down of € 944k to the value in use was also recognized in the previous year. This was calculated using the discounted cash flow method. The country-specific pre-tax discount rate used to determine the value in use amounted to 9.4 %. The recoverable amount for this location amounts to € 6,012k.

As in the previous year, no impairment losses to net realizable value were recognized for items of investment property in the 2019/20 financial year.

In the previous 2018/19 financial year, write-ups of € 351k were recognized in the Retail segment. These involved write-backs of impairment losses recognized in previous years for marketing-oriented and sales promotional plant and office equipment at two stores. The recoverable amount for these locations amounted to € 26,574k. Write-ups of € 695k were recognized in the Real Estate segment in the previous year. These on the one hand involved the write-back of an impairment loss of € 305k recognized on a building in previous years. The recoverable amount for this location amounted to € 23,945k. On the other hand, a write-back of € 390k was recognized on the net realizable value of a piece of land not used for operations.

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

€ 000s	2019/20	2018/19
Retail segment		
Other equipment, plant, and office equipment	1,583	855
	1,583	**855**
Real Estate segment		
Intangible assets	766	105
Land	756	2,993
Buildings	3,427	2,329
Outdoor facilities	0	211
Right-of-use assets	11,763	0
	16,712	**5,638**
Total	**18,295**	**6,493**

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 around € 10.1 million (2018/19: € 9.9 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. Application is also made of the comparative value method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

Rental income of € 487k was generated on properties let to third parties in the year under report (2018/19: € 489k). Expenses of € 330k were incurred for the maintenance of the properties let to third parties (2018/19: € 344k). Expenses of € 36k were incurred for all other items of investment property (2018/19: € 42k).

As in the previous year, the HORNBACH Baumarkt AG Group had not provided any land charges as security for liabilities to banks as of February 29, 2020.

(13) Leases

The leases for which the right-of-use assets are recognized (see Note 12) developed as follows in the 2019/20 financial year:

2019/20 financial year € 000s	Land, leasehold rights, and buildings, including buildings on third-party land	Other equipment, plant, and office equipment	Total
Carrying amount at March 1, 2018	161,756	0	161,756
Depreciation	12,521	0	12,521
Foreign currency translation	(229)	0	(229)
Carrying amount at February 28, 2019	**149,006**	**0**	**149,006**
Carrying amount at March 1, 2019	**149,006**	**0**	**149,006**
Adjustments due to IFRS 16	1,158,672	8,728	1,167,401
Carrying amount at March 1, 2019 (adjusted)	**1,307,679**	**8,728**	**1,316,407**
Additions	68,962	7,721	76,683
Depreciation	157,367	8,702	166,069
Disposals	10,805	2,075	12,880
Foreign currency translation	3,692	(1)	3,691
Carrying amount at February 29, 2020	**1,212,161**	**5,671**	**1,217,832**

In the field of land and buildings, the Group predominantly leases retail properties, including land and parking spaces, office buildings, and logistics centers. In the field of other equipment, plant and office equipment, the Group mainly leases physical advertising space, vehicles, and logistics-related plant and office equipment.

The contracts for land and buildings generally have fixed terms of up to 15 years (except for leasehold agreements) and include arrangements for extension and termination options. The provisions governing options and other conditions are individually negotiated for each contract. Alongside conditions which influence the respective term, the contracts also include rental price adjustment clauses linked to the development in consumer price indices. These increase the right-of-use asset and the lease liability as soon as the rate of increase for the consumer price index agreed in the contract is reached.

As of February 29, 2020, the contract portfolio comprises 184 property lease agreements. The weighted remaining term of this portfolio amounts to 9.6 years. The weighted remaining term of leases for plant and office equipment amounts to 2.0 years.

As of the reporting date, the Group has entered into several lease arrangements as a lessee in which the assets will only be assigned for use in the future or the respective contracts are still subject to conditions precedent. The resultant (undiscounted) payments for the non-terminable basis lease term amount to € 138,549k.

The following amounts were recognized in the income statement and the cash flow statement in the 2019/20 financial year:

	2019/20 € 000s
Sales / other income	
Income from operating lease contracts	5,230
Income from sublease contracts	3,396
Other income from real estate lease contracts (service charge)	1,488
Selling and store expenses / pre-opening expenses / general and administration expenses	
Expenses for short-term lease contracts	3,700
Expenses for leases involving low-value assets	1,411
Other expenses for real estate lease contracts (service charge)	6,943
Depreciation and amortization	
Depreciation of right-of-use assets	154,306
of which: for lease contracts with affiliated companies	66,022
Impairment of right-of-use assets	11,763
of which: for lease contracts with affiliated companies	3,574
Net financial expenses	
Interest expenses for lease liabilities	42,386
of which: for lease contracts with affiliated companies	17,007
Outflow of cash in connection with leases	**199,866**

The "Other expenses for real estate lease contracts (service charge)" line item includes variable lease payments and ancillary expenses.

Lease liabilities have the following maturities:

€ 000s	2019/20		2018/19	
	Nominal value	Present value	Nominal value	Present value
Maturity < 1 year	178,376	138,697	17,592	10,796
Maturity 2 - 5 years	683,545	569,564	70,369	48,142
Maturity > 5 years	650,668	575,360	121,316	105,079
	1,512,588	**1,283,621**	**209,277**	**164,017**

The receivables of € 10,064k from operating lease contracts (2018/19: € 9,057k) mainly relate to retail properties let to third parties, open space, and office space. The contracts generally have terms of up to 15 years. There are no purchase options on the part of the lessees. In individual cases, the contracts include provisions governing extension options.

The receivables from operating lease contracts have the following maturities. For rental contracts with indefinite useful lives, rental income has only been recognized for up to one year.

Rental income from third parties € 000s	Maturities 1 year	2 years	3 years	4 years	5 years	> 5 years	Total
February 29, 2020	4,704	1,971	1,570	1,203	362	254	10,064
February 28, 2019	5,550	1,816	639	423	327	302	9,057

(14) Financial assets

The development in financial assets in the 2018/19 and 2019/20 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2018	6,543	6,543
Measurement of available for sale financial assets (FVtOCI)	791	791
Balance at February 28/March 1, 2019	**7,334**	**7,334**
Measurement of available for sale financial assets (FVtOCI)	3,149	3,149
Balance at February 29, 2020	**10,483**	**10,483**
Carrying amount at February 29, 2020	**10,483**	**10,483**
Carrying amount at February 28, 2019	7,334	7,334

Financial assets include a ten-percent shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic, which is classified at fair value through other comprehensive income. Information about the measurement assumptions can be found in the information about financial instruments in Note 32.

The Group currently has no intention to sell the financial assets.

(15) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of accruals of € 790k with a remaining term of more than one year (2018/19: € 1,686k).

(16) Deferred taxes

Deferred taxes relate to the following items:

	2.29.2020		2.28.2019	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	692	28,466	647	30,855
Leases	15,705	0	2,953	0
Inventories	781	4,574	771	4,211
Other provisions	12,433	13	11,941	185
Liabilities	1,212	573	157	163
Other assets and liabilities	413	2,838	2,489	1,704
Losses carried forward	3,022	0	7,055	0
	34,258	**36,464**	**26,013**	**37,118**
Set-off	(23,816)	(23,816)	(19,657)	(19,657)
Total	**10,442**	**12,648**	**6,356**	**17,461**

(17) Inventories

	2.29.2020 € 000s	2.28.2019 € 000s
Auxiliary materials and supplies	2,212	2,143
Finished products and merchandise	822,546	764,043
Inventories (gross)	**824,758**	**766,186**
less valuation allowances	10,319	10,510
Inventories (net)	**814,438**	**755,676**
Carrying amount of inventories measured at net realizable value	35,587	34,994

Expenses of € 2,703,390k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2019/20 financial year (2018/19: € 2,498,973k).

(18) Trade receivables and other current assets

These comprise the following items:

	2.29.2020 € 000s	2.28.2019 € 000s
Trade receivables	10,691	10,290
Receivables from affiliated companies	922	1,043
Contract assets	1,566	1,569
Positive fair values of derivative financial instruments	339	185
Other receivables and assets	71,771	59,772
	85,289	**72,859**

Trade receivables are initially recognized at fair value or – if they do not include any significant financing component – at their transaction price. The Group holds trade receivables to collect the contractual cash flows and subsequently measures them at amortized cost using the effective interest method and less any impairments. Details of the impairment methods used by the Group can be found in the information provided on the accounting policies applied in the consolidated financial statements and in Note 33.

Trade receivables include receivables of € 1,765k (2018/19: € 1,618k) 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. For these receivables, the business model involves selling these assets; in view of this, these receivables are measured at fair value. 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 9. 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 € 38k (2018/19: € 30k) 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 € 2,392k as of February 29, 2020 (2018/19: € 1,949k) 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 2019/20 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 371k (2018/19: € 308k).

Contract assets represent the contingent claims from customers for tradesman orders not yet completed.

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. This item also includes recourse claims of € 4,270k for expected returns (2018/19: € 3,737k).

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

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

€ 000s	Trade receivables		Other receivables and assets	
	2019/20	2018/19	2019/20	2018/19
Allowances at March 1	**1,409**	**767**	**822**	**2,251**
Utilization	251	241	124	1,730
Reversals	533	319	267	48
Additions	1,235	1,198	154	347
Foreign currency translation	4	4	4	2
Allowances at February 29/28	**1,864**	**1,409**	**589**	**822**

Within the allowances recognized for trade receivables, the risk provision is basically accounted for using the simplified allowance model as follows: A risk provision of € 660k depending on the term and in the range 0.23 % - 2.38 % (2018/19: € 697k in the range: 0.20 % - 1.95 %) and individual allowances of € 1,204k recognized due to objective indications or payment difficulties (2018/19: € 712k).

Within the allowances recognized for other receivables and assets, the risk provision is basically accounted for using the general allowance model as follows: individual allowances of € 391k due to objective indications (2018/19: € 470k) and further individual allowances of € 91k depending on the extent to which the receivables are overdue (2018/19: € 267k). The risk provision for contract assets is based on the simplified allowance model and, at the end of the financial year, amounted to € 107k (2018/19: € 85k).

The complete derecognition of receivables resulted in expenses of € 501k (2018/19: € 842k). The receipt of receivables already derecognized resulted in income of € 36k (2018/19: € 24k).

In the 2019/20 financial year, there were no material balances of derecognized receivables subject to execution proceedings.

(19) Cash and cash equivalents

	2.29.2020 € 000s	2.28.2019 € 000s
Cash balances at banks	260,644	219,029
Checks and cash on hand	41,518	23,501
	302,162	**242,530**

(20) Non-current assets held for sale

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

In the previous year, one piece of land with a carrying amount of € 776k was reclassified out of the "investment property" balance sheet line item and sold with a profit of € 824k. A further piece of land with a carrying amount of € 600k was reclassified out of the "property, plant and equipment" balance sheet line item and sold at its carrying amount. Both of these pieces of land were allocated to the "Real Estate" segment.

(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 2018/19 and 2019/20 financial years.

Share capital

The Annual General Meeting held 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 2, 2019, the employees of HORNBACH Baumarkt AG and its foreign subsidiaries were offered employee shares at a preferential price of € 10.00 per share. A total of 52,470 shares were acquired via the stock exchange at an average price of € 16.82 and subsequently assigned to employees. An amount of € 117k 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 (€ 9.05) was recognized through profit or loss.

WpHG voting right notifications

§ 33 (1) of the German Securities Trading Act (WpHG) requires shareholders to disclose the fact that their share of voting rights has reached, exceeded, or fallen short of specific disclosure thresholds within four trading days. These thresholds amount to 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 %, and 75 %. Similar disclosure obligations are set out in § 38 and § 39 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 § 40 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, 2019 to February 29, 2020. 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 2019/20 financial year. The equity ratio amounted to 31.8 % as of February 28, 2020 (2018/19: 45.7 %).

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 2019/20 financial year with an annual net surplus of € 31,940,228.94.

Following the allocation of € 10,311,468.94 to other revenue reserves, the unappropriated net profit amounts to € 21,628,760.00.

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 29, 2020 be appropriated as follows:

	€
Dividend of € 0.68 on 31,807,000 shares	21,628,760.00
	21,628,760.00

By resolution of the Annual General Meeting held on July 4, 2019, a dividend of € 0.68 (2018/19: € 0.68) per share was distributed on a total of 31,807,000 (2018/19: 31,807,000) individual shares in the 2019/20 financial year. The total amount distributed thus amounted to € 21,629k (2018/19: € 21,629k).

(23) Financial debt

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

€ 000s	Maturities			Carrying amount 2.29.2020
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Bonds		0	246,646	246,646
Liabilities to banks	50,589	177,563	116,740	344,892
Lease liabilities	138,697	569,564	575,360	1,283,621
Negative fair values of derivative financial instruments	325			325
Total	**189,612**	**747,126**	**938,746**	**1,875,485**

€ 000s	Maturities			Carrying amount 2.28.2019
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Bonds	249,459	0	0	249,459
Liabilities to banks	53,972	177,475	116,688	348,134
Lease liabilities	10,796	48,142	105,078	164,017
Negative fair values of derivative financial instruments	523			523
Total	**314,750**	**225,617**	**221,766**	**762,134**

The HORNBACH Baumarkt AG Group had current financial debt amounting to € 189.6 million at the balance sheet date on February 29, 2020 (2018/19: € 314.8 million). This consists of the portion of loans and bonds maturing in the short term, amounting to € 47.1 million (2018/19: € 302.4 million), lease liabilities of € 138.7 million (2018/19: € 10.8 million), liabilities of € 0.3 million relating to the measurement of derivative financial instruments (2018/19: € 0.5 million), and interest deferrals of € 3.5 million (2018/19: € 1.0 million). The significant reduction in current financial debt is chiefly due to the refinancing of the corporate bond maturing at HORNBACH Baumarkt AG in February 2020 and the resultant statement under non-current financial debt. The significant increase in total financial debt is mainly due to the amended recognition of lease liabilities pursuant to IFRS 16. Further information about this can be found in Note 13 "Leases".

The interest of € 2,842k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2018/19: € 372k).

In the past financial year, the HORNBACH Baumarkt AG Group placed a new corporate bond of € 250 million to refinance the former bond maturing in February 2020. The following table provides an overview:

Borrower	Instrument	Amount		Start of term	Maturity	Interest
HORNBACH Baumarkt AG	Corporate bond	250 million	EUR	10.25.2019	10.26.2026	3.25 % *

*) Based on an issue price of 99.232 % the effective yield amounts to 3.48 %. The costs of € 1,610k and disagio of € 1,902k have been spread over the term using the effective interest method.

In addition, the Group has the following material financing facilities:

Borrower	Instrument	Amount		Start of term	Maturity	Interest
HORNBACH Holding B.V.	Promissory note bond	52 million	EUR	9.13.2018	9.13.2023	Fixed*
HORNBACH Holding B.V.	Promissory note bond	43 million	EUR	9.13.2018	9.15.2025	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	126 million	EUR	2.22.2019	2.22.2024	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	74 million	EUR	2.22.2019	2.23.2026	Fixed*
HORNBACH Baumarkt (Schweiz) AG	Bilateral loan	50 million	CHF	11.22.2019***	11.18.2020	Variable **

* The costs relating to the issue have been spread over the term.
** 3-month CHF-LIBOR+margin
*** The existing loan was reduced by CHF 10 million and extended on November 22, 2019.

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

2019/20 financial year	Currency	Interest agreement in %	Maturity	Amount 2.29.2020 € 000s
Loans*	EUR	1.13 to 2.00	2023 to 2026	294,303
				294,303

2018/19 financial year	Currency	Interest agreement in %	Maturity	Amount 2.28.2019 € 000s
Loans	EUR	1.13 to 2.00	2023 to 2026	294,163
				294,163

All of the unsecured non-current liabilities to banks in the year under report have fixed interest rates.

As of February 29, 2020, the HORNBACH Baumarkt AG Group had total credit lines of € 385.8 million (2018/19: € 385.4 million) on customary market terms. Unutilized credit lines amounted to € 379.5 million (2018/19: € 380.4 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits.

The credit lines at the HORNBACH Baumarkt AG Group include a syndicated credit line of € 350 million at HORNBACH Baumarkt AG that was agreed on December 22, 2017 and has a term until December 22, 2024. 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 € 70 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.

No assets have been provided as security for the credit lines, the promissory note bonds, or the corporate 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 change of control, cross default, and cross acceleration 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. Comparable maximum limits were also agreed for the promissory note bonds at the HORNBACH Baumarkt AG Group. The corporate bond at HORNBACH Baumarkt AG is also subject to a comparable limit on financing facilities secured by land charges. The interest cover, 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.

As of February 29, 2020, the HORNBACH Baumarkt AG Group had not provided any land charges as security for liabilities to banks.

The following reconciliation presents the changes in financial liabilities and derivative financial instruments relating to the Group's financing activities:

Reconciliation pursuant to IAS 7 in € 000s	3.1.2019	Initial effect of IFRS 16	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.29.2020
					Changes in exchange rates	Changes in fair values	Other changes	
Bonds	249,459		(13,164)	9,688	0	0	665	246,647
Liabilities to banks	348,134		(14,112)	4,691	3,596	0	2,584	344,892
Lease liabilities	164,017	1,192,501	(182,104)	42,395	4,336	0	62,475	1,283,621
Financial and similar liabilities	**761,609**	**1,192,501**	**(209,380)**	**56,773**	**7,932**	**0**	**65,724**	**1,875,159**

Reconciliation pursuant to IAS 7 in € 000s	3.1.2018	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.28.2019
				Changes in exchange rates	Changes in fair values	Other changes	
Bonds	248,844	-9,688	9,688	0	0	614	249,459
Liabilities to banks	1,001	346,860	56	(4)	0	222	348,134
Lease liabilities	174,115	(17,568)	7,304	167	0	0	164,017
Financial and similar liabilities	**423,959**	**319,604**	**17,047**	**162**	**0**	**837**	**761,609**

(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 € 60,152k in the 2019/20 financial year (2018/19: € 55,815k). Of this total, an amount of € 31,810k involved the employer's share of contributions to the state pension scheme in Germany (2018/19: € 31,374k).

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 € 4,939k in the 2020/21 financial year.

Defined benefit plans

- **Switzerland**

  The HORNBACH Baumarkt AG Group has one fund-financed pension plan 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 881 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 2011/12 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 associated 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. Due to their pension-like character, these "other long-term benefits" have been recognized under pensions and similar obligations.

Pensions and similar obligations are structured as follows:

	2019/20 € 000s	2018/19 € 000s
Present value of pension obligation	94,404	76,945
less fair value of plan assets	(70,170)	(62,719)
Pension commitments as reported in balance sheet	**24,234**	**14,226**
of which: pension provisions	24,234	14,226

The plan assets were structured as follows at the balance sheet date:

	2.29.2020 %	2.28.2019 %
Debt securities	77,1	76,7
Shares	6,4	5,1
Real estate	12,9	12,6
Other	3,6	5,5
	100,0	**100,0**

Change in pension obligation

	2019/20 € 000s	2018/19 € 000s
Present value of pension obligation at the beginning of the period	76,945	65,768
Current service cost of employer	4,775	4,030
Past service cost	(402)	(181)
Employee contributions	3,680	2,886
Payments from the plan	(3,312)	382
Interest cost	920	705
Remeasurement effects because of:		
Changes in demographic assumptions	(4,979)	8
Changes in financial assumptions	13,961	1,228
From experience adjustments	(179)	2,551
Insurance premiums	(1,359)	(1,344)
Foreign currency translation	4,354	912
Present value of pension obligation at the end of the period	**94,404**	**76,945**

Change in plan assets

	2019/20 € 000s	2018/19 € 000s
Plan assets at beginning of period	62,719	54,948
Employer contributions	3,843	3,828
Employee contributions	3,680	2,886
Payments from the plan	(3,312)	382
Interest income	801	608
Return on plan assets (excluding interest income)	496	713
Insurance premiums	(1,359)	(1,344)
Foreign currency translation	3,303	697
Plan assets at the end of the period	**70,170**	**62,719**

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.

	2019/20 € 000s	2018/19 € 000s
Current service cost of employer	4,775	4,030
Past service cost	(402)	(181)
Interest cost	920	705
Interest income	(801)	(608)
Effects recognized in P&L	**4,492**	**3,946**
Remeasurement effects because of:		
Changes in demographic assumptions	4,979	(8)
Changes in financial assumptions	(13,961)	(1,228)
From experience adjustments	179	(2,551)
Return on plan assets (excluding interest income)	496	713
Effects recognized in OCI	**(8,307)**	**(3,074)**
Costs for defined benefit plans	**12,799**	**7,020**

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:

	2019/20 € 000s	2018/19 € 000s
Selling and store expenses	3,188	2,669
Pre-opening expenses	0	61
General and administration expenses	1,185	1,119
Net interest expenses	119	96
	4,492	**3,946**

Actuarial assumptions

The calculation has been based on the following actuarial assumptions. These vary depending on the country in which the plan is based.

	2.29.2020		2.28.2019	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.0 %	-0.1 % to 0.3 %	1.0 %	0.9 % to 1.3 %
Future salary increases	1.8 %	1.5 % to 3.0 %	1.8 %	1.5 % to 3.0 %
Future pension increases	0.4 %	0.0 % to 2.0 %	0.4 %	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 2018 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	2.29.2020		2.28.2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(3,452)	3,738	(2,804)	3,052
Rate of pension increase (0.10 basis points change)	803	n/a	771	n/a
Mortality (+ 1 year)	1,532	n/a	1,234	n/a

Future cash flows

Payments of contributions amounting to € 3,875k are expected for the 2020/21 financial year.

Expected payments	2.29.2020 € 000s
2020/2021	743
2021/2022	7,228
2022/2023	4,449
2023/2024	919
2024/2025	1,062
2025 to 2029	8,778

Expected payments	2.28.2019 € 000s
2019/2020	427
2020/2021	495
2021/2022	6,671
2022/2023	4,038
2023/2024	839
2024 to 2028	6,217

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 38,801k (2018/19: € 43,860k). These include provisions of € 16,721k (2018/19: € 14,486k) for contractually assumed structural maintenance obligations and personnel provisions of € 19,904k (2018/19: € 12,526k). The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The personnel provisions mainly relate to provisions recognized due to statutory requirements in Austria for employees in the event of their leaving the company (severance payments) and to anniversary bonus claims and part-time early retirement obligations. Further information about the severance payment obligation can be found at the end of this chapter. Other non-current liabilities also include accruals of € 117k (2018/19: € 6,881k).

The reduction in other non-current liabilities is mainly due to the first-time application of IFRS 16. The provisions recognized until the previous year's balance sheet date for pending losses, incentive payments received in connection with extensions or adjustments to real estate rental agreements (incentive payments), and accruals for graded rental agreements were offset as of March 1, 2019 against the right-of-use asset arising from the lease contract. Further details can be found under "Changes to accounting policies due to new accounting requirements".

The development in provisions is presented in Note 28.

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 remuneration 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 the HORNBACH Baumarkt AG Group.

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

	2019/20 € 000s	2018/19 € 000s
Present value of pension obligation at the beginning of the period	6,534	6,137
Current service cost of employer	328	328
Payments from the plan	(544)	(296)
Interest cost	96	100
Remeasurement effects because of:		
Changes in demographic assumptions	0	(15)
Changes in financial assumptions	740	305
From experience adjustments	(422)	(25)
Present value of pension obligation at the end of the period	**6,733**	**6,534**

	2019/20 € 000s	2018/19 € 000s
Current service cost of employer	328	328
Interest cost	96	100
Effects recognized in P&L	**425**	**428**
Remeasurement effects because of:		
Changes in demographic assumptions	0	15
Changes in financial assumptions	(740)	(305)
From experience adjustments	422	25
Effects recognized in OCI	**(318)**	**(265)**
Total costs for the plan	**742**	**693**

The average remaining term of the obligation amounts to 14.2 years (2018/19: 15.0 years).

Actuarial assumptions and sensitivity analysis

	2.29.2020	2.28.2019
Discount interest rate	0.5 %	1.5 %
Future salary increases	3.0 %	3.2 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The biometric calculation has been based on "AVÖ 2018 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	2.29.2020		2.28.2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(453)	501	(427)	470
Rate of salary increase (0.25 basis points change)	236	(227)	224	(215)

(26) Trade payables and other current liabilities

	2.29.2020 € 000s	2.28.2019 € 000s
Trade payables	250,084	226,935
Liabilities to affiliated companies	626	87
Contract liabilities	34,388	30,874
Other liabilities	76,023	70,256
of which: other taxation	25,795	24,260
of which: social security contributions	5,515	4,922
	361,121	**328,152**

Trade payables, contract liabilities, and other current liabilities have remaining terms of less than one year. Trade payables are secured by reservations of title to the customary extent. Contract liabilities include prepayments received for customer orders and customer credit balances for vouchers.

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, and amounts due for outstanding invoices. Other liabilities include refund liabilities of € 7,248k (2018/19: € 6,289k), which mainly relate to expected price guarantees and returns.

(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 liabilities 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 liabilities for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The income tax receivables mainly relate to prepayments of trade tax and to deductions for capital gains taxes.

Reference is made to the information about deferred taxes included in Note 16 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 2019/20 financial year:

€ 000s	Opening balance at 3.1.2019	Offsetting of provision for onerous contracts (IFRS 16)	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.29.2020	of which: non-current
Other provisions									
Personnel	12,526	0	2,606	0	9,982	0	3	19,904	19,904
Miscellaneous	38,012	18,186	2,507	1,374	4,500	18	115	20,578	18,898
	50,538	**18,186**	**5,114**	**1,374**	**14,482**	**18**	**119**	**40,482**	**38,802**
Accrued liabilities									
Other taxes	998	0	497	37	652	0	(9)	1,107	0
Personnel	52,156	0	48,808	592	71,325	0	37	74,118	0
Miscellaneous	26,085	0	21,394	3,099	20,953	0	98	22,643	0
	79,240	**0**	**70,699**	**3,727**	**92,930**	**0**	**126**	**97,868**	**0**
	129,777	**18,186**	**75,813**	**5,102**	**107,412**	**18**	**245**	**138,350**	**38,802**

Reference is made to Note 25 with regard to details of non-current provisions.

The accrued liabilities for personnel obligations primarily relate to outstanding vacation entitlements, vacation pay, Christmas bonuses, contributions to employer's liability insurance associations, and employee bonuses.

Miscellaneous accrued liabilities relate in particular to utility expenses (gas, water, electricity), property duties, advertising expenses, 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 29, 2020.

(30) Other financial obligations

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.29.2020 Total
Purchase obligations for investments	106.1	0.0	0.0	106.1
Software rental / licenses	10.1	11.6	0.0	21.7
Other financial obligations	2.8	0.2	0.0	3.0
	119.0	**11.8**	**0.0**	**130.8**

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2019 Total
Purchase obligations for investments	133.0	0.0	0.0	133.0
Obligations under rental, leasehold and leasing contracts	163.1	471.5	404.7	1,039.3
Other financial obligations	2.6	0.1	0.0	2.7
	298.7	**471.6**	**404.7**	**1,175.0**

The HORNBACH Baumarkt AG Group applied IFRS 16 for the first time as of March 1, 2019. As a result of this, the predominant share of the rental, hiring, leasehold, and lease contracts previously reported as financial obligations are now recognized in the balance sheet.

In the previous year, obligations resulting from rental, hiring, leasehold, and lease contracts were reported for which the companies of the HORNBACH Baumarkt AG Group did not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly related to DIY stores in Germany and abroad. The terms of the rental agreements amounted to up to 15 years, with subsequent rental extension options and purchase options at market value. The agreements included rent adjustment clauses.

(31) 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 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.

(32) Supplementary disclosures on financial instruments

The following tables show the carrying amounts and the fair values of individual financial assets and liabilities pursuant to IFRS 9 as of February 29, 2020:

€ 000s	IFRS 9 category	Carrying amount 2.29.2020	Fair value 2.29.2020	Carrying amount 2.28.2019	Fair value 2.28.2019
Assets					
Financial assets	FVtOCI	10,483	10,483	7,334	7,334
Trade receivables	AC	9,848	9,848	9,715	9,715
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	1,765	1,765	1,618	1,618
Contract assets	AC	1,566	1,566	1,569	1,569
Other current and non-current assets					
Derivatives without hedge relationship	FVtPL	339	339	185	185
Other assets	AC	52,899	52,899	37,464	37,464
Cash and cash equivalents	AC	302,162	302,162	242,530	242,530
Equity and liabilities					
Financial debt					
Bonds	AC	246,646	261,213	249,459	257,650
Liabilities to banks	AC	344,892	339,143	348,134	340,860
Lease liabilities	n/a	1,283,621	1,283,621	164,017	180,134
Derivatives without hedge relationship	FVtPL	325	325	523	523
Trade payables	AC	250,710	250,710	227,021	227,021
Contract liabilities	AC	34,388	34,388	30,874	30,874
Other current and non-current liabilities	AC	21,114	21,114	19,278	19,278
Accrued liabilities	AC	22,643	22,643	26,084	26,084

The interest of € 2,842k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2018/19: € 372k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 20,163k (2018/19: € 24,514k), other current and non-current liabilities of € 96,432k (2018/19: € 103,339k), and accrued liabilities of € 75,126k (2018/19: € 53,154k).

Aggregate totals by IFRS 9 measurement category € 000s	Carrying amount 2.29.2020	Carrying amount 2.28.2019
Amortized cost (AC) financial assets	366,475	291,278
FVtOCI	10,483	7,334
FVtPL	2,104	1,803
Amortized cost (AC) financial liabilities	920,393	900,850
FVtPL	325	523

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.

Financial assets in the "FVtOCI" category mainly include 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 2019/20 financial year, the discount rate amounted to 4.8 % after taxes (2018/19: 5.5 %). Furthermore, account was taken of a growth factor of 1.0 %. The cash flows derived from company-specific planning mainly result from rental income in long-term letting arrangements and cash flows relating to the company's operations.

The development in financial assets in the "FVtOCI" category which are measured at fair value on the basis of Level 3 input data is presented below.

Changes in financial assets level 3 input data	2019/20	2018/19
As of March 1	**7,332**	**6,541**
Change in valuation (OCI)	3,149	791
Balance at February 28/29	**10,481**	**7,332**

The increase in the amount recognized for the investment is chiefly due to the lower discount rate after taxes, as well as to 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	2.29.2020		2.28.2019	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	1,123	(1,123)	930	(930)
Discount rate (50 basis point change)	(1,608)	2,102	(1,106)	1,383

Derivative financial instruments 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 lease contracts 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 corporate 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 assessment as to whether a transfer between different levels of the fair value hierarchy has arisen for financial assets and liabilities measured at fair value is performed at the end of the reporting period. No reclassifications were made in the period under report.

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	IFRS 9 category	2.29.2020	2.28.2019
Assets			
Valuation based on Level 2 input data			
Derivatives without hedge relationship	FVtPL	339	185
Valuation based on Level 3 input data			
Financial assets	FVtOCI	10,481	7,332
Liabilities			
Valuation based on Level 1 input data			
Bonds	AC	261,213	257,650
Valuation based on Level 2 input data			
Liabilities to banks	AC	339,143	340,860
Lease liabilities	n/a	1,283,621	180,134
Derivatives with hedge relationship	n/a	0	0
Derivatives without hedge relationship	FVtPL	325	523

The following net results have been recognized in the income statement:

Net result by measurement category (IFRS 9)	2019/20 € 000s	2018/19 € 000s
Amortized cost (AC) financial assets	(498)	50
FVtPL	1,726	(118)
Amortized cost (AC) financial liabilities	428	1,092

The net results of the "FVtPL" measurement category are attributable to derivative financial instruments. The net results of the "Amortized cost (AC)" measurement categories for financial assets and financial liabilities involve foreign currency translation items, the results of disposals and write-downs. Furthermore, in the 2019/20 financial year measurement changes of € 3,149k relating to "FVtOCI" instruments were recognized directly in equity (2018/19: € 791k).

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 forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions. The Group currently does not have any forward exchange transactions which are eligible for netting. In the previous year, it had forward exchange transactions of € 3k which were eligible for netting.

(33) 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	2.29.2020	2.28.2019
EUR	(58,340)	(68,051)
USD	2,157	5,187
CZK	(852)	(321)

The above EUR currency position results from the following currency pairs: SEK/EUR € -22,022k (2018/19: € -27,217k), RON/EUR € -17,558k (2018/19: € -19,197k), CHF/EUR € -16,985k (2018/19: € -25,622k), and CZK/EUR € -1,776k (2018/19: € 3,984k).

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 € 5,915k lower (2018/19: € 7,292k). 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 € 5,915k higher (2018/19: € 7,292k). The hypothetical impact on earnings of € +5,915k (2018/19: € +7,292k) is the result of the following sensitivities: EUR/CHF € 1,635k (2018/19: € 2,524k), EUR/RON € 1,778k (2018/19: € 1,951k), EUR/SEK € 2,205k (2018/19: € 2,752k), EUR/CZK € 91k (2018/19: € -429k), and EUR/USD € 206k (2018/19: € 493k).

Interest rate risks

At the end of the year, as in the previous year, the Group was principally financed by a euro bond with a nominal total of € 250,000k, two promissory note bonds amounting to € 95,000k at HORNBACH Holding B.V., and two promissory note bonds amounting to € 200,000k at HORNBACH Baumarkt AG. Furthermore, the Group also had a CHF loan amounting to € 47,108k (2018/19: € 52,933k).

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 base points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 1,968k higher (2018/19: € 1,650k). Due to the low level of interest rates currently, a parallel shift in the interest rate curve by 100 base 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 base points downwards. If the market interest rate had been **10 base points lower** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 197k lower (2018/19: € 165k).

Credit risk

Credit risk or default 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.

Impairment of financial assets

The Group has the following types of financial assets that are subject to the new expected credit loss model:

- Trade receivables and contract assets
- Other financial assets measured at amortized cost

Trade receivables and contract assets

For trade receivables and contract assets, HORNBACH has applied the simplified model based on a provision matrix. In this model, a risk allowance in the amount of the lifetime expected credit losses has to be recognized both upon initial recognition and at each subsequent balance sheet date. To measure the expected credit risk, trade receivables have been grouped on the basis of existing credit risks and their respective maturity structures. This grouping is based on their geographical location, as the customer segments have similar credit risk characteristics for each country.

The expected loss rates are derived on the basis of an average distribution of receivables over a 36-month period prior to February 28, 2019 and March 1, 2019 respectively and of historic default rates in this period. Gross receivables that are more than 360 days overdue are deemed to have defaulted. Due account is taken of current macroeconomic expectations by including country-specific ratings. Historic default rates basically provide the best approximation of the defaults expected in future, provided that the respective country rating has not changed. Changes in country ratings are accounted for by adjusting the historic default rates.

Contract assets relate to tradesman services not yet invoiced and basically have the same risk characteristics as trade receivables. The expected loss rates for trade receivables in the respective countries are therefore viewed as providing an appropriate approximation of the loss rates for contract assets and for determining expected credit losses.

Trade receivables and contract assets are derecognized when, based on appropriate assessment, there is no prospect of recoverability. Indicators that, based on appropriate assessment, there is no prospect of recoverability particularly include filing for or opening insolvency proceedings. Impairment losses on trade receivables and contract assets are recognized on a net basis as impairment losses within operating earnings. Amounts received in subsequent periods for items previously written down are recognized in the same line item.

The development in the allowances recognized for trade receivables and contract assets can be found in Note 18.

Other financial assets measured at amortized cost

The general allowance model is used to determine risk allowances. In determining the probability of default, reference is made to internal and external credit assessments that include both qualitative and quantitative information. An assessment is performed as of each balance sheet date to determine whether the credit risk has significantly increased. If the credit risk has not significantly increased since initial recognition, the probability of default is determined on the basis of a 12-month period. Reference is otherwise made to the entire remaining lifetime.

To assess whether the credit risk has significantly increased, the default risk for the financial assets as of the balance sheet date is compared with the default risk upon initial recognition. Alongside country-specific factors, the assessment also accounts in particular for the following indicators:

- Credit rating of the debtor based on internal assessments and, if applicable, external rating agencies
- Actual or expected material negative change in the business, financial, or economic position of the debtor that could materially affect its ability to settle its obligations.

Furthermore, unless refuted by information to the contrary, it is assumed that the credit risk has significantly increased if a debtor is more than 30 days overdue with a contractually agreed payment.

In determining a default event, a financial asset is classified as being of impaired creditworthiness if an objective event, such as one of the following, occurs:

- The contractually agreed payment is more than 90 days overdue and no information supporting an alternative default criterion is available
- Significant financial difficulties at the debtor
- Breach of contract
- The debtor is likely to enter insolvency or other restructuring proceedings.

All debt instruments measured at amortized cost are assessed as "involving low default risk" if an investment grade rating is available from at least one of the major rating agencies. The Group excludes these financial instruments from application of the three-level risk allowance model. Instead, these assets are always allocated to Level 1 of the risk allowance model and an allowance corresponding to the 12-month expected credit losses is recognized. Other instruments for which no external rating is available are assessed as "involving low default risk" when the risk of non-fulfillment is low and the issuer is at all times in a position to meet its contractual payment obligations at short notice.

The development in allowances recognized for other financial assets is presented in Note 18.

Liquidity risk

The following tables show the contractually agreed (undiscounted) outflows of cash for primary and derivative financial liabilities:

€ 000s	Carrying amount 2.29.2020	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	246,646	8,125	32,500	266,250
Liabilities to banks	344,892	52,342	194,018	119,127
Lease liabilities	1,283,621	178,376	683,545	650,668
Trade payables	250,710	250,710	0	0
Contract liabilities	34,388	34,388	0	0
Other current and non-current liabilities	21,114	18,510	2,605	0
Accrued liabilities	22,643	22,643	0	0
	2,204,014	**565,093**	**912,668**	**1,036,045**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	325	325	0	0
	325	**325**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	339	29,005	0	0
	339	**29,005**	**0**	**0**
		594,424	**912,668**	**1,036,045**

€ 000s	Carrying amount 2.28.2019	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	249,459	259,714	0	0
Liabilities to banks	348,134	58,612	196,528	121,250
Liabilities in connection with finance leases	164,017	17,592	70,369	121,316
Trade payables	227,021	227,021	0	0
Contract liabilities	30,874	30,874	0	0
Other current and non-current liabilities	19,278	17,659	1,619	0
Accrued liabilities	26,084	26,084	0	0
	1,064,867	**637,555**	**268,516**	**242,566**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	523	2,805	0	0
	523	**2,805**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	185	24,267	0	0
	185	**24,267**	**0**	**0**
		664,628	**268,516**	**242,566**

All financial liabilities held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities. Furthermore, the presentation includes financial assets that will lead to an outflow of cash. Floating-rate interest payments are calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies are translated at the relevant reporting date rate.

The interest of € 2,842k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2018/19: € 372k). 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 hedges – interest rate risk

No interest swaps were held at the end of the 2019/20 financial year.

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 € 14k (2018/19: € -338k). Of this total, € 339k has been recognized under other assets (2018/19: € 185k) and € -325k under financial debt (2018/19: € -523k).

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.

2.29.2020	Forward exchange transactions	Embedded forward exchange transactions	Total
Nominal value in € 000s	26,000	37,211	63,211
Fair value in € 000s (before deferred taxes)	311	(297)	14

2.28.2019	Forward exchange transactions	Embedded forward exchange transactions	Total
Nominal value in € 000s	23,000	29,882	52,882
Fair value in € 000s (before deferred taxes)	182	(520)	(338)

(34) Sundry disclosures

Employees

The average number of employees was as follows:

	2019/20	2018/19
Salaried employees	18,527	18,624
Trainees	930	921
	19,457	**19,545**
of which: part-time employees	5,970	5,719

In terms of geographical regions, 10,452 of the average workforce were employed in Germany during the 2019/20 financial year (2018/19: 10,914) and 9,005 in Other European Countries (2018/19: 8,630).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBACH Baumarkt AG, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim (2018/19: KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main), for the year under report were as follows:

	2019/20 € 000s	2018/19 € 000s
Audit services [1)]	497	643
Other confirmation services [2)]	46	8
Tax advisory services [3)]	0	45
	543	**696**

The fees comprise the following elements:
[1)] Half-year, annual, and consolidated financial statements, dependent company report, annual financial statements of subsidiaries
[2)] Comfort letters, certificates of sales
[3)] Tax advice in various matters

The annual and consolidated financial statements of HORNBACH Baumarkt AG have been audited by Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, since the 2019/20 financial year, with Patrick Wendlandt (Director) as the auditor responsible for the audit.

The previous annual and consolidated financial statements were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, with Lars Bertram (Partner) as the auditor responsible for the audit.

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 2019 and made available to shareholders on the company’s homepage.

(35) 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 (ultimate controlling party)
HORNBACH Management AG

Parent company

HORNBACH Holding AG & Co. KGaA

Associates

HORNBACH Immobilien AG
HORNBACH Baustoff Union GmbH

Subsidiaries and second-tier subsidiaries

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.
HIAG 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:

	2019/20 € 000s	2018/19 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	78,125	77,449
Interest paid for group financing	38	39
Interest received from group financing	0	0
Allocations paid for administration expenses	925	932
Allocations received for administration expenses	2,675	2,343
Supplies and deliveries to HORNBACH Holding AG & Co. KGaA and its subsidiaries	135	254
Supplies and deliveries by HORNBACH Holding AG & Co. KGaA and its subsidiaries	147	340

At February 29, 2020, there were receivables of € 922k (2018/19: € 1,043k) and liabilities of € 626k (2018/19: € 87k) 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 € 8,130k (2018/19: € 8,513k). Guarantee fees of € 38k (2018/19: € 38k) 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 am Trifels, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 12k were performed by the seminar hotel in the 2019/20 financial year (2018/19: € 18k). These services were invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 29, 2020.

Related parties also include members of the management in key positions (Board of Management and Supervisory Board). The members of the Board of Management and the Supervisory Board and disclosures on their remuneration are presented in Note 37.

(36) Events after the balance sheet date

Events of material significance for assessing the earnings, financial, and asset position of HORNBACH Baumarkt AG and the HORNBACH Baumarkt AG Group occurred between the balance sheet date on February 29, 2020 and the date on which these financial statements were prepared.

The world in coronavirus shock

Novel coronavirus (SARS-CoV-2) was first identified in China (city of Wuhan, Hubei Province) in December 2019. This virus causes the lung disease referred to as COVID-19. Until February 2020, the epidemic still seemed to be limited to East Asia, and mainly to China. In this context, the implications of large-scale quarantine measures and the loss of production in China for supply chains and the flow of goods to trading partners in other parts of the world were discussed as a key economic concern.

After our balance sheet date, the worldwide spread of coronavirus accelerated dramatically in March 2020. On March 11, 2020, the World Health Organization (WHO) classified COVID-19 as a pandemic. As March 2020 progressed, the number of cases and deaths increased at an explosive rate, and particularly in Europe, with Italy and Spain initially being hardest hit, and later in the USA as well. The coronavirus crisis triggered a global shock for healthcare systems, societies, and economies.

In March 2020, most European governments imposed far-reaching measures to restrict social contacts. The declared aim here was to slow infection processes and thus provide state healthcare systems with more time to deal with the coronavirus crisis. Through to mid-April 2020, public life was largely closed down in all countries in which HORNBACH operates apart from Sweden. The uncertainties surrounding the macroeconomic impact of this lockdown on companies, employees, and the financial markets are very great. In the second half of April, increasing numbers of countries within our network cautiously and gradually began to ease the extreme restrictions placed on society and business.

Events of particular significance for the HORNBACH Baumarkt AG Group

In connection with the coronavirus pandemic and the measures imposed by the authorities, events of particular significance for our company occurred between the balance sheet date on February 29, 2020 and the preparation of these financial statements.

Demand from customers was significantly higher in March and April 2020 than in the equivalent period in the previous year. This was mainly due to the restrictions imposed on contacts, which meant that consumers had to spend significantly more time at home. Due to a lack of alternative leisure options, consumers used this time to implement home improvement and renovation projects and repair work to a greater extent than before the crisis. This increase in demand met with a level of supply in the retail sector that was subject to widely differing restrictions on local and regional levels.

In several countries and regions within our network, HORNBACH DIY stores with garden centers were required to interrupt their stationary sales and advisory business at stores, had to close only for private consumers, or could maintain their operations provided that they met safety requirements aimed at protecting customers and employees against infection, while interconnected retail, such as the collection of goods ordered online at specifically designated locations on the DIY store site, remained possible. This meant that no location suffered a full shutdown.

In the second half of March 2020, a group-wide total of around 60 %, or 96, of our 160 stationary stores were open to private end customers, while around 86 %, or 137, of the stores were open for professional customers (tradespeople and other commercial customers). During April 2020, the restrictions imposed on our store network were gradually lifted in several steps in some regions. By mid-April 2020, 81 %, or 129, of the stores were fully operational for end consumers and 94 %, or 151, of the stores for professional customers following the reopening of the stationary business in the Czech Republic and Austria. From April 27, 2020, the seven stores in Switzerland resumed full operations once again. With the relaunch of stationary operations at the four stores in Slovakia, all of the subgroup's 160 stores were once again in operation from May 6, 2020.

Based on unaudited data, the HORNBACH stores which remained open and, above all, our online shops reported substantial sales growth in March and April 2020, thus making up for the severe downturn in sales at the stationary stores affected by the coronavirus lockdown. In March 2020, which was affected by the closure problem from the middle of the month, consolidated sales almost matched the previous year's high level. Like-for-like sales net of currency items showed a slight group-wide decline of 1.2 %. In April 2020, the restrictions on stationary business were mostly in place until the 20th day of the month. Irrespective of this, consolidated sales rose by around 17 % in April 2020, while on a like-for-like basis and net of currency items we achieved growth of more than 16 %. On a cumulative basis for the first two months of the 2020/21 financial year, Group-wide sales rose by around 9 %, while like-for-like sales net of currency items grew by more than 8 %.

In what follows, we provide information on relevant events in the Germany and Other European Countries regions:

Germany

From the second half of March 2020, 28 out of our total of 96 HORNBACH DIY stores with garden centers in Germany were closed to the public due to orders imposed by the authorities in the federal states of Bavaria, Lower Saxony, and Saxony. In many areas, sales to private customers via "contact-free" channels, such as the collection or delivery of goods reserved online was still possible. In most cases, stationary sales to professional customers, above all tradespeople, were still permitted, albeit with shorter opening hours. In some cases, the restrictions on contact and other measures affecting the retail sector were handled very differently between individual federal states and were also tightened or eased at short notice.

Thanks to exemptions for specific segments of the retail sector, which also included DIY stores with garden centers, the other 68 German locations (at the end of March 2020) were able to maintain business operations provided that they met strict conditions in terms of access management, hygiene requirements, and distancing rules. The federal state of Lower Saxony permitted sales to private individuals once again from April 4, 2020. On April 15, 2020, the federal states announced the agreement they had reached on initial cautious steps to ease the coronavirus lockdown. Accordingly, from April 20 onwards private end consumers were also permitted to shop at our stationary stores in Bavaria and Saxony – and thus at all 96 HORNBACH locations in Germany. Due to the safety requirements, the number of customers visiting our stores decreased noticeably throughout the country. By contrast, the average spend per visit increased.

Significantly higher orders were placed via our online shop than in the equivalent period in the previous year. This channel was not affected by the restrictions imposed by the authorities and remained active. The company responded to this rise in orders by extending capacities at its dispatch centers. Within our interconnected retail, local and regional solutions were found to enable private customers at stores in the respective catchment areas to make their purchases via "Reserve online & collect at store" or delivery options.

Thanks to the pleasing performance at those HORNBACH stores still open and in the e-commerce business, the loss of sales due to store closures was more than offset in the two-month period from March to April 2020. Cumulative sales in the Germany region were 18 % up on the previous year's figure, and that both overall and on a like-for-like basis.

Other European Countries

Outside Germany, our HORNBACH DIY stores with garden centers in Luxembourg (1 store), Austria (14), Switzerland (7), Slovakia (4), and the Czech Republic (10) were ordered by the authorities to close for private customers in the second half of March. Apart from the stores in Austria and Slovakia, stationary sales were still permitted for commercial customers. Similar to the situation in Germany, our online shops and interlinked use of alternative collection and delivery concepts enabled us to offset part of the closure-related loss of sales in these countries.

Our stationary stores remained open for all customers in the Netherlands (15 stores), Romania (6), and Sweden (7). Customer volumes were in some cases limited by public orders. Daily opening hours were reduced in the Netherlands. In Romania, the authorities imposed strict limits on customer totals at stores. On April 9, the order for stores to remain closed in the Czech Republic was lifted. In Austria, HORNBACH stores began operations once again from April 14. Our store in Luxembourg followed on April 20. The stores in Switzerland resumed full operations on April 27, 2020. In Slovakia, the stationary restrictions on sales to end consumers were lifted at the four HORNBACH stores as of May 6, 2020. Upon the completion of this report, all 64 international locations were active.

Dynamic sales growth at the HORNBACH stores that remained open and at the online shops helped to limit the damages. Due to the coronavirus-related restrictions on sales activities, cumulative sales in the Other European Countries region in the first two months of the 2020/21 financial year were around 1 % lower than the previous year, with like-for-like sales net of currency items falling just under 3 % of the previous year's figure.

The implications of the coronavirus crisis for the Group's business performance in 2020/21 were highly uncertain upon the preparation of these financial statements. Forecasting capability is severely limited, also on Group level. Overall, the Board of Management believes that one likely scenario involves the adjusted EBIT of the HORNBACH Baumarkt AG Group for the 2020/21 financial year falling slightly short of the level achieved in the 2019/20 financial year. Should any severe coronavirus-related setback materialize in summer 2020 or the second half of the 2020/21 financial year, however, the adjusted EBIT of the HORNBACH Baumarkt AG Group can be expected to fall significantly short of the previous year's figure.

The consolidated financial statements of HORNBACH Baumarkt AG for the 2019/20 financial year were approved for publication by the Board of Management on May 18, 2020.

(37) Supervisory Board and Board of Management

Members of the Board of Management:

Steffen Hornbach Strategic Development, Operative Store Management, Sales and Services	until December 31, 2019 **Chairman (CEO)**
Erich Harsch Strategic Development, Operative Store Management, Sales and Services; since March 1, 2020: Real Estate	**Chairman (CEO)** First appointed: January 1, 2020 Appointed until: December 31, 2024
Roland Pelka Finance, Accounting, Tax, Controlling, Risk Management, Loss Prevention, Investor Relations; since March 1, 2020: Internal Audit, Legal, Compliance	**Deputy Chairman** First appointed: October 1, 1996 Dep. Chairman since December 16, 2008 Appointed until: September 30, 2021
Susanne Jäger Procurement, Imports, Store Planning, Store Development, Quality Assurance, Environmental Issues	First appointed: December 1, 2006 Appointed until: November 30, 2021
Wolfger Ketzler Real Estate, Construction, Technical Procurement Internal Audit, Legal, Compliance	until February 29, 2020
Karsten Kühn Marketing, Market Research, Internal Communications, Public Relations, Organizational Development, Personnel and Labor Director	First appointed: October 1, 2014 Appointed until: September 30, 2024
Ingo Leiner Logistics; since March 1, 2020: Construction, Technical Procurement	First appointed: March 1, 2012 Appointed until: February 28, 2022
Dr. Andreas Schobert Technology	First appointed: January 1, 2015 Appointed until: December 31, 2022

Remuneration of the Board of Management for the 2019/20 financial year totals € 8,766k (2018/19: € 5,209k). Of short-term benefits, € 2,938k (2018/19: € 2,903k) relates to fixed remuneration, € 1,911k (2018/19: € 2,306k) to performance-related components, and € 3,917k to one-off payments. Post-employment benefits (pension provision endowment) of € 689k were incurred for active Board members in the 2019/20 financial year (2018/19: € 689k).

Pension provisions for former members of the Board of Management totaled € 2,541k in the 2019/20 financial year (2018/19: € 1,245k). All pension provisions are offset by corresponding value credits (Note 24).

Based on a shareholder resolution still valid until the 2020/21 financial year, individualized disclosure of the remuneration of members of the Board of Management has been waived.

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach CEO HORNBACH Management AG	**Chairman** Member since: April 25, 2002 Chairman since: March 1, 2009 Appointed until: end of 2023 AGM
Dr. John Feldmann Supervisory Board Chairman of KION Group AG (until May 9, 2019) Former Executive Board member at BASF SE	**Further Deputy Chairman** Member since: July 4, 2013 Deputy Chairman since: July 5, 2018 Appointed until: end of 2023 AGM
Erich Harsch CEO of dm-drogerie markt GmbH & Co. KG (until December 31, 2019) CEO of HORNBACH Baumarkt AG (since January 1, 2020)	until December 31, 2019
Georg Hornbach Head of Controlling Department and Head of Finance and Procurement Department Universitätskliniken Köln	Member since: July 9, 2015 Appointed until: end of 2023 AGM
Martin Hornbach Managing Partner Corivus Gruppe GmbH	Member since: July 13, 2006 Appointed until: end of 2023 AGM
Simona Scarpaleggia Director of Global Initiative "Future of Work" at Ingka Group (IKEA)	Member since: January 1, 2020 Appointed until: end of 2020 AGM
Vanessa Stützle Managing Director of E-Commerce/Omni-Channel Parfümerie Douglas	Member since: July 5, 2018 Appointed until: end of 2023 AGM
Melanie Thomann-Bopp Chief Financial Officer (CFO) Sonova Retail Deutschland GmbH	Member since: July 5, 2018 Appointed until: end of 2023 AGM
Prof. Dr.-Ing. Jens P. Wulfsberg Professor of Production Technology Helmut-Schmidt-Universität/ Universität der Bundeswehr Hamburg	Member since: September 1, 2005 Appointed until: end of 2023 AGM

As representatives of the employees

Kay Strelow
Section Manager,
Berlin-Marzahn Store

Deputy Chairman
for trade unions
Member since: July 10, 2008
Appointed until: end of 2023 AGM

Mohamed Elaouch
Section Manager, Mainz Store

for salaried employees
Member since: July 4, 2013
Appointed until: end of 2023 AGM

Christian Garrecht
Operative Head of Workplace Safety
and Fire Protection

for salaried employees
Member since: July 4, 2013
Appointed until: end of 2023 AGM

Markus Lass
District Director

for senior employees
Member since: July 5, 2018
Appointed until: end of 2023 AGM

Jörg Manns
Sales Employee, Wiesbaden Store

for salaried employees
Member since: July 5, 2018
Appointed until: end of 2023 AGM

Anke Matrose
Checkout Assistant, Bremen Store

for trade unions
Member since: July 5, 2018
Appointed until: end of 2023 AGM

Brigitte Mauer
Section Manager, Tübingen Store

for salaried employees
Member since: July 4, 2013
Appointed until: end of 2023 AGM

Johannes Otto
Assistant Store Director, Schwetzingen Store

for salaried employees
Member since: July 5, 2018
Appointed until: end of 2023 AGM

The total remuneration of the Supervisory Board for the 2019/20 financial year amounted to € 515k (2018/19: € 515k). Of short-term benefits, € 390k (2018/19: € 390k) related to basic remuneration and € 125k (2018/19: € 125k) to committee activities.

The total remuneration of the Board of Management and Supervisory Board amounted to € 9,281k (2018/19: € 5,724k).

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) Deutsche Bundesbank in Rhineland-Palatinate and Saarland
(Member of Advisory Board at Head Office)

Dr. John Feldmann

a) HORNBACH Holding AG & Co. KGaA (Chairman)
HORNBACH Management AG (Deputy Chairman)
KION Group AG (Chairman; until May 2019)

Georg Hornbach

a) HORNBACH Management AG
b) Evangelisches Klinikum Köln Weyertal GmbH (Supervisory Board member)

Martin Hornbach

a) Corivus AG (Chairman)
HORNBACH Holding AG & Co. KGaA (Deputy Chairman)
b) Corivus Swiss AG (Chairman of Administrative Board)

Simona Scarpaleggia (since January 1, 2020)

a) IKEA Foundation
EDGE Certified Foundation
HORNBACH Holding AG & Co. KGaA (since March 24, 2020)
b) ZHdK – Zurich University of the Arts (Advisory Board member)
Economics Faculty of Zurich University (Advisory Board member)
Faculty of International Management at St. Gallen University (Advisory Board member)
Digital Switzerland (Advisory Board member)

Melanie Thomann-Bopp

a) HORNBACH Holding AG & Co. KGaA

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

Erich Harsch (since January 1, 2020)

a) HORNBACH Baumarkt AG (until December 31, 2019)
   HORNBACH Holding AG & Co. KGaA (until December 31, 2019)
   HORNBACH Management AG (until December 31, 2019)
   HORNBACH Immobilien AG (since March 1, 2020)
b) dm drogerie markt GmbH, Wals/Austria (until September 13, 2019)

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-Wasgau eG

Wolfger Ketzler (until February 29, 2020)

a) HORNBACH Immobilien AG (until February 29, 2020)
   Med 360° AG (Chairman)

Bornheim bei Landau/Pfalz, May 18, 2020

HORNBACH Baumarkt AG
The Board of Management

Erich Harsch

Roland Pelka

Susanne Jäger

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 18, 2020

HORNBACH Baumarkt Aktiengesellschaft
The Board of Management

Erich Harsch

Roland Pelka

Susanne Jäger

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

INDEPENDENT AUDITOR'S REPORT

To HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 29 February 2020, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 March 2019 to 29 February 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany, for the financial year from 1 March 2019 to 29 February 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Sections 289f, 315d German Commercial Code (HGB) referred to in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 29 February 2020 and of its financial performance for the financial year from 1 March 2019 to 29 February 2020, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the corporate governance statement pursuant to Sections 289f, 315d HGB referred to above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 March 2019 to 29 February 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:
1. recoverability of real estate at individual locations and rights of use of real estate at individual locations
2. measurement of inventories
3. first-time adoption of IFRS 16

Our presentation of these key audit matters has been structured as follows:
a) description (including reference to corresponding information in the consolidated financial statements)
b) auditor's response

1. Recoverability of real estate at individual locations and rights of use of real estate at individual locations

a) The consolidated financial statements of HORNBACH Baumarkt AG as at 29 February 2020 state "land, land rights and buildings including buildings on third-party land" (so-called real estate at individual locations) of mEUR 911.9 and rights of use of "land, land rights and buildings including buildings on third-party land" (so-called "rights of use of real estate at individual locations") of mEUR 1,212.2, which, in the aggregate, account for 59.6% of total assets. As at 29 February 2020, total impairments of mEUR 17.4 on these assets were recognised as an expense.

The recoverability of the real estate at individual locations and of the rights of use of real estate at individual locations is determined at the level of the individual DIY stores, each of which constitute a cash-generating unit. If there are events that indicate an impairment and any related requirement for a write-down of the real estate at individual locations and/or the rights of use of these assets, the Group determines the value in use of the individual cash-generating unit as part of an impairment test according to IAS 36. If the value in use is below the carrying value of the cash-generating unit, the fair value less costs to sell (net realisable value) is determined for the real estateattributable to this cash-generating unit. The higher of both values is used to determine the impairment.

The outcome of the measurement is largely dependent on the executive directors' judgement and estimate of the future cash inflows and on the discount rate applied. In addition, the recoverability of the real estate at individual locations and of the rights of use of the real estate at individual locations depends on each individual location and the resulting alternative uses. Therefore, this measurement involves a high degree of uncertainty. In order to determine the net realisable value of real estate at individual locations, the Group consulted external experts. Therefore, this matter was of particular significance in the scope of our audit.

The information provided by the executive directors on the real estate at individual locations, rights of use of individual locations and impairments made is included in the section "Accounting policies", and in the notes "(10) Other disclosures on the statement of profit or loss", "(12) Property, plant and equipment, rights of use and investment property" and note "(13) Leases" in the notes to the consolidated financial statements.

b) During our audit, we obtained an understanding of the corporate planning process and the process applied to design the impairment tests. In addition, we obtained, in particular, an understanding of and assessed the method applied in the impairment test. For the purpose of our risk assessment, we gathered information on and considered the correlation of actual results with budget over the past years.

We compared the expected future cash flows to be considered in the measurement with the corresponding detailed planning and group planning approved by the supervisory board. In view of the assessment of the appropriateness of the assumptions and propositions, processes and measurement methods, we consulted internal experts of our Valuation Services function, who also helped us to assess the method applied in the impairment tests and the parameters used to determine the discount factors including the weighted average cost of capital and calculation schemes. For evaluating the appropriateness of the budgeting, we compared general and industry-specific market expectations and considered comprehensive explanations of the executive directors regarding the impairment tests. As only slight changes in the discount rate may have significant effects on the value in use, we evaluated the underlying parameters for plausibility based on information provided by the executive directors and own market research and checked the calculation of the value in use for accuracy.

In addition, we evaluated the competence, capabilities and objectivity of the independent experts consulted by the Group to determine the net realisable values of the real estate at individual locations and assessed their results with the help of our own real estate valuation experts.

2. Measurement of inventories

a) The inventories recognised in the consolidated financial statements of HORNBACH Baumarkt AG as at 29 February 2020 amount to mEUR 814.4. This makes up 22.9% of total assets. As at 29 February 2020, write-downs of the inventories amounted to mEUR 10.3.

The inventories are measured at the lower of cost, including ancillary cost and cost deductions, or the net realisable value. Inventories are written down based on estimates made by the executive directors of the saleability of the inventories.

Any required write-downs are determined on the basis of an approach that considers the various risks of saleability.

As the measurement of the inventories is based on judgement due to the defined approach including its underlying assumptions and as the inventories are of major significance for the Group's assets, liabilities, financial position and financial performance, we identified the measurement of inventories as a key audit matter.

The information on the inventories is provided by the executive directors in the section "Accounting policies" as well as note "(17) Inventories" in the notes to the consolidated financial statements.

b) During our audit, we assessed internal controls over the measurement of inventories and tested the operating effectiveness of the implemented controls relevant to the audit concerning initial and subsequent measurement.

In this context, we evaluated and assessed, in particular, the Group's approach to determining write-downs of inventories. On a sample basis, we verified the appropriateness of the estimates regarding the saleability of the inventories made by the executive directors on the basis of historic information and current selling prices and vouched our sample to supporting evidence. In this context, we also checked the corresponding calculations for accuracy. Moreover, we gained assurance that the write-downs thus determined were recorded accurately.

3. First-time adoption of IFRS 16

a) The rights of use to leased objects in the balance sheet as at 29 February 2020 amount to mEUR 1,217.8 and are recognised as assets in the consolidated balance sheet. They account for 51.6% of non-current assets and 34.2% of total assets. In addition, lease liabilities recognised as liabilities in the balance sheet amount to mEUR 1,283.6. The first-time adoption of IFRS 16 contributed to a reduction in the consolidated equity ratio to 31.8%.

The first-time adoption of IFRS 16 was based on the modified retrospective approach and the reference figures for the prior year were not adjusted.

As part of the first-time adoption of the standard, the Group extended the existing ERP system used for calculating the rights of use and lease liabilities.

The data available in the real estate management system used by the Group were transferred to the ERP system and complemented by the relevant parameters pursuant to IFRS 16.

The new IFRS 16 requires the executive directors to make estimates and to exercise judgement. This particularly relates to the estimate regarding the exercise of extension options defined in the lease agreements, which affects the term of the lease, possibly also to the interest rate, the amount of the lease liability and the related effects on the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of cash flows. For these reasons and due to the complexity of the new requirements, we identified the presentation of leases according to IFRS 16 as a key audit matter in the scope of our audit.

The information on the recognition of leases in the balance sheet is provided by the executive directors in the sections “Changes to accounting policies due to new accounting requirements” and “Accounting policies” as well as note “(13) Leases” in the notes to the consolidated financial statements.

b) During our audit, we assessed, among other things, the appropriateness and implementation of the processes and audit-relevant controls, which were designed by the Group to ensure the complete and exact identification and recording of leases, and tested the operating effectiveness of these processes and controls.

First, we audited the complete recording of the relevant lease agreements by comparing the leased locations of DIY stores operated by the Group with the lease agreements stated as rights of use. Furthermore, on a sample basis, we compared the rental/lease payments, agreed terms and further measurement-relevant parameters, which are recorded in the system as data sets, with the underlying agreements. On a sample basis we used IT audit tools to analyse the IT system’s calculation logic.. In this context, we compared the results of the calculations of the ERP system with the results of the audit tools and analysed variances. To this end, we evaluated, in particular, the appropriateness of the estimates regarding the exercise of extension options under the lease agreements, which affect the term of the lease, as well as the appropriateness of the interest rate, of the amount of the lease liability and the related effects on the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of cash flows by inspecting selected agreements and other appropriate evidence and on the basis of enquiries of employees of the Group.

In addition, we evaluated whether the the journal entries, which were generated by the system were properly included in the consolidated financial statements of HORNBACH Baumarkt AG and whether the disclosures were complete and accurate.

Other Information

The executive directors are responsible for the other information. The other information comprises:

- corporate governance statement pursuant to Sections 289f, 315d HGB referred to in the combined management report,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, and
- all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our group audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group.

In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the general meeting on 4 July 2019. We were engaged by the supervisory board on 4 July 2019. We have been the group auditor of HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany, since the financial year 2019/2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the Engagement

The German Public Auditor responsible for the engagement is Patrick Wendlandt.

Mannheim/Germany, 18 May 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Steffen Schmidt	Signed: Patrick Wendlandt
Wirtschaftsprüfer(in)	Wirtschaftsprüfer(in)
(German Public Auditor)	(German Public Auditor)

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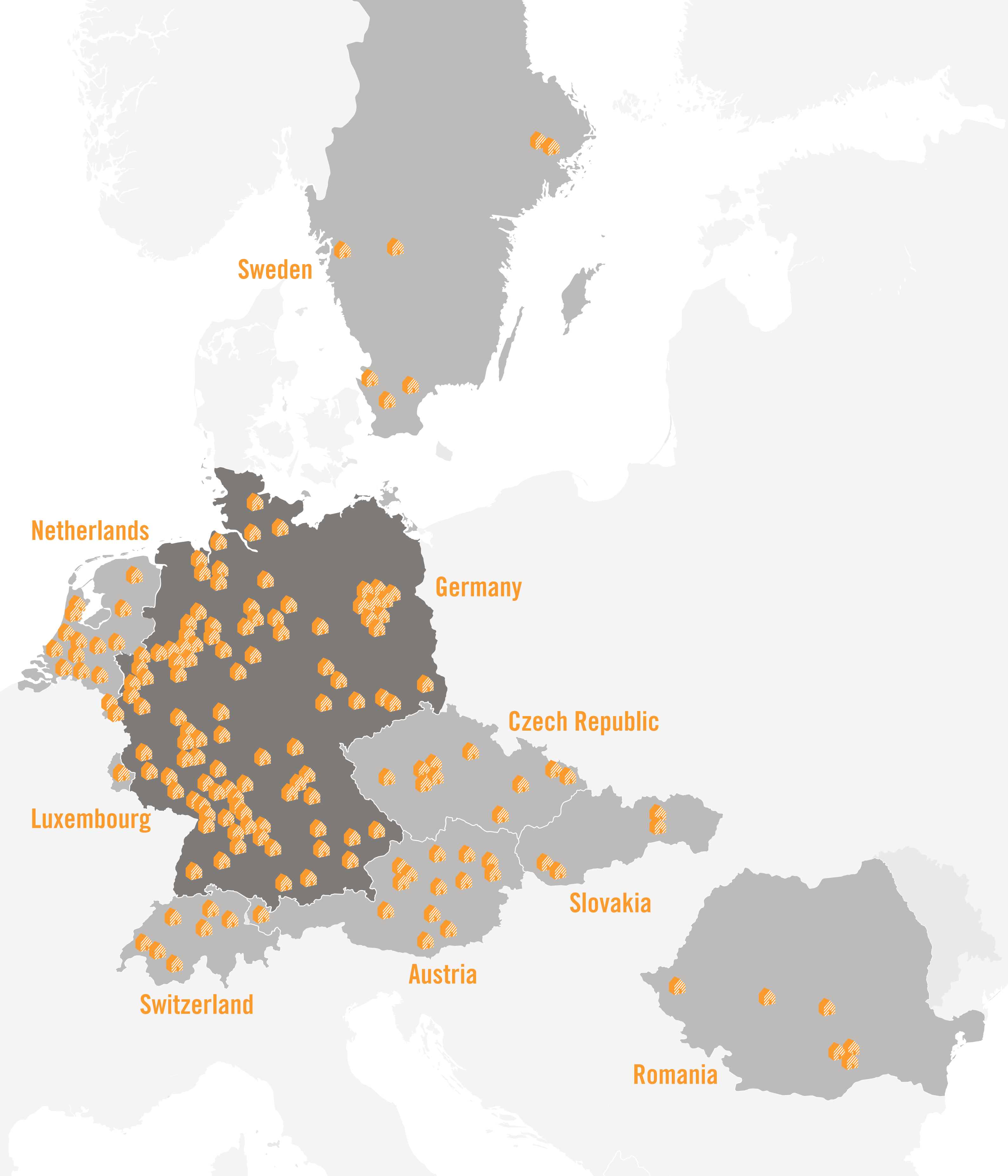
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LOCATIONS

Germany

Baden-Württemberg
Binzen
Esslingen
Göppingen
Heidelberg
Karlsruhe-Grünwinkel
Karlsruhe-Hagsfeld
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Berlin-Bohnsdorf
Berlin-Mariendorf
Berlin-Marzahn
Berlin-Neukölln
Berlin-Weißensee

Brandenburg
Fredersdorf-Vogelsdorf
Ludwigsfelde
Marquardt
Velten

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Bremen, Duckwitzstraße
Bremen, Weserpark
Bremerhaven

Hamburg
Hamburg-Eidelstedt

Hesse
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Frankfurt, Hanauer Landstr.
Frankfurt-Niedereschbach
Lohfelden
Wiesbaden-Biebrich
Wiesbaden-Mainz-Kastel

Lower Saxony
Braunschweig
Garbsen
Hannover-Linden
Isernhagen-Altwarmbüchen
Lüneburg
Oldenburg
Osnabrück
Wilhelmshaven
Wolfsburg

North Rhine-Westphalia
Bielefeld
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Moers
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M'gladbach-Reststrauch
Münster
Niederzier
Oberhausen
Paderborn
Wuppertal

Rhineland-Palatinate
Bad Bergzabern
Bornheim
Kaiserslautern
Koblenz
Ludwigshafen
Mainz-Bretzenheim
Pirmasens
Trier
Worms

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Neunkirchen[2]
Saarbrücken

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Sweden
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Borås
Botkyrka
Göteborg
Helsingborg
Kristianstad[1]
Sundbyberg

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Etoy
Galgenen
Luzern-Littau
Riddes
Villeneuve

Slovakia
Bratislava-Devínska Nová Ves
Bratislava-Ružinov
Kosice
Prešov[1]

Czech Republic
Brno
Hradec Kralové
Olomouc
Ostrava-Svinov
Ostrava-Vítkovice
Plzeň
Praha-Černý Most
Praha-Čestlice
Praha-Řepy
Praha-Velká Chuchle

[1] Newly opened in 2019/20 financial year
[2] Closed in 2019/20 financial year


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