ANNUAL REPORT
2018/2019

HORNBACH BAUMARKT
AG Group

HORNBACH
Es gibt immer was zu tun.

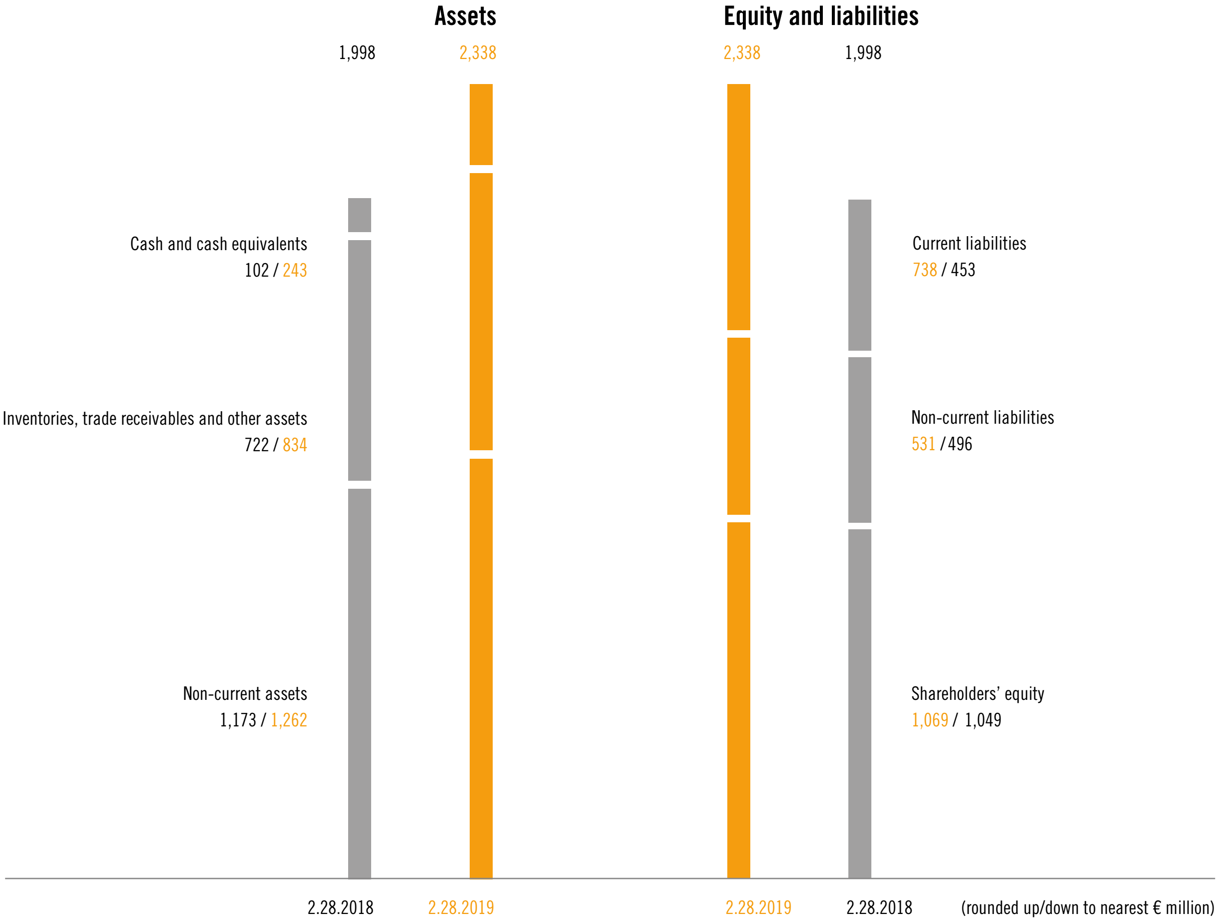
CONTENTS

Key Group, Financial and Operating Data

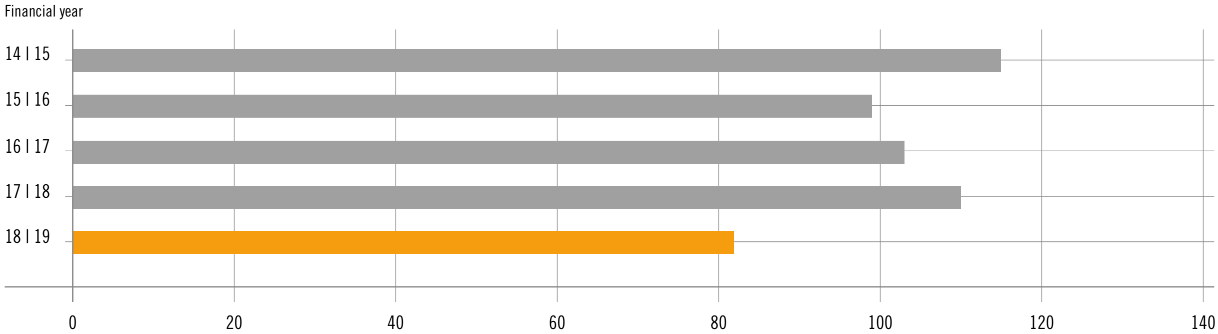
Amounts shown in € million unless otherwise stated	Change financial year 2018/19 on previous year	IFRS									
		2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
Sales and earnings figures											
Net sales	5.3 %	4,096	3,891	3,710	3,535	3,357	3,152	3,020	3,001	2,836	2,686
of which in other European countries	8.6 %	1,977	1,820	1,670	1,524	1,390	1,325	1,279	1,272	1,195	1,109
Sales growth as % of net sales		5.3	4.9	5.0	5.3	6.5	4.4	0.6	5.8	5.6	3.4
EBITDA	(12.9)%	159	183	174	162	167	161	156	184	173	169
as % of net sales		3.9	4.7	4.7	4.6	5.0	5.1	5.2	6.1	6.1	6.3
EBIT	(34.5)%	67	102	98	90	110	105	99	128	119	115
as % of net sales		1.6	2.6	2.6	2.6	3.3	3.3	3.3	4.3	4.2	4.3
Adjusted EBIT [1]	(25.6)%	82	110	103	99	115	111	101	132	120	115
as % of net sales		2.0	2.8	2.8	2.8	3.4	3.5	3.3	4.4	4.2	4.3
Earnings before taxes	(36.2)%	52	81	79	78	95	87	74	106	102	96
as % of net sales		1.3	2.1	2.1	2.2	2.8	2.8	2.5	3.5	3.6	3.6
Net income for the year	(30.2)%	41	59	53	72	70	56	52	77	76	68
as % of net sales		1.0	1.5	1.4	2.0	2.1	1.8	1.7	2.6	2.7	2.5
Gross margin as % of net sales		36.7	37.3	37.2	37.7	38.0	37.4	37.3	37.4	37.4	36.8
Store expenses as % of net sales		29.9	29.6	29.8	30.2	29.8	29.4	29.7	29.0	29.3	29.6
Costs of central administration as % of net sales		5.4	5.3	5.0	5.0	4.7	4.5	4.7	4.3	4.2	4.1
Pre-opening expenses as % of net sales		0.2	0.1	0.2	0.3	0.4	0.3	0.3	0.2	0.1	0.1
Cash flow figures											
Cash flow from operating activities	(97.2)%	4	134	115	107	107	144	95	104	153	156
Investments [2]	42.6 %	184	129	157	139	100	72	117	104	68	68
Proceeds from divestments		4	2	2	2	1	5	3	11	38	3
Earnings potential [3]	(92.6)%	10	139	121	117	122	155	105	111	158	160
as % of net sales		0.2	3.6	3.3	3.3	3.6	4.9	3.5	3.7	5.6	6.0
Dividend distribution	0.0 %	21.6	21.6	21.6	19.1	19.1	15.9	15.9	15.9	15.9	13.7
Balance sheet and financial figures											
Total assets	17.0 %	2,338	1,998	1,960	1,986	1,731	1,670	1,597	1,628	1,592	1,439
Non-current assets	7.6 %	1,253	1,165	1,124	1,023	786	729	722	668	621	601
Inventories	14.9 %	756	658	626	588	533	505	482	476	459	428
Cash and cash equivalents	137.5 %	243	102	113	283	335	371	317	404	423	296
Shareholders' equity	1.9 %	1,069	1,049	1,011	973	922	862	823	792	730	655
Shareholders' equity as % of total assets		45.7	52.5	51.6	49.0	53.3	51.6	51.5	48.6	45.9	45.5
Return on shareholders' equity based on net income - in %		3.9	5.7	5.5	7.6	7.8	6.7	6.5	10.2	10.9	11.0
Net working capital	29.5 %	607	469	471	408	382	345	349	358	319	312
Additions to non-current assets	42.6 %	184	129	176	312	100	72	117	104	68	68
Inventory turnover rate per year		3.9	3.8	3.9	4.0	4.1	4.0	4.0	4.0	4.0	3.7
Retail store data											
Number of stores		158	156	155	153	146	141	138	134	133	131
of which in Germany		97	98	98	99	97	92	92	91	92	92
of which in other European countries		61	58	57	54	49	49	46	43	41	39
Like-for-like sales growth in %		4.2	3.6	3.0	2.6	4.4	2.7	(1.4)	2.8	2.6	0.7
Sales area in m² (based on BHB)	1.7 %	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	1,480,216
Weighted average net sales per m² in €	3.9 %	2,218	2,135	2,068	2,023	1,985	1,940	1,912	1,933	1,903	1,828
Average store size in m²	0.4 %	11,728	11,678	11,650	11,578	11,673	11,679	11,579	11,560	11,381	11,299
Weighted average sales per store		26.0	24.9	24.1	23.4	23.2	22.7	22.1	22.3	21.7	20.7
Other information											
Employees - annual average - converted into full-time equivalents	5.2 %	16,229	15,431	15,016	14,570	13,967	13,390	12,674	12,188	11,520	11,357
Sales per employee in € 000s	0.1 %	252	252	247	243	240	239	238	246	246	237
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	15,903,500	15,903,500
Earnings per share in € [4]		1.29	1.84	1.66	2.28	2.19	1.77	1.64	2.43	4.76	4.32

[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

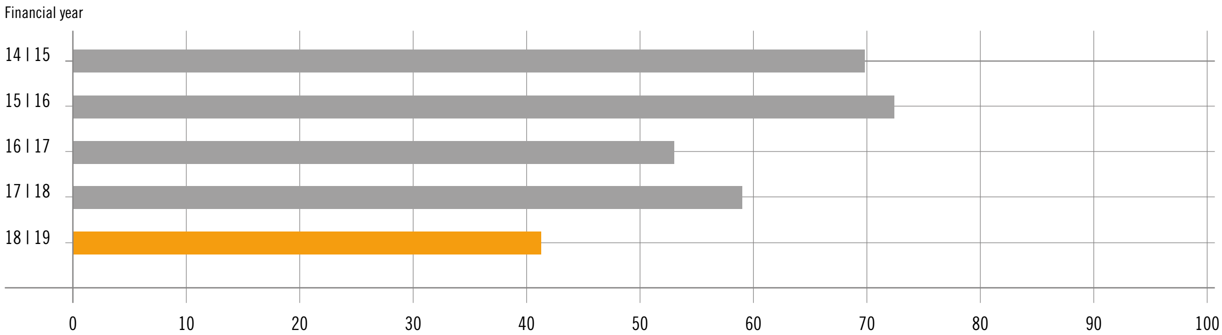
Structure of consolidated balance sheet
(€ million)

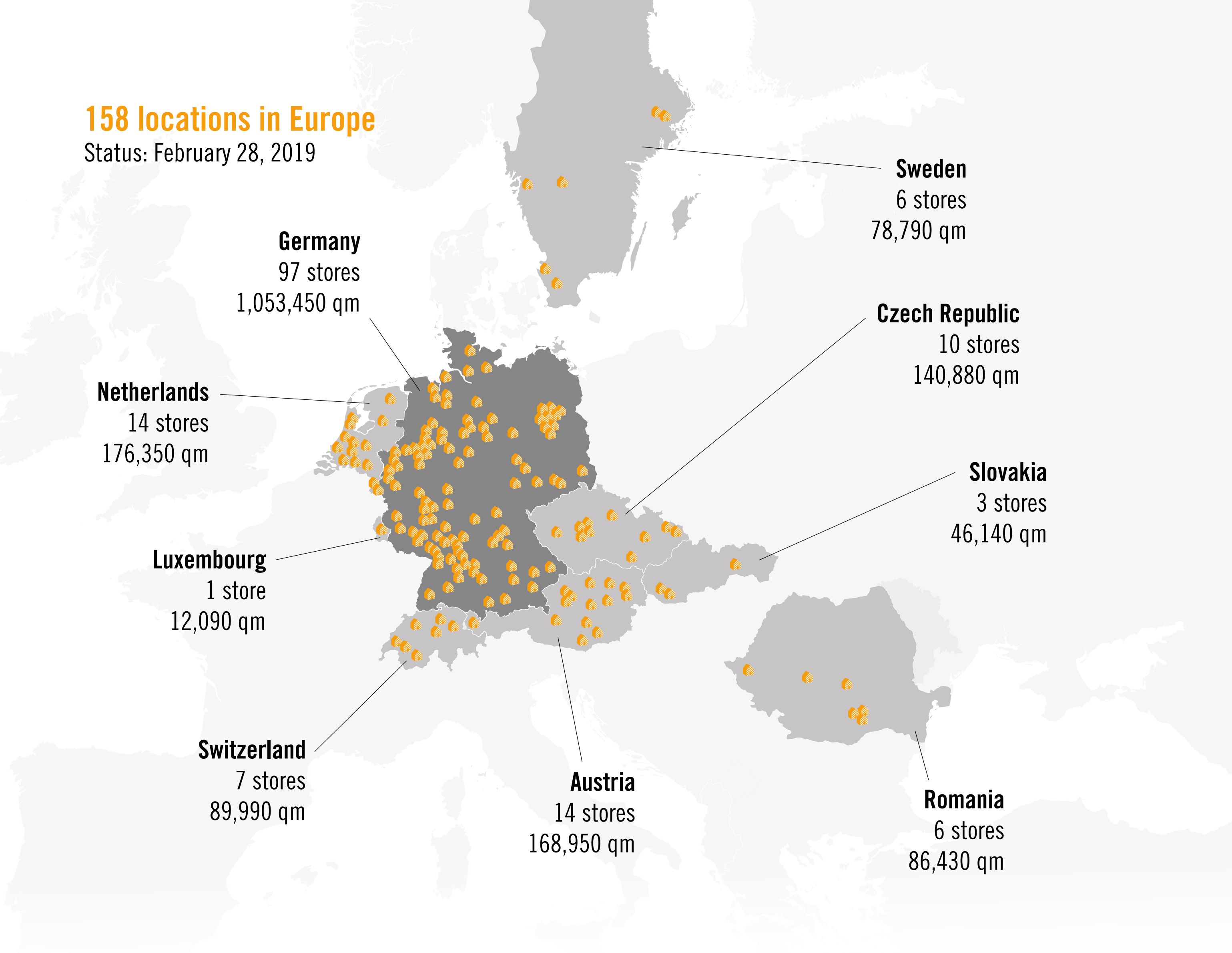


Adjusted EBIT
(€ million)



Net income for the year
(€ million)





Company Profile

HORNBACH is one of the leading DIY retail groups in Germany and Europe, with 158 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 170,000 high-quality articles at permanently low prices. HORNBACH supplements its products with a wide range of project-based advice and services.

50 years

The first combined DIY store and garden center opens its doors in Bornheim/Pfalz in 1968.

€ 4.1 billion

Consolidated sales rose by 5.3 % in the 2018/19 financial year.

€ 2,210

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 Shareholders,

2018, we celebrated a special anniversary – 50 years of HORNBACH DIY stores with garden centers. Five decades earlier, our company earned most of its money as a manufacturer of house and district sewage facilities made of reinforced concrete components in a modular system. Even though business was going well at the time, the shareholders had the entrepreneurial vision to try out something en-tirely new. They channeled the profits from their established business into an idea they had brought back from the USA. And in 1968 they invested in an old warehouse in Bornheim that was to become Europe's first combined DIY store and garden center. In his speech at the topping-out ceremony, my father Otmar put it in his inimitable style: "As regards the hall, all I need say is that it is intended to continue the tradition taken from the old Hornbach builders' merchant business, i.e. trading cement, stones, bricks, and so forth, as practiced from generation to generation for around 90 years now, albeit under very conditions. But the similarities are enough for us to declare: 'Grandpa's builders' store is dead, long live grandpa's builders' store!'" The opening of the first "HORNBACH DIY Super-store" on September 27, 1968 marked the beginning of an impressive growth story. It had the same DNA that shapes our retail business down to the present day. We are now a key player in the European DIY store sector, with 158 DIY stores, garden centers, and online shops in nine countries and net sales of more than four billion euros (status: February 28, 2019).

The anniversary is a good opportunity for me to thank all of our employees for their dedication and for the efforts they make each and every day to inspire our customers again and again – regardless of whether they have been with us for many years or just a few weeks. Without this fantastic team, now numbering more than 20,000 employees across the Group, HORNBACH's history would not have been a success story. And that is just as true even though the anniversary came in a difficult financial year.

For me, the most important insight, and one that is easily overlooked in the flurry of figures in this Annual Report, is this: Our business model is working! Our large, high-performance DIY stores and garden centers lend us an unbeatable competitive advantage over pure player competitors on the internet. That is because we know how to dovetail our store network on location with the online busi-ness, and that with a consistent customer focus. Interconnected retail (ICR) – as we call it – enables us to create genuine added value for our customers, not least because of the enormous range of immediately available products and specialist one-to-one advice we can provide. Our sales perfor-mance in the past financial year reflects our success with customers:

- We met our sales targets in 2018/19 – and that despite extreme weather conditions in the spring and summer. The HORNBACH Baumarkt Group increased its net sales by 5.3 % to € 4.1 billion.
- On a like-for-like basis and net of currency items, we increased sales at our HORNBACH DIY stores and garden centers both in Germany and in other European countries for the third consecutive year. On a Group-wide basis, we posted adjusted sales growth of 4.2 %.
- With sales of € 2,210 per square meter, surface productivity at our DIY megastores in 2018/19 soared to its highest level since the IPO of HORNBACH Baumarkt AG in 1993. That figure makes us the most pro-ductive by far of Germany's top ten DIY players.

We cannot afford to be satisfied with our earnings performance in the year under report. Regrettably, we did not succeed in translating our sales growth into higher earnings. Adjusted for non-operating one-off items, our EBIT dropped more than a quarter to € 82 million in the 2018/19 financial year and fell considerably short of our original target of matching the previous year's figure. That was due above all to a clearly disproportionate rise in personnel and material expenses in the fourth quarter of 2018/19. In particular, these involved additional costs incurred to improve our stationary store presence with measures such as store conversion and maintenance.

That means the downturn in our operating earnings in the past financial year is first and foremost a cost issue, and one that needs to be managed better in future, rather than a demand-related prob-lem. We have examined the figures critically and are determined to sustainably increase our earnings.

That said, the weakness of our earnings, particularly in our home market, is not new. In recent years, we pressed ahead with numerous projects that made us what we are today – the German market leader for DIY interconnected retail. We deliberately opted not to separate our online shop from our stationary business or even to outsource it to a standalone company, as some of our competitors have done. As a result, costs at our central headquarters have risen from year to year – not because we are generating more bureaucracy, but rather because we cover the "store costs" of our online shops and design new digital solutions and services for our stores. Consistently developing and expanding our e-commerce is necessary if, as a retail company, we are to remain attractive to our customers in the long term.

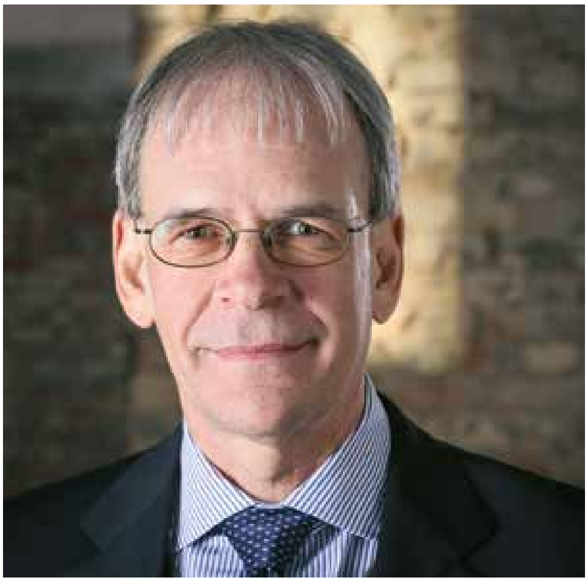
To be able to afford ICR and our further expansion, we urgently need to improve our profitability once again – especially in the Germany region. Our costs cannot continue to grow at the same rate as our sales. We subjected our project portfolio to a critical review in the past financial year already and selected those projects we intend to focus on in future. Moreover, we are currently scrutinizing our organizational structures – and above all the interaction between corporate headquarters and our operating regions – in order to improve our effectiveness and increase our cost discipline. We have also looked critically at our investments. In the past year, we invested € 184 million, mostly in land and buildings for our further expansion. We also drew on special opportunities not foreseen in the original budget. We will account for the funds thereby expended in the current 2019/20 financial year and invest correspondingly less. We are confident that our efforts will show their first positive effects in the current year already.

We should reflect on the virtues that have characterized the company throughout its long history. The key focus for me is entrepreneurship – thinking and acting in the long term, as if it were your own company. Above all, that involves a willingness and the openness to make far-reaching changes to the company, question your approach, and reinvent yourself. That takes courage, persistence, and power of conviction.

As regards the underlying framework, the omens point to a successful year. We have prepared for the spring season more intensively than ever. Demand is there – now it is up to us to make the best of it.

Steffen Hornbach
CEO
HORNBACH Baumarkt AG

Report of the Supervisory Board



Albrecht Hornbach

Dear Ladies and Gentlemen,

In the past 2018/19 financial year we dealt in great detail with the company's situation, perspectives, and strategic alignment. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with the Chief Executive Officer, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

The HORNBACH Baumarkt AG Group achieved its sales targets in the financial year and asserted itself well in a sector that was characterized by unrelentingly intense competition, not least in terms of pricing, in both its domestic and international markets. The company managed to defend or expand its market share. By contrast, the HORNBACH Baumarkt AG Group was unable to meet its earnings targets, with this mainly being due to above-budget increases in personnel and material expenses accompanied by a slight reduction in the gross margin. Unadjusted operating earnings were further held back by impairments and additions to provisions. Overall, the earnings situation was not satisfactory.

The Supervisory Board discussed this unsatisfactory situation, which was also reflected in the share price performance of the listed HORNBACH companies, and its causes in great detail with the Board of Management. The Supervisory Board agreed that the Board of Management should be encouraged to maintain the company's multi-channel strategy, i.e. promoting the parallel expansion in the network of DIY stores and online shops in the countries covered by the company, even if this involved exceptional financial burdens to secure the company's future performance. Key focuses of discussion included necessary efficiency enhancements, measures to focus project implementation, cost discipline, and the particular significance of logistics expenses. The Supervisory Board explicitly supports the permanent low-price guarantee strategy at the DIY stores.

Meetings of the Supervisory Board

The Supervisory Board held a total of five meetings in the 2018/19 financial year. With one exception, all members attended at least half of 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 to 100 % and around 96 % respectively. Only the Personnel Committee reported one meeting that was not attended by 100 % of its members. This was due to the legitimate absence of one member. Individualized disclosure of 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 2018 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 2019. Furthermore, the Audit Committee also reported on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The selection of the Supervisory Board's candidates as recommended by the Nomination Committee for election as shareholder representatives at the regular Supervisory Board elections due to be held at the Annual General Meeting in July 2018 was elucidated. The Supervisory Board then approved the agenda for the Annual General Meeting, including the proposed resolutions. Furthermore, the meeting held in May 2018 also adopted the amended business allocation plan for the Board of Management as of June 1, 2018.

At the meeting held directly before the Annual General Meeting in July 2018, the Board of Management reported on the current situation of the Group.

At the constitutive meeting of the newly elected Supervisory Board held directly after the Annual General Meeting, the members first adopted an amendment to the Code of Procedure for the Supervisory Board. The Supervisory Board subsequently elected its Chairman, Deputy Chairmen, and the members and Chairmen of its committees. Furthermore, the dates of scheduled meetings up to and including the 2019/20 financial year were also agreed at the meeting.

In December 2018, the current business situation, risk report, and compliance report were discussed. At the recommendation of the Personnel Committee, Karsten Kühn, a member of the Board of Management, was appointed for a further 5-year term in office through to September 30, 2024. At the same meeting, the newly elected Supervisory Board discussed the efficiency of its activities and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). This was made permanently available on the company's homepage. HORNBACH Baumarkt AG

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

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. Once the second Shareholder Rights Directive Implementation Act has come into effect and following the adoption of a new version of the German Corporate Governance Code, the Supervisory Board will review the governance principles in place at the company and make any appropriate adjustments together with the Board of Management.

Corporate Governance
Corporate Governance Declaration

In January 2019, the Supervisory Board provided written approval for the conclusion of a promissory note bond of up to € 200 million by circulating the relevant documents to its members.

At its final meeting in the past 2018/19 financial year, held in February 2019, the Supervisory Board discussed the Group's current business situation as well as the budget for the financial years 2019/20 to 2023/24. Based on the recommendation and preference expressed by the Audit Committee, this meeting also decided to propose to the Annual General Meeting that Deloitte GmbH Wirtschaftsprüfungsgesellschaft should be elected and appointed to audit the consolidated financial statements and annual financial statements of HORNBACH Baumarkt AG for the 2019/20 financial year. The Committee declared in this respect that its recommendation was free of undue influence by third parties and that no clauses of the type referred to in Article 16 (6) of Regulation (EU) No. 537/2014 had been imposed.

Committees and committee meetings

Directors and Officers
Supervisory Board committees

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.

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

In May 2018, the Audit Committee discussed the annual financial statements of HORNBACH Baumarkt AG and the consolidated financial statements, management reports, proposed appropriation of profits, and audit reports, including the dependent company report, in the presence of the auditor and members of the Board of Management. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports 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 2018 the half-year financial report was addressed in the presence of the auditors. At its September meeting, the Committee decided to tender the audit assignment for the annual and consolidated financial statements for the 2020/21 financial year at the latest and authorized the Audit Committee Chairman to guide and manage all aspects of the selection process subject to resolutions to be adopted by the Audit Committee or the Supervisory Board based on the key parameters relevant to the process.

In December 2018, the Committee Chairwoman discussed the status of the selection process together with the Board of Management and, in liaison with Committee members, agreed the weighting of selection criteria and the further procedure. At the same meeting, the Committee determined the key audit focuses for the audit of the consolidated financial statements together with the auditors. The Committee also held in-depth deliberations concerning the statement for the first nine months, particularly in light of the profit warning published by HORNBACH Baumarkt AG on December 10, 2018, and discussed the risk report, the compliance report, and the company’s financial situation.

In February 2019, the budget for the financial years 2019/20 to 2023/24 was addressed in detail. With regard to the tender of the assignment for the audit of annual and consolidated financial statements, the Committee dealt closely with the report on the conclusions reached in the auditor selection process. In this respect, the Committee submitted to the Supervisory Board a recommendation for two audit companies and a preference for Deloitte GmbH Wirtschaftsprüfungsgesellschaft. The internal audit plan for the 2018/19 financial year was discussed at the same meeting.

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

The Personnel Committee held two meetings in the year under report. At its meeting in April 2018, the Committee discussed the amendment to the business allocation plan for the Board of Management, which was then implemented as of June 1, 2018. The meeting held in September 2018 dealt with the forthcoming extension of the contract with Karsten Kühn, a member of the Board of Management, and the further development in the structure of compensation for the Board of Management.

The Nomination Committee held one meeting in the past financial year. At this, it discussed shareholder representative candidates for the regular election to the Supervisory Board due to take place at the Annual General Meeting in July 2018. It adopted a recommendation for submission to the full Supervisory Board in which it proposed eight candidates for election by the Annual General Meeting. In selecting candidates, the Committee took due account of the composition-related objectives adopted by the Supervisory Board in December 2017 and aimed to meet the competence profile adopted by the Supervisory Board for the board as a whole.

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

Consistent with the amended business allocation plan, as of June 1, 2018 Karsten Kühn took over the function of Labor Director from Wolfger Ketzler.

Composition of Supervisory Board

Scheduled elections were held for the members of the Supervisory Board. The employees newly elected Markus Lass, Jörg Manns, Anke Matrose, and Johannes Otto to represent them on the Supervisory Board. Mohamed Elaouch, Christian Garrecht, Brigitte Mauer, and Kay Strelow were re-elected as employee representatives. Monika Di Silvestre, Martin Fischer, Kerstin Holfert, and Michael Reiland retired from the Supervisory Board.

Shareholder representatives were elected at the Annual General Meeting on July 5, 2018. Vanessa Stützle and Melanie Thomann-Bopp were elected as new members of the Supervisory Board. Dr. John Feldmann, Erich Harsch, Albrecht Hornbach, Georg Hornbach, Martin Hornbach, and Prof. Dr. Jens Wulfsberg were re-elected. Dr. Wolfgang Rupf and Joerg Walter Sost retired from the Supervisory Board. At the constitutive meeting of the newly elected Supervisory Board held directly afterwards, Albrecht Hornbach was elected as Chairman, Kay Strelow as Deputy Chairman, and Dr. John Feldmann as a further Deputy Chairman.

The Supervisory Board would like to thank all of its retiring members for their longstanding commitment.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main (KPMG), audited the annual financial statements and the consolidated financial statements of HORNBACH Baumarkt AG as of February 28, 2019, as well as the combined management report and group management report of HORNBACH Baumarkt AG for the 2018/19 financial year, and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Moreover, KPMG confirmed that the Board of Management had suitably implemented the measures required by § 91 (2) of the German Stock Corporation Act (AktG), particularly those concerning the establishment of an early warning risk management system, and that the monitoring system was suitable for the early detection of any developments that could threaten the company's continued existence.

Key audit focuses in the 2018/19 financial year included the measurement of inventories and ongoing value of stores in respect of the annual and consolidated financial statements and note disclosures concerning the expected implications of applying 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 20, 2019 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. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual and consolidated financial statements of HORNBACH Baumarkt AG prepared by the Board of Management as of February 28, 2019; the annual financial statements of HORNBACH Baumarkt AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

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

"Based on the audit and assessment we have undertaken in accordance with professional standards, we confirm that
1. the factual disclosures made in the report are correct
2. the performance of the company in the transactions listed in the report was not incommensurately high."

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

The Supervisory Board is convinced that the company is well positioned not only to master the challenges it faces in a dramatically changing market climate in the interests of all its stakeholders but also 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 2019

The Supervisory Board

Albrecht Hornbach
Chairman

Directors and Officers

Supervisory Board

Albrecht Hornbach
Chairman
Chief Executive Officer
HORNBACH Management AG

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

Dr. Wolfgang Rupf (until July 5, 2018)
Further Deputy Chairman
Managing Partner, Rupf Industries GmbH,
Rupf Engineering GmbH, and Rupf ATG Casting GmbH

Dr. John Feldmann
Further Deputy Chairman (since July 5, 2018)
Supervisory Board Chairman of KION Group AG
(until May 9, 2019)
Former Executive Board member of BASF SE

Monika Di Silvestre* (until July 5, 2018)
State Retail Section Head at ver.di
Rhineland-Palatinate-Saarland

Mohamed Elaouch*
Section Manager, Mainz Store

Martin Fischer* (until July 5, 2018)
Professional Customer Advisor, Kempten Store

Christian Garrecht*
Operative Head of Workplace Safety and Fire Protection

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

Kerstin Holfert* (until July 5, 2018)
Section Manager, Dresden Store

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

Martin Hornbach
Managing Partner
Corivus Gruppe GmbH

Markus Lass* (since July 5, 2018)
District Director

Jörg Manns* (since July 5, 2018)
Sales Employee, Wiesbaden Store

Anke Matrose* (since July 5, 2018)
Checkout Assistant, Bremen Store

Brigitte Mauer*
Section Manager, Tübingen Store

Johannes Otto* (since July 5, 2018)
Assistant Store Director, Schwetzingen Store

Michael Reiland* (until July 5, 2018)
Sales Director at HORNBACH Compact
and District Director

Joerg Walter Sost (until July 5, 2018)
Managing Partner
J.S. Consulting GmbH

Vanessa Stützle (since July 5, 2018)
Managing Director of E-Commerce/Omni-Channel
Parfümerie Douglas GmbH

Melanie Thomann-Bopp (since July 5, 2018)
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

Dr. Wolfgang Rupf	Chairman until July 5, 2018
Melanie Thomann-Bopp	Chairwoman since July 5, 2018
Dr. John Feldmann	
Erich Harsch	
Albrecht Hornbach	
Martin Hornbach	
Markus Lass	since July 5, 2018
Michael Reiland	until July 5, 2018
Joerg Walter Sost	until July 5, 2018
Kay Strelow	
Vanessa Stützle	since July 5, 2018

Personnel Committee

Dr. Wolfgang Rupf	Chairman until July 5, 2018
Dr. John Feldmann	Chairman since July 5, 2018
Christian Garrecht	
Erich Harsch	until July 5, 2018
Albrecht Hornbach	since July 5, 2018
Martin Hornbach	since July 5, 2018
Markus Lass	since July 5, 2018
Michael Reiland	until July 5, 2018
Joerg Walter Sost	until July 5, 2018

Mediation Committee

Dr. Wolfgang Rupf	Chairman until July 5, 2018
Dr. John Feldmann	Chairman since July 5, 2018
Kerstin Holfert	until July 5, 2018
Albrecht Hornbach	
Johannes Otto	since July 5, 2018
Kay Strelow	

Nomination Committee

Albrecht Hornbach	Chairman
Dr. John Feldmann	
Martin Hornbach	
Dr. Wolfgang Rupf	until July 5, 2018
Melanie Thomann-Bopp	since July 5, 2018

Board of Management

Members and their areas of responsibility

Steffen Hornbach
Chief Executive Officer
Strategic Development, Operative Store Management, Sales and Services

Roland Pelka
Deputy Chairman
Finance, Accounting, Tax, Controlling, Risk Management, Loss Prevention, Investor Relations;
Public Relations (until May 31, 2018)

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

Wolfger Ketzler
Real Estate, Construction, Technical Procurement, Internal Audit, Legal, Compliance;
Personnel and Labor Director (until May 31, 2018)

Karsten Kühn
Marketing, Market Research, Internal Communications, Public Relations, Organizational Development, Personnel and Labor Director (since June 1, 2018)

Ingo Leiner
Logistics

Dr. Andreas Schobert
Technology

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 (see "Board of Management" and "Supervisory Board" in the item overview).

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

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 (§ 289a HGB), which includes the Corporate Governance Report of the Board of Management and the Supervisory Board (Point 3.10 DCGK).

1. Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 AktG dated December 2018

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

I. Future-related section

The recommendations of the "German Corporate Governance Code" in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 will basically be complied with in future. No application 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. Furthermore, it would also improperly apply to employee representatives. The recommendation made in Point 3.8 (3) is therefore not followed.

b) Point 4.2.3 (2) Sentence 3:

According to Point 4.2.3 (2) Sentence 3, variable components of management board compensation should generally have a multiple-year assessment basis that essentially has forward-looking characteristics. The employment contracts currently in place deviate from this Code recommendation. The adjustments to the employment contracts with members of the Board of Management required to comply with this recommendation at a later point in time are nevertheless in preparation.

c) Point 4.2.5 (3):

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

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

II. Past-related section

Period since submission of previous Declaration of Conformity in December 2017
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 were basically complied with in the period since submission of the previous Declaration of Conformity in December 2017 apart from the deviations already listed and substantiated for the future in Section I. Furthermore, through to the conclusion of the Annual General Meeting of HORNBACH Baumarkt AG on July 5, 2018 the company also did not comply with the recommendation contained in Point 5.4.2 Sentence 3.

In Point 5.4.2 Sentence 3, the Code recommends that the supervisory board should not include more than two former management board members. This is intended to ensure the autonomy of the supervisory board in its advising and monitoring of the management board. However, the Code does not stipulate any number of years for which a former member of the management board is impaired in this respect following his departure from the management board. As a matter of precaution, the company therefore declared that it deviated from the recommendation made in Point 5.4.2 Sentence 3, even though Dr. Wolfgang Rupf, Albrecht Hornbach and Martin Hornbach had retired from their positions on the Board of Management of HORNBACH Baumarkt AG on October 31, 1996, October 31, 2001 and December 31, 2001 respectively. This deviation no longer applied following the retirement of Dr. Wolfgang Rupf from the Supervisory Board upon the conclusion of the Annual General Meeting of HORNBACH Baumarkt AG on July 5, 2018.

Bornheim bei Landau, December 2018

HORNBACH Baumarkt AG
Supervisory Board   Board of Management

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

The above Declaration of Conformity dated December 2018 has been published on our website together with all earlier Declarations of Conformity and is also available as a download.

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 consists of 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 Code of Procedure for the Supervisory Board contains a catalog of the transactions and actions requiring such approval. The Supervisory Board may at any time resolve to extend or reduce the list of such transactions.

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Baumarkt AG in the 2018/19 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.

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, 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 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.

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 the 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, the Supervisory Board currently includes thirteen independent members, of which five shareholder representatives. These are Dr. John Feldmann, Erich Harsch, Vanessa Stützle, Melanie Thomann-Bopp, and Prof. Dr. Jens Wulfsberg.

3.1.3 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Albrecht Hornbach, Chairman	5/5	100.00
Kay Strelow, Deputy Chairman	5/5	100.00
Dr. Wolfgang Rupf, Deputy Chairman and member until July 5, 2018	2/2	100.00
Dr. John Feldmann, Deputy Chairman since July 5, 2018	5/5	100.00
Monika Di Silvestre, member until July 5, 2018	2/2	100.00
Mohamed Elaouch	5/5	100.00
Martin Fischer, member until July 5, 2018	2/2	100.00
Christian Garrecht	5/5	100.00
Erich Harsch	5/5	100.00
Kerstin Holfert, member until July 5, 2018	2/2	100.00
Georg Hornbach	5/5	100.00
Martin Hornbach	5/5	100.00
Markus Lass, member since July 5, 2018	3/3	100.00
Jörg Manns, member since July 5, 2018	3/3	100.00
Anke Matrose, member since July 5, 2018	3/3	100.00
Brigitte Mauer	5/5	100.00
Johannes Otto, member since July 5, 2018	3/3	100.00
Michael Reiland, member until July 5, 2018	2/2	100.00
Joerg Walter Sost, member until July 5, 2018	2/2	100.00
Vanessa Stützle, member since July 5, 2018	3/3	100.00
Melanie Thomann-Bopp, member since July 5, 2018	3/3	100.00
Prof. Dr. Jens Wulfsberg	5/5	100.00
Total		100.00

Audit Committee	Meetings attended	Attendance in %
Dr. Wolfgang Rupf, Chairman until July 5, 2018	2/2	100.00
Melanie Thomann-Bopp, Chairwoman since July 5, 2018	3/3	100.00
Dr. John Feldmann	5/5	100.00
Erich Harsch	5/5	100.00
Albrecht Hornbach	5/5	100.00
Martin Hornbach	5/5	100.00
Markus Lass, member since July 5, 2018	3/3	100.00
Michael Reiland, member until July 5, 2018	2/2	100.00
Joerg Walter Sost, member until July 5, 2018	2/2	100.00
Kay Strelow	5/5	100.00
Vanessa Stützle, member since July 5, 2018	3/3	100.00
Total		100.00

Personnel Committee	Meetings attended	Attendance in %
Dr. Wolfgang Rupf, Chairman until July 5, 2018	1/1	100.00
Dr. John Feldmann, Chairman since July 5, 2018	1/1	100.00
Christian Garrecht	2/2	100.00
Erich Harsch, member until July 5 2018	1/1	100.00
Albrecht Hornbach, member since July 5, 2018	1/1	100.00
Martin Hornbach, member since July 5, 2018	1/1	100.00
Markus Lass, member since July 5, 2018	1/1	100.00
Michael Reiland, member until July 5, 2018	1/1	100.00
Joerg Walter Sost, member until July 5, 2018	0/1	0.00
Total		88.89

Nomination Committee	Meetings attended	Attendance in in %
Albrecht Hornbach, Chairman	1/1	100.00
Dr. John Feldmann	1/1	100.00
Martin Hornbach	1/1	100.00
Dr. Wolfgang Rupf, member until July 5, 2018	1/1	100.00
Melanie Thomann-Bopp, member since July 5, 2018*	-	-
Total		100.00

*No meetings of the Nomination Committee were held after the Supervisory Board elections on July 5, 2018.

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 2018/19 financial year. 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.

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

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, and manner and status of implementation

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.

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 actually achieved, and extended the target of no less than 1/7, while upholding the current status, through to February 28, 2022.

The Supervisory Board currently includes four female members (status: May 2019), thus complying with the minimum share provided for in § 96 (2) AktG.

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. The Annual General Meeting is generally chaired by the Supervisory Board Chairman. HORNBACH Baumarkt AG provides its shareholders with the services of a voting proxy bound to vote in line with instructions.

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 reports. HORNBACH Baumarkt AG has a risk management system that is continually enhanced and updated to account for changes in conditions. The functionality of the early warning risk management system is checked by the auditors.

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.

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 not notified of any own-account transactions by directors or individuals closely related to such.

6. Relevant Corporate Governance Practices

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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.

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Compliance

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.

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

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

Since mid-2017, the compliance system has been supported by an internet-based whistleblower system. This provides employees, service providers, and suppliers worldwide with the 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 double-digit number of confirmed compliance infringements at the HORNBACH Group.

Compensation Report

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

1. Compensation of Board of Management

1.1 Compensation system at HORNBACH Baumarkt AG

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

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

- **Variable compensation:**
  Alongside fixed annual salaries, members of the Board of Management also receive annual variable compensation in line with the company's sustainable performance. This is based both on company targets and on targets agreed for individual members of the Board of Management. The key performance factor used to determine variable compensation is average consolidated net income (IFRS) at HORNBACH Baumarkt AG. Variable compensation is calculated on the basis of the three-year average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG.

  Individual variable compensation is separately graded at different levels for the Chairman, Deputy Chairman and for each regular member of the Board of Management. For no individual member of the Board of Management does it exceed 1 % of the three-year average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG. Of variable compensation calculated on the basis of average consolidated net income (IFRS), up to 25 % is calculated and determined in several stages following achievement of the targets individually set for each member of the Board of Management for the respective financial year. This process is based on targets individually agreed in advance for each member of the Board of Management. To set these targets, the Supervisory Board of HORNBACH Baumarkt AG and the respective member of the Board of Management reach a target agreement before the beginning of each financial year in which the individual targets, their respective percentage weighting and the respective degree of target achievement are determined by the full Supervisory Board. Following completion of the financial year, the full Supervisory Board determines the degree of individual target achievement for the respective member of the Board of Management.

  The remaining 75 % of variable compensation is determined on the sole basis of the average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG for the past three years. For all members of the

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

1.2 Internal ratio of compensation components:

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

The structure of annual variable compensation ensures that the overwhelming share of such compensation (75 %) is based on long-term factors, complying with the predominantly multiyear nature called for in the relevant legislation. In individual cases, the compensation system may be adapted by the full Supervisory Board, taking account of legal requirements, to the extent deemed necessary to account for the duties and performance of the respective member of the Board of Management.

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 compensation components due in future in unspecified amounts up to a maximum of one total annual compensation 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 compensation 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 compensation 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 Compensation of the Board of Management for the 2018/19 financial year

Total compensation of the Board of Management for the 2018/19 financial year amounted to € 5,209k. Of this sum, € 2,903k was fixed compensation and € 2,306k involved performance-related components. Post-employment benefits of € 689k were incurred for active members of the Board of Management in the 2018/19 financial year (pension provision endowment). Pension provisions for former members of the Board of Management total € 1,245k. All pension provisions are offset by corresponding value credits.

Given the company's size and its market position, we believe that the total compensation of the Board of Management is appropriate. At the 2016 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the compensation of members of the Board of Management on an individual basis up to and including the 2020/21 financial year (opting-out clause).

2. Compensation of the Supervisory Board

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

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

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

The HORNBACH Baumarkt Share

Key figures for the HORNBACH Baumarkt share		2018/19	2017/18	2016/17	2015/16	2014/15
Year-end price[1]	€	18.26	30.50	29.72	25.77	32.60
12-month high[1]	€	31.25	33.32	31.50	38.60	34.98
12-month low[1]	€	16.82	28.90	23.69	24.51	26.56
Shares issued	Number	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000
Market capitalization	€ 000s	580,796	970,114	945,304	819,666	1,036,908
Earnings per share	€	1.29	1.84	1.66	2.28	2.19
Price / earnings ratio[2]		14.2	16.6	13.0	11.3	14.9
Book value per share	€	33.6	32.97	30.59	30.59	29.02
Price-to-book ratio[3]		0.5	0.9	1.0	0.8	1.1
Cash flow from operating activities per share	€	0.12	4.22	3.62	3.35	3.38
Price / cash flow ratio[4]		157.2	7.2	8.2	7.7	9.7
Dividend per share[5]	€	0.68	0.68	0.68	0.68	0.60
Distribution total[5]	€ 000s	21,629	21,629	21,629	21,629	19,084
Payout ratio[5),6]	%	52.7	37.0	41.0	29.8	27.4
Dividend yield[7]	%	3.7	2.2	2.3	2.6	1.8
Performance including dividend	%	(37.9)	4.8	18.6	(19.5)	8.9
Performance excluding dividend	%	(40.1)	2.6	15.3	(21.0)	6.9
Average daily trading volume[1]	Number	6,884	5,399	8,201	10,246	10,476

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) 2018/19: proposal to 2019 Annual General Meeting
6) Dividend per share ÷ earnings per share
7) Dividend per share ÷ year-end price

2018/19 on the stock markets

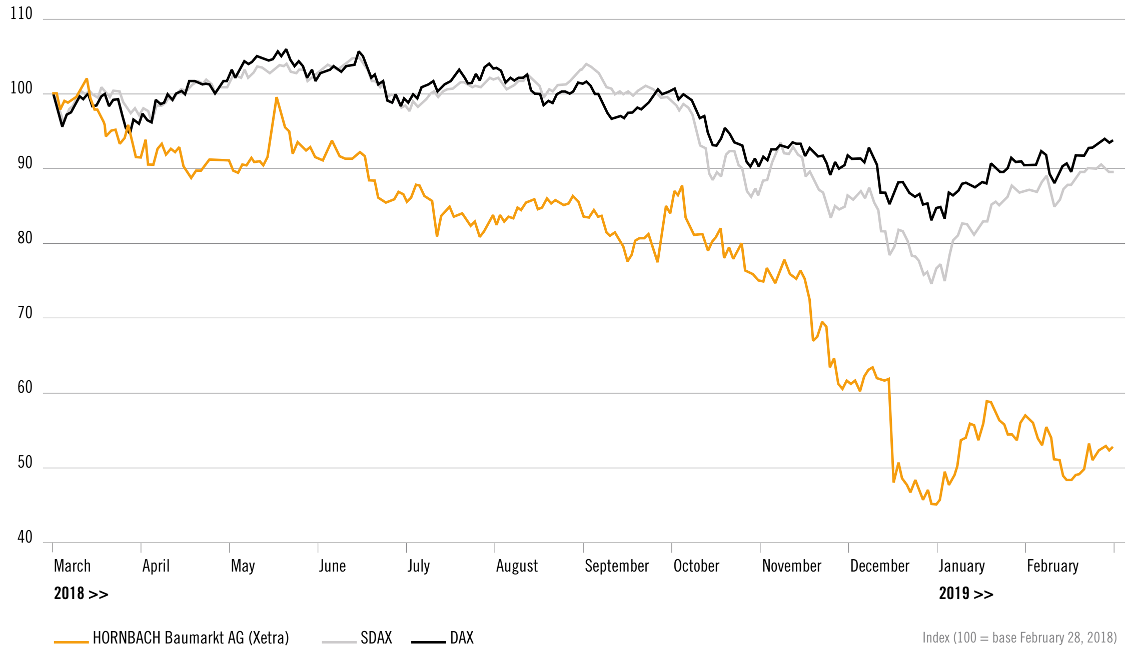
Clear downward trend

For equity investors, the 2018 calendar year was a disappointing period. More restrictive monetary policy on the part of central banks, increasing barriers to trade, unsuccessful Brexit negotiations, and an extremely hot summer in Central Europe, with an adverse impact on consumer spending – all these factors led stock prices to fall virtually across the board. In Germany, nearly one in three companies issued downward corrections in their forecasts during the year. The DAX, Germany's lead index, fell from an interim high of 13,204 points in May to 10,559 points at the end of the year. At the beginning of 2019, the DAX reported slight gains once again and closed at 11,516 points at the end of February.

HORNBACH Baumarkt share price performance

The HORNBACH Baumarkt share price fell by 40.1 % during the 2018/19 financial year (March 1, 2018 to February 28, 2019). Including the distribution, and assuming reinvestment of the dividend, the share price dropped by 37.9 %. It thus fell short of its comparative indices: DAX (-7.4 %), SDAX (-11.0 %), and the PRIME XETRA Retail Index (-23.5 %).

Share price performance: March 1, 2018 to February 28, 2019



Having reached its annual high at € 31.25 on March 13, the share price lost considerable ground as the year progressed. Alongside the unfavorable macroeconomic climate and weak performance of stocks throughout the retail sector, the publication of the profit warning on December 10 also contributed to the fall in the share price. In the subsequent period, the HORNBACH Baumarkt share reached its annual low at € 16.82 on December 28. A slight recovery then began in January and February and the share closed the financial year on February 28, 2019 at € 18.26 in Xetra trading (2017/18: € 30.50). The market capitalization therefore amounted to € 581 million at the end of the financial year (2017/18: € 970 million). The profit warning issued on March 20, 2019 then placed a severe damper on the recovery in the share price at the beginning of the new financial year. Upon going to print at the beginning of May 2019, the share price was at just over € 17.

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 2,750 HORNBACH Group employees participated in last year's employee stock program, with a total of 53,650 shares being transferred.

Analyst assessments

As of the balance sheet date on February 28, 2019, the HORNBACH Baumarkt share was regularly covered by two financial analysts (2017/18: four) in research reports and studies. Of these analysts, one recommended buying and one holding the share as of the balance sheet date. Their average share price target of € 24.25 implies upward potential of 33 % compared with the closing price at the end of our 2018/19 financial year. The current list of banks and research institutes regularly reporting on HORNBACH and their respective recommendations for the share can be viewed at the HORNBACH Group's website.

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 4, 2019. The distribution total of € 21,629k corresponds to a distribution quota of 52.7 % (2017/18: 37.0 %) 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 (WKN)	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 2019

May 27, 2019	Annual Results Press Conference 2018/19 Publication of Annual Report DVFA Analysts' Conference
June 28, 2019	Quarterly Statement: 1st Quarter of 2019/20 as of May 31, 2019
July 4, 2019	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 26, 2019	Half-Year Financial Report 2019/20 as of August 31, 2019
December 19, 2019	Quarterly Statement: 3rd Quarter of 2019/20 as of November 30, 2019

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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 28, 2019, the Group operated 158 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 97 locations are in Germany. A further 61 stores are located in the following other European countries: Austria (14), the Netherlands (14), Luxembourg (1), the Czech Republic (10), Switzerland (7), Sweden (6), Slovakia (3), and Romania (6). With total sales areas of around 1.85 million m², the average size of a HORNBACH DIY store with a garden center amounts to more than 11,700 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.

158
locations across Europe

In the 2018/19 financial year (March 1, 2018 to February 28, 2019), the HORNBACH Baumarkt AG Group generated net sales of around € 4.1 billion. This makes HORNBACH the third-largest retail group in the German DIY sector and the fifth-largest player in Europe. At the balance sheet date on February 28, 2019, the Group had a total of 20,118 employees (including passive employment relationships), of which 8,893 outside Germany.

€ 4.1 bn
consolidated sales

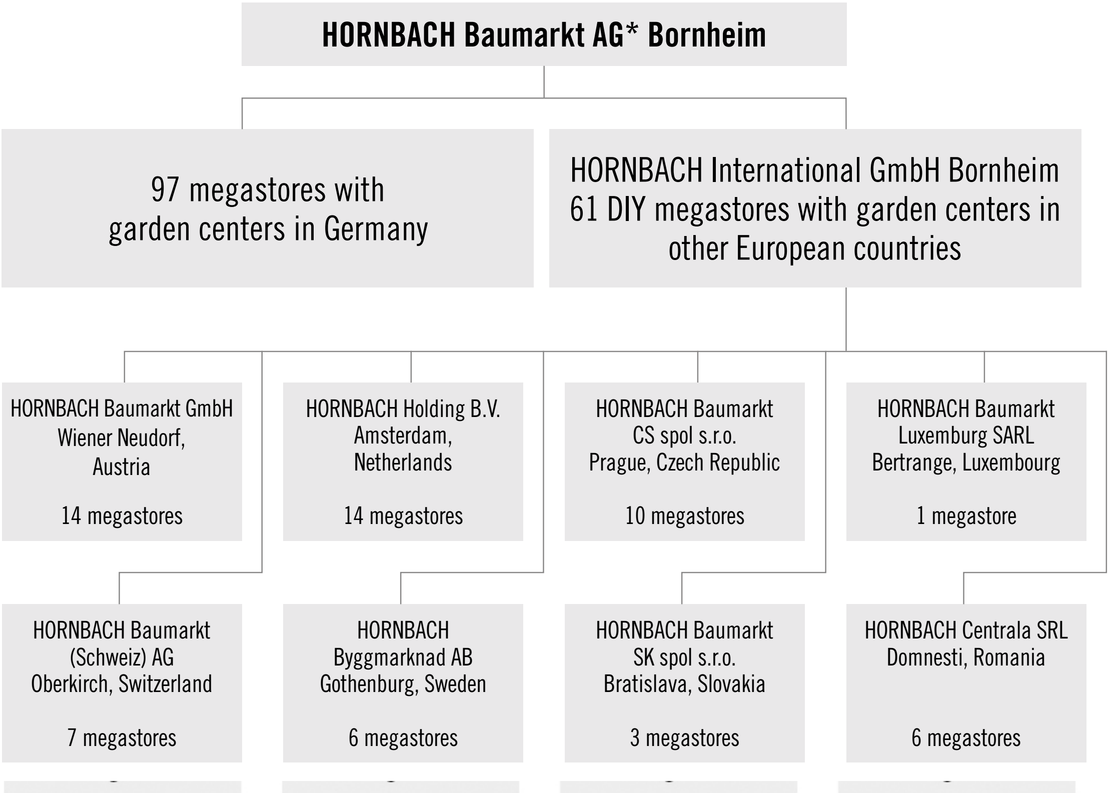
The diagram on the following page presents the current group structure and provides an overview of the most important shareholdings of HORNBACH Baumarkt AG. Full details about the scope of consolidation and consolidated shareholdings are provided in the notes to the consolidated financial statements.

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 28, 2019). The company was founded in 1877 and is still family-managed, now in the fifth generation.

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 is relying not just on its stationary retail business, but is also drawing on the development potential harbored by e-commerce. Since January 2018, HORNBACH's online store – a high-performing virtual DIY store and garden center – has been 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 28, 2019

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 well-known consumer surveys. HORNBACH's product range encompasses an average of around 50,000 articles at its stationary stores and up to 170,000 articles available online. Products are structured in the five following divisions: 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 28, 2019, 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 158 DIY megastores with garden centers pooled at the HORNBACH Baumarkt AG Group (2017/18: 156) and our e-commerce retail activities. Sales at the HORNBACH Baumarkt AG Group are primarily generated in the Retail segment, i.e. in the operating retail business. The "Real Estate" segment comprises the retail properties owned by the HORNBACH Baumarkt AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are summarized in the "Headquarters and Consolidation" reconciliation column.

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 assets, additions to provisions for onerous contracts) 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 figures

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

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

The calculation of like-for-like sales is based on all DIY stores with garden centers that have been in operation for at least one full year 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.

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 (previously: under other income and expenses). To comment on our operating earnings performance, we also report where necessary on functional expense items net of non-operating earnings items.

The **store expense ratio** corresponds to selling and store expenses divided by net sales. Selling and store expenses involve those costs incurred in connection with operating stationary DIY stores with garden centers and online shops. These mainly involve personnel expenses, costs of premises and advertising expenses, as well as depreciation and amortization. Moreover, this item also includes general operating expenses, such as transport costs 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-commerce) which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses. As well as purely administrative 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, has a cash flow character, as non-cash-effective depreciation and amortization are added to operating earnings (EBIT).

EBIT is also commented on 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 no longer used a key management figure in the company's planning or as the central reporting figure for budget/actual comparisons or annual earnings forecasts.

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

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

3.3 Further key management figures

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

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

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

Business Report

1. Macroeconomic and Sector-Specific Framework

Table
GDP growth rates

1.1 International framework

The European economy grew more slowly in the 2018 calendar year than one year earlier. Based on figures released by the European Union statistics authority (Eurostat), gross domestic product (GDP) grew by 1.9 % in the European Union as a whole (EU 28) and by 1.8 % 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 in most cases in 2018. Apart from Germany, however, their growth rates were ahead of the EU average. Private consumer spending in the EU 28 and euro area countries grew by 1.6 % and 1.3 % respectively in real terms. At 1.8 %, the annual HICP rate of inflation for the euro area in December 2018 was notably higher than in the previous year (plus 1.5 %).

The pace of growth in the European construction sector decreased compared with the previous year. According to estimates compiled by Eurostat, construction output grew by 2.0 % in the EU 28 and by 1.7 % in the euro area in 2018. Based on the assessment of the Euroconstruct Group, European construction volumes in its 19 partner countries grew by 2.8 % in 2018. Housing construction in particular, which most recently accounted for around 48 % of total construction volumes, showed a noticeable slowdown, while civil engineering gained additional momentum.

Non-food retail volumes (excluding motor fuels) rose by 2.6 % in the EU 28 and by 1.8 % in the euro area in 2018. In terms of the countries in which HORNBACH operates, the retail sector reported sales growth in all countries except Luxembourg and Switzerland. The figures for Romania, the Czech Republic, and Slovakia were significantly ahead of the European average. According to figures released by the GfK consumer research association for the 2018 calendar year, do-it-yourself (DIY) retail sales rose by 1.6 % in Germany, by 1.4 % in Austria, by 1.9 % in Switzerland, by 4.5 % in the Netherlands, and by 11.2 % 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 on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2018	2nd Quarter 2018	3rd Quarter 2018	4th Quarter 2018	Calendar Year 2018 vs. 2017
Germany	**0.4**	**0.5**	**(0.2)**	**0.0**	**1.4**
Austria	0.9	0.5	0.4	0.3	2.7
Czech Republic	0.6	0.5	0.7	0.8	2.9
Luxembourg	0.7	0.2	0.5	0.3	2.6
Netherlands	0.6	0.7	0.2	0.5	2.7
Romania	0.2	1.4	1.7	0.7	4.1
Slovakia	1.0	1.1	1.0	0.8	4.1
Sweden	0.8	0.4	(0.1)	1.2	2.3
Switzerland	0.9	0.7	(0.3)	0.2	2.5
Euro area (EA 19)	**0.4**	**0.4**	**0.1**	**0.2**	**1.8**
EU 28	**0.4**	**0.5**	**0.3**	**0.3**	**1.9**

1.2 Business framework in Germany

1.2.1 Macroeconomic climate

Germany witnessed a significant loss of economic momentum in the course of the year. Based on calculations compiled by the Federal Statistical Office, real-term gross domestic product (GDP) rose by an annual average of 1.4 % in 2018 (2017: plus 2.2 %) after a slight downturn and stagnation in the third and fourth quarters of the calendar year. Growth was driven exclusively by the domestic economy, and in particular by higher construction and equipment investments. Private consumer spending (plus 1.0 %) benefited from the favorable situation on the labor market and from wage and salary growth. Real-term disposable income increased by 3.5 %.

1.2.2 Construction activity and construction trade

The positive overall macroeconomic framework accompanied by strong demand for real estate and low interest rates provided the construction sector with further momentum in the past year. Given the persistently favorable interest rate climate, new private housing construction remained the key growth driver. According to calculations compiled by the German Institute for Economic Research (DIW), housing construction volumes rose by 8.6 % in nominal terms in 2018, with disproportionate growth of 10.1 % 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 7.9 %. The share of construction output attributable to existing buildings amounted to around 68 % in 2018.

The high level of capacity utilization in the construction industry was reflected in rising prices for construction work, as was the increase in material costs. The real-term growth rate in the main construction trade came to 3.0 % in 2018, while the finishing trade grew by 3.5 %.

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 € 525.0 billion in 2018. Sector sales therefore grew by 2.3 % in nominal terms and by 1.0 % in real terms compared with 2017. Online retail (e-commerce) showed further strong growth of 9.7 % to € 53.6 billion (2017: € 48.9 billion). Online sales thus accounted for a 10.2 % share of total retail sales in 2018 (2017: 9.5 %).

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 1.6 % to € 18.75 billion in the 2018 calendar year (2017: € 18.45 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 slight sales growth of 1.3 %. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) rose by 2.9% to € 4.03 billion (2017: € 3.92 billion). The market volume of all DIY and home improvement stores thus grew by 1.8 % to € 22.78 billion in 2018.

1.6 %
sales growth at large-scale DIY stores in 2018

Notably more dynamic growth was reported for e-commerce with home improvement, construction materials, and garden product ranges. 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 € 3.68 billion with DIY products in Germany in 2018 (2017: € 3.29 billion). That represents growth of 12.4 % compared with 2017. Key growth drivers here particularly included DIY store chains with stationary operations, which reported disproportionate online sales growth of around 17 % to more than € 700 million.

2. Summary of 2018/19 Business Performance

2.1 Overall assessment of the Group's economic position

The 2018/19 financial year (March 1, 2018 to February 28, 2019) was shaped by increased political insecurity which left its mark in the form of lower growth rates in the overall economies, construction industries, and retail sectors in all countries in which the HORNBACH Baumarkt AG Group operates. Competition in the DIY retail sector remained just as intense, and was exacerbated by ever greater competition online. The digital transformation also impacted adversely on the earnings performance of many retail companies. Against this backdrop, from an operating perspective the year under report was characterized by divergent developments at HORNBACH Baumarkt AG Group: We generated higher sales, but our earnings fell short of the previous year due to higher costs.

We met our sales forecast for 2018/19…

In the 2018/19 financial year, HORNBACH pressed consistently ahead with linking its online activities to its stationary retail business in a customer-focused manner (interconnected retail; ICR). Customers honored our ICR strategy, our product range competence, and the further improvement in staff availability at stores with a renewed increase in demand. We met our sales targets – and that despite what were at times extreme weather conditions in the spring and summer. The HORNBACH Baumarkt AG Group thus increased its net sales by 5.3 % to € 4,096 million in the 2018/19 financial year. On a like-for-like basis and net of currency items, the year-on-year growth rate came to 4.2 %, with positive contributions both from the Germany region and above all from the Other European Countries region. The share of consolidated sales generated at international stores rose from 46.8 % to 48.3 %.

Average annual sales at a HORNBACH DIY store with a garden center increased from € 24.9 million to € 25.9 million in the year under report. Surface productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,135 to € 2,210 (plus 3.5 %). Online retail, which we link closely to our stationary retail activities, contributed an average growth rate of around 25 % to the Group's overall performance.

… but higher costs lead earnings to fall significantly short of previous year

To boost its competitive position, HORNBACH absorbed substantial additional costs in the year under report. These were incurred for interconnected retail, improving the stationary store presence, and preparing the seasonal business for the following year. The activities deemed necessary for these purposes mainly led to disproportionate growth in personnel and material expenses, and that to an extent that could not be offset by the growth in gross profit. Despite pleasing sales growth, these factors led EBIT adjusted for non-operating one-off items – the key indicator of our operating earnings strength – to fall by 25.6 % to € 81.9 million (2017/18: € 110.0 million). Consolidated operating earnings decreased by 34.5 % to € 67.2 million. Operating earnings include non-operating, one-off charges on earnings in connection with provisions for onerous contracts (IAS 37) and impairments (IAS 36). The net total of these items almost doubled from € 7.5 million in the 2017/18 financial year to € 14.7 million in the 2018/19 year under report. Consolidated net income fell by 30.2 % to € 40.9 million. Overall, the earnings performance in the 2018/19 financial year was not satisfactory.

The Group increased its investments from € 129 million to € 184 million in the year under report. Around 70 % of these related to land and buildings predominantly intended for the Group's expansion. Here, the company also drew on special opportunities not included in the original budget. We thus bought back two excellent HORNBACH DIY stores with garden centers in the Greater Berlin region and a further location in Bielefeld from an investor. The rental contracts for these stores were due for extension. Given the attractive refinancing conditions on the capital markets, we decided to exercise our buyback options.

The buybacks were financed by taking up two new promissory note bonds of € 52 million (term: 5 years) and € 43 million (7 years) at HORNBACH Holding B.V. This way, we secured highly profitable assets while also obtaining funds for our future expansion in the Netherlands. Finally, in February 2019 we exploited the favorable interest rate climate to issue two further promissory note bonds at HORNBACH Baumarkt AG, in this case of € 126 million (5 years) and € 74 million (7 years). We thus obtained funds to refinance the corporate bond one year ahead of its maturity in February 2020 already, as well as funds for general growth financing. Due to these active financing activities, the gross financial debt of the HORNBACH Baumarkt AG Group rose year-on-year from € 424 million to € 762 million.

Total assets showed significant year-on-year growth of € 340 million to € 2.34 billion as of February 28, 2019, with this being due not only to the increase in property, plant and equipment on account of greater investment activity but also to the increase in liquid funds from financing activities. This was accompanied by a strategic component: In the fourth quarter of 2018/19, HORNBACH made even more intensive preparations than in the past for the coming spring season (first quarter of 2019/20). Key focuses here included recruiting additional specialist sales staff and ensuring higher levels of product availability. This latter factor led to a significant increase in inventories. In this context, the equity ratio decreased from 52.5 % to 45.7 % at the balance sheet date. This key figure nevertheless remains satisfactorily high. In view of our broad spectrum of financing sources, we 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

In March 2018, we opened a new DIY megastore with a garden center in Zwolle, bringing the total number of HORNBACH locations in the Netherlands to 14. In April 2018, we then launched operations at our seventh DIY store with a garden center in Switzerland, in this case in Affoltern. Both stores have sales areas of around 12,000 m². In September, we opened a store with sales areas of just under 6,000 m² in Borås, which is now our sixth location in Sweden. One small-scale DIY store (HORNBACH compact) in Alzey (Rhineland-Palatinate) was closed in April due to a lack of development prospects. Furthermore, we converted and expanded existing stores within the customary modernization program. Among other aspects, this involved adding drive-in facilities to further stores and installing self-service checkout facilities at most locations in Germany.

Including stores newly opened and closed in the year under report, we operated a group-wide total of 158 retail stores as of February 28, 2019 (February 28, 2018: 156), of which 97 (98) in Germany and 61 (58) in other European countries. Total sales areas at the HORNBACH Baumarkt AG Group amounted to around 1.85 million m² as of February 28, 2019 (February 28, 2018: around 1.82 million m²).

2.2.2 Development in interconnected retail

The Group expanded interconnected retail throughout its European network in the 2018/19 financial year and supplemented all of its online stores with additional articles. Alongside Click&Collect, in Luxembourg we have also offered direct mailing of articles since October 2018. In all other regions, direct mailing was possible from the launch of the respective online stores onwards.

At several stores in Germany, we also offer a self-scan process using the HORNBACH app. This way, customers can scan articles directly when shopping and thus save time at the checkout. Furthermore, the app was extended to include an image recognition function. Based on a photo of the product required, this function then suggests articles from HORNBACH's product range. A function enabling sales slips to be managed electronically was also added to the app.

The permanent low price promise valid at the stationary and online stores was extended with a further component in the year under report. Should the price of a product bought by customers be reduced within 30 days of purchase, then HORNBACH will refund customers the difference. This requires customers to open a customer account. Customers can then redeem the credit when they next shop at the store or online.

2.3 Target achievement in 2018/19

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 2018/19 financial year

	Targets for 2018/19	Results in 2018/19
Expansion	**Stationary DIY business**: ■ 3 new store openings ■ 1 closure	**Stationary DIY business**: ■ **Zwolle** (Netherlands), **Affoltern** (Switzerland) and **Borås** (Sweden) opened ■ **Alzey** (Rhineland-Palatinate) closed
Investments	Original forecast: € 150 million - € 170 million Updated forecast (09.27.2018): € 210 million – € 240 million **Updated forecast (12.20.2018):** **€ 180 million - € 210 million**	**€ 184 million** including buyback of three stores previously let
Sales performance		
Consolidated sales	Growth in medium single-digit percentage range	**Plus 5.3 % to €** 4.1 billion
Like-for-like and currency-adjusted sales	■ Group-wide growth in low to medium single-digit percentage range ■ Higher growth in Other European Countries than in Germany	■ **Group: plus 4.2 %** ■ Germany: plus 2.2 % ■ Other European Countries: plus 6.5 %
Earnings performance		
Adjusted EBIT	Original forecast: At around previous year's level (2017/18: € 110.0 million) Updated forecast (12.10.2018): More than 10 % below previous year **Preliminary earnings figures (03.20.2019):** **Around € 82 million (minus ~25 %)**	**Minus 25.6 % to €** 81.9 million

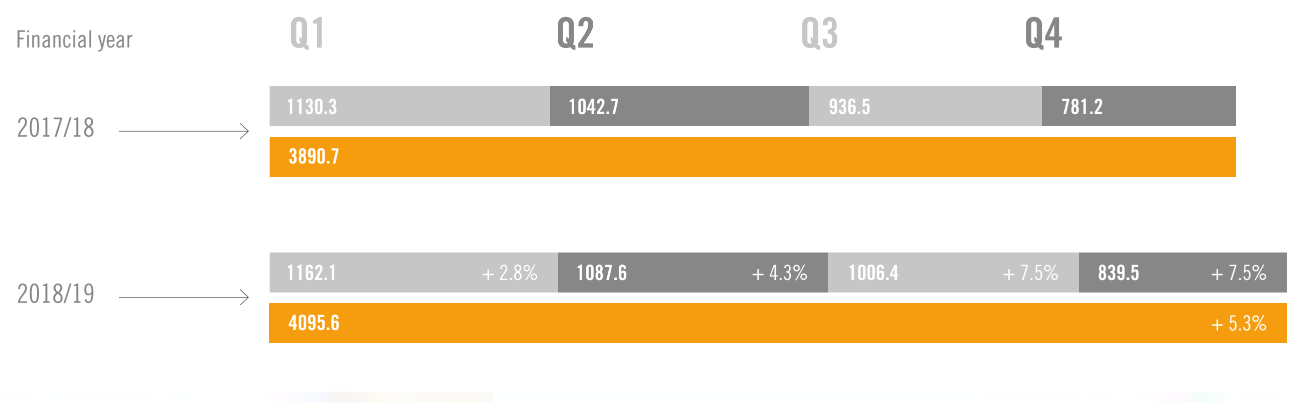
Note: For **sales** "at previous year's level" refers to changes of -1 % to +1 %, while "slight" changes involve changes of 2 % to 5 %. To enhance the distinctions within the "slight" category, we use the phrase "in a low single-digit percentage range" to refer to changes of 2 % to 3 % and the phrase "in a medium single-digit percentage range" to refer to changes of 4 % to 5 %. "Significant" corresponds to changes of 6 % upwards. 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 11 % upwards.

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

In the separate financial statements of HORNBACH Baumarkt AG, which are shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, our sales forecast for the 2018/19 financial year envisaged sales growth in a low to medium single-digit percentage range. With sales growth of 3.5 % to € 2,603 million, we met this target. Assuming that the volume of earnings transferred from HORNBACH International GmbH would increase significantly, we expected the annual net surplus on the level of HORNBACH Baumarkt AG also to rise significantly. Mainly due to impairment losses of € 4.6 million recognized for a DIY store property, however, the annual net surplus of € 9.1 million in the 2018/19 financial year fell short of the figure of € 14.0 million in the 2017/18 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", where our activities in eight countries outside Germany are summarized.

3.1.1 Seasonal and calendar-related fluctuations

The 2018/19 year under report had an average of 0.6 business days more than the previous year. The resultant calendar effect was distributed among the quarters as follows:

- 1st quarter (Q1): minus 1.5 business days
- 2nd quarter (Q2): plus 1.3 business days
- 3rd quarter (Q3): plus 0.5 business days
- 4th quarter (Q4): plus 0.3 business days

Overall, weather conditions had a negative effect on the DIY retail business in HORNBACH's European network in the 2018/19 year under report. The first quarter was characterized by a significant delay in the start to the season due to unusually frosty weather in March. Despite summery weather conditions, it was only possible to make up for part of the resultant shortfall in April. Summer 2018 brought record-breaking heat in many areas and extreme drought in some regions. This also held back the implementation of garden, construction, and renovation projects. By comparison, weather conditions were more favorable in the second half of the year, in which the company traditionally generates lower sales. With little precipitation and moderate temperatures, the fall offered predominantly favorable conditions. The winter quarter was wetter than usual in December and January, but a mild and mostly dry February provided an early start to the spring season.

3.1.2 Net sales

The HORNBACH Baumarkt AG Group increased its net sales by 5.3 % to € 4,096 million in the 2018/19 financial year (2017/18: € 3,891 million). Net sales in the Germany region grew by 2.3 % to € 2,119 million in the period under report (2017/18: € 2,071 million). Outside Germany (Other European Countries region) and including three newly opened DIY megastores, we reported sales growth of 8.6 % to € 1,977 million (2017/18: € 1,820 million). Due to the higher rate of growth compared with Germany, the international stores' share of consolidated sales increased from 46.8 % to 48.3 %.

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 included in full in the calculation of the like-for-like sales performance.

The Group's like-for-like sales rose by 4.2 % in the 2018/19 financial year net of currency items (including currency items: 3.8 %). As is apparent in the table below, compared with the first two quarters the pace of growth accelerated significantly in the second half of the year. From a geographical perspective, both the Germany region and the Other European Countries region further increased their like-for-like sales. As in the previous year, the strongest growth momentum came from our store network outside Germany. The previous year's figures can be found in the quarterly overview table.

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

2018/19 financial year 2017/18 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**2.3**	**3.4**	**6.2**	**5.9**	**4.2**
	5.4	2.6	2.7	3.3	3.6
Germany	**(0.2)**	**1.2**	**4.4**	**4.7**	**2.2**
	3.8	0.3	0.5	0.9	1.5
Other European countries	**5.2**	**5.8**	**8.2**	**7.1**	**6.5**
	7.5	5.3	5.4	6.2	6.1

* Excluding currency items

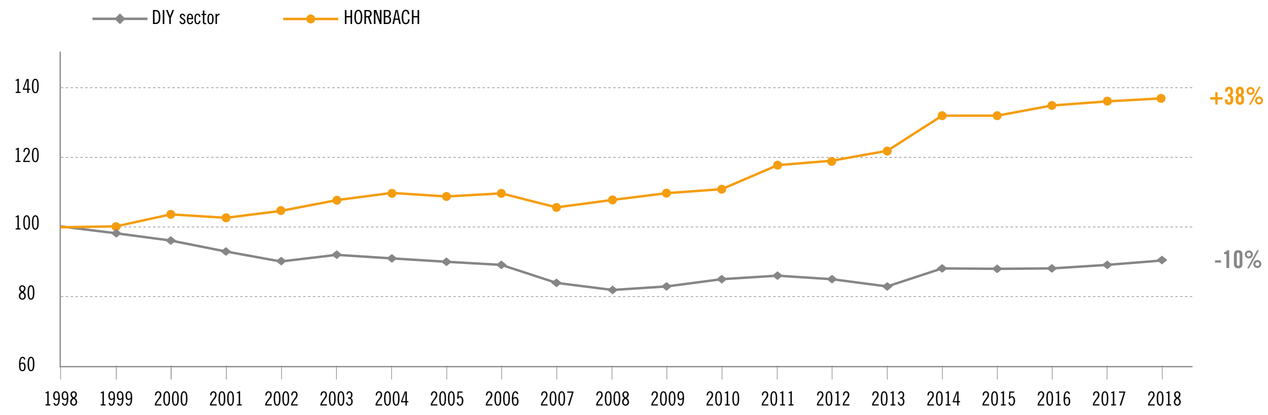
- **Germany**

  The HORNBACH DIY stores and garden centers in the Germany region increased their like-for-like sales by 2.2 % in the 2018/19 financial year (2017/18: 1.5 %). The year under report had 0.9 business days more than the previous year.

  Thanks in particular to the acceleration in sales from the fall onwards, HORNBACH once again outperformed the DIY sector average in Germany in 2018. 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 1.3 % in the period from January to December 2018. Based on a direct comparison, HORNBACH achieved a growth rate of 1.6 % over the same period. If the 1998 calendar year is taken as an index value of 100 %, by 2018 HORNBACH had increased its like-for-like sales in Germany to 138 %. By contrast, the overall sector only reached an index value of 90 % in 2018.

2.2 %
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)



This pleasing sales momentum is increasingly due to the significant role played by interconnected retail. The aim here is to accompany our customers throughout their customer journeys and, at every point along the way, to offer them what they happen to be looking for and need for their construction or renovation projects. Customers can inform themselves about articles, their prices, and availability on our website, 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 no later than two hours after reservation. In Germany, ICR sales once again grew more rapidly than overall net sales in the region in the 2018/19 financial year. Compared with the previous year, we noticeably increased the pace of growth.

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 retail sector, HORNBACH achieved top rankings once again in 2018. The company was ranked first in six and second in 15 of the total of 28 assessment categories. Customers awarded us the best grades in individual criteria including "Selection and Product Variety" and "Product Quality". When compared with its competitors, HORNBACH is also viewed by German DIY customers as leading the field in the "Product Range" and "Prices" criteria.

In terms of the aggregate gross sales of the DIY store sector in Germany (including online sales at stationary DIY competitors), we upheld our position in the 2018 calendar year without opening any new stationary stores. After one location closure, the number of stores decreased from 98 to 97. Due to extension and conversion measures, our sales areas in Germany showed marginal growth of 0.1 %.

Based on aggregate sales at all DIY stores and garden centers (2018: around € 22.8 billion), our market share grew from 11.0 % to 11.1 %. In the segment of German DIY stores and garden centers with sales areas of more than 1,000 m² (2018: € 18.7 billion), we have a market share of over 13.4 %.

Other European Countries

We maintained the growth trajectory in our international business in the 2018/19 year under report. Growth rates in the Other European Countries region were once again significantly higher than in the Germany region and also beat the previous year's level for the sixth consecutive year. In the eight countries outside Germany, the HORNBACH DIY stores and garden centers increased their like-for-like sales net of currency items by 6.5 % in the 2018/19 financial year (2017/18: 6.1 %). Including currency items, like-for-like sales grew by 5.6 % (2017/18: 5.6 %).

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 2018 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 Österreich and its Swiss counterpart, document the high level of customer satisfaction with the HORNBACH brand once again in the 2018/19 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.

Our interconnected retail activities are influencing our sales performance to an ever greater extent in our international business as well. In October 2018, we added the final component to our overall ICR architecture with its end-to-end online services: Since then, our customers in Luxembourg have been able to order their products not only via "Reserve & Collect" or by placing orders at stores, but also to have their goods delivered directly to their homes. Our ICR growth rates outside Germany were significantly higher than in Germany in the 2018/19 financial year. We benefited here 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)	2018/19	2017/18	Change
Net sales	4,096	3,891	5.3 %
EBITDA	159.1	182.7	(12.9)%
EBIT	67.2	102.5	(34.5)%
Adjusted EBIT	81.9	110.0	(25.6)%
Consolidated earnings before taxes	51.6	80.9	(36.2)%
Consolidated net income	40.9	58.7	(30.2)%
EBITDA margin	3.9 %	4.7 %	
EBIT margin	1.6 %	2.6 %	
Tax rate	20.7 %	27.5 %	

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

3.2 Earnings performance

Our key operating earnings figures for the 2018/19 financial year fell significantly short of the comparative figures for the previous year. We did not succeed in turning the higher gross profit resulting from the pleasing rate of like-for-like sales growth in our retail business (Retail segment) at the HORNBACH DIY stores and garden centers (currency-adjusted growth of 4.2 %) into an improvement in the earnings strength of the HORNBACH Baumarkt AG Group. This was mainly due to store, pre-opening, and administration expenses, which grew disproportionately compared with sales. The downturn in earnings in 2018/19 primarily affected the Germany region, while the Other European Countries region posted a comparatively stable performance.

3.2.1 Earnings performance of the HORNBACH Baumarkt AG Group

Consolidated earnings before interest, taxes, depreciation (EBITDA) fell by 12.9 % to € 159.1 million (2017/18: € 182.7 million). The EBITDA margin (as a percentage of net sales) decreased from 4.7 % to 3.9 %. Adjusted EBIT, i.e. operating earnings before non-operating one-off items, fell by 25.6 % to € 81.9 million (2017/18: € 110.0 million). The adjusted EBIT margin was reported at 2.0 % (2017/18: 2.8 %). Non-operating charges on earnings virtually doubled from € 7.5 million to € 14.7 million in the 2018/19 year under report. Operating earnings (EBIT) including extraordinary non-operating earnings items therefore fell significantly by 34.5 % to € 67.2 million (2017/18: € 102.5 million).

Notes to Consolidated Financial Statements
Note 10

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.

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

2018/19 in € million 2017/18 in € million	Retail segment	Real Estate segment	Headquarters and Consolidation	HORNBACH Baumarkt AG Group
Earnings before interest and taxes (EBIT)	**6.5**	**71.6**	**(10.9)**	**67.2**
	40.4	74.3	(12.2)	102.5
Non-operating earnings items	**11.6**	**3.1**	**0.0**	**14.7**
	7.6	(0.1)	0.0	7.5
Adjusted EBIT	**18.0**	**74.7**	**(10.9)**	**81.9**
	48.0	74.3	(12.2)	110.0

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

Net financial expenses improved from minus € 21.6 million in the previous year to minus € 15.5 million in the year under report. This was mainly due to positive currency items, which reversed from minus € 4.8 million in the previous year to plus € 0.8 million in the year under report. The interest result improved slightly to minus € 16.3 million (2017/18: minus € 16.8 million). Earnings before taxes fell by 36.2 % to € 51.6 million (2017/18: € 80.9 million).

Consolidated net income dropped by 30.2 % to € 40.9 million (2017/18: € 58.7 million). Taxes on income decreased from € 22.2 million to € 10.7 million. The effective tax rate on Group level reduced from 27.5 % to 20.7 %. This particularly reflects the unsatisfactory earnings performance in Germany, which led to a drastically lower tax charge here in the year under report, as well as to significantly higher deferred taxes. The Group-wide return on sales fell from 1.5 % to 1.0 %. Earnings per Baumarkt share are reported at € 1.29 (2017/18: € 1.84).

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 28, 2019, we operated a total of 158 retail outlets across Europe (2017/18: 156) and online retail in the nine countries within our European network.

Net sales in this segment increased by 5.2 % to € 4,092 million in the 2018/19 financial year (2017/18: € 3,889 million). By contrast, key operating earnings figures fell dramatically and shaped the Group's earnings performance. Over and above this, the earnings performance of the Retail segment in the 2018/19 financial year was adversely affected by significant non-operating earnings items. These non-operating charges totaling € 11.6 million (2017/18: € 7.6 million) mainly involved provisions for onerous contracts (pursuant to IAS 37) and, to a lesser extent, impairment losses recognized on advertising-related assets (pursuant to IAS 36).

- **Gross margin:**
  Gross profit rose by 3.5 %, and thus less rapidly than sales, to € 1,499.4 million in the 2018/19 financial year (2017/18: € 1,448.7 million). The gross margin fell to 36.6 % (2017/18: 37.2 %). This decline in the margin was chiefly due to less favorable procurement terms. These in turn were above all a reflection of price increases resulting from macroeconomic factors, including higher commodity prices and a lack of production capacities. Due to competitive reasons, we were only able to pass on part of these price increases to customers by amending retail prices. Furthermore, albeit to a lesser extent, the development in the gross margin in the year under report was also impeded by higher write-downs due to weather conditions and negative currency items. Not only that, the growing share of sales generated at our online stores has a dilutive structural impact on the development in the gross margin, as average margins for ICR

product carts – based on identical article margins – are lower than in stationary retail. The further rise in the share of private label products to around 24.0 % (2017/18: 23.4 %) enabled us to cushion some of the negative impact on the margin in the year under report.

Key earnings figures of the Retail segment

Key figure (€ million, unless otherwise stated)	2018/19	2017/18	Change
Net sales	4,092	3,889	5.2 %
of which: in Germany	2,119	2,071	2.3 %
of which in other European countries	1,973	1,818	8.5 %
Like-for-like sales growth	4.2 %	3.6 %	
EBITDA	48.7	79.9	(39.0)%
EBIT	6.5	40.4	(84.0)%
Adjusted EBIT	18.0	48.0	(62.4)%
EBIT margin	0.2 %	1.0 %	
Adjusted EBIT-Margin	0.4 %	1.2 %	
Gross margin	36.6 %	37.2 %	
Store expenses as % of net sales	31.6 %	31.4 %	
Pre-opening expenses as % of net sales	0.1 %	0.1 %	
General and administration expenses as % of net sales	5.1 %	5.0 %	

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

- **Selling and store, pre-opening and administration expenses:**
  Selling and store expenses in the Retail segment grew more rapidly than sales, rising by 5.6 % to € 1,291.4 million (2017/18: € 1,222.6 million). The store expense ratio increased from 31.4 % to 31.6 %. This was mainly due to the disproportionate rise in personnel expenses (excluding bonuses). On the one hand, these increased due to the Group's expansion, with a higher number of new store openings than in the previous year. On the other hand, personnel capacities on existing sales areas were expanded in a targeted manner – and mainly in Germany – to increase the number of staff available to assist and advise customers. This build-up in operative personnel capacities mainly took place in the fourth quarter of the 2018/19 financial year and is to be viewed in connection with preparations for the 2019/20 spring season, a particularly important period for the company's full-year earnings. The increased presence at the stores had a positive impact on sales in the fourth quarter of 2018/19 already.

  Another key reason for the higher store expense ratio was the significantly disproportionate increase in operating expenses. These were influenced above all by conversion and renovation measures, as well as by measures to update product range presentation at the stationary stores, while rental, advertising, and utility expenses rose less rapidly than sales. Furthermore, operating expenses were adversely affected by a significant year-on-year increase in non-operating one-off items. Selling and store expenses include non-operating earnings items of around € 11.6 million (2017/18: € 7.7 million). These mainly involve provisions for pending losses in connection with long-term rental agreements at five DIY store locations (pursuant to IAS 37). At 31.3 %, the store expense ratio adjusted to eliminate these items was at roughly the same level as in the previous year in the 2018/19 financial year.

Pre-opening expenses decreased from € 5.5 million to € 4.9 million in the 2018/19 financial year. The pre-opening expense ratio amounted to 0.1 % (2017/18: 0.1 %).

Administration expenses increased by 8.6 % from € 192.6 million to € 209.0 million. The administration expense ratio rose from 5.0 % to 5.1 %. This disproportionate increase was due in particular to higher forward-looking expenses for interconnected retail and further innovation projects. These mainly involve the costs of operating online retail, the customer service center, and the technological infrastructure required for ICR. By contrast, the expenses for purely administrative tasks and the administrative activities needed for core operating processes rose significantly less rapidly than sales.

Notes to Consolidated Financial Statements
Note 4

- **EBITDA, adjusted EBIT and EBIT:**
  Due to the disproportionate growth in expenses compared with the increase in gross profit, operating earnings in the Retail segment fell significantly short of the previous year's figures. EBITDA fell by 39.0 % to € 48.7 million in the 2018/19 financial year (2017/18: € 79.9 million). That corresponds to an EBITDA margin of 1.2 % (2017/18: 2.1 %). Adjusted for non-operating expense items, EBIT in this segment was reported at € 18.0 million (2017/18: € 48.0 million). The adjusted EBIT margin came to 0.4 % (2017/18: 1.2 %). Operating earnings (EBIT) including non-operating one-off items fell from € 40.4 million to € 6.5 million. This resulted in an EBIT margin of 0.2 % (2017/18: 1.0 %).

Key earnings figures of the Real Estate segment

Key figure (€ million, unless otherwise stated)	2018/19	2017/18	Change
Rental income	178.4	172.8	3.2 %
Real estate expenses	105.8	99.0	6.8 %
Net rental income	72.6	73.7	(1.5)%
Disposal gains/losses	0.8	0.0	-
Net real estate income	73.4	73.7	(0.4)%
EBITDA	111.0	106.0	4.7 %
EBIT	71.6	74.3	(3.6)%
Adjusted EBIT	74.7	74.3	0.6 %

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

3.2.3 Earnings performance of the Real Estate segment

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

- **Earnings from rental activities and real estate earnings:**
  In line with the Group's expansion, rental income in the Real Estate segment, 99 % of which comprises internal rental income, rose by 3.2 % to € 178.4 million in the year under report (2017/18: € 172.8 million). By contrast, real estate expenses showed clearly disproportionate growth of 6.9 % to € 105.8 million (2017/18: € 99.0 million). This was primarily due to non-operating earnings items amounting to a net total of € 3.1 million. These in turn chiefly resulted from impairment losses (pursuant to IAS 36) on a DIY store property. This item was only partly offset by other non-operating income. Earnings from rental activities decreased by 1.5 %

to € 72.6 million in the 2018/19 financial year (2017/18: € 73.7 million). Given real estate disposal gains of € 0.8 million, the real estate earnings of € 73.4 million virtually matched the previous year's figure (€ 73.7 million).

- **EBITDA, adjusted EBIT and EBIT:**
  Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 4.7 % to € 111.0 million in the reporting period from March 1, 2018 to February 28, 2019 (2017/18: € 106.0 million). EBIT adjusted for non-operating one-off items increased by 0.6 % to € 74.7 million (2017/18: € 74.3 million). EBIT in the Real Estate segment decreased by 3.7 % to € 71.6 million (2017/18: € 74.3 million).

3.2.4 Earnings performance by geographical regions

With their earnings performances, the Germany and Other European Countries regions both contributed to the group-wide downturn in earnings in the 2018/19 financial year, albeit to a very different extent. In Germany, adjusted EBIT fell sharply compared with the previous year and turned negative. By contrast, adjusted operating earnings in Other European Countries fell only slightly short of the previous year's figure. As a result, the significance of the international activities for the Group's earnings performance rose yet further compared with the previous year.

EBITDA in **Germany** fell by around a third to € 32.7 million (2017/18: € 51.5 million). The domestic share of the Group's EBITDA decreased from 28 % to 21 %. EBIT in the Germany region dropped from € 3.9 million to minus € 22.1 million. In the year under report, this figure includes non-operating earnings charges mainly resulting from provisions for onerous contracts and IAS 36 impairments at a net total of € 8.7 million (2017/18: € 7.5 million). These make up almost 60 % (2017/18: 99 %) of the non-operating one-off items at the Group. The domestic share of operating earnings stood at minus 33 % (2017/18: plus 4 %), resulting in an EBIT margin of minus 1.0 % (2017/18: plus 0.2 %). EBIT for the Germany region adjusted for non-operating earnings items fell from € 11.4 million to minus € 13.4 million in the 2018/19 financial year. The adjusted EBIT margin in Germany therefore amounted to minus 0.6 %, as against plus 0.6 % in the previous year.

Other European Countries generated EBITDA of € 126.5 million (2017/18: € 131.1 million) and thus accounted for around 80 % of the HORNBACH Baumarkt AG Group's EBITDA in the period under report (2017/18: 72 %). EBIT outside Germany slipped by 9.3 % to € 89.3 million (2017/18: € 98.5 million). The international share of EBIT most recently amounted to 133 % (2017/18: 96 %). The EBIT margin for Other European Countries is reported at 4.5 % (2017/18: 5.4 %). Non-operating earnings items, which were still negligible in the 2017/18 financial year, amounted to a net total of € 6.0 million in the 2018/19 year under report. These were predominantly due to provisions recognized for one onerous rental agreement (pursuant to IAS 37). Adjusted EBIT outside Germany decreased by 3.2 % to € 95.4 million (2017/18: € 98.5 million), while the adjusted EBIT margin came to 4.8 % (2017/18: 5.4 %).

3.3 Dividend proposal

€ 0.68
dividend proposal for 2018/19 financial year

The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose an unchanged dividend of € 0.68 per share with dividend entitlement for approval by the Annual General Meeting on July 4, 2019. Despite the unsatisfactory earnings performance in 2018/19, the company is thus upholding its principle of dividend continuity. Subject to the resolution adopted by the Annual General Meeting on the appropriation of unappropriated net profit, the distribution quota (distribution total as a percentage of consolidated net income) would then amount to 53 % in the 2018/19 financial year (2017/18: 37 %). The company would thus contribute towards the distribution policy on the level of HORNBACH Holding AG & Co. KGaA, which provides for a target distribution quota of 30 %.

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.

External financing requirements are covered by taking up loans from banks and on the capital market. Moreover, to date DIY store properties have been sold to investors upon completion, with utilization secured by rental agreements (sale and leaseback). Here, efforts were made to meet the IAS 17 criteria governing classification as “operating leases”. As a result of contracts extended for existing sale and leaseback agreements, individual locations were reclassified as “finance leases” in the 2015/16 and 2016/17 financial years. Due to the forthcoming amendments to lease accounting under IFRS 16 and the discontinuation of the “operating lease” classification, from the 2019/20 financial year lease transactions will be reported in a manner basically comparable to that used for finance leases pursuant to IAS 17.

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

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

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

4.2 Financial debt

The HORNBACH Baumarkt AG Group had financial debt of € 762.1 million at the balance sheet date on February 28, 2019 (2017/18: € 424.1 million). Net financial debt rose from € 321.9 million to € 519.6 million. Cash and cash equivalents increased from € 102.1 million in the previous year to € 242.5 million in the year under report.

In response to the ECB's low interest rate policy, in previous financial years the company did not finance its investments externally and repaid existing financing facilities upon maturity without any refinancing. This significantly reduced the company's gross finance debt and its liquidity. In preparation for the forthcoming corporate bond maturity and future expansion plans, however, within a forward-looking financing policy the company took up new financial debt once again in the past financial year. The new financial funds were also used to buy back three stores previously let from external investors. This too increased the volume of financial debt but also reduced rental expenses, thus producing a net benefit. 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	2.28.2019 Total	2.28.2018 Total
Short-term bank debt[1]	1.0	0.0	0.0	0.0	0.0	0.0	1.0	0.4
Mortgage loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Other loans[2) 3)]	52.9	0.0	0.0	0.0	177.5	116.7	347.1	0.0
Bonds[2]	249.5	0.0	0.0	0.0	0.0	0.0	249.5	248.8
Negative fair values of derivative financial instruments	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.1
Finance leases	10.8	11.3	11.8	12.3	12.8	105.1	164.0	174.1
Total financial debt	**314.8**	**11.3**	**11.8**	**12.3**	**190.3**	**221.8**	**762.1**	**424.1**
Cash and cash equivalents							242.5	102.1
Net financial debt							**519.6**	**321.9**

(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.

The current financial debt (up to 1 year) of € 314.8 million (2017/18: € 11.4 million) comprises the portion of loans and bonds maturing in the short term, at € 302.4 million (2017/18: € 0.6 million), finance leases of € 10.8 million (2017/18: € 10.3 million), interest deferrals of € 1.0 million (2017/18: € 0.4 million), and the measurement of derivative financial instruments, at € 0.5 million (2017/18: € 0.1 million). The significant increase in current financial debt is mainly due to the reclassification of the corporate bond at HORNBACH Baumarkt AG, which is due to mature in February 2020, and the taking up of a short-term loan at HORNBACH Baumarkt (Schweiz) AG for the interim financing of its further expansion.

HORNBACH enjoys great financing flexibility and draws where necessary on a wide range of different financing instruments. At the balance sheet date on February 28, 2019, the company had the following main financing facilities:

- the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until February 15, 2020 and an interest rate of 3.875 %
- two new 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 new 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 new short-term loan of CHF 60 million (€ 53 million) at HORNBACH Baumarkt (Schweiz) AG with a term until November 21, 2019

The HORNBACH Baumarkt AG Group no longer had any financing facilities secured by land charges at the balance sheet date (2017/18: € 0.6 million). In the year under report, no land charges were registered as security (2017/18: € 12.5 million).

4.2.1 Credit lines

At the balance sheet date on February 28, 2019, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 380.4 million (2017/18: € 418.1 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, 2023. 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 cross default arrangements for major financing facilities.

In the case of the syndicated credit line at HORNBACH Baumarkt AG, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH Baumarkt AG Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. 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 will not be included in calculations such as the key financial ratios for the term of the loan facility.

Comparable maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed for the promissory note bonds.

The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report. Further information about financial debt can be found in the notes to the consolidated financial statements.

Notes to Consolidated Financial Statements
Note 23:
Financial debt

4.3 Cash and cash equivalents

Given the ongoing policy of expansive interest rates at the ECB, it has become increasingly difficult to avoid negative interest rates on deposits which, to be reported under cash and cash equivalents, may not have terms longer than three months.

Notwithstanding the associated difficulties in investing liquid funds, to safeguard its further expansion the company took up new financial debt in the year under report, as a result of which cash and cash equivalents rose from € 102.1 million in the previous year to € 242.5 million at the balance sheet date. By distributing the company's liquidity broadly it has so far been possible to avoid negative investment rates or the "custody fees" prevalent on current accounts without amending the company's security-driven investment strategy.

Key financial figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.28.2019	2.28.2018
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	519.6	321.9
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		9.69	11.0
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		3.1	1.7

(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

€ 184 m
investments

4.4 Cash flow statement and investments

The HORNBACH Baumarkt AG Group invested a total of € 183.6 million in the 2018/19 financial year (2017/18: € 128.7 million), mainly in land, buybacks of stores previously let, buildings and plant and office equipment at existing DIY stores with garden centers, and at stores under construction. The funds of € 183.6 million (2017/18: € 128.7 million) required for cash-effective investments were mainly covered by new financial debt. Around 70.1 % of total investments were channeled into new real estate, including properties under construction, while around 29.9 % were invested largely in replacing and expanding plant and office equipment. Of total investments, € 45.2 million related to the Retail segment, mainly to replace and expand plant and office equipment (2017/18: € 43.8 million), € 128.6 million related to the Real Estate segment and was invested in new real estate, including properties under construction (2017/18: € 71.1 million), and € 9.7 million was invested at Headquarters and Consolidation (2017/18: € 13.7 million).

The most significant investment projects related to the buyback of three stores previously let from external investors, 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.

Cash flow statement (abridged) € million	2018/19	2017/18
Cash flow from operating activities	3.7	134.1
of which: funds from operations[1)]	128.8	145.3
of which change in working capital[2)]	(125.1)	(11.2)
Cash flow from investing activities	(179.6)	(96.2)
Cash flow from financing activities	316.3	(47.7)
Cash-effective change in cash and cash equivalents	**140.4**	**(9.8)**

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

1) Consolidated earnings after taxes, plus depreciation of non-current assets and changes in provisions, minus gains/plus losses on the disposal of non-current assets, plus/minus other non-cash expenses/income
2) Difference between "Change in inventories, trade receivables and other assets" and "Change in trade payables and other liabilities"

The inflow of funds from operating activities fell from € 134.1 million in the previous year to € 3.7 million in the 2018/19 financial year. Funds from operations decreased to € 128.8 million (2017/18: € 145.3 million). This is due on the one hand to the fact that key operating earnings figures fell short of the previous year's figures as a result of higher store, pre-opening, and administration expenses, as well as to a decline in the gross margin. On the other hand, the outflow of funds for other non-cash income and expenses rose from € 2.3 million to € 11.4 million. The change in working capital resulted in an outflow of funds of € 125.1 million (2017/18: € 11.2 million). This was due on the one hand to the substantial expansion in inventories in connection with intense preparations for the spring season and on the other hand to a reporting date effect resulting from the weekly settlement of supplier liabilities.

The outflow of funds for investing activities rose from € 96.2 million to € 179.6 million. Here, the increase in investments by € 54.9 million to € 183.6 million was opposed by receipts of € 3.9 million from disposals of non-current assets (2017/18: € 2.4 million). Short-term finance planning did not give rise to any movements in financial fund investments in the period under report. In the previous year, this factor resulted in an inflow of € 30.0 million.

The inflow of funds from financing activities totaled € 316.3 million in the 2018/19 financial year, compared with an outflow of € 47.7 million in the previous year. Scheduled repayments of € 0.6 million were made for non-current financial debt, while new long-term loans of € 295.0 million were taken up. Current financial loans and finance lease liabilities rose by € 44.4 million, having fallen by € 23.0 million in the previous year. At € 21.6 million, the dividends paid to shareholders remained at the previous year's level.

4.5 Rating

Since 2004, the creditworthiness of the HORNBACH Baumarkt AG Group has been rated by the leading international rating agencies Standard & Poor’s and Moody’s Investors Service. Due to the profit warning released on December 10, 2018, both agencies downgraded their ratings by one grade. In the most recent publications, the HORNBACH Baumarkt AG Group was rated at "BB" by Standard & Poor's and at "Ba2" by Moody's with a stable outlook in both cases.

BB/Ba2
rating of HORNBACH Baumarkt AG Group

5. Asset Position

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

€ million	2.28.2019	2.28.2018	Change
Non-current assets	1,261.5	1,173.2	7.5 %
Current assets	1,076.4	824.5	30.5 %
Assets	**2,337.9**	**1,997.7**	**17.0 %**
Shareholders' equity	1,068.6	1,048.8	1.9 %
Non-current liabilities	531.4	496.3	7.1 %
Current liabilities	737.9	452.6	63.0 %
Equity and liabilities	**2,337.9**	**1,997.7**	**17.0 %**

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

Total assets at the Group grew year-on-year by € 340.2 million from € 1,997.7 million to € 2,337.9 million (plus 17.0 %). The equity of the Group as stated in the balance sheet amounted to € 1,068.6 million at the end of the financial year (2017/18: € 1,048.8 million). The equity ratio fell from 52.5 % in the previous year to 45.7 % at the end of the 2018/19 financial year.

5.1 Non-current and current assets

Non-current assets amounted to € 1,261.5 million at the balance sheet date (2017/18: € 1,173.2 million) and thus accounted for around 54 % of total assets (2017/18: 59 %). Property, plant and equipment and investment property rose by € 89.2 million from € 1,139.1 million to € 1,228.3 million (plus 7.8 %). Additions of € 179.2 million to property, plant and equipment were countered by depreciation of € 87.8 million, reclassifications of minus € 1.4 million, and disposals of assets amounting to € 2.8 million. Adjustments to account for exchange rate movements led property, plant and equipment and investment property to decrease by € 0.4 million.

Other non-current receivables and assets mainly involve deferrals of the credit line expenses. The change in deferred tax assets was chiefly due to adjustments to temporary measurement differences for losses carried forward and the recognition of provisions.

Current assets increased by 30.5 % from € 824.5 million to € 1,076.4 million, or around 46 % of total assets (2017/18: 41 %). Due to the Group's expansion and seasonal preparations, inventories rose from € 657.8 million to € 755.7 million. Cash and cash equivalents rose year-on-year by € 140.4 million from € 102.1 million to € 242.5 million in the year under report. Despite the increase in inventories, the inventory turnover rate could be maintained at 3.85, and thus almost at the previous year's high level (3.84). Current receivables, contract assets, and other assets (including income tax receivables) rose by € 13.6 million to € 78.2 million. This was mainly due to increases in other current assets and current income tax receivables.

5.2 Non-current and current liabilities

Liabilities, including provisions, amounted to € 1,269.3 million at the balance sheet date, as against € 948.9 million in the previous year. Non-current liabilities rose from € 496.3 million to € 531.4 million. This was primarily due to the increase in non-current financial debt from € 412.6 million to € 447.4 million and other non-current liabilities from € 46.9 million to € 52.4 million. Non-current financial debt chiefly comprises liabilities of € 294.2 million to banks (2017/18: € 0) and IAS 17 lease liabilities of € 153.2 million (2017/18: € 163.8 million). The corporate bond at HORNBACH Baumarkt AG, which in the previous year was recognized under non-current financial debt, has now been reclassified as current. Provisions for pensions rose to

€ 14.2 million, up from € 10.8 million in the previous year. Opposing developments were shown by the deferred tax liabilities included in non-current liabilities, which fell year-on-year from € 26.0 million to € 17.5 million. Current liabilities rose from € 452.6 million to € 737.9 million. This significant growth chiefly resulted from the increase in current financial debt from € 11.4 million in the previous year to € 314.8 million, a development due to the reclassification of the corporate bond at HORNBACH Baumarkt AG, which matures in February 2020, to current financial debt and the taking up of a short-term loan at HORNBACH Baumarkt (Schweiz) AG to provide interim financing for its expansion. Trade payables, contract liabilities, and other liabilities amounted to € 328.2 million at the balance sheet date, as against € 341.7 million in the previous year. Primarily as a result of lower provisions for employee bonuses, other provisions and deferred liabilities fell by € 1.9 million from € 87.8 million in the previous year to € 85.9 million. The net debt of the HORNBACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, rose by € 197.7 million from € 321.9 million to € 519.6 million.

5.3 Off-balance sheet financing instruments and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH Baumarkt AG Group and 11 DIY stores with garden centers used on the basis of a finance lease agreements (2017/18: 11), there are 43 stores (2017/18: 43) and one logistics center that are let from the associate company HORNBACH Immobilien AG or its subsidiaries, as well as 54 DIY megastores with garden centers that are let from third parties (2017/18: 57). Moreover, the Group also has a small number of additional land leasehold, leasing and rental agreements.

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

As of February 28, 2019, obligations under rental, hiring, leasehold and leasing contracts totaled € 1,039.3 million (2017/18: € 985.0 million).

Key balance sheet figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.28.2019	2.28.2018
Equity ratio	Equity / Total assets	%	45.7	52.5
Return on equity	Annual net income / Average equity	%	3.9	5.7
Return on total capital	NOPAT[1]/ Average total capital[2]	%	3.2	5.3
Debt / equity ratio (gearing)	Net debt / Equity	%	48.6	30.7
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	183.6	128.7
Net working capital	Inventories and receivables less trade payables	€ million	606.8	468.7
Inventory turnover rate	Cost of goods sold / Average inventories		3.9	3.8

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

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

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

€ 000s	2018/19	2017/18
Sales	2,602,595	2,514,096
Other own work capitalized	278	622
Other operating income	22,690	14,090
Cost of materials	1,777,952	1,702,936
Gross profit	**847,611**	**825,872**
Personnel expenses	430,770	414,974
Depreciation and amortization	43,850	37,630
Other operating expenses	393,251	370,823
Operating result	**(20,260)**	**2,445**
Financial result	36,271	15,180
Taxes	5,961	2,592
Earnings after taxes	**10,050**	**15,033**
Other taxes	979	1,004
Annual net surplus	**9,071**	**14,029**
Withdrawal from revenue reserves	12,558	7,600
Net profit	**21,629**	**21,629**

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

6.1 Business framework

Group Management Report
Business Report
Macroeconomic and
Sector-Specific 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.

6.2 Development in the store network

HORNBACH did not open any new DIY store with a garden center in Germany in the 2018/19 year under report. One small-scale store (HORNBACH compact) in Alzey (Rhineland-Palatinate) was closed in April due to a lack of development prospects. We thus operated a total of 97 retail outlets across Germany as of February 28, 2019 (February 28, 2018: 98). Sales areas in Germany totaled around 1,053,000 m² (2017/18: 1,052,000 m²).

6.3 Earnings position

6.3.1 Sales performance

Group Management Report
Business Report
Earnings Position

Net sales (excluding sales tax) at HORNBACH Baumarkt AG grew by 3.5 % from € 2,514 million to € 2,603 million in the 2018/19 year under report. Sales include an amount of € 421 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2017/18: € 378 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 € 8.6 million to € 22.7 million (2017/18: € 14.1 million). This mainly relates to income from reversals of provisions, exchange rate gains, income from damages payments, and income from the retirement of liabilities.

Cost of materials rose by 4.4 % to € 1,778.0 million (2017/18: € 1,702.9 million). Gross profit totaled € 847.6 million, or 32.6 % of net sales, as against € 825.9 million, or 32.8 % in the previous year. Personnel expenses showed slightly disproportionate growth compared with net sales, rising by 3.8 % from € 415.0 million to € 430.8 million. At € 43.9 million, depreciation and amortization were 16.5 % higher than in the previous year (€ 37.6 million). This was mainly due the impairment losses of € 4.6 million recognized on a DIY store property based on a current value survey.

Other operating expenses rose to € 393.3 million, up from € 370.8 million in the previous year. This was mainly due to increased maintenance expenses and higher advisory and service expenses.

At minus € 20.3 million, the operating result fell significantly short of the previous year's figure (plus € 2.4 million). This was mainly due to higher other operating expenses (plus € 22.4 million), higher personnel expenses (plus € 15.8 million), and higher depreciation and amortization (plus € 6.2 million).

The financial result (including income from investments) rose by € 21.1 million to € 36.3 million in the year under report (2017/18: € 15.2 million). This growth was chiefly due to the increase in income from investments from € 24.6 million to € 45.4 million as a result of a higher transfer of profit from HORNBACH International GmbH. In the previous year, HORNBACH International GmbH was affected by a write-down with a corresponding charge to earnings, of the carrying amount of the investment in the Swedish subsidiary. This amounted to € 25.7 million and led to a corresponding reduction in the profit transferred to HORNBACH Baumarkt AG.

HORNBACH Holding B.V, Netherlands, HORNBACH Baumarkt CS spol s.r.o., Czech Republic, HORNBACH Baumarkt SK spol s.r.o., Bratislava, HORNBACH Baumarkt GmbH, Austria, and HORNBACH Baumarkt Luxemburg SARL, Luxembourg, distributed profit totaling € 47.1 million to HORNBACH International GmbH in the 2018/19 financial year. In the previous year, these profit distributions amounted to € 49.1 million.

Interest income and interest from loans of financial assets rose from € 3.2 million to € 3.6 million. At € 12.7 million, interest expenses in the year under report were at the same level as in the previous year.

Given the factors outlined above and higher taxes on income of € 6.0 million (2017/18: € 2.6 million) – after the retirement of deferred tax assets on loss carryovers (€ 5.5 million) – the annual net surplus fell from € 14.0 million to € 9.1 million in the 2018/19 financial year.

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

Assets € 000s	2.28.2019	2.28.2018
Intangible assets	12,421	13,935
Property, plant and equipment	339,633	291,338
Financial assets	239,416	277,922
Non-current assets	**591,470**	**583,195**
Inventories	481,565	416,903
Receivables and other assets	132,212	143,042
Cash holdings, credit balances at banks, and checks	188,884	58,159
Current assets	**802,661**	**618,104**
Deferred expenses and accrued income	4,838	5,295
Deferred tax assets	0	5,421
Total assets	**1,398,969**	**1,212,015**
Equity and liabilities € 000s		
Shareholders' equity	595,887	608,639
Provisions	65,283	66,842
Liabilities	730,284	527,300
Deferred income and accrued expenses	7,491	9,234
Deferred tax liabilities	24	0
Total equity and liabilities	**1,398,969**	**1,212,015**

6.3.3 Asset position

At € 1,399.0 million, total assets as of February 28, 2019 were € 187.0 million, or 15.4 %, higher than the previous year's figure (€ 1,212.0 million).

Non-current assets stood at € 591.5 million, or 42.3 % of total assets, at the balance sheet date (2017/18: € 583.2 million / 48.1 %). Mainly due to investments of € 88.1 million accompanied by depreciation of € 38.6 million and carrying amount retirements of € 1.6 million, property, plant and equipment increased to € 339.6 million (2017/18: € 291.3 million).

Due to scheduled and unscheduled repayments of € 38.5 million on long-term intragroup loans, financial assets decreased to € 239.4 million as of the balance sheet date (2017/18: € 277.9 million).

Current assets amounted to € 802.7 million at the balance sheet date (2017/18: € 618.1 million). Due to the company's expansion and seasonal preparations, inventories rose by 15.5 %, or € 64.7 million to € 481.6 million (2017/18: € 416.9 million). At 4.0, the inventory turnover rate in the 2018/19 financial year was lower than the previous year's figure of 4.2. Receivables from affiliated companies fell by € 17.9 million to € 82.1 million (2017/18: € 100.0 million). The reduction in receivables in the 2018/19 financial year was chiefly attributable to the year-on-year decrease in short-term financing of group companies. Given the approaching maturity of the corporate bond and the planned future expansion, within a forward-looking financing policy the company took up new financial debt and increased its liquidity. Consistent with this, cash and cash equivalents rose year-on-year by € 130.7 million from € 58.2 million to € 188.9 million.

The company did not have any deferred tax assets at the end of the financial year (2017/18: € 5.4 million).

At € 595.9 million, shareholders' equity as of February 28, 2019 was 2.1 % lower than in the previous year (€ 608.6 million). The equity ratio is reported at 42.6 % (2017/18: 50.2 %). Provisions decreased from € 66.8 million to € 65.3 million at the balance sheet date. This was mainly due to lower bonus provisions.

At € 730.3 million, liabilities were € 203.0 million, and thus significantly, higher than the previous year's figure (€ 527.3 million). Due to the taking up of new financing funds, liabilities to banks increased from € 0.4 million in the previous year to € 200.5 million in the year under report. Given the specific timing of the balance sheet date, the trade payables of € 154.9 million fell short of the previous year's figure of € 174.9 million. Liabilities to affiliated companies, mainly resulting from group financing, increased from € 60.1 million to € 77.5 million in the 2018/19 financial year.

6.3.4 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.

Group Management Report
Business Report
Financial Position

Shareholders' equity (after the planned dividend distribution) covers around 97 % of non-current assets. In the 2018/19 financial year, HORNBACH Baumarkt AG invested a total of € 92.5 million (2017/18: € 44.3 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 61.9 million, while a further sum of € 26.3 million was channeled into replacing and expanding plant and office equipment. Of total investments, € 4.3 million (2017/18: € 7.3 million) related to intangible assets acquired in return for payment. Due to scheduled and unscheduled repayments of intragroup loans, financial assets decreased by € 38.5 million from € 277.9 million to € 239.4 million.

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

Despite a positive sales performance, operating earnings at HORNBACH Baumarkt AG fell significantly in the 2018/19 financial year. This was mainly due to higher other operating expenses, increased personnel expenses, and impairment losses. These factors were partly offset by increased income from investments due to higher profits transferred from HORNBACH International GmbH. This enabled the reduction in the annual net surplus to be limited from € 14.0 million to € 9.1 million. Non-current assets and around 23 % 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.

6.5 Proposed appropriation of net profit of HORNBACH Baumarkt AG

HORNBACH Baumarkt AG concluded the 2018/19 financial year with an annual net surplus of € 9,070,666.09.

Following the withdrawal of € 12,558,093.91 from other revenue reserves, the Board of Management proposes to appropriate the net profit of € 21,628,760.00 as follows:

- € 0.68 dividend per share with a nominal amount of € 3.00 on 31,807,000 ordinary shares
- Dividend distribution: € 21,628,760.00

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 (2) No. 5 HGB)

The objective of the internal control and risk management (IKS) system in respect of the financial reporting process is to identify and evaluate those risks which could prevent the consolidated financial statements from conforming to the relevant requirements. Corresponding control measures and clear responsibilities are allocated for the risks thereby identified. These are intended to provide reasonable assurance of the possibility of preparing financial statements for the overall Group and 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		
Foreign currency risks	possible	moderate
Liquidity risks	rare	critical
Credit risks	occasional	moderate
External risks		
Macroeconomic and sector-specific risks	frequent	noticeable
Natural hazards	improbable	severe
Operating risks		
Location and sales risks	possible	noticeable
Procurement risks	occasional	moderate
Legal risks		
Legislative and regulatory risks	occasional	severe
Risks relating to legal disputes	possible	low
Management and organizational risks		
IT risks	improbable	critical
Personnel risks	possible	low

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

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, 2023, 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 February 2013, whose term runs until February 15, 2020.

HORNBACH counters the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to financing conditions on the capital markets by flexibly adjusting its investments, maintaining a substantial liquidity cushion 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 default covenants. As of February 28, 2019, the equity ratio amounted to 45.7 % (2017/18: 52.5 %) and interest cover came to 9.7 (2017/18: 10.9).

The corporate bond is only governed by general covenants, such as pari passu, negative pledge, and cross default covenants, but not by financial covenants. Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2018/19 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.

5.3 Credit risks

Notes to Consolidated Financial Statements
Note (34):
Risk management and financial derivatives

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 2018/19 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 and economic framework.

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

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 excluded entirely.

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

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. Not only that, all management staff hold annual one-to-one meetings with their employees in which their past performance is appraised and future development measures are agreed. In its recruitment and retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

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 2018/19 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position.

Opportunity Report

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

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, market consolidation in regions with particularly intense competition, such as Germany and Austria, also presents opportunities.

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. New housing construction was the driving force for European construction activity in recent years. However, 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.

Modernization work gaining momentum

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 € 230 billion in 2018 involved construction work on existing buildings. Declining momentum in the new housing construction market is gradually freeing up capacity, particularly among tradespeople, and this will increasingly be available for homeowners to draw on for refurbishment and modernization work once again in future. In 2017, work on existing buildings already showed notably more dynamic developments than in previous years and gained further momentum.

Furthermore, DIY stores with garden centers benefit when new detached houses are built either entirely or in part by their owners on their own initiative. In Germany, the share of construction investments attributable to work performed by owners themselves amounts to around 14 % and had a volume of € 48.6 billion in 2018. The following growth drivers should impact positively on the long-term business performance of the DIY sector:

- The **age structure of real estate** indicates an increasing need for maintenance and modernization. In Germany, for example, more than 80 % of all houses and apartments are more than 30 years old. Almost one in three detached houses in Germany is in need of renovation. Half of the owner-occupied houses built between 1949 and 1960 have not yet been comprehensively renovated and no longer meet current technological standards in terms of energy efficiency. Given that the property will decline in value and attractiveness on the housing market unless renovation measures are undertaken, the need for construction services and materials can be expected to increase. Interest rates, still low by long-term standards, continue to benefit private households' financing opportunities here.

- Increasing momentum can be expected once again 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. **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.

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 8 % to around € 4.0 billion in 2019, 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' 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 in 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, 26 % of people living in Germany already had at least one smart home application in 2018 and a further 37 % were planning to acquire a smart home device. This creates opportunities for DIY stores and garden centers to expand their ranges of smart home products, installation services, or proprietary solutions such as "Smart Home by HORNBACH".

The increasing use of digital technology in day-to-day life is also leading to consumers to reconsider 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, and transparent product information and advice are key competitive factors here. Above all the target group of lifestyle-driven customers who base their lifestyles on health and sustainability factors is playing an increasingly important role in this respect. Members of this target group mostly have above-average incomes and are conscious, critical consumers. They accord great value to quality, brand and design.

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.

€ 46 bn
core DIY market in 2018

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 € 46 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.

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 offering and 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, as “Project Shows” at the 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. Here, we offer an extensive database of subsidy opportunities on our homepage.

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 nine years, the HORNBACH Baumarkt AG Group has channeled a substantial triple-digit million euro amount into digitalizing its business model and developing its online retail business. These efforts 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 170,000 articles, the online shop also offers significantly greater selection than is possible on limited sales space. 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 levels.

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. By equipping 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 introduced in the 2018/19 financial year. This 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 introduced in the year under report. 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 % share of sales in the 2018/19 financial year. In the medium term, it is planned to raise the share of private label products to around 30 %.

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

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

Outlook

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.

1.1 Business framework in Europe

Economic growth shifts down a gear

According to an assessment issued by the European Commission in February 2019, the rate of economic growth in the 2019 calendar year is set to slow to 1.5 % in the EU 28 and to 1.3 % in the euro area countries. Due to the uncertainty surrounding Brexit and ongoing international trade disputes, however, this forecast is subject to considerable risks. The strong state of labor markets, which should support domestic demand, is assessed positively.

GDP growth rates in the Eastern European countries in which HORNBACH operates are set to remain high and – if at all – to ease only slightly. By contrast, all of HORNBACH's regions in Western Europe are expected to witness a marked slowdown in economic momentum.

In its forecast dated November 2018, the Euroconstruct research and consulting network expects European construction volumes to grow by 2.0 % in the 2019 calendar year, compared with 2.8 % in the previous year. Significantly above-average growth rates are expected in the Czech Republic, Slovakia, and the Netherlands. The other HORNBACH regions are forecast to witness slight growth and, in the case of Sweden, a decrease in construction volumes. Within housing construction, work on existing buildings is set to replace new construction as the key growth driver in 2019.

1.2 Business framework in Germany

Given Brexit and other concerns, Germany's leading economic research institutes expect the country's economic growth to slow to 0.8 % in the 2019 calendar year. At the same, they expect a further reduction in the unemployment rate and moderate growth in income from employment. This will result in higher incomes, also in real terms. Private consumer spending is expected to rise by 1.3 % in real terms.

According to economic experts, the continuingly high level of consumer confidence in Germany is expected to be reflected in further retail sales growth in 2019. For the current year, the Association of German Retailers (HDE) expects nominal net sales to grow by 2.0 % to a total of € 535.5 billion. Stationary retail sales should grow by 1.2 % while online retail sales are set to rise by 9.1 % to € 58.5 billion, then accounting for nearly eleven percent of total retail sales volumes.

Based on the assessment by the German Institute for Economic Research (DIW), the growth in housing construction is set to continue in the years ahead, with nominal growth of 7.6 % forecast by the economic researchers for 2019 (2018: 8.6 %). The modernization market is forecast to grow by 7.7 % (2018: 7.9 %), while the growth of 7.4 % in new construction volumes will fall short of the previous year's high level

(10.1 %). For 2020, the DIW expects to see growth of only 5.8 % in the new construction sector, as against 7.2 % in the modernization market.

This growth in the modernization market in particular can also be expected to benefit trade companies and DIY retailers. The BHB sector association has forecast nominal sales growth of 1.5 % for the German DIY sector in 2019. On a like-for-like basis, sales growth is expected to amount to 1.3 %. The BHB sees potential for sales growth in 2019 as coming in particular from the private renovation and housing construction markets, from the ongoing strength of the construction industry, and from robust private consumer spending given the pleasing situation on the labor market with secure jobs and incomes. E-commerce sales with DIY product ranges (home improvement, construction materials, and garden products) are expected to show significantly higher growth momentum. Market researchers expect sales here to grow by 8.3 % to just under € 4.0 billion.

+1.5 %
sales growth forecast for German DIY store sector in 2019

Due to notably more favorable weather conditions compared with the previous year, the DIY store sector posted a clearly positive performance in the first three calendar months of 2019. According to the BHB/GfK, the German DIY sector generated like-for-like sales growth of 9.9 % in the first quarter of the calendar year.

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

Based on our assessment, the increase in consumer demand and the macroeconomic and sector-specific framework forecast for Europe in 2019 will impact positively on the sales and earnings performance of the HORNBACH Baumarkt AG Group in the 2019/20 financial year. However, any significant macroeconomic disruptions during the forecast period, for example due to political or trading policy crises, terrorism, or price shocks on commodity or energy markets, and any resultant noticeable deterioration in consumer confidence would produce downward risks for our sales and earnings performance.

2. Forecast Business Performance in 2019/20

The statements made concerning the expected business performance of the HORNBACH Baumarkt AG Group in the 2019/20 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 2019/20 to 2023/24, into which the annual budget for 2019/20 is integrated, was adopted by the Board of Management at the end of January 2019 and approved by the Supervisory Board at the end of February 2019.

From the 2019/20 financial year, first-time application of the new lease accounting required by IFRS 16 will lead to changes in the items stated in the balance sheet and income statement of HORNBACH Baumarkt AG Group. IFRS 16 basically requires all leases to be recognized in the balance sheet in future. At HORNBACH, this relates in particular to the real estate rental agreements previously classified as operating leases for our retail properties in Germany and abroad. The recognition of these items in the balance sheet will significantly increase non-current assets and financial debt in future. In the income statement, the rental payments for operating lease contracts were mainly included as expenses within selling and store expenses. Rather than recognizing rental expenses as at present, in future the company will recognize the depreciation of right-of-use assets (selling and store expenses) and interest expenses for the financial debt (net financial expenses). This will significantly increase EBIT. At the same time, net financial expenses will be significantly burdened by the future recognition of interest expenses. Detailed information about the resultant effects based on the data available as of March 1, 2019 can be found in the notes to the consolidated financial statements.

The positive earnings effects resulting from this new lease accounting are included in the 2019/20 earnings forecast for adjusted EBIT.

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.

Up to three international **new store openings** of DIY megastores with garden centers are planned for the second half of the 2019/20 financial year. These relate to stores in Sweden (Kristiansstad), Slovakia (Presov), and the Netherlands (Duiven). The number of stores in Germany is expected to remain unchanged. Overall, the group-wide total number of HORNBACH locations will rise to up to 161 by February 29, 2020 (February 28, 2019: 158), of which 64 in other European countries.

2.2 Investments

€ 100 - 120 m
gross investments planned

Gross investments of between € 100 million and € 120 million have been budgeted at the HORNBACH Baumarkt AG Group for the 2019/20 financial year. The overwhelming share of these funds will be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure.

HORNBACH enjoys great flexibility in its investment financing. Alongside the cash flow from operating activities, the company's cash resources, free credit lines, and the promissory note bonds taken up in the 2018/19 financial year (total volume: € 295 million) mean that a large volume of liquidity is available. The inflows of funds from the promissory note bonds issued in 2018/19 and from the new borrowing planned for the 2019/20 financial year are earmarked for refinancing the corporate bond maturing in February 2020 and for further growth financing. No sale and leaseback transactions are planned in the 2019/20 financial year.

2.3 Sales forecast for the HORNBACH Baumarkt AG Group

Group growth in medium single-digit percentage range in 2019/20

Thanks to our expansion, increased growth at existing stores, and growing online sales, we expect consolidated sales in the 2019/20 financial year to exceed the figure for the 2018/19 year under report (€ 4,096 million). Driven by disproportionate organic growth and new store openings, the share of sales in international regions (2018/19: 48.3 %) is set to rise further. We expect net sales, including sales at stores newly opened, closed, or significantly extended, to show growth in a medium single-digit percentage range in the 2019/20 financial year.

Given the macroeconomic and sector-specific framework outlined above, we expect the Group's 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 expect the like-for like sales growth in Germany to fall short of the Group average once again in the 2019/20 financial year, while the growth rates in like-for-like sales net of currency items in Other European Countries are expected to exceed the Group average.

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. We do not expect IFRS 16 lease accounting to have any material impact on earnings in the Retail segment. From the 2019/20 financial year, the external rents previously charged directly to the Retail segment will be replaced by imputed rental expenses in the same amount that will now be charged by the Real Estate segment to the Retail segment.

Based on our expectations, the gross margin in the 2019/20 financial year will be at around the same level as in the previous year. 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.

According to our 2019/20 annual budget, selling and store expenses are 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. The rental expenses charged by the Real Estate segment will be at around the same level as in the previous year. Advertising expenses are expected to fall slightly in the 2019/20 budget year. In terms of general operating expenses, logistics expenses due to the growing volume of direct mailing on the one hand and new store openings and building maintenance measures on the other hand will result in additional expenses, as will the continuous process of revising the presentation of our product range. However, greater cost discipline and stricter prioritization of measures at the stores should help to slow the rate of cost growth.

Pre-opening expenses are expected to slightly exceed the previous year's level in 2019/20.

According to the 2019/20 budget, administration expenses are set to grow significantly more slowly than sales. This is to be ensured by implementing a catalog of measures headed "Focusing on the most important things". 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. Furthermore, the strategic projects initiated in the past have been analyzed and prioritized in terms of their customer relevance and economic viability. The number of projects originally planned for the forecast period has been reduced to one third. To improve their management, they have also been pooled at headquarters. The projects will be reviewed by the Board of Management at regular intervals in terms of their focus, targeted progress, and costs, with adjustments being made where necessary. Furthermore, the company is working on gradually reducing the volume of external services.

Against this backdrop, **adjusted EBIT** in the Retail segment is expected to significantly exceed the previous year's figure (€ 18.0 million) in the one-year forecast period.

2.4.2 Real Estate segment

The first-time application of IFRS 16 will lead to substantial changes in the income statement of the Real Estate segment. Upon the introduction of IFRS 16, the presentation of rental income and expenses will be amended in the company's internal reporting as of March 1, 2019. From the 2019/20 financial year, rental income will also include imputed rents for stores let from third parties for which the rents were previously charged directly to the Retail segment. As a result, rental income is expected to increase by around € 100 million in the 2019/20 financial year (2018/19: € 178 million). This factor will be opposed by higher depreciation within real estate expenses. This is because the new lease accounting requires rental expenses to be recognized as the depreciation of right-of-use assets. IFRS 16 will lead rental income to rise more sharply than real estate expenses. As a result, we expect adjusted EBIT in the Real Estate segment to increase significantly in the 2019/20 financial year (2018/19: € 74.7 million).

2.4.3 Headquarters and Consolidation segment

Central administration expenses are set to rise slightly in the 2019/20 financial year. The budget includes the costs of extensively refurbishing and modernizing the old head office building at the Bornheim location. These measures are scheduled for completion in 2020. Adjusted EBIT in the Headquarters and Consolidation segment is expect to decrease significantly (2018/19: minus € 10.9 million).

2.4.4 Earnings forecast for the HORNBACH Baumarkt AG Group

Adjusted EBIT in 2019/20 to exceed previous year's figure by more than 30 %

We expect our adjusted EBIT (EBIT adjusted to exclude non-operating items) in the one-year 2019/20 forecast period to exceed the level reported for the 2018/19 financial year (€ 81.9 million) by more than 30 %. This earnings growth should be driven on the one hand by increased earnings strength resulting from sales growth and stricter cost management. On the other hand, we expect EBIT to be positively affected to a significant extent by first-time application of IFRS 16. Based on conditions pertaining as of March 1, 2019, we expect store expenses on Group level to be reduced on a scale of around € 21 million compared with the old IFRS standard. Details about the expected implications of the new lease accounting can be found in the notes to the consolidated financial statements.

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

In the separate financial statements of HORNBACH Baumarkt AG, which will be shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, we expect sales growth in a low to medium single-digit percentage range in the 2019/20 financial year. The declared aim of the Board of Management is to sustainably improve the earnings situation in Germany – the largest operating region within the Group – once again in the medium and long term on the basis of the company's expected sales growth. This is to be achieved in particular by enhancing efficiency in terms of personnel and material expenses in both store operations and administration departments. These measures should steadily take effect from the 2019/20 financial year and have an initial positive impact on the profitability of the German business in the one-year forecast period. Assuming a stable level of profit transfer from HORNBACH International GmbH, we expect the annual net surplus on the level of HORNBACH Baumarkt AG to increase slightly in the 2019/20 forecast period.

Other Disclosures

1. Disclosures under § 315a (1) and § 289a (1) 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 (1) and § 289a (1) 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 28, 2019.

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 of the German Stock Corporation Act (AktG) are to be imputed to this restriction to ten percent of the share capital. This relates in particular to the disposal of treasury stock undertaken on the basis of an authorization to dispose of treasury stock pursuant to § 71 and § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG), as well as to shares issued or to be issued in order to service bonds with conversion and/or option rights in cases where the respective bonds were issued on the basis of an authorization pursuant to § 221 (4) and § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG).

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

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

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

2. Corporate Governance Declaration pursuant to § 289f HGB

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Investor Relations >
Corporate Governance

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

3. Compensation Report

2018/19 Annual Report
Corporate Governance
Compensation Report

The compensation report presents the basic features and structure of the compensation paid to the Board of Management and Supervisory Board. It forms part of the Group Management Report and is presented in the Corporate Governance section.

4. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2018/19 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

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 2018/19 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).

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, 2018 to February 28, 2019

	Notes	2018/19 € 000s	2017/18 € 000s	Change %
Sales	1	4,095,535	3,890,704	5.3
Cost of goods sold	2	2,592,713	2,440,777	6.2
Gross profit		**1,502,822**	**1,449,927**	**3.6**
Selling and store expenses	3/10	1,222,952	1,150,778	6.3
Pre-opening expenses	4/10	6,542	5,118	27.8
General and administration expenses	5/10	220,535	206,654	6.7
Other income and expenses	6/10	14,358	15,111	(5.0)
Earnings before interest and taxes (EBIT)		**67,151**	**102,489**	**(34.5)**
Other interest and similar income		706	740	(4.6)
Other interest and similar expenses		17,050	17,562	(2.9)
Other financial result		807	(4,784)	>100
Net financial expenses	**7**	**(15,538)**	**(21,605)**	**(28.1)**
Consolidated earnings before taxes		**51,614**	**80,884**	**(36.2)**
Taxes on income	8	10,684	22,217	(51.9)
Consolidated net income		**40,930**	**58,667**	**(30.2)**
Basic/diluted earnings per share (€)	9	1.29	1.84	(29.9)

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2018 to February 28, 2019

	Notes	2018/19 € 000s	2017/18 € 000s
Consolidated net income		**40,930**	**58,667**
Actuarial gains and losses on defined benefit plans	24/25	(3,338)	4,042
Deferred taxes on actuarial gains and losses on defined benefit plans		313	(780)
Measurement of equity instruments (after deferred taxes)	13/33	779	n/a
Other comprehensive income that will not be recycled at a later date		**(2,246)**	**3,262**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity [1]		0	(1)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		0	33
Measurement of available for sale financial assets	13/33	n/a	883
Exchange differences arising on the translation of foreign subsidiaries		983	(2,988)
Deferred taxes on gains and losses recognized directly in equity	8	0	(21)
Other comprehensive income that will be recycled at a later date		**983**	**(2,094)**
Total comprehensive income		**39,667**	**59,835**

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

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 28, 2019

Assets	Notes	2.28.2019 € 000s	2.28.2018 € 000s
Non-current assets			
Intangible assets	11	17,394	18,892
Property, plant, and equipment	12	1,221,694	1,120,408
Investment property	12	6,561	18,692
Financial assets	13/33	7,334	6,543
Other non-current receivables and assets	14/24	2,205	4,151
Deferred tax assets	15	6,356	4,531
		1,261,544	**1,173,217**
Current assets			
Inventories	16	755,676	657,821
Trade receivables	18	11,333	8,913
Contract assets	18	1,569	n/a
Other current assets	18	59,957	53,417
Income tax receivables	27	5,322	2,235
Cash and cash equivalents	19	242,530	102,138
		1,076,387	**824,524**
		2,337,931	**1,997,740**

Equity and liabilities	Notes	2.28.2019 € 000s	2.28.2018 € 000s
Shareholders' equity	**21**		
Share capital		95,421	95,421
Capital reserve		143,623	143,623
Revenue reserves		829,573	809,759
		1,068,616	**1,048,802**
Non-current liabilities			
Non-current financial debt	23	447,383	412,637
Provisions for pensions	24	14,226	10,820
Deferred tax liabilities	15	17,461	25,951
Other non-current liabilities	25/28	52,360	46,936
		531,430	**496,344**
Current liabilities			
Current financial debt	23	314,750	11,435
Trade payables	26	227,021	253,711
Contract liabilities	26	30,874	n/a
Other current liabilities	26	70,257	88,000
Income tax liabilities	27	9,065	11,608
Other provisions and accrued liabilities	28	85,917	87,839
		737,884	**452,594**
		2,337,931	**1,997,740**

Statement of Changes in Equity of the HORNBACH Baumarkt AG Group

2017/18 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2017		**95,421**	**143,623**	**(24)**	**39,332**	**732,293**	**1,010,645**
Consolidated net income						58,667	58,667
Actuarial gains and losses on defined benefit plans	24/25					3,262	3,262
Measurement of derivative financial instruments (cash flow hedge), net after taxes				24			24
Measurement of available for sale financial assets, net after taxes	33					870	870
Foreign currency translation					(2,988)		(2,988)
Total comprehensive income				**24**	**(2,988)**	**62,799**	**59,835**
Dividend distribution	22					(21,629)	(21,629)
Treasury stock transactions	21					(50)	(50)
Balance at February 28, 2018		**95,421**	**143,623**	**0**	**36,344**	**773,414**	**1,048,802**

2018/19 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2018		**95,421**	**143,623**	**0**	**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**	**0**	**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 equity instruments, net after taxes	33					779	779
Foreign currency translation					983		983
Total comprehensive income				**0**	**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**	**0**	**37,327**	**792,245**	**1,068,616**

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2018/19 € 000s	2017/18 € 000s
Consolidated net income		**40,930**	**58,667**
Depreciation and amortization of non-current assets	10	93,022	80,363
Change in provisions		6,003	9,040
Gains/losses on disposals of non-current assets and of non-current assets held for sale		275	(401)
Change in inventories, trade receivables and other assets		(109,749)	(40,626)
Change in trade payables and other liabilities		(15,369)	29,394
Other non-cash income/expenses		(11,416)	(2,331)
Cash flow from operating activities		**3,695**	**134,106**
Proceeds from disposal of non-current assets and of non-current assets held for sale		3,911	2,438
Payments for investments in property, plant, and equipment		(179,201)	(120,859)
Payments for investments in intangible assets		(4,349)	(7,824)
Cash flow for investments in connection with short-term finance planning		0	30.000
Cash flow from investing activities		**(179,639)**	**(96,245)**
Dividends paid	22	(21,629)	(21,629)
Proceeds from taking up long-term debt		295.000	0
Repayment of long-term debt	23	(619)	(3,111)
Payments for transaction costs		(840)	0
Change in current financial debt and finance lease liabilities		44,387	(22,958)
Cash flow from financing activities		**316,298**	**(47,698)**
Cash-effective change in cash and cash equivalents		140,354	(9,837)
Change in cash and cash equivalents due to changes in exchange rates		38	(1,059)
Cash and cash equivalents at March 1		102,138	113,033
Cash and cash equivalents at balance sheet date		**242,530**	**102,138**

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

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

The cash flow from operating activities was reduced by income tax payments of € 27,391k (2017/18: € 21,310k) and interest payments of € 18,518k (2017/18: € 20,011k) and increased by interest received of € 706k (2017/18: € 740k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

HORNBACH Baumarkt AG, whose legal domicile is in 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 2018/19 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 debt capital. Debt items are treated as current if they are due within one year.

The consolidated financial statements have been compiled in euros. This represents the functional currency at HORNBACH Baumarkt AG. The figures have been rounded to the nearest thousand or million euros. Such rounding up or down may result in 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 14, 2019. The period in which adjusting events could be accounted for thus expired as of this date.

Changes to accounting policies due to new accounting requirements

The following policies require mandatory application from the 2018/19 financial year onwards:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from Contracts with Customers"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration"
- Amendment to IAS 40 "Investment Property"
- Amendment to IFRS 2 "Share-based Payment"
- Amendment to IFRS 4 "Insurance Contracts"
- Amendments to IFRS 15 "Revenue from Contracts with Customers"
- Annual Improvements to IFRS, 2014-2016 cycle: Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"

The implications of first-time application of IFRS 9 and IFRS 15 are presented below. The other policies requiring first-time application in the 2018/19 financial year did not have any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

Amendments to accounting policies due to IFRS 9 "Financial Instruments"

The accounting requirements for financial instruments set out in the standard IFRS 9 "Financial Instruments" have been implemented at the HORNBACH Group since March 1, 2018. Consistent with the transitional requirements, the Group has foregone retrospectively amending its previous year's figures. As a result, the comparative disclosures have still been recognized in accordance with the Group's previous accounting policies (see 2017/18 Annual Report). The reclassifications and adjustments required have been recognized directly in equity in the opening balance sheet as of March 1, 2018.

IFRS 9 includes new requirements for the classification and measurement of financial instruments and the impairment of financial assets. Further new requirements introduced in IFRS 9 relate to general hedge accounting requirements. The new standard has also taken over requirements for recognizing and derecognizing financial instruments from IAS 39. IFRS 9 has significantly extended the scope of note disclosures resulting from the revision to IFRS 7 "Financial Instruments: Disclosures".

Under IFRS 9, the classification and measurement of financial assets is determined on the basis of the company's business models and the characteristics of the cash flows from the respective financial assets.

Financial assets held within a business model whose objective involves holding assets to collect contractual cash flows are measured at amortized cost. If the business model provides for the collection of contractual cash flows and the sale of financial assets, these assets are measured at fair value in other comprehensive income. If neither of these two business models applies, or if the business model only provides for the sale of financial assets, then the financial assets are measured at fair value through profit or loss.

Most of the financial assets at the HORNBACH Group continue to meet the criteria for recognition at amortized cost. Those financial assets that were not allocable to either of the business models or which did not exclusively comprise payments of interest and principal were reclassified and recognized pursuant to IFRS 9 at fair value through profit or loss.

For trade receivables of € 1,485k that due to factoring agreements are not derecognized as all of the associated credit risk remains at the HORNBACH Baumarkt AG Group, the business model involves selling these assets. As a result, these receivables are measured at fair value. Given the short-term nature of the receivables and corresponding liabilities, their fair values basically correspond to their carrying amounts.

For those equity instruments not held for trading existing as of March 1, 2018, HORNBACH has uniformly exercised the option of recognizing future changes in their fair value in other comprehensive income in the statement of comprehensive income and thus of retaining such changes in group equity upon derecognition of the respective financial instruments. This option enables the company to achieve a comparatively lower degree of earnings volatility. As a result, assets with fair values of € 6,543k were classified out of the "available-for-sale" financial assets category and into the "at fair value through other comprehensive income (FVtOCI)" category.

Alongside the new classification requirements, IFRS 9 also introduces a new impairment model applicable to all financial assets measured either at amortized cost or at fair value through other comprehensive income. This model provides for the recognition of expected credit losses upon initial recognition already (expected credit loss model). As a general rule, this amended recognition means that impairments of financial assets are recognized at an earlier point in time. Risk allowances are recognized either on the basis of the 12-month expected credit losses (Level 1) or on the basis of lifetime expected credit losses if the credit risk has increased significantly since initial recognition (Level 2) or impaired creditworthiness is identified (Level 3).

For trade receivables and contract assets, HORNBACH has applied the simplified model based on a provision matrix. 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 (allocated to Level 2) both upon initial recognition and at each subsequent balance sheet date. The calculation of expected credit losses is based on an analysis of actual historical default rates based on common credit risk characteristics and overdue days. If indexed, these historical default rates are adjusted, taking due account of prospective information, to factor in the impact of current changes in the macroeconomic climate.

Contract assets relate to current services provided by trade companies and not yet invoiced. In general, these items 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.

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.

The IFRS 9 requirements for the classification and measurement of financial liabilities are largely consistent with existing requirements under IAS 39, which means that no changes have arisen in this respect.

The amendments relating to hedge accounting have not resulted in any conversion effects upon first-time application of IFRS 9 as the Group has exercised the option of continuing to recognize hedges in accordance with IAS 39 rather than IFRS 9.

The table below presents the original measurement categories pursuant to IAS 39 as of February 28, 2018 and the new measurement categories as of March 1, 2018 for each class of financial assets and liabilities. The measurement effects relate exclusively to the application of new impairment requirements. The reclassifications of financial instruments upon first-time application of IFRS 9 have not resulted in any changes in measurement.

€ 000s	IAS 39 category	Carrying amount 2.28.2018	IFRS 9 category	Reclassification effects	Valuation - effects	Carrying amount 03.01.2018
Assets						
Financial assets	AfS	6,543	FVtOCI			6,543
Trade receivables	LaR	8,913	AC	(1,485)	247	7,675
Trade receivables due to non-recourse factoring that are not derecognized	LaR	n/a[1)]	FVtPL	1,485		1,485
Contract assets	n/a	0	AC			1,153
Other current and non-current assets						
Derivatives without hedge relationship	FAHfT	578	FVtPL			578
Other assets	LaR	37,367	AC			37,367
Cash and cash equivalents	LaR	102,138	AC			102,138
Equity and liabilities						
Financial debt						
Bonds	FLAC	248,844	AC			248,844
Liabilities to banks	FLAC	1,001	AC			1,001
Liabilities in connection with finance leases	n/a	174,115	n/a			174,115
Derivatives with hedge relationship	n/a	0	n/a			0
Derivatives without hedge relationship	FLHfT	113	FVtPL			113
Trade payables	FLAC	253,711	AC			253,711
Contract liabilities	n/a	0	AC			26,010
Other current and non-current liabilities	FLAC	29,584	AC			29,584
Accrued liabilities	FLAC	22,156	AC			22,156

Afs – Available for Sale
LaR – Loans and Receivables
n/a – not allocated to any category
FAHfT – Financial Assets Held for Trading
FLAC – Financial Liabilities measured at Amortized Cost
FLHfT – Financial Liabilities Held for Trading
FVtOCI – at Fair Value through Other Comprehensive Income
AC – Amortized Cost
n/a – not allocated to any category
FVtPL – at Fair Value through Profit or Loss
1) Recognized as of February 28, 2018 under trade receivables in the LaR category

First-time application of IFRS 9 reduced the impairments recognized for trade receivables as of March 1, 2018 by € 247k (before deferred taxes). This amount was offset against revenue reserves. The effects recognized through profit or loss as of February 28, 2019 came to € -374k (EBIT) and € -265k (annual net income).

Amendments to accounting policies due to IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" was applied for the first time as of March 1, 2018, with application being made of the modified retrospective method. Retrospective application was only made to contracts that had not yet been fully performed upon the date of first-time application. Consistent with the transitional method selected, the figures for the comparative period were not adjusted.

Apart from the matters presented below, first-time application of IFRS 15 has not led to any fundamental changes to accounting policies. The vast share of sales is generated in simple merchandise sale agreements which do not have any long-term characteristics and under which the power of control is transferred 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. No material changes have arisen compared with previous practice in terms of the determination of the time at which sales are recognized.

Upon first-time application, the values recognized in the balance sheet for the following items were amended as of March 1, 2018:

- Due to IFRS 15 requirements for customer credits, from now on those credits not expected to be utilized (breakage) will be recognized through profit or loss at an earlier point in time. Unlike the previous approach, in future amounts relating to potential non-utilization will be recognized in line with the pattern in which customers call on their credits. Previously, these items were only derecognized upon expiry of the respective claims. As a result of the transitional provision selected, the obligations for customer credits were therefore reduced as of March 1, 2018, with the corresponding amount being offset against equity. Equity increased by € 2,429k (before deferred taxes).

Furthermore, first-time application also resulted in the following material changes of statement within the balance sheet:

- From now on, expected customer returns are recognized on a gross basis in the balance sheet. This is implemented by recognizing a "right to return" under other current assets and a "refund liability" under other current liabilities.

- Liabilities for prepayments received and liabilities for customer vouchers, which were previously recognized under other current liabilities, were reclassified to contract liabilities as of March 1, 2018.

- Incomplete customer orders (tradesman service), which were previously recognized under unfinished services within inventories, were reclassified to contract assets as of March 1, 2018 and offset against contract liabilities in cases where HORNBACH had already received consideration from the respective subcontractors. In this context, the expenses incurred and sales are recognized without any impact on gross profit.

In addition to the aforementioned amendments to accounting policies, IFRS 15 has also given rise to the following matter which, due to the transitional provision selected, is only relevant to contracts concluded after March 1, 2018:

- Due to the possibility of retrospective discounts being granted (permanent low price guarantee), for a specified period sales are subject to a degree of variability that is influenced by the occurrence or otherwise of a future event. From now on, a refund liability is recognized to account for this. No conversion effect arose as of March 1, 2018. As of February 28, 2019, a refund liability of € 426k was recognized through profit or loss.

Overall, IFRS 15 gave rise to the following adjustments in balance sheet items as of March 1, 2018:

€ 000s	IAS 18 carrying amount 2.28.2018	Revaluation	Reclassification	IFRS 15 carrying amount 3.1.2018
Assets				
Current assets				
Inventories	657,821	0	(1,470)	656,351
Contract assets	n/a	0	1,153	1,153
Other current assets	53,417	0	2,729	56,146
Equity and liabilities				
Shareholders' equity				
Revenue reserves	809,759	1,760	0	811,519
Non-current liabilities				
Deferred tax liabilities	25,951	663	0	26,614
Current liabilities				
Contract liabilities	n/a	(2,424)	28,434	26,010
Other current liabilities	88.000	0	(24,407)	63,593
Other provisions and accrued liabilities	87,839	0	(1,615)	86,224

The following overview presents the relevant balance sheet items as of February 28, 2019 in accordance with IFRS 15 and their previous recognition under IAS 18. The cumulative items impacting on earnings as of February 28, 2019 amounted to € -265k (EBIT) and € -191k (annual net income).

€ 000s	IFRS 15 2.28.2019	IAS 18 2.28.2019	Change
Assets			
Non-current assets			
Deferred tax assets	6,356	6,241	(115)
Current assets			
Inventories	755,676	757,393	1,717
Contract assets	1,569	0	(1,569)
Other current assets	59,957	56,220	(3,737)
Equity and liabilities			
Shareholders' equity			
Revenue reserves	829,573	828,030	(1,543)
Non-current liabilities			
Deferred tax liabilities	17,461	16,725	(736)
Current liabilities			
Contract liabilities	30,874	0	(30,874)
Other current liabilities	70,257	97,588	27,331
Other provisions and accrued liabilities	85,917	88,036	2,119

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. Apart from IFRS 16, none of these requirements has any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

Mandatory application refers to financial years beginning on or after the date stated:

New Standards, Interpretations and Amendments to Existing Standards and Interpretations		Effective date
Improvements and supplements to a selection of IFRS 2015-2017		Jan 1, 2019*
Amendment to References to the Conceptual Framework in IFRS Standards		Jan 1, 2020*
Amendments to Standards		
IAS 1 and IAS 8	"Presentation of Financial Statements" and "Accounting Policies, Changes in Accounting Estimates and Errors"	Jan 1, 2020*
IAS 28	"Investments in Associates and Joint Ventures"	Jan 1, 2019
IAS 19	"Employee Benefits"	Jan 1, 2019
IFRS 3	"Business Combinations"	Jan 1, 2020*
IFRS 9	"Financial Instruments"	Jan 1, 2019
New Standards		
IFRS 16	"Leases"	Jan 1, 2019
IFRS 17	"Insurance Contracts"	Jan 1, 2021*
IFRIC 23	"Uncertainty over Income Tax Treatments"	Jan 1, 2019

[1] Not yet endorsed

- IFRS 16 "Leases": This standard replaces the existing lease accounting requirements and fundamentally alters the treatment of leases at the lessee. The existing review performed to classify a lease as an operating lease or a finance lease is no longer required at the lessee. Apart from short-term and low-value contracts, from now on all lease contracts are to be presented using a methodology similar to that previously applied for finance leases, i.e. alongside a right-of-use asset a corresponding lease liability is also recognized upon initial recognition. Both items are written forward as appropriate. When accounting for leases, lessors are still required to perform a review to classify leases as operating or finance leases.

  Due to IFRS 16, all leases will basically require recognition in the balance sheet in future. At HORNBACH, this particularly affects those property rental agreements previously classified as operating leases. Their recognition in the balance sheet will materially increase the volume of non-current assets and financial debt recognized in future. Furthermore, there will also be changes within the income statement. Rental payments for operating lease agreements were previously mainly recognized as expenses within selling and store expenses. In future, the depreciation of the right-of-use asset will be recognized, as will interest expenses for the financial debt item. In the cash flow statement, the outflow of funds for "rental payments" will no longer be recognized in the cash flow from operating activities. These outflows will rather be split into interest and principal repayment portions. Interest payments will be recognized in the cash flow from operating activities, while principal repayments will be recognized in the cash flow from financing activities.

  The Group will apply IFRS 16 for the first time as of March 1, 2019 and will use the modified retrospective method. Comparative information will not be adjusted. The right-of-use assets will be capitalized in the amount of the lease liabilities thereby determined and reduced by lease payments paid in advance or deferred. Furthermore, HORNBACH will apply the practical expedients concerning impairment tests and, upon first-time application, will offset the provision recognized as of the balance sheet for onerous rental contracts against the carrying amount of the corresponding right-of-use asset. Furthermore, the existing assessment conducted pursuant to IFRIC 4 and IAS 17 to ascertain the existence of leases will be retained for existing contracts. Apart from for the "advertising space" asset class, the Group will draw on the practical expedients concerning short-term and low-value leases. Non-lease components will be separated, as a result of which only lease components will be recognized pursuant to IFRS 16. For the "advertising space" asset class, by contrast, no such separation will be made.

  The Group completed its inventory of contracts as of the balance sheet date. Based on the lease contracts recognized and measured as of March 1, 2019, the Group expects its non-current assets to increase by around € 1,167.5 million and its financial debt to increase by around € 1,192.5 million. The financial debt of € 1,192.5 million results from the existing rental obligations of € 1,039.3 million as of February 28, 2019 plus the estimated effect of extension and termination options and right-of-use assets of € 365.5 million not yet transferred as of the balance sheet date less discounting of around € 212.0 million on the obligations and less current leases of around € 0.3 million for which application will be made of the corresponding practical expedient (short-term and/or low-value). Furthermore, other liabilities and other provisions will cumulatively decrease by around € 25.3 million. Other assets will decrease by around € 0.3 million. For the current 2019/20 financial year, HORNBACH expects the IFRS 16 conversion to increase its operating earnings (EBIT) by around € 21.5 million and reduce its consolidated earnings before taxes (EBT) by around € 13.3 million.

  The variances to the conversion effects stated as of the 1st half of 2018/19 mainly result from the amended framework used to calculate the incremental borrowing rates for individual contracts, as well as to contractual amendments, including termination, that have arisen in the intervening period.

Consolidation principles

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

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

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

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

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

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBACH Baumarkt AG is based on an assessment of control-related factors. Control over a subsidiary exists when HORNBACH can directly or indirectly influence the relevant activities of the subsidiary and when it is exposed to variable returns from the subsidiary or is entitled to such. Furthermore, control enables the level of returns to be influenced. HORNBACH generally acquires this right when it holds a majority of the voting rights. Where this is not the case, other contractual arrangements may lead to HORNBACH gaining control. Subsidiaries are fully consolidated in the consolidated financial statements of HORNBACH Baumarkt AG on the date on which control is gained. Should any circumstances or facts indicate a change in the control relationship, then a reassessment is performed. Interests in companies not included in the scope of consolidation have been recognized in accordance with IAS 39.

In addition to HORNBACH Baumarkt AG, the consolidated financial statements include 6 domestic and 30 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 2018/19 financial year.

Changes in the scope of consolidation

There were no changes in the scope of consolidation in the 2018/19 financial year.

The development in the scope of consolidation was as follows:

	2018/19	2017/18
March 1	**37**	**35**
Companies consolidated for the first time	0	2
Mergers	0	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
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	100	346	EUR
HB Reisedienst GmbH, Bornheim	100	7,292	EUR
HB Services GmbH, Bornheim	100	(72)	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100	153	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	100	(36)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100[4]	2,992,555	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	68,034	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	12,712	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	100	1,242	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	8,262	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	143,731	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	100	9,435	SEK
0	100	3,569	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	127,709	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	21,819	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	100	20	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	100	20	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,945	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	1,437	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	1,214	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	1,788	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	1,826	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	11	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(2,657)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	935	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	897	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,590	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	691	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,571	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,405	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	743	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(43)	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	19,884	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100[3]	122,597	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100	8,434	HKD

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

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

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	
	2.28.2019	2.28.2018	2018/19	2017/18
RON Romania	4.7434	4.6630	4.66621	4.59266
SEK Sweden	10.4844	10.0923	10.34089	9.69801
CHF Switzerland	1.1335	1.1520	1.14991	1.12731
CZK Czech Republic	25.6010	25.4180	25.69596	26.05696
USD USA	1.1416	1.2214	1.16638	1.15673
HKD Hong Kong	8.9613	9.5595	9.14648	9.02700

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
Investment property	At amortized cost
Financial assets (current/non-current)	
Equity instruments	At fair value and amortized cost
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
Liabilities from finance leases	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. Pursuant to IAS 36, the carrying amounts of the cash generating units, including the share of goodwill allocated to such units, are compared with the higher of the fair value less costs to sell and the value in use (so-called recoverable amount) of such units.

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

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

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

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

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

There are no intangible assets with indefinite useful lives.

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

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

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

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

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

Impairment of non-current financial assets

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

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

The value in use of an individual asset or a cash generating unit is calculated by reference to the discounted future cash flows of a cash generating unit expected on the basis of the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future (perpetuity) have been based on growth factors of 1.0 % to 1.5 % (2017/18: 1.0 % to 1.5 %). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current procurement terms and future expectations as to such terms.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBACH Baumarkt AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. To this extent, the value in use is basically determined by reference to Level 3 input data. The interest rates used for discounting are based on market data. Depending on the countries and activities involved, the discount rates thereby applied ranged from 4.5 % to 9.5 % after taxes (2017/18: 4.9 % to 9.4 %) and from 5.7 % to 11.3 % before taxes (2017/18: 6.2 % to 11.1 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

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

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

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

Leases

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

Inventories

Inventories are carried at cost or at their net realizable value, if lower. The net realizable value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. 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.

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. When determining the amount of provision, reference is made to the assumptions in the strategic five-year plan. Where contracts have longer terms, the plan assumptions are extended to the earliest possible contract termination date and referred to in measuring the provision.

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", "measures 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 and reported – together with exchange rate gains and losses – under other gains/(losses).

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) and reported under other gains/(losses). Interest income on these financial assets is recognized under financial income with due application of the effective interest method. Exchange rate gains and losses are recognized in other gains/(losses) and impairment losses in a separate item in the income statement. 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 under other gains/(losses) 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 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.

Accounting policies in the previous year (IAS 39)
In applying IFRS 9 for the first time, HORNBACH has foregone adjusting the comparative disclosures. Instead, the comparative disclosures stated for the financial assets continue to be based on the previous IAS 39 accounting requirements. Information about the accounting policies applied in the previous year under IAS 39 "Financial Instruments: Recognition and Measurement" can be found in the 2017/18 Annual Report.

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) were recognized under other assets. The amount of the asset corresponds to the cost of the goods supplied and which is 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 and interest swaps, are used to hedge exchange rate and interest risks. In line with the Group's risk principles, no derivative financial instruments are held for speculative purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are 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. The fair value of interest and interest-currency swaps is determined by the financial institutions with which they were concluded. The financial institutions use customary market valuation models (e.g. discounted cash flow method) that refer to the interest and currency information available on the market. This corresponds to Level 2 input factors in the fair value hierarchy.

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.

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

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

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

The level of information and/or valuation methods used to determine the fair value of assets and liabilities is explained in the respective chapter 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 expects these service obligations to be fulfilled within the next 12 months.

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 to retrieve 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 the customer. 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.

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

Expenses

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

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

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

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

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

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

Discretionary decisions

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

Assumptions and estimates

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

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11 & 12), the recognition and measurement of provisions (Notes 24, 25 & 28), the calculation of the recoverable amount to determine the amount of any impairments of non-current non-financial assets (Notes 10, 11 & 12), the determination of the net realizable price for inventories (Note 16), and the ability to obtain future tax relief (Notes 8, 15 & 27). Further information about the accounting policies relating to the respective topic can be found in the aforementioned notes.

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

Segment Reporting

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

Segment delineation

The allocation of business fields (segments) corresponds to the internal reporting system used by the Board of Management of the HORNBACH Baumarkt AG Group for managing the company. The "Retail" segment includes the 158 (2017/18: 156) 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. The "Headquarters and consolidation" reconciliation column includes administration and consolidation items not attributable to the individual segments.

Segment earnings

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

Segment assets and liabilities

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

2018/19 in € million 2017/18 in € million	Retail	Real Estate	Headquarters and Consolidation	HORNBACH Baumarkt AG Group
Segment sales	**4,092.1**	**178.4**	**(175.0)**	**4,095.5**
	3,889.4	172.8	(171.5)	3,890.7
Sales to third parties	4,092.1	0.0	0.0	4,092.1
	3,889.4	0.0	0.0	3,889.4
Rental income from third parties	0.0	3.4	0.0	3.4
	0.0	1.3	0.0	1.3
Rental income from affiliated companies	0.0	175.0	(175.0)	0.0
	0.0	171.5	(171.5)	0.0
Segment earnings (EBIT)	**6.5**	**71.6**	**(10.9)**	**67.2**
	40.4	74.3	(12.2)	102.5
of which: depreciation and amortization/write-ups	42.3	39.4	10.3	92.0
	39.5	31.7	9.0	80.2
Segment assets	**1,045.8**	**1,058.0**	**222.4**	**2,326.3**
	929.0	972.3	89.7	1,991.0
of which: credit balances at banks	61.8	0.0	157.3	219.0
	52.5	0.0	29.0	81.6
Investments	**45.2**	**128.6**	**9.7**	**183.5**
	43.8	71.1	13.7	128.7
Segment liabilities	**403.1**	**552.4**	**287.3**	**1,242.8**
	409.9	208.5	292.9	911.4
of which: financial debt	0.0	512.2	250.0	762.1
	0.0	175.1	249.0	424.1

Reconciliation in € million	2018/19	2017/18
Segment earnings (EBIT) before "Headquarters and consolidation"	**78.1**	**114.7**
Headquarters	(10.9)	(12.2)
Net financial expenses	(15.5)	(21.6)
Consolidated earnings before taxes	**51.6**	**80.9**
Segment assets	**2,326.3**	**1,991.0**
Deferred tax assets	6.4	4.5
Income tax receivables	5.3	2.2
Total assets	**2,338.0**	**1,997.7**
Segment liabilities	**1,242.8**	**911.4**
Deferred tax liabilities	17.5	26.0
Income tax liabilities	9.1	11.6
Total liabilities	**1,269.3**	**949.0**

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.

2018/19 in € million 2017/18 in € million	Germany	Other European Countries	Reconciliation	HORNBACH Baumarkt AG Group
Sales	**2,421.5**	**1,977.1**	**(303.1)**	**4,095.5**
	2,418.1	1,819.7	(347.1)	3,890.7
Sales to third parties	2,118.6	1,973.5	0.0	4,092.1
	2,071.3	1,818.1	0.0	3,889.4
Sales to affiliated companies	302.8	0.3	(303.0)	0.0
	346.7	0.4	(347.1)	0.0
Rental income from third parties	0.1	3.3	0.0	3.4
	0.1	1.2	0.0	1.3
EBIT	**(22.1)**	**89.3**	**(0.1)**	**67.2**
	3.9	98.5	0.1	102.5
Depreciation and amortization/write-ups	**54.8**	**37.2**	**0.0**	**92.0**
	47.6	32.6	0.0	80.2
EBITDA	**32.7**	**126.5**	**(0.1)**	**159.1**
	51.5	131.1	0.1	182.7
Assets	**1,595.7**	**1,124.4**	**(393.9)**	**2,326.3**
	1,412.6	1,008.6	(430.2)	1,991.0
of which: non-current assets*)	555.7	691.7	(0.1)	1,247.3
	519.3	640.4	(0.1)	1,159.5
Investments	**93.1**	**90.5**	**0.0**	**183.5**
	54.8	73.9	0.0	128.7

1) These involve property, plant and equipment, investment property, intangible assets, and non-current deferrals and accruals.

Notes to Consolidated Income Statement

(1) Sales

Sales mainly involve revenues in the Retail segment. Furthermore, revenues of € 3,452k (2017/18: € 1,298k) from the letting of real estate have also been reported under sales.

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

Sales include revenues of € 22,542k which were recognized at the beginning of the period as contract liabilities (2017/18: n/a). Furthermore, these also include retrospective sales of € 801k for performance obligations fulfilled in previous years (2017/18: n/a).

The following table presents the breakdown of sales by segment:

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

External sales 2017/18 in € million	Retail	Real Estate	Group figure
of which: Germany	2,071.3	0.1	2,071.4
of which: Other European Countries	1,818.1	1.2	1,819.3
	3,889.4	1.3	3,890.7

(2) Cost of goods sold

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

	2018/19 € 000s	2017/18 € 000s
Expenses for auxiliary materials and purchased goods	2,511,198	2,375,587
Expenses for services rendered	81,515	65,190
	2,592,713	2,440,777

(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:

	2018/19 € 000s	2017/18 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	1,967	1,565
Income from allocations within the HORNBACH HOLDING Group	1,828	1,770
Income from disposal of non-current assets	836	876
Income from damages	2,883	1,555
Income from payment differences	1,550	1,267
Miscellaneous other income	14,427	14,794
	23,491	**21,827**
Other income from non-operating activities		
Income from disposal of real estate	824	0
Income from write-ups to property, plant, and equipment and investment property	390	121
	1,214	**121**
Other income	**24,705**	**21,948**

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.

	2018/19 € 000s	2017/18 € 000s
Other expenses from operating activities		
Losses due to damages	3,094	2,273
Impairments and defaults on receivables	2,400	1,440
Losses on disposal of non-current assets	1,845	422
Expenses from payment differences	80	40
Miscellaneous other expenses	2,928	2,663
Other expenses	**10,347**	**6,837**
Net income from other income and expenses	**14,358**	**15,111**

(7) Net financial expenses

	2018/19 € 000s	2017/18 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	705	473
Other	1	267
of which: from affiliated companies	0	75
	706	**740**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	15,747	16,365
of which: to affiliated companies	1	0
Interest expenses on financial instruments used as hedging instruments	0	33
Interest expenses from compounding of provisions	240	180
Other	1,063	984
of which: to affiliated companies	39	45
	17,050	**17,562**
Net interest expenses	**(16,345)**	**(16,822)**
Other financial result		
Gains/losses on derivative financial instruments	(118)	1,195
Gains and losses from foreign currency exchange	925	(5,978)
	807	**(4,783)**
Net financial expenses	**(15,538)**	**(21,605)**

Other interest income includes interest income of € 1k on tax refund claims (2017/18: € 192k).

In line with IAS 17 "Leases", finance leases are recognized under property, plant and equipment, with the interest component of the lease installments, amounting to € 7,304k (2017/18: € 7,764k) being recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,799k in the year under report (2017/18: € 2,637k) 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 2.5 % (2017/18: 4.2 %).

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

Gains/losses on derivative financial instruments include gains and losses of € -118k on derivative currency instruments (2017/18: € 1,195k).

The gains and losses from foreign currency exchange for the 2018/19 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net income of € 413k (2017/18: net expenses of € 1,827k). Furthermore, this item also includes realized exchange rate gains of € 7,334k (2017/18: € 5,670k) and realized exchange rate losses of € 6,823k (2017/18: € 9,821k).

(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 13.4 % of their trading income. 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 28 % (2017/18: 16 % to 28 %).

The actual income tax charge of € 10,684k (2017/18: € 22,217k) is € 4,800k lower (2017/18: € 2,048k) than the expected tax charge of € 15,484k (2017/18: € 24,265k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Baumarkt AG (2017/18: 30 %) to the Group's pre-tax earnings of € 51,614k (2017/18: € 80,884k).

Deferred tax assets have been stated for losses carried forward amounting to € 32,339k (2017/18: € 4,764k). 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 € 42,831k (2017/18: € 35,330k), 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. In the previous year, losses carried forward amounting to € 8k for which no deferred taxes had been recognized were utilized

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 € 379,767k at subsidiaries (2017/18: € 351,644k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of tax charge

	2018/19 € 000s	2017/18 € 000s
Current taxes on income		
Germany	873	3,716
Other countries	20,887	21,233
	21,760	**24,949**
Deferred tax expenses/income		
due to changes in temporary differences	(3,944)	(2,713)
due to changes in tax rates	(551)	(47)
due to losses carried forward	(6,581)	28
	(11,076)	**(2,732)**
Taxes on income	**10,684**	**22,217**

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

	2018/19		2017/18	
	€ 000s	%	€ 000s	%
Expected income tax charge	15,484	100.0	24,265	100.0
Difference between local tax rate and group tax rate	(8,276)	(53.4)	(8,179)	(33.7)
Tax-free income	(306)	(2.0)	(249)	(1.0)
Tax reductions/increases due to changes in tax rates	(551)	(3.5)	(47)	(0.2)
Tax increases attributable to expenses not deductible for tax purposes	3,893	25.1	4,603	19.0
Tax effects on losses carried forward	2,032	13.1	1,339	5.5
Non-period current and deferred taxes	(1,592)	(10.3)	485	2.0
Taxes on income	**10,684**	**69.0**	**22,217**	**91.6**
Effective tax rate in %	20.7		27.5	

The non-period current tax expenses of € 825k (2017/18: € 694k) chiefly result from adjustments to provisions for the current external tax audit for the years from 2012 to 2016 (€ 812k).

The non-period deferred tax income of € 2,417k (2017/18: € 209k) chiefly results from the capitalization of deferred tax assets due the current external tax audit for the years from 2012 to 2016. The previous year's figure mainly resulted from the capitalization of deferred tax assets due to a change in the tax rate in Switzerland.

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

	2018/19 € 000s	2017/18 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	(3,339)	4,042
Change in deferred taxes	313	(780)
	(3,026)	**3,262**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	0	32
Change in deferred taxes	0	(8)
	0	**24**
Measurement of available for sale financial assets		
Changes in fair value of available for sale financial assets before taxes	791	883
Change in deferred taxes	(12)	(13)
	779	870
First-time application of IFRS 9 & 15		
Changes in value due to first-time application of IFRS 9 & 15	2,671	n/a
Change in deferred taxes	(705)	n/a
	1,966	n/a
Exchange differences arising on the translation of foreign subsidiaries	**983**	**(2,988)**
Other comprehensive income, net after taxes	**703**	**1,168**
of which: other comprehensive income before taxes	1,106	1,969
of which: change in deferred taxes	(403)	(801)

(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.

	2018/19	2017/18
Weighted number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG (in €)	40,929,629	58,666,925
Earnings per share in €	**1.29**	**1.84**

(10) Other disclosures on the income statement

Non-operating items

Individual expense items also include the following non-operating items:

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

2017/18 financial year € 000s	Impairment of assets (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Income from reversal of provisions for onerous contracts	Result from cancellation of projects	Total
Selling and store expenses	(350)	0	(7,383)	118	0	(7,615)
Pre-opening expenses	0	0	0	0	(54)	(54)
Other income and expenses	0	121	0	0	0	121
	(350)	**121**	**(7,383)**	**118**	**(54)**	**(7,547)**

Personnel expenses

The individual expense items include the following personnel expenses:

	2018/19 € 000s	2017/18 € 000s
Wages and salaries	598,955	573,671
Social security contributions and pension expenses	130,002	126,635
	728,957	**700,306**

Depreciation and amortization

	2018/19 € 000s	2017/18 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	86,529	80,013
Impairment of property, plant, and equipment, intangible assets and investment property	6,493	350
	93,022	**80,363**

The impairment losses recognized in the 2018/19 financial year relate to intangible assets, land, buildings, outdoor facilities, and plant and office equipment. In the previous year, impairment losses related exclusively to buildings. Reference is also made to the disclosures on intangible assets and property, plant and equipment in Notes 11 and 12 respectively.

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

2018/19 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	175	79,833	80,009
Pre-opening expenses	0	135	135
General and administration expenses	5,043	7,836	12,879
	5,218	**87,804**	**93,022**

2017/18 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	157	68,780	68,937
Pre-opening expenses	0	37	37
General and administration expenses	3,987	7,403	11,389
	4,143	**76,220**	**80,363**

Notes to Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2017/18 and 2018/19 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, 2017	88,016	3,271	5,759	97,046
Additions	5,911	0	1,913	7,824
Disposals	495	0	0	495
Reclassifications	5,226	0	(5,245)	(19)
Foreign currency translation	(2)	0	0	(2)
Balance at February 28/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, 2019	**103,581**	**3,271**	**1,040**	**107,892**
Amortization				
Balance at March 1, 2017	81,811	0	0	81,811
Additions	4,143	0	0	4,143
Disposals	490	0	0	490
Foreign currency translation	(2)	0	0	(2)
Balance at February 28/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, 2019	**90,498**	**0**	**0**	**90,498**
Carrying amount at February 28, 2019	**13,083**	**3,271**	**1,040**	**17,394**
Carrying amount at February 28, 2018	13,194	3,271	2,427	18,892

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 2018/19 financial year did not identify any impairment requirement. The recoverable amounts of the two cash generating units are based in each case on their value in use. This is calculated using the discounted cash flow method by reference to Level 3 input data. The pre-tax discount rates applied in the 2018/19 financial year amounted to 8.6 % and 6.1 % (2017/18: 9.1 % and 6.6 %). 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 2018/19 financial year, impairment requirements were identified for intangible assets in the Austria region. A write-down of € 105k to the prorated value in use of the assets was recognized. 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 2017/18 and 2018/19 financial years:

€ 000s	Land, leasehold rights, and buildings on third-party land	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost					
Balance at March 1, 2017	1,176,761	19,854	612,451	28,454	1,837,520
Reclassifications to/from non-current assets held for sale	0	(754)	0	0	(754)
Additions	28,036	2,770	43,516	46,537	120,859
Disposals	101	0	25,738	827	26,666
Reclassifications	16,509	0	5,736	(22,226)	19
Foreign currency translation	(5,760)	0	(2,291)	(227)	(8,278)
Balance at February 28/March 1, 2018	**1,215,445**	**21,870**	**633,674**	**51,711**	**1,922,700**
Reclassifications to/from non-current assets held for sale	(600)	(776)	0	0	(1,376)
Additions	116,017	0	48,061	15,123	179,201
Disposals	4,077	0	24,772	102	28,951
Reclassifications pursuant to IAS 40	12,001	(12,001)	0	0	0
Reclassifications	29,323	0	4,674	(33,999)	(2)
Foreign currency translation	487	0	(815)	548	220
Balance at February 28, 2019	**1,368,596**	**9,093**	**660,822**	**33,281**	**2,071,792**
Depreciation					
Balance at March 1, 2017	259,312	3,628	471,253	0	734,193
Reclassifications to/from non-current assets held for sale	0	(432)	0	0	(432)
Additions	33,600	(18)	42,638	0	76,220
Write-ups	(121)	0	0	0	(121)
Disposals	67	0	24,567	0	24,634
Reclassifications	14	0	(14)	0	0
Foreign currency translation	361	0	(1,987)	0	(1,626)
Balance at February 28/March 1, 2018	**293,099**	**3,178**	**487,323**	**0**	**783,600**
Additions	41,552	134	46,118	0	87,804
Write-ups	(305)	(390)	(351)	0	(1,046)
Disposals	3,327	0	22,846	0	26,173
Reclassifications pursuant to IAS 40	390	(390)	0	0	0
Reclassifications	(9)	0	9	0	0
Foreign currency translation	(7)	0	(641)	0	(648)
Balance at February 28, 2019	**331,393**	**2,532**	**509,612**	**0**	**843,537**
Carrying amount at February 28, 2019	**1,037,203**	**6,561**	**151,210**	**33,281**	**1,228,255**
Carrying amount at February 28, 2018	922,346	18,692	146,351	51,711	1,139,100

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

Where the carrying amount of the cash generating unit exceeded its value in use, the net realizable values of any real estate attributable to the CGUs were also determined by reference to external real estate surveys. Values were determined using the capitalized earnings method pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). The surveyors based their calculations on the following parameters:

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m2)	3.75 €	7.50 €
Outside area (€/m2)	0.94 €	2.06 €
Administrative costs (% per annual earnings)	1.00 %	1.00 %
Maintenance costs (€/m2)	4.24 €	4.24 €
Real estate interest rate	5.65 %	5.65 %

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 carrying amount.

The impairment test in the 2018/19 financial year led to the identification of impairment requirements for intangible assets, marketing-oriented and sales promotional plant and office equipment, and for real estate at three stores in the Germany region, which each constitute cash generating units, and at one store in Austria. These items were written down by € 5,549k to their net realizable values. The recoverable amount for these locations amounts to € 22,777k. Furthermore, a write-down of € 944k to the value in use was recognized. This was calculated using the discounted cash flow method by reference to Level 3 input data. 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.

In the previous year, an impairment requirement was identified for one building at a store in the Germany region which constitutes which constitutes a cash generating unit. This item was written down by € 350k to its net realizable value. The recoverable amount for this location amounted to € 2,706k.

As in the previous year, no impairment losses to net realizable value were recognized for items of investment property in the 2018/19 financial year.

In the 2018/19 financial year, write-ups of € 351k were recognized in the Retail segment (2017/18: € 0k). 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 amounts to € 26,574k. Write-ups of € 695k were recognized in the Real Estate segment (2017/18: € 0k). 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 amounts 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	2018/19	2017/18
Retail segment		
Other equipment, plant, and office equipment	855	0
	855	**0**
Real Estate segment		
Intangible assets	105	0
Land	2,993	0
Buildings	2,329	350
Outdoor facilities	211	0
	5,638	**350**
Total	**6,493**	**350**

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

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

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

Investment property mainly relates to retail properties at various locations in Germany. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to approximately € 9.9 million (2017/18: € 21.2 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 method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

Rental income of € 489k was generated on properties let to third parties in the year under report (2017/18: € 759k). Expenses of € 344k were incurred for the maintenance of the properties let to third parties (2017/18: € 406k). Expenses of € 42k were incurred for all other items of investment property (2017/18: € 28k).

As of February 28, 2019, the HORNBACH Baumarkt AG Group had not provided any land charges as security for liabilities to banks. In the previous year, the real estate acted as security for bank loans in the form of registered land charges amounting to € 12.5 million.

As in the previous year, contractual amendments and new rental contracts were negotiated for several existing locations in the 2018/19 financial year. The lease agreements were exclusively classified as operating leases. The net carrying amount of finance leases included in the "Land, leasehold rights and buildings, and buildings on third-party land" asset class at the balance sheet date totals € 149,006k (2017/18: € 161,756k).

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

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

2018/19 financial year € 000s	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	17,592	70,369	121,316
Discounting	(6,796)	(22,227)	(16,237)
Present value	**10,796**	**48,142**	**105,079**

2017/18 financial year € 000s	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	17,565	70,260	138,693
Discounting	(7,243)	(24,215)	(20,945)
Present value	**10,322**	**46,045**	**117,748**

(13) Financial assets

The development in financial assets in the 2017/18 and 2018/19 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2017	5,659	5,659
Measurement of financial assets (FVtOCI)	884	884
Balance at February 28/March 1, 2018	**6,543**	**6,543**
Measurement of financial assets (FVtOCI)	791	791
Balance at February 28, 2019	**7,334**	**7,334**
Carrying amount at February 28,2019	**7,334**	**7,334**
Carrying amount at February 28, 2018	6,543	6,543

In applying IFRS 9 for the first time, the HORNBACH Group exercised the option of presenting changes in the fair value of all equity shares previously classified as "available for sale" through other comprehensive income in the statement of comprehensive income. This option enables the company to achieve a comparatively lower degree of earnings volatility. Upon the sale of these instruments, the changes in value previously recognized in equity are no longer reclassified to the income statement. Dividends from such instruments continue to be recognized through profit or loss in other income if the Group has a substantiated claim to receipt of the respective payments.

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 33.

The other financial assets of € 1k (2017/18: € 1k) involve investments in non-operating companies. These continue to be measured at cost as insufficient new information is available to measure their fair value or such information cannot be reliably determined at an expense appropriate to the materiality of the assets. Cost represents the best estimate of the fair value.

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

(14) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of accruals of € 1,686k with a remaining term of more than one year (2017/18: € 1,505k). In the previous year, this item mainly included deposits of € 2,259k.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2019		2.28.2018	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	647	30,855	567	31,401
Finance leases	2,953	0	1,935	0
Inventories	771	4,211	684	3,783
Other provisions	11,941	185	10,606	26
Liabilities	157	163	34	379
Other assets and liabilities	2,489	1,704	507	936
Losses carried forward	7,055	0	772	0
	26,013	**37,118**	**15,105**	**36,525**
Set-off	(19,657)	(19,657)	(10,574)	(10,574)
Total	**6,356**	**17,461**	**4,531**	**25,951**

(16) Inventories

	2.28.2019 € 000s	2.28.2018 € 000s
Auxiliary materials and supplies	2,143	1,850
Unfinished products, unfinished services	0	1,460
Finished products and merchandise	764,043	664,130
Inventories (gross)	**766,186**	**667,440**
less valuation allowances	10,510	9,619
Inventories (net)	**755,676**	**657,821**
Carrying amount of inventories measured at net realizable value	34,994	33,644

Expenses of € 2,498,973k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2018/19 financial year (2017/18: € 2,365,968k).

(17) Current financial assets

In the 2016/17 financial year, this item included term deposits not allocated to cash and cash equivalents.

(18) Trade receivables and other current assets

These comprise the following items:

	2.28.2019 € 000s	2.28.2018 € 000s
Trade receivables	10,290	7,957
Receivables from affiliated companies	1,043	957
of which: from shareholders	0	0
Contract assets	1,569	n/a
Positive fair values of derivative financial instruments	185	578
Other receivables and assets	59,772	52,838
	72,859	**62,330**

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 34.

Trade receivables include receivables of € 1,618k (2017/18: € 1,485k) 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 7. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 30k (2017/18: € 26k) that represents the likely liability risk. Any liability-related issues are generally addressed shortly after the assignment of the receivable. The maximum risk of loss amounted to € 1,949k as of February 28, 2019 (2017/18: € 1,669k) 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 2018/19 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 308k (2017/18: € 244k).

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 € 3,737k for expected returns (2017/18: n/a).

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

The following table presents the maturity structure of current financial receivables for the 2017/18 financial year. This information is provided for the last time pursuant to IAS 39.

2.28.2018 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	7,957	4,674	2,278	253	321	107
Receivables from affiliated companies	957	957				
Positive fair values of derivative financial instruments	578	578				
Other receivables and assets	34,720	31,414	2,409	114	140	161
	44,212	**37,623**	**4,687**	**367**	**462**	**268**

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

The effects recognized in equity due to first-time application of the new impairment model as of March 1, 2018 are presented in the following table:

Transition of allowances to IFRS 9 in € 000s	Trade receivables	Other receivables and assets	Total
Balance of allowances as of February 28, 2018 (IAS 39)	1,015	2,251	**3,266**
Amounts adjusted through revenue reserves in the opening balance sheet (before deferred taxes)	248	0	248
Balance of allowances as of March 1, 2018 (IFRS 9)	1,263	2,251	**3,541**

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

€ 000s	Trade receivables		Other receivables and assets	
	2018/19	2017/18	2018/19	2017/18
Allowances at March 1	**767**	**689**	**2,251**	**1,976**
Utilization	241	89	1,730	58
Reversals	319	190	48	107
Additions	1,198	610	347	443
Foreign currency translation	4	(5)	2	(3)
Allowances at February 28	**1,409**	**1,015**	**822**	**2,251**

Within the allowances recognized for trade receivables, the risk provision is basically accounted for as follows: A risk provision of € 697k depending on the term (range: 0.20% - 1.95%) and individual allowances of € 712k were recognized due to objective indications of payment difficulties.

The allowances recognized for other receivables and assets include allowances of € 470k due to objective indications, further individual allowances of € 267k depending on the extent to which the receivables are overdue, and expected credit losses of € 85k for contract assets.

The complete derecognition of receivables resulted in expenses of € 842k (2017/18: € 474k). The receipt of receivables already derecognized resulted in income of € 24k (2017/18: € 32k).

In the 2018/19 financial year, there were no material balances of derecognized receivables subject to execution proceedings.

(19) Cash and cash equivalents

	2.28.2019 € 000s	2.28.2018 € 000s
Cash balances at banks	219,029	81,551
Checks and cash on hand	23,501	20,586
	242,530	**102,138**

(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 2018/19 financial 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 and sold at its carrying amount. Both of these pieces of land were allocated to the "Real Estate" segment.

In the previous year, one piece of land was reclassified at € 321k out of the "investment property" balance sheet line item and sold at its carrying amount. The piece of land was previously 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 2017/18 and 2018/19 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 August 27, 2018, the employees of HORNBACH Baumarkt AG and its foreign subsidiaries were offered employee shares at a preferential price of € 12.50 per share. A total of 53,530 shares were acquired via the stock exchange at an average price of € 25.12 and subsequently assigned to employees. An amount of € 194k was recognized in equity to account for the difference between the acquisition price and the stock market price upon the date on which the shares were assigned to employees. The difference per share between the preferential sale price and the stock market price (€ 13.76) 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, 2018 to February 28, 2019. 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 2018/19 financial year. The equity ratio amounted to 45.7 % as of February 28, 2019 (2017/18: 52.5 %).

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 2018/19 financial year with an annual net surplus of € 9,070,666.09.

Following the withdrawal of € 12,558,093.91 from 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 28, 2019 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 5, 2018, a dividend of € 0.68 (2017/18: € 0.68) per share was distributed on a total of 31,807,000 (2017/18: 31,807,000) individual shares in the 2018/19 financial year. The total amount distributed thus amounted to € 21,629k (2017/18: € 21,629k).

(23) Financial debt

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

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2019 Total
Bonds	249,459	0	0	249,459
Liabilities to banks	53,972	177,475	116,688	348,134
Liabilities in connection with finance leases	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**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2018 Total
Bonds	0	248,844	0	248,844
Liabilities to banks	1,001	0	0	1,001
Liabilities in connection with finance leases	10,322	46,045	117,748	174,115
Negative fair values of derivative financial instruments	113	0	0	113
Total	**11,435**	**294,890**	**117,748**	**424,072**

The HORNBACH Baumarkt AG Group had current financial debt amounting to € 314.8 million at the balance sheet date on February 28, 2019 (2017/18: € 11.4 million). This consists of the portion of loans and bonds maturing in the short term, amounting to € 302.4 million (2017/18: € 0.6 million), finance leases of € 10.8 million (2017/18: € 10.3 million), liabilities of € 0.5 million relating to the measurement of derivative financial instruments (2017/18: € 0.1 million), and interest deferrals of € 1.0 million (2017/18: € 0.4 million). The significant rise in current financial debt is chiefly due to the reclassification to this line item of the corporate bond at HORNBACH Baumarkt AG, which matures in February 2020. Furthermore, HORNBACH Baumarkt (Schweiz) AG took up a short-term loan to provide interim financing for its expansion.

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2017/18: € 372k).

In the past financial year, the HORNBACH Baumarkt AG Group took up diverse loans for general company financing purposes. The following table provides an overview.

Borrower	Instrument	Amount		Start of term	Maturity	Interest
HORNBACH Holding B.V.	Promissory note bond	52 m	EUR	9.13.2018	9.13.2023	Fixed [1]
HORNBACH Holding B.V.	Promissory note bond	43 m	EUR	9.13.2018	9.15.2025	Fixed [1]
HORNBACH Baumarkt (Schweiz) AG	Bilateral loan	60 m	CHF	12.5.2018	11.21.2019	Variable [2]
HORNBACH Baumarkt AG	Promissory note bond	126 m	EUR	2.22.2019	2.22.2024	Fixed [1]
HORNBACH Baumarkt AG	Promissory note bond	74 m	EUR	2.22.2019	2.23.2026	Fixed [1]

[1] The costs relating to the issue have been spread over the term.
[2] 3-month-CHF-LIBOR+margin

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

Borrower	Instrument	Amount		Start of term	Maturity	Interest
HORNBACH Baumarkt AG	Corporate bond	250 m	EUR	2.15.2013	2.15.2020	3.875 % [1)]

1) Based on an issue price of 99.25 % the effective yield amounts to 4.00 %. The costs of € 2,355k and disagio of € 1,875k have been spread over the term using the effective interest method.

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

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

2017/18 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2018 € 000s
Mortgage loans	CZK	5.08	2018	624
				624

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

As of February 28, 2019, the HORNBACH Baumarkt AG Group had total credit lines of € 385.4 million (2017/18: € 422.6 million) on customary market terms. Unutilized credit lines amounted to € 380.4 million (2017/18: € 418.1 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits amounting to USD 40.0 million (2017/18: USD 40.0 million). Of this, an amount of USD 8.5 million had been drawn down as of the balance sheet date (2017/18: USD 9.9 million).

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, 2023. 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.

As of February 28, 2019, the HORNBACH Baumarkt AG Group had not provided any land charges as security for liabilities to banks.

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 cross default arrangements for major financing facilities. In the case of the syndicated credit line, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH Baumarkt AG Group and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. Comparable maximum limits were also agreed for the promissory note bonds at the HORNBACH Baumarkt AG Group. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report. The HORNBACH Group does not expect the application of IFRS 16 to have any impact on its ability to meet the conditions of loans in respect of the customary bank covenants currently applicable.

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

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	3.1.2018	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.28.2019
				Foreign currency translation	Changes in fair values	Other changes	
Bonds	248,844	(9,717)	9,717	0	0	614	249,459
Liabilities to banks	1,001	346,447	30	(4)	0	661	348,134
Liabilities in connection with finance leases	174,115	(17,568)	7,304	167	0	0	164,017
Negative fair values of derivative financial instruments from financing activities	0	0	0	0	0	0	0
Financial and similar liabilities	**423,959**	**319,162**	**17,051**	**162**	**0**	**1,276**	**761,609**

Reconciliation pursuant to IAS 7 in € 000s	3.1.2017	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.28.2018
				Foreign currency translation	Changes in fair values	Other changes	
Bonds	248,231	(9,688)	9,688	0	0	613	248,844
Liabilities to banks	17,553	(16,771)	114	116	0	(11)	1,001
Liabilities in connection with finance leases	185,733	(17,176)	7,764	(2,206)	0	0	174,115
Negative fair values of derivative financial instruments from financing activities	48	(48)	48	0	0	0	0
Financial and similar liabilities	**451,565**	**(43,683)**	**17,614**	**(2,090)**	**0**	**602**	**423,959**

(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 € 55,815k in the 2018/19 financial year (2017/18: € 53,754k). Of this total, an amount of € 31,374k involved the employer's share of contributions to the state pension scheme in Germany (2017/18: € 29,845k).

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 € 4,207k in the 2019/20 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 884 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.

Pensions and similar obligations are structured as follows:

	2018/19 € 000s	2017/18 € 000s
Present value of pension obligation	76,945	65,768
less fair value of plan assets	(62,719)	(54,948)
Pension commitments as reported in balance sheet	**14,226**	**10,820**
of which: pension provisions	14,226	10,820

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

	2.28.2019 %	2.28.2018 %
Debt securities	76.7	76.8
Shares	5.1	5.1
Real estate	12.6	11.7
Other	5.5	6.5
	100.0	**100.0**

Change in pension obligation

	2018/19 € 000s	2017/18 € 000s
Present value of pension obligation at the beginning of the period	65,768	69,593
Current service cost of employer	4,030	4,578
Past service cost	(181)	0
Employee contributions	2,886	2,831
Payments from the plan	382	(2,152)
Interest cost	705	384
Remeasurement effects because of:		
Changes in demographic assumptions	8	0
Changes in financial assumptions	1,228	(5,005)
From experience adjustments	2,551	1,216
Insurance premiums	(1,344)	(1,168)
Foreign currency translation	912	(4,509)
Present value of pension obligation at the end of the period	**76,945**	**65,768**

Change in plan assets

	2018/19 € 000s	2017/18 € 000s
Plan assets at beginning of period	54,948	54,377
Employer contributions	3,828	3,551
Employee contributions	2,886	2,831
Payments from the plan	382	(2,152)
Interest income	608	318
Return on plan assets (excluding interest income)	713	486
Insurance premiums	(1,344)	(1,168)
Foreign currency translation	697	(3,294)
Plan assets at the end of the period	**62,719**	**54,948**

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.

	2018/19 € 000s	2017/18 € 000s
Current service cost of employer	4,030	4,578
Past service cost	(181)	0
Interest cost	705	384
Interest income	(608)	(318)
Effects recognized in P&L	**3,946**	**4,645**
Remeasurement effects because of:		
Changes in demographic assumptions	(8)	0
Changes in financial assumptions	(1,228)	5,005
From experience adjustments	(2,551)	(1,216)
Return on plan assets (excluding interest income)	713	486
Effects recognized in OCI	**(3,074)**	**4,276**
Costs for defined benefit plans	**7,020**	**369**

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:

	2018/19 € 000s	2017/18 € 000s
Selling and store expenses	2,669	3,293
Pre-opening expenses	61	48
General and administration expenses	1,119	1,237
Net interest expenses	96	67
	3,946	**4,645**

Actuarial assumptions

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

	2.28.2019		2.28.2018	
	Weighted average	Range	Weighted average	Range
Discount interest rate	1.0 %	0.9 % to 1.3 %	1.1 %	1.0 % to 1.6 %
Future salary increases	1.8 %	1.5 % to 3.0 %	1.7 %	1.5 % to 3.0 %
Future pension increases	0.4 %	0.0 % to 2.0 %	0.3 %	0.0 % to 2.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 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	2.28.2019		2.28.2018	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,804)	3,052	(2,348)	2,546
Rate of pension increase (0.10 basis points change)	771	n/a	714	n/a
Mortality (+ 1 year)	1,234	n/a	984	n/a

Future cash flows

Payments of contributions amounting to € 3,857k are expected for the 2019/20 financial year.

Expected payments	2.28.2019 € 000s
2018/2019	427
2019/2020	495
2020/2021	6,671
2021/2022	4,038
2022/2023	839
2023 to 2027	6,217

Expected payments	2.28.2018 € 000s
2018/2019	408
2019/2020	433
2020/2021	496
2021/2022	6,213
2022/2023	4,027
2023 to 2027	5,192

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 43,860k (2017/18: € 38,029k). These include provisions of € 14,486k (2017/18: € 14,650k) for contractually assumed structural maintenance obligations and personnel provisions of € 12,526k (2017/18: € 11,573k). 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. Furthermore, this line item also includes provisions of € 13,262k (2017/18: € 7,021k) for onerous lease arrangements and a provision for the storage of business documents. The lease arrangements for which provisions were recognized have non-terminable remaining terms of between 1 and 14 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

The development in provisions is presented in Note 28.

Other non-current liabilities also include accruals of € 6,881k (2017/18: € 7,755k). These mainly relate to incentive payments received in connection with extensions or amendments to real estate rental agreements classified as operating leases. The accruals are being written back in instalments over the non-terminable rental period. Furthermore, this item also includes accruals relating to graduated rental agreements.

Severance payments

Upon reaching retirement age (or if their employment is terminated), employees at Austrian subsidiaries are entitled to severance payments provided that they joined the company by December 31, 2002. The level of severance payment entitlement is based on the number of years of service and the most recent level of compensation from the employment relationship. The volume of obligation is reviewed annually and adjusted accordingly on the basis of an external survey. The actuarial risks associated with this plan are borne by HORNBACH Baumarkt AG.

Severance payments represent other defined benefit post-employment benefits and are therefore recognized under other non-current liabilities. The provision for severance payments is measured at the present value of the pension obligation.

Change in pension obligation and costs of plan

	2018/19 € 000s	2017/18 € 000s
Present value of pension obligation at the beginning of the period	6,137	5,649
Current service cost of employer	328	327
Payments from the plan	(296)	(170)
Interest cost	100	97
Remeasurement effects because of:		
Changes in demographic assumptions	(15)	0
Changes in financial assumptions	305	548
From experience adjustments	(25)	(315)
Present value of pension obligation at the end of the period	**6,534**	**6,137**

	2018/19 € 000s	2017/18 € 000s
Current service cost of employer	328	327
Interest cost	100	97
Effects recognized in P&L	**428**	**425**
Remeasurement effects because of:		
Changes in demographic assumptions	15	0
Changes in financial assumptions	(305)	(548)
From experience adjustments	25	315
Effects recognized in OCI	**(265)**	**(234)**
Total costs for the plan	**693**	**658**

The average remaining term of the obligation amounts to 15.0 years (2017/18: 13.5 years).

Actuarial assumptions and sensitivity analysis

	2.28.2019	2.28.2018
Discount interest rate	1.5 %	1.6 %
Future salary increases	3.2 %	3.0 %

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	2.28.2019		2.28.2018	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(427)	470	(390)	429
Rate of salary increase (0.25 basis points change)	224	(215)	203	(195)

(26) Trade payables and other current liabilities

	2.28.2019 € 000s	2.28.2018 € 000s
Trade payables	226,935	269,806
Liabilities to affiliated companies	87	472
Contract liabilities	30,874	n/a
Other liabilities	70,256	71,433
of which: other taxation	24,260	23,437
of which: social security contributions	4,922	4,277
	328,152	**341,711**

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 € 6,289k (2017/18: n/a), 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 provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Tax provisions for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The 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 15 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(28) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2018/19 financial year:

€ 000s	Opening balance at 3.1.2018	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2019	of which: non-current
Other provisions								
Personnel	11,573	1,790	0	2,645	100	(3)	12,526	12,526
Miscellaneous	32,866	7,280	3,078	15,461	44	(1)	38,012	31,335
	44,438	**9,070**	**3,078**	**18,107**	**144**	**(4)**	**50,538**	**43,860**
Accrued liabilities								
Other taxes	834	336	89	608	0	(19)	998	0
Personnel	58,438	51,693	5,813	51,405	0	(181)	52,156	0
Miscellaneous	22,157	17,795	2,470	24,192	0	1	26,085	0
	81,430	**69,824**	**8,372**	**76,205**	**0**	**(200)**	**79,240**	**0**
	125,868	**78,894**	**11,450**	**94,312**	**144**	**(203)**	**129,777**	**43,860**

Miscellaneous other current provisions mainly relate to provisions for onerous contracts, at € 4,924k (2017/18: € 2,565k), for litigation risks, at € 703k (2017/18: € 621k), and for customers' expected utilization of their rights of return, recognized at € 0k (2017/18: € 1,500k).

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 the costs of gas, water, electricity, property duties and advertising, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(29) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2019.

(30) Other financial obligations

€ 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**

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2018 Total
Purchase obligations for investments	106.1	11.8	0.0	117.9
Obligations under rental, leasehold and leasing contracts	156.6	463.3	365.1	985.0
Other financial obligations	8.1	0.5	0.0	8.6
	270.8	**475.6**	**365.1**	**1,111.5**

The obligations resulting from rental, hiring, leasehold and lease contracts relate exclusively to those rental contracts in which the companies of the HORNBACH Baumarkt AG Group do not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly relate to DIY stores in Germany and abroad. The terms of the rental agreements mostly amount to 15 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 153,088k, excluding ancillary expenses, was recognized in the 2018/19 financial year as rental expenses in connection with operating lease agreements (2017/18: € 151,918k).

(31) Future income from rental and lease contracts

Future income from rental and lease contracts is structured as follows:

Rental income from third parties € 000s	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
February 28, 2019	5,564	3,191	302	9,057
February 28, 2018	3,689	3,662	351	7,702

Rental income results from the letting of retail real estate. The rental contracts mostly have terms of between 5 and 15 years. Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

(32) Legal disputes

HORNBACH Baumarkt AG does not anticipate that it or any of its group companies will be involved in current or foreseeable court or arbitration proceedings which could have any material effect on the economic situation of the Group. Moreover, appropriate provisions have been stated at the relevant group companies for any financial charges in connection with other legal or arbitration proceedings. Such charges are therefore not expected to have any material impact on the financial position of the Group.

(33) Supplementary disclosures on financial instruments

The following tables show the carrying amounts and the fair values of individual financial assets and liabilities pursuant to IFRS 9 as of February 28, 2019 and pursuant to IAS 39 as of February 28, 2018:

€ 000s	IFRS 9 category	Carrying amount 2.28.2019	Fair value 2.28.2019	IAS 39 category	Carrying amount 2.28.2018	Fair value 2.28.2018
Assets						
Financial assets	FVtOCI	7,334	7,334	AfS	6,543	6,543
Trade receivables	AC	9,715	9,715	LaR	8,913	8,913
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	1,618	1,618	n/a	n/a	n/a
Contract assets	AC	1,569	1,569	n/a	n/a	n/a
Other current and non-current assets						
Derivatives with hedge relationship	n/a	0	0	n/a	0	0
Derivatives without hedge relationship	FVtPL	185	185	FAHfT	578	578
Other assets	AC	37,464	37,464	LaR	37,367	37,367
Cash and cash equivalents	AC	242,530	242,530	LaR	102,138	102,138
Equity and liabilities						
Financial debt						
Bonds	AC	249,459	257,650	FLAC	248,844	266,080
Liabilities to banks	AC	348,134	340,860	FLAC	1,001	1,013
Liabilities in connection with finance leases	n/a	164,017	180,134	n/a	174,115	200,354
Derivatives with hedge relationship	n/a	0	0	n/a	0	0
Derivatives without hedge relationship	FVtPL	523	523	FLHfT	113	113
Trade payables	AC	227,021	227,021	FLAC	253,711	253,711
Contract liabilities	AC	30,874	30,874	n/a	n/a	n/a
Other current and non-current liabilities	AC	19,278	19,278	FLAC	29,584	29,584
Accrued liabilities	AC	26,084	26,084	FLAC	22,156	22,156

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2017/18: € 372k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 24,514k (2017/18: € 19,623k), other current and non-current liabilities of € 103,339k (2017/18: € 105,352k), and accrued liabilities of € 53,154k (2017/18: € 59,272k).

Aggregate totals by measurement category (IFRS 9) € 000s	Carrying amount 2.28.2019	Aggregate totals by measurement category (IAS 39) € 000s	Carrying amount 2.28.2018
At amortized cost (AC)	291,278	Loans and receivables (LaR)	148,418
FVtOCI	7,334	Available-for-sale financial assets (AfS)	6,543
FVtPL	1,803	Financial assets held for trading (FAHfT)	578
At amortized cost (AC)	900,850	Financial liabilities measured at amortized cost (FLAC)	555,297
FVtPL	523	Financial liabilities held for trading (FLHfT)	113

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 include shareholdings recognized at cost due to the lack of an available fair value. One exception relates to a ten-percent company shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic. This company lets out several DIY store properties and is not publicly listed. Its fair value has largely been determined by reference to Level 3 input data. To calculate the fair value, application was made of the discounted cash flow method. To this end, the cash flows resulting from company-specific planning were discounted by a risk-adjusted interest rate (WACC). In the 2018/19 financial year, the discount rate amounted to 5.5 % after taxes (2017/18: 5.7 %). 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)	2018/19	2017/18
As of March 1	**6,541**	**5,658**
Change in valuation (OCI)	791	883
Balance at February 28	**7,332**	**6,541**

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	2.28.2019		2.28.2018	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	930	-930	903	(903)
Discount rate (50 basis point change)	(1,106)	1,383	(1,038)	1,288

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 finance leases have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk premiums available on the market.

The fair value of the publicly listed 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	2.28.2019	IAS 39 category	2.28.2018
Assets				
Valuation based on level 2 input data				
Derivatives without hedge relationship	FVtPL	185	FAHfT	578
Valuation based on level 3 input data				
Financial assets	FVtOCI	7,332	AfS	6,541
Liabilities				
Valuation based on level 1 input data				
Bonds	AC	257,650	FLAC	266,080
Valuation based on level 2 input data				
Liabilities to banks	AC	340,860	FLAC	1,013
Liabilities in connection with finance leases	n/a	180,134	n/a	200,354
Derivatives with hedge relationship	n/a	0	n/a	0
Derivatives without hedge relationship	FVtPL	523	FLHfT	113

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

Net result by measurement category (IFRS 9)	2018/19 € 000s	Net result by measurement category (IAS 39)	2017/18 € 000s
At amortized cost (AC)	50	Loans and receivables (LaR)	(6,177)
FVtPL	(118)	Financial instruments held for trading (FAHfT and FLHfT)	85
At amortized cost (AC)	1,092	Financial liabilities measured at amortized cost (FLAC)	812

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 2018/19 financial year measurement changes of € 791k relating to "FVtOCI" instruments were recognized directly in equity (2017/18: € 883k).

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.

As of February 28, 2019, the Group had forward exchange transactions of € 3k which were eligible for netting (2017/18: € 0k).

2.28.2019 € 000	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Netting arrangements	
Assets						
Derivatives without hedge relationship	185	(3)	182	0	0	182
Equity and liabilities						
Derivatives without hedge relationship	523	0	523	0	0	523

(34) Risk management and financial derivatives

Risk management principles

The assets, liabilities and planned financial transactions of the HORNBACH Baumarkt AG Group are subject in particular to risks resulting from changes in exchange rates and interest rates.

The aim of the company's risk management is therefore to minimize these market risks by means of suitable financial market-based hedging activities. To achieve this aim, derivative financial instruments are deployed to limit interest rate and foreign currency risks. In general, however, the company only hedges those risks which could impact materially on its financial result.

The necessary decisions may only be taken on the basis of the strategic requirements determined by the Chief Financial Officer. These requirements focus on hedging interest rate and foreign currency risks. Moreover, these requirements do not permit financial transactions to be undertaken for speculative purposes. Furthermore, certain transactions also require prior approval by the Supervisory Board.

The Treasury department regularly reviews and monitors the current and future interest charge and the foreign exchange requirements of the overall Group. The Board of Management is informed of its findings on a regular basis.

Market risks

For the presentation of market risks, IFRS 7.40 "Financial Instruments: Disclosures" requires the hypothetical impact on profit and loss and equity which would have resulted if those changes in the relevant risk variables (e.g. market interest rates or exchange rates) which could reasonably be assumed to be possible at the balance sheet date had actually materialized to be presented on the basis of sensitivity analyses. The market risks faced by the HORNBACH Baumarkt AG Group consist of foreign currency risks and interest rate risks. The company does not face any other price risks.

Foreign currency risks

Foreign currency risks, i.e. potential reductions in the value of a financial instrument or future cash flow due to changes in foreign exchange rates, particularly apply wherever monetary financial instruments, such as receivables or liabilities, exist in a currency other than the local currency of the company, or will exist in the scheduled course of business. The foreign currency risks of the HORNBACH Baumarkt AG Group mainly result from financing measures and from the company's business operations. Exchange rate differences arising from the translation of financial statements into the group currency do not constitute a foreign currency risk as defined by IFRS 7.

In cases where long-term financing requirements are involved, the group companies are largely financed by means of external financing measures denominated in the functional currency of the corresponding group company (natural hedging). Moreover, there are also intra-group loans denominated in euros, thus resulting in foreign currency risks at those group companies which have a functional currency other than the euro. These risks are basically not hedged.

The foreign currency risks faced by the HORNBACH Baumarkt AG Group in its business operations mainly relate to the purchase of goods in the Far East using US dollars and from intragroup supplies and services, which are basically handled in euros. The US dollar currency risk is hedged with fixed deposits denominated in US dollars and forward exchange transactions. Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

€ 000s	2.28.2019	2.28.2018
EUR	(68,051)	(69,489)
USD	5,187	3,214
CZK	(321)	(518)

The above EUR currency position results from the following currency pairs: SEK/EUR € -27,217k (2017/18: € -15,622k), CHF/EUR € -25,622k (2017/18: € -29,332k), RON/EUR € -19,197k (2017/18: € -16,764k), and CZK/EUR € 3,984k (2017/18: € -7,769k).

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 € 7,292k lower (2017/18: € 7,340k). 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 € 7,292k higher (2017/18: € 7,340k). The hypothetical impact on earnings of € +7,292k (2017/18: € +7,340k) is the result of the following sensitivities: EUR/CHF € 2,524k (2017/18: € 2,998k), EUR/RON € 1,951k (2017/18: € 1,702k), EUR/SEK € 2,752k (2017/18: € 1,614k), EUR/CZK € -429k (2017/18: € 706k), and EUR/USD € 493k (2017/18: € 320k).

Interest rate risks

At the end of the year, the Group was principally financed by a euro bond with a nominal total of € 250,000k, two new promissory note bonds amounting to € 95,000k at HORNBACH Holding B.V., and two new promissory note bonds amounting to € 200,000k at HORNBACH Baumarkt AG. Furthermore, the Group also had a CZK loan amounting to € 52,933k (2017/18: € 0k). The CZK loan was repaid in the course of the financial year (2017/18: € 624k).

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 € 1,650k higher (2017/18: € 814k) and equity before deferred taxes would have been € 0k higher (2017/18: € 0k). 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 € 165k lower (2017/18: € 82k) and equity before deferred taxes would have been € 0k lower (2017/18: € 0k).

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

Liquid funds are also subject to IFRS 9 impairment requirements. The impairment losses thereby identified were nevertheless immaterial.

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, 2018 and March 1, 2018 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.

On this basis, the allowances required for trade receivables as of March 1, 2018 were determined (adoption of IFRS 9). Information about the transition from the closing balance sheet figure for allowances of trade receivables as of February 28, 2018 to the figures stated in the opening balance sheet as of March 1, 2018 can be found in Note 18.

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.

The allowances recognized for contract assets were not adjusted as of March 1, 2018, as the impairment losses thereby identified were immaterial.

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.

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 allowances recognized for other financial assets were not adjusted as of March 1, 2018 as the impairment losses thereby identified largely corresponded to the allowances already recognized. 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 2.28.2019	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**

€ 000s	Carrying amount 2.28.2018	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	248,844	9,688	259,714	0
Liabilities to banks	1,001	636	0	0
Liabilities in connection with finance leases	174,115	17,565	70,260	138,693
Trade payables	253,711	253,711	0	0
Other current and non-current liabilities	29,584	28,433	1,152	0
Accrued liabilities	22,156	22,156	0	0
	729,412	**332,188**	**331,126**	**138,693**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	113	113	0	0
Interest derivatives in connection with cash flow hedges	0	0	0	0
	113	**113**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	578	3,202	0	0
	578	**3,202**	**0**	**0**
		335,503	**331,126**	**138,693**

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 were calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies were translated at the relevant reporting date rate.

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2017/18: € 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 hedge – interest rate risk

No interest swaps were held at the end of the 2018/19 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 € -338k (2017/18: € 465k). Of this total, € 185k has been recognized under other assets (2017/18: € 578k) and € -523k under financial debt (2017/18: € -113k).

No fair value hedges or net investment in a foreign operation hedges have been undertaken to date.

Derivatives

The following table provides an overview of the nominal and fair values of derivative financial instruments as of the balance sheet date. The values of opposing transactions, such as foreign exchange purchases or sales, have been shown on a net basis. Nominal value totals are shown in the nominal value line without offsetting any opposing transactions.

2.28.2019	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)

2.28.2018	Forward exchange transactions	Embedded forward exchange transactions	Total
Nominal value in € 000s	4,000	29,469	33,469
Fair value in € 000s (before deferred taxes)	65	400	465

(35) Sundry disclosures

Employees

The average number of employees was as follows:

	2018/19	2017/18
Salaried employees	18,624	17,608
Trainees	921	858
	19,545	**18,466**
of which: part-time employees	5,719	5,313

In terms of geographical regions, 10,914 of the average workforce were employed in Germany during the 2018/19 financial year (2017/18: 10,440) and 8,630 in Other European Countries (2017/18: 8,026).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBACH Baumarkt AG, KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, for the year under report were as follows:

	2018/19 € 000s	2017/18 € 000s
Auditing of financial statements	643	589
Other certification services	8	7
Tax advisory services	45	27
Other services	0	0
	696	**624**

The annual and consolidated financial statements of HORNBACH Baumarkt AG have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, since the 1997/98 financial year. Lars Betram (partner) has been the responsible auditor since the 2017/18 financial year.

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBACH Baumarkt AG in December 2018 and made available to shareholders on the company's homepage.

(36) Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, HORNBACH Baumarkt AG has direct or indirect relationships with associated companies in the course of its customary business activities. These include the parent company HORNBACH Holding AG & Co. KGaA and its direct and indirect subsidiaries.

The associated companies are:

HORNBACH-Familien-Treuhandgesellschaft mbH
HORNBACH Management AG

Parent company

HORNBACH Holding AG & Co. KGaA

Associates

HORNBACH Immobilien AG
HORNBACH Baustoff Union GmbH

Subsidiaries and second-tier subsidiaries

Union Bauzentrum Hornbach GmbH
Ruhland-Kallenborn & Co. GmbH
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH
Robert Röhlinger GmbH
Etablissements Camille Holtz et Cie S.a.
Saar-Lor Immobilière S.C.I.
HORNBACH Baustoff Union Grundstücksentwicklungs GmbH
HIAG Immobilien Jota GmbH
HIAG Fastigheter i Göteborg AB
HIAG Fastigheter i Helsingborg AB
HIAG Fastigheter i Stockholm AB
HIAG Fastigheter i Göteborg Syd AB
HIAG Fastigheter i Botkyrka AB
HO Immobilien Omega GmbH
HR Immobilien Rho GmbH
HC Immobilien Chi GmbH
HM Immobilien My GmbH
HORNBACH Real Estate Nederland B.V.
HORNBACH Immobilien HK s.r.o.
HORNBACH Immobilien SK-BW s.r.o.
HORNBACH Imobiliare SRL
HB Immobilien Bad Fischau GmbH

The following principal transactions were performed with associates:

	2018/19 € 000s	2017/18 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	77,449	76,903
Interest charge for group financing	39	45
Interest income for group financing	0	75
Allocations paid for administration expenses	932	925
Allocations received for administration expenses	2,343	2,552
Supplies and deliveries to HORNBACH Holding AG & Co. KGaA and its subsidiaries	254	176
Supplies and deliveries by HORNBACH Holding AG & Co. KGaA and its subsidiaries	340	317

At February 28, 2019, there were receivables of € 1,043k (2017/18: € 957k) and liabilities of € 87k (2017/18: € 472k) 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 € 8,513k (2017/18: € 9,012k). Guarantee fees of € 38k (2017/18: € 45k) 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 € 18k were performed by the seminar hotel in the 2018/19 financial year (2017/18: € 6k). These services were invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 28, 2019.

(37) Events after the balance sheet date

The consolidated financial statements of HORNBACH Baumarkt AG for the 2018/19 financial year were approved for publication by the Board of Management on May 14, 2019.

(38) Supervisory Board and Board of Management

Members of the Board of Management:

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

Chairman (CEO)
First appointed: February 1, 1992
Chairman since November 1, 2001
Appointed until: August 26, 2022

Roland Pelka
Finance, Accounting, Tax, Controlling, Risk Management, Loss Prevention, Investor Relations;
until May 31, 2018: Public Relations

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 May 31, 2018 Personnel and Labor Director

First appointed: March 1, 2012
Appointed until: February 28, 2022

Karsten Kühn
Marketing, Market Research, Internal Communications;
since June 1, 2018: Public Relations, Organizational Development, Personnel and Labor Director

First appointed: October 1, 2014
Appointed until: September 30, 2024

Ingo Leiner
Logistics

First appointed: March 1, 2012
Appointed until: February 28, 2022

Dr. Andreas Schobert
Technology

First appointed: January 1, 2015
Appointed until: December 31, 2022

Compensation of the Board of Management for the 2018/19 financial year totals € 5,209k (2017/18: € 5,535k). Of this, € 2,903k (2017/18: € 2,828k) relates to fixed compensation and € 2,306k (2017/18: € 2,707k) to performance-related components. Post-employment benefits (pension provision endowment) of € 689k were incurred for active Board members in the 2018/19 financial year (2017/18: € 663k).

Pension provisions for former members of the Board of Management totaled € 1,245k in the 2018/19 financial year (2017/18: € 1,246k).

All pension provisions are offset by corresponding value credits (Note 24).

Based on a shareholder resolution for a limited period up to and including the 2020/21 financial year, individualized disclosure of the compensation of members of the Board of Management has been waived.

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach CEO HORNBACH Management AG	**Chairman** Member since: April 25, 2002 Chairman since: March 1, 2009 Appointed until: end of 2023 AGM
Dr. Wolfgang Rupf Managing Partner, Rupf Industries GmbH, Rupf Engineering GmbH, and Rupf ATG Casting GmbH	until July 5, 2018 **Further Deputy Chairman**
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 dm-drogerie markt GmbH & Co. KG	Member since: July 4, 2013 Appointed until: end of 2023 AGM
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
Joerg Walter Sost Managing Partner J.S. Consulting GmbH	until July 5, 2018
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

Monika Di Silvestre
State Retail Section Head at ver.di
Rhineland-Palatinate-Saarland

until July 5, 2018
for trade unions

Mohamed Elaouch
Section Manager, Mainz Store

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

Martin Fischer
Professional Customer Advisor, Kempten Store

until July 5, 2018
for salaried employees

Christian Garrecht
Operative Head of Workplace Safety and
Fire Prevention

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

Kerstin Holfert
Section Manager, Dresden Store

until July 5, 2018
for salaried employees

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

Michael Reiland
Sales Director at HORNBACH Compact and District Director

until July 5, 2018
for senior employees

The total compensation of the Supervisory Board for the 2018/19 financial year amounted to € 515k (2017/18: € 515k). Of this sum, € 390k (2017/18: € 390k) related to basic compensation and € 125k (2017/18: € 125k) to committee activities.

Mandates in supervisory boards and other control bodies

(Disclosures pursuant to § 285 Number 10 HGB)

Members of the Supervisory Board

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Albrecht Hornbach
a) HORNBACH Immobilien AG (Chairman)
b) Deutsche Bundesbank in Rhineland-Palatinate and Saarland
(Member of Advisory Board at Head Office)

Dr. Wolfgang Rupf (until July 5, 2018)
a) HORNBACH Holding AG & Co. KGaA (Chairman; until July 2018)
HORNBACH Management AG (Chairman)
IVA Valuation & Advisory AG (Deputy Chairman)
b) Inception Exploration Ltd. (Member of Board)

Monika Di Silvestre (until July 5, 2018)
a) WASGAU Produktions & Handels AG

Dr. John Feldmann
a) HORNBACH Holding AG & Co. KGaA (Chairman since July 2018)
HORNBACH Management AG (Deputy Chairman since July 2018)
KION Group AG (Chairman until May 2019)

Erich Harsch
a) HORNBACH Holding AG & Co. KGaA
HORNBACH Management AG
b) dm drogerie markt GmbH, Wals/Austria

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)

Joerg Walter Sost (until July 5, 2018)

a) DUOPLAST AG (Chairman)
HORNBACH Holding AG & Co. KGaA (until July 2018)
HORNBACH Management AG

b) Atreus GmbH (Member of Advisory Board)
Bürger GmbH (Chairman of Advisory Board)
DUOPLAST Holding GmbH (Chairman of Advisory Board)
ECF GmbH (Chairman of Advisory Board)
Leuna Tenside Holding GmbH (Chairman of Advisory Board until December 2018)
Norafin Industries GmbH (Chairman of Advisory Board)
VR Equitypartner GmbH (Chairman of Advisory Board)
AIS Automotive Interior Systems GmbH (Member of Advisory Board since November 2018)

Melanie Thomann-Bopp (since July 5, 2018)

a) HORNBACH Holding AG & Co. KGaA (since July 2018)

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

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

a) HORNBACH Immobilien AG
Med 360° AG (Chairman)

Bornheim bei Landau/Pfalz, May 14, 2019

HORNBACH Baumarkt AG
The Board of Management

Steffen Hornbach

Roland Pelka

Susanne Jäger

Wolfger Ketzler

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We hereby affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair picture of the assets, liabilities, financial position and results of operations of the Group in accordance with the applicable reporting principles, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Bornheim bei Landau/Pfalz, May 14, 2019

HORNBACH Baumarkt Aktiengesellschaft
The Board of Management

Steffen Hornbach

Roland Pelka

Susanne Jäger

Wolfger Ketzler

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

INDEPENDENT AUDITOR'S REPORT

To HORNBACH Baumarkt AG, Bornheim bei Landau/Pfalz

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

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Baumarkt AG, Bornheim bei Landau/Pfalz, and its subsidiaries (the Group), comprising the balance sheet as of February 28, 2019, income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the financial year from March 1, 2018 to February 28, 2019, and the notes to the consolidated financial statements, including the summary of significant accounting policies. Furthermore we audited the combined management report for the financial year from March 1, 2018 to February 28, 2019.

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

- the accompanying consolidated financial statements comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB (Handelsgesetzbuch - German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets and financial position of the Group as of February 28, 2019, and of its financial performance for the financial year from March 1, 2018 to February 28, 2019, 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.

Pursuant to § 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 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 § 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 [Institute of Public Auditors in Germany] (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) EU-APrVO, we declare that we have not provided any non-audit services prohibited under Article 5 (1)

EU-APrVO. 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 March 1, 2018 to February 28, 2019. 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.

Measurement of inventories

Information about the accounting policies applied can be found in the "Accounting policies/General principles" and "Accounting policies/Inventories" chapters of the notes to the consolidated financial statements.

THE RISK FOR FINANCIAL REPORTING

Inventories of € 755.7 million have been recognized in the balance sheet as of February 28, 2019. This figure includes impairments of € 10.5 million.

Inventories, which require initial measurement at cost (including incidental acquisition costs and purchase price reductions) must be written down when they are damaged, fully or partly obsolete, or when their expected net realizable value no longer covers their cost of acquisition.

The calculation of net realizable value as the maximum value permitted is subject to discretionary decisions and in some cases requires forward-looking estimates concerning the amounts which can most likely be generated upon the sale of the inventories. There is the risk that, due to the failure to recognize an impairment requirement, the inventories are overvalued.

OUR AUDIT APPROACH

Based on the understanding we gained of the relevant processes, we initially assessed the structure, establishment, and functionality of those internal controls identified with regard to the correct calculation of net realizable values.

We then performed a critical assessment of the methodology applied by the company to calculate age-related write-downs of inventories. We assessed the days-on-inventory analyses of the company and referred to historical empirical values at the company, based on a sample selected using a risk-based approach, to appraise whether the write-downs recognized were adequate. Furthermore, we convinced ourselves of the arithmetical correctness of the calculation.

We then assessed the sale prices used when calculating the net realizable values by selecting specific elements on a risk-oriented basis and referring to sale prices valid as of the balance sheet date. In a further step, we convinced ourselves that the impairments recognized by the company due to reductions in sale prices had been correctly stated.

OUR CONCLUSIONS

The assumptions underlying the calculation of net realizable values are appropriate, as were the discretionary decisions taken by the company's legal representatives in this respect.

The recoverability in the value of location properties

Information about the accounting policies applied can be found in the "Accounting policies/General principles" and "Accounting policies/Property, plant and equipment" chapters of the notes to the consolidated financial statements. Information about the impairment test performed can be found in the "Impairment of non-current, non-financial assets" chapter.

THE RISK FOR FINANCIAL REPORTING

The HORNBACH Baumarkt AG Group assesses the recoverability in the value of property, plant and equipment on the level of individual stores, each of which constitutes a cash generating unit (CGU). Within property, plant and equipment, the carrying amount of "Land, leasehold rights, and buildings on third-party land" (so-called "location properties") amounts to € 1,037.2 million. This line item thus accounts for 84.9 % of property, plant and equipment and 44.4 % of total assets and is therefore of considerable significant for the Group's asset position. In the 2018/19 financial year, the Group recognized impairments totaling € 6.4 million on these assets.

Where there are indications of impairment, the company calculates the value in use for each CGU in the context of its impairment testing. Where the value in use falls short of the carrying amount, the fair value less costs to sell (net realizable value) is determined for the property attributable to the CGU.

Impairment testing pursuant to IAS 36 is complex and requires the use of numerous assumptions based on discretionary decisions. These particularly include the forecast cash flows used to determine the value in use, the assumed long-term growth rates, and the discount rates used. Furthermore, the recoverability in the value of location properties also depends on their respective location and the resultant potential alternative uses. The company commissioned an external surveyor to determine the net realizable values of its location properties. The net realizable value of the location properties depends on their respective location and the resultant potential alternative uses. There is the risk that the properties at the stores are overvalued.

OUR AUDIT APPROACH

We received explanations from employees in the accounting department and assessed the group accounting policy and thus gained an understanding of the processes used by the Group to identify any indications of impairment and to determine the value in use and the net realizable value. We analyzed the indications of impairment identified by the Group and, based on the information gained from our audit, assessed whether there were any further indications of impairment not identified by the Group.

In addition to the arithmetical correctness and IFRS-conformity of the valuation model used by the company, we then assessed the appropriateness of the key assumptions used in the model. To this end, we first analyzed the planning process and convinced ourselves of the forecasting quality of group planning by comparing the planning referred to in the past financial year with the results actually achieved in the subsequent period. Furthermore, we compared the planning thereby used with the five-year planning compiled by the company's legal representatives and approved by the Supervisory Board. Furthermore, we assessed the extent to which the assumptions used were consistent with external market estimates.

We compared the assumptions and parameters underlying the discount rate, and in particular the risk-free interest rate, market risk premium, and beta factor, with publicly available data and took advice from valuation specialists.

Furthermore, we assessed the competence, skills, and objectivity of the independent surveyor commissioned by the Group to determine the net realizable values and appraised the results of his work, also seeking advice in this respect from our own valuation specialists.

OUR CONCLUSIONS

The approach taken to measuring the recoverability of the value of location properties and the valuation model are consistent with the accounting policies. The assumptions and parameters referred to by the company are appropriate.

The completeness of note disclosures concerning the expected implications of applying IFRS 16

Information about the expected implications of applying IFRS 16 can be found in the "Accounting policies/Standards and interpretations not applied prematurely" chapter of the notes to the consolidated financial statements.

THE RISK FOR FINANCIAL REPORTING

Property, plant and equipment of € 1,221.7 million is recognized in the balance sheet as of February 28, 2019. This figure does not include those assets leased by the Group that have been classified as "operating leases" pursuant to IAS 17 requirements.

The Group will apply the new accounting standard IFRS 16, which replaces the requirements of IAS 17, from March 1, 2019. Under IFRS 16, lessees will in future be required to recognize essentially all leases in their balance sheets. Pursuant to IAS 8.30, information must be provided about the expected implications of first-time application of the new standard for the consolidated financial statements. Among other aspects, this includes the right-of-use assets and corresponding lease liabilities to be capitalized as of March 1, 2019. In the notes to its consolidated financial statements, the Group states that the rental agreements at the Group in which the Group acts as lessee will lead non-current assets to increase by around € 1,167.5 million and financial debt to rise by € 1,192.5 million as of March 1, 2019. There is the risk that the disclosures made pursuant to IAS 8.30 concerning the first-time application of IFRS 16 are not accurate.

OUR AUDIT APPROACH

We first obtained an understanding of the processes used to document all relevant rental agreements, the rental payments included therein, and the agreed terms. We also appraised the extent to which extension options had been accounted for. To this end, we questioned employees in the real estate department and assessed whether the extensions accounted for by the company were correct. Based on a risk-oriented selection of the elements involved, we assessed the appropriateness of the interest rates used for discounting and obtained advice from our valuation specialists. Furthermore, to assess the arithmetical correctness of the right-of-use assets and lease liabilities requiring capitalization, we reproduced the relevant calculations performed by the company on the basis of a risk-oriented selection of rental agreements.

OUR CONCLUSIONS

The presentation of the expected implications of applying IFRS 16 provided in the notes to the consolidated financial statements is accurate.

Other Information

The company's legal representatives are responsible for the other information. The other information comprises the Annual Report of the HORNBACH Baumarkt AG Group with the exception of the audited consolidated financial statements, the combined management report, and our audit 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 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 Board of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The company's legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 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 legal representatives 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 legal representatives 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 legal representatives 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 legal representatives 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 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 § 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 judgment and maintain professional skepticism 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 control.

- 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 legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.

- Conclude on the appropriateness of the legal representatives' 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 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 legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the legal representatives 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 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 our 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 Annual General Meeting on July 5, 2018. We were engaged by the Supervisory Board on August 9, 2018. We have been the group auditor of HORNBACH Baumarkt AG without interruption since the 1997/98 financial year.

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).

In addition to the consolidated financial statements, we also audited the annual financial statements of HORNBACH Baumarkt AG and audited the annual financial statements of a subsidiary of HORNBACH Baumarkt AG. Furthermore, we performed an audit review on the half-year financial report of HORNBACH Baumarkt AG. Additional certification services were performed in particular with the issuing of sales certificates. Furthermore, we provided support in connection with the first-time application of new financial reporting principles. The tax advisory services mainly involved support in tax court proceedings.

Auditor Responsible

The German public auditor responsible for the engagement is Lars Erik Bertram.

Frankfurt am Main, May 14, 2019
KPMG AG
Wirtschaftsprüfungsgesellschaft

Bertram	Palm
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

IMPRINT

Published by
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Production
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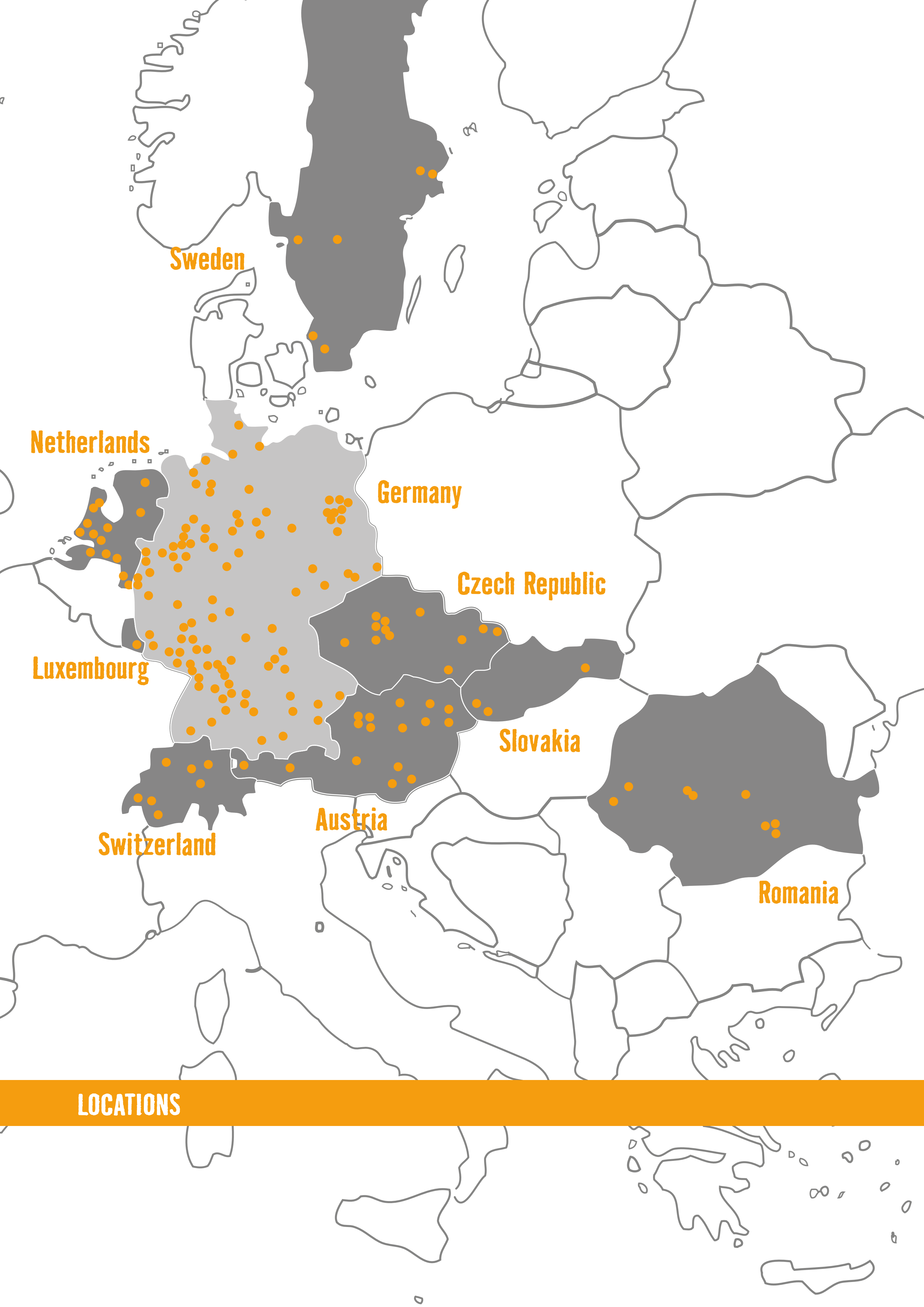
Sweden
Netherlands
Germany
Czech Republic
Luxembourg
Slovakia
Switzerland
Austria
Romania

LOCATIONS

Germany

Baden-Württemberg
Binzen
Esslingen
Göppingen
Heidelberg
Karlsruhe-Grünwinkel
Karlsruhe-Hagsfeld
Ludwigsburg
Mosbach
Pforzheim
Remseck
Rottweil
Schwetzingen
Sindelfingen
Sinsheim
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Passau
Schwabach
Straubing
Würzburg

Berlin
Berlin-Bohnsdorf
Berlin-Mariendorf
Berlin-Marzahn
Berlin-Neukölln
Berlin-Weißensee

Brandenburg
Fredersdorf-Vogelsdorf
Ludwigsfelde
Marquardt
Velten

Bremen
Bremen, Duckwitzstraße
Bremen, Weserpark
Bremerhaven

Hamburg
Hamburg-Eidelstedt

Hesse
Darmstadt
Frankfurt, Hanauer Landstr.
Frankfurt-Niedereschbach
Lohfelden
Wiesbaden-Biebrich
Wiesbaden-Mainz-Kastel

Lower Saxony
Braunschweig
Garbsen
Hannover-Linden
Isernhagen-Altwarmbüchen
Lüneburg
Oldenburg
Osnabrück
Wilhelmshaven
Wolfsburg

North Rhine-Westphalia
Bielefeld
Datteln
Dortmund
Duisburg
Essen
Gelsenkirchen
Gütersloh
Herne
Kamen
Krefeld
Moers
Mönchengladbach, Künkelstr.
M'gladbach-Reststrauch
Münster
Niederzier
Oberhausen
Paderborn
Wuppertal

Rhineland-Palatinate
Alzey[2]
Bad Bergzabern
Bornheim
Kaiserslautern
Koblenz
Ludwigshafen
Mainz-Bretzenheim
Pirmasens
Trier
Worms

Saarland
Neunkirchen
Saarbrücken

Saxony
Chemnitz
Dresden-Kaditz
Dresden-Prohlis
Görlitz
Leipzig

Saxony-Anhalt
Magdeburg
Halle

Schleswig-Holstein
Kiel
Lübeck

Thuringia
Jena

International

Luxembourg
Bertrange

Netherlands
Amsterdam-Sloterdijk
Alblasserdam
Best
Breda
Den Haag
Geleen
Groningen
Kerkrade
Nieuwegein
Nieuwerkerk
Tilburg
Wateringen
Zaandam
Zwolle[1]

Austria
Ansfelden
Bad Fischau
Brunn a.G.
Gerasdorf
Hohenems
Klagenfurt
Krems
Leoben
Regau
Rum
Seiersberg
St. Pölten
Wels
Wien-Stadlau

Romania
Baloteşti
Braşov
Bucureşti-Berceni
Domneşti
Sibiu
Timişoara

Sweden
Arlöv
Borås[1]
Botkyrka
Helsingborg
Göteborg
Sundbyberg

Switzerland
Affoltern[1]
Biel/Bienne
Etoy
Galgenen
Luzern-Littau
Riddes
Villeneuve

Slovakia
Bratislava-Devínska Nová Ves
Bratislava-Ružinov
Kosice

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 2018/19 financial year
[2] Closed in 2018/19 financial year

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