ANNUAL REPORT
2019/2020

HORNBACH HOLDING

AG & CO. KGAA GROUP

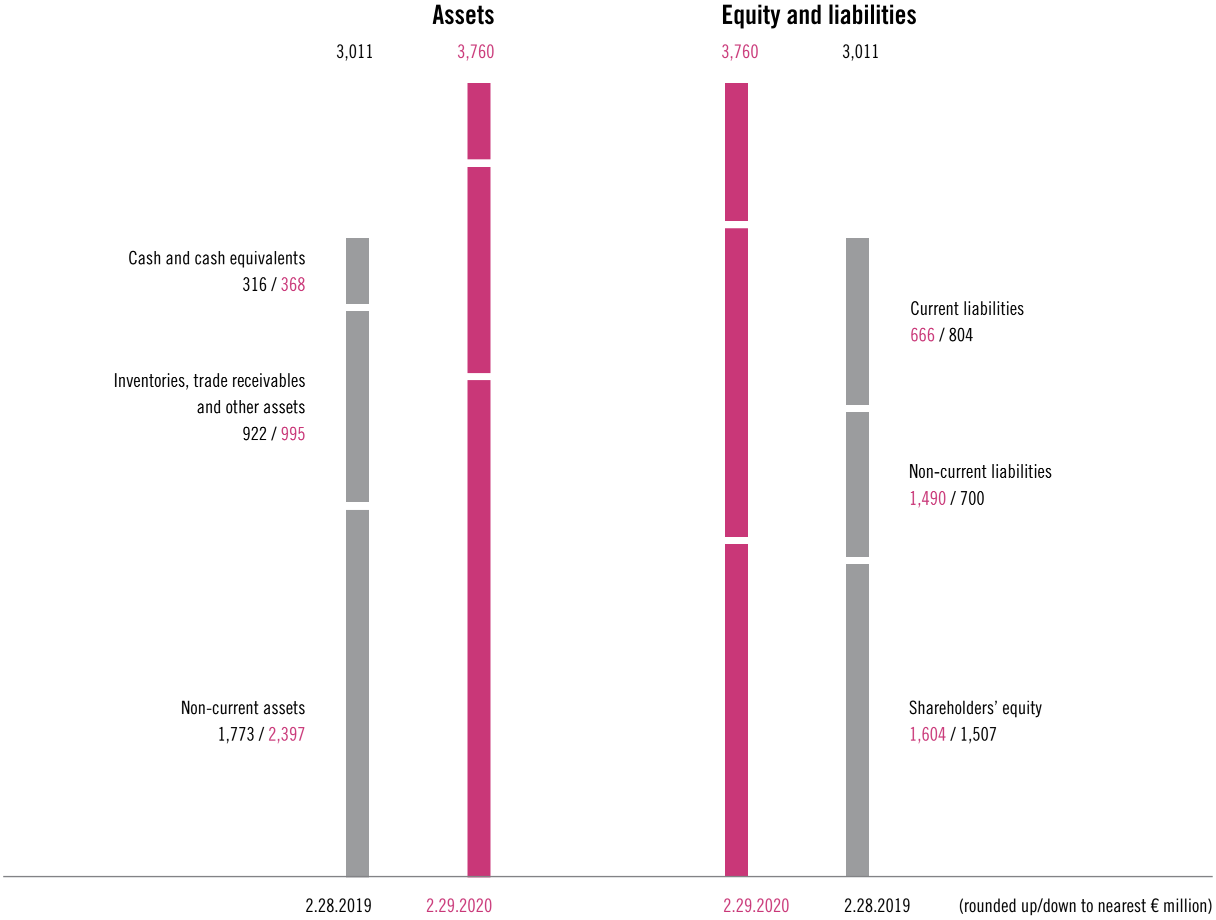
CONTENTS

Key Group, Financial and Operating Data

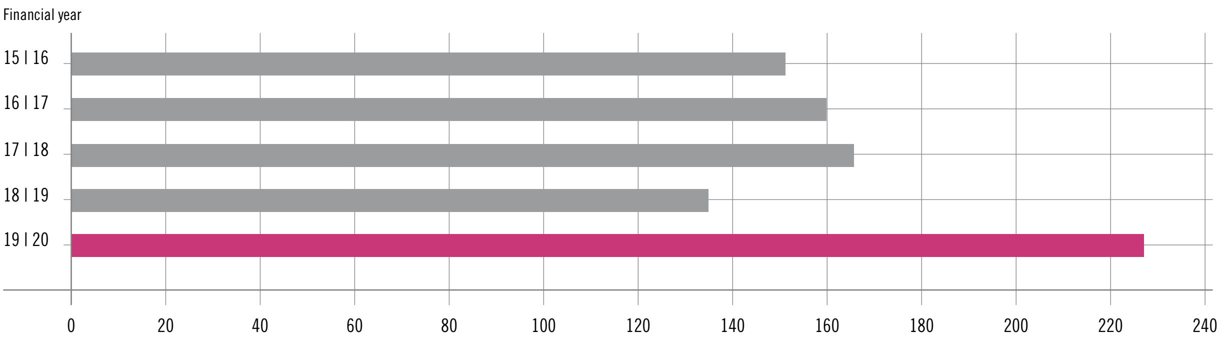
Amounts shown in € million unless otherwise stated	Change financial year 2019/20 on previous year	IFRS									
		2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
Sales and earnings figures											
Net sales	8.4 %	4,729	4,362	4,141	3,941	3,755	3,572	3,369	3,229	3,204	3,017
of which in other European countries	10.4 %	2,193	1,986	1,829	1,679	1,533	1,400	1,334	1,280	1,272	1,195
Sales growth as % of net sales		8.4	5.3	5.1	4.9	5.1	6.0	4.3	0.8	6.2	5.7
EBITDA	78.8 %	420	235	263	254	231	243	236	221	247	229
as % of net sales		8.9	5.4	6.3	6.5	6.2	6.8	7.0	6.9	7.7	7.6
EBIT	77.3 %	214	121	161	157	138	165	160	146	169	159
as % of net sales		4.5	2.8	3.9	4.0	3.7	4.6	4.8	4.5	5.3	5.3
Adjusted EBIT [1]	68.3 %	227	135	166	160	151	167	164	146	177	160
as % of net sales		4.8	3.1	4.0	4.1	4.0	4.7	4.9	4.5	5.5	5.3
Earnings before taxes and non-controlling interest	68.7 %	166	99	132	130	113	140	128	108	132	127
as % of net sales		3.5	2.3	3.2	3.3	3.0	3.9	3.8	3.3	4.1	4.2
Net income for the year before non-controlling interest	64.1 %	123	75	96	90	98	107	86	77	95	99
as % of net sales		2.6	1.7	2.3	2.3	2.6	3.0	2.6	2.4	3.0	3.3
Gross margin as % of net sales		35.8	36.0	36.6	36.6	37.0	37.3	36.6	36.5	36.6	36.6
Store expenses as % of net sales		26.7	28.2	27.8	27.9	28.5	27.9	27.3	27.7	27.1	27.4
Costs of central administration as % of net sales		4.9	5.2	5.2	4.9	4.9	4.6	4.4	4.5	4.2	4.1
Pre-opening expenses as % of net sales		0.2	0.2	0.1	0.2	0.3	0.4	0.3	0.3	0.2	0.2
Cash flow figures											
Cash flow from operating activities	>100 %	324	54	182	179	152	156	198	144	142	182
Investments [2]	(33.0)%	131	196	148	179	156	119	116	149	163	113
Proceeds from divestments		10	5	9	11	3	5	12	6	13	48
Earnings potential [3]	>100 %	332	61	187	185	162	171	207	154	148	187
as % of net sales		7.0	1.4	4.5	4.7	4.3	4.8	6.1	4.8	4.6	6.2
Dividend distribution		24.0	24.0	24.0	24.0	12.6	12.6	10.5	10.5	10.5	10.5
Balance sheet and financial figures											
Total assets	24.9 %	3,760	3,011	2,668	2,648	2,680	2,433	2,362	2,270	2,267	2,233
Non-current assets	35.4 %	2,379	1,757	1,686	1,651	1,561	1,336	1,286	1,268	1,202	1,125
Inventories	7.8 %	861	799	699	662	623	567	539	515	507	489
Cash and cash equivalents	16.4 %	368	316	164	190	350	401	429	357	422	474
Shareholders' equity [4]	6.4 %	1,604	1,507	1,463	1,398	1,334	1,259	1,164	1,097	1,041	962
as % of total assets		42.7	50.0	54.8	52.8	49.8	51.7	49.3	48.3	45.9	43.1
Return on shareholders' equity based on net income - in %		7.9	5.1	6.7	6.6	7.5	8.8	7.6	7.2	9.4	10.9
Net working capital	7.2 %	727	678	532	531	464	441	397	406	416	375
Additions to non-current assets[6]	>100 %	837	196	148	198	325	121	117	151	163	113
Inventory turnover rate per year		3.8	3.9	3.9	3.9	4.1	4.2	4.1	4.0	4.1	4.1
Other information											
Employees - annual average - converted into full-time equivalents	19.6 %	20,403	17,053	16,223	15,751	15,283	14,663	14,064	13,289	12,778	12,066
Number of shares [4]		16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	8,000,000
Earnings per share in € [4][5]		6.56	4.08	5.11	4.84	5.04	5.64	4.55	4.06	4.77	10.14

[1] Adjusted for non-operating items
[2] Excluding investment in short-term financial deposits (2016/17 financial year: € 30 million)
[3] Cash flow from operating activities plus pre-opening expenses
[4] Starting in the 2011/12 financial year: change in number of shares following issue of bonus shares as of July 29, 2011
[5] Until the 2014/15 financial year: average earnings per share in € (ordinary and preference shares of HORNBACH HOLDING AG)
[6] Starting in the 2019/20 financial year: including right-of-use assets (IFRS 16)

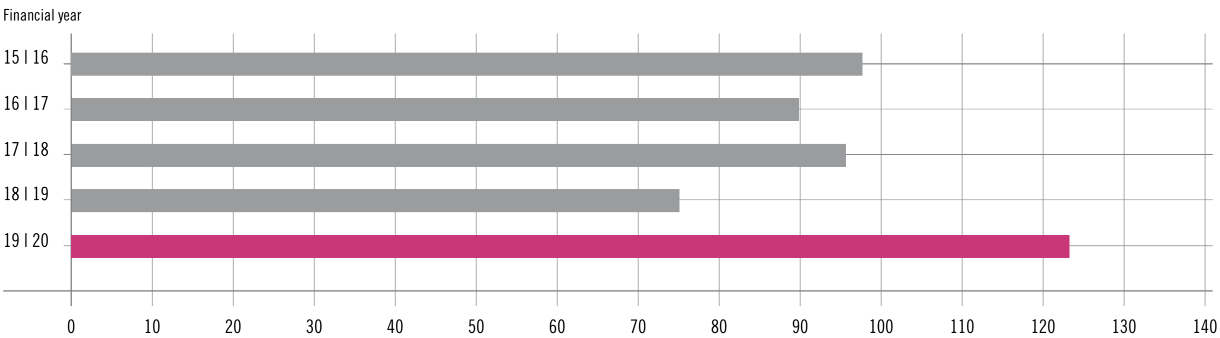
Structure of consolidated balance sheet
(€ million)

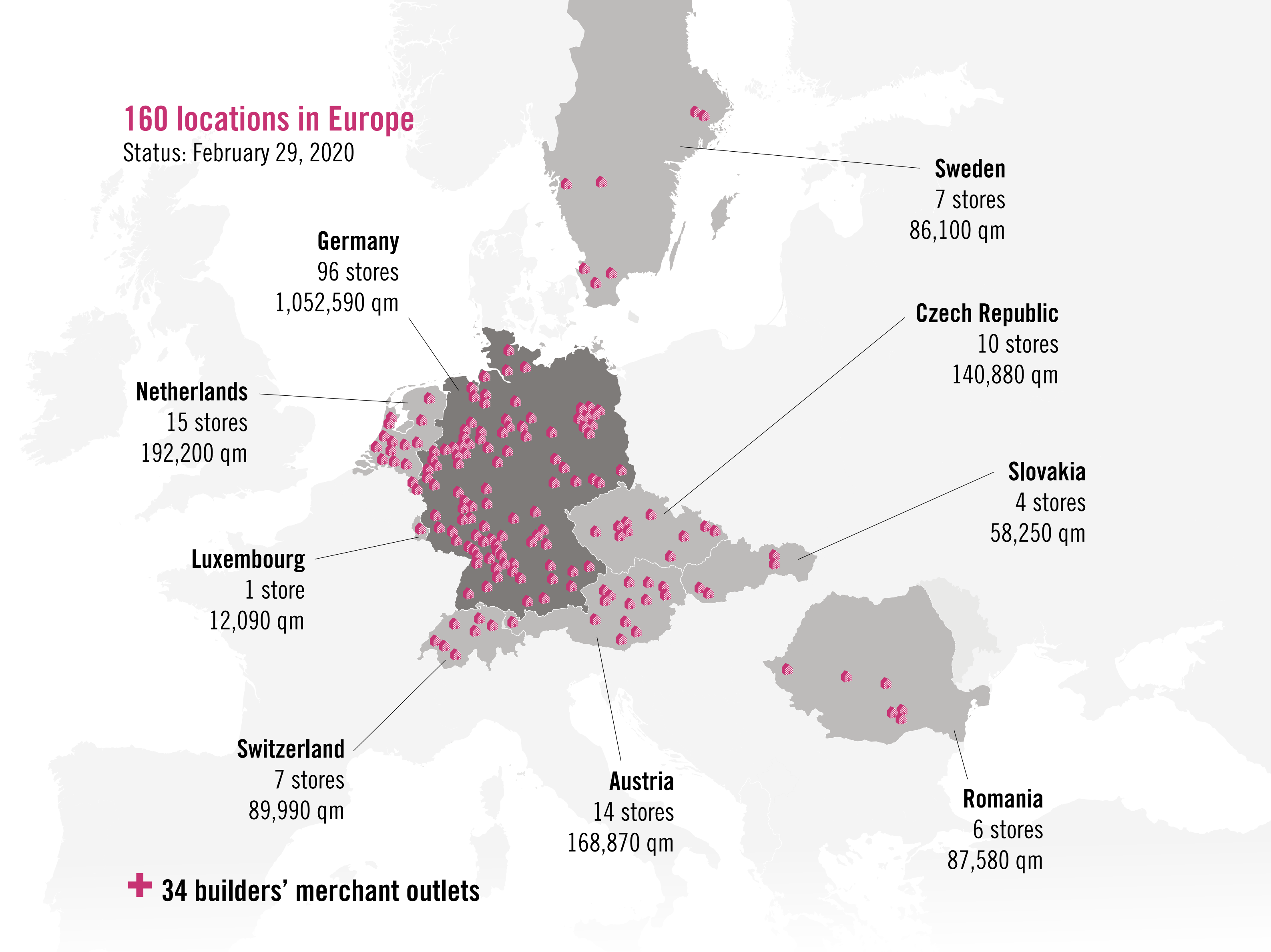


Adjusted EBIT
(€ million)



Net income for the year
(€ million)





Company Profile

HORNBACH is one of the leading DIY retail groups in Germany and Europe, with 160 DIY stores and garden centers in nine European countries and 34 builders' merchant outlets in Germany. HORNBACH's megastores and online shops offer DIY enthusiasts and professionals a broad product range of around 200,000 high-quality articles at permanently low prices. HORNBACH supplements its products with a wide range of project-based advice and services.

1877

HORNBACH was founded more than 140 years ago and is still family-managed, now in the fifth generation.

€ 4.7 billion

Consolidated sales rose by 8.4 % in the 2019/20 financial year.

€ 2,386

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

Dividend gem

Since its IPO in 1987, HORNBACH Holding AG & Co. KGaA 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

Albrecht Hornbach

Dear Ladies and Gentlemen,

Given the all-consuming nature of the coronavirus pandemic, which has held the world firmly in its clutches since March 2020, it is not always easy to free up the mind for other topics. And yet the past 2019/20 financial year at the HORNBACH Group certainly deserves a closer look: Our concept resonated with customers, as is clearly reflected in our sales and gross profit. We also regained control over our costs, and thus generated highly profitable growth. In short: We are on course! Not only that, we created a cushion for what is a crisis on a previously inconceivable scale, one whose dimensions and impact on society are currently unfathomable. But first things first.

We met our sales targets for 2019/20 and posted very pleasing growth of 8.4 % to € 4.73 billion at the HORNBACH Group. In the retail business at the largest operating subgroup, HORNBACH Baumarkt AG (DIY), we increased our sales by 8.1 % to € 4.43 billion. The HORNBACH Baustoff Union GmbH subgroup, which further expanded its regional builders' merchant business by taking over new locations, also contributed to the Group's growth by boosting its sales by 13.2 % to around € 300 million.

Particularly remarkable was the sales growth achieved by the DIY stores with garden centers in our domestic market of Germany. Here, we increased net DIY sales by 6.0 % to € 2,245 million in the 2019/20 financial year. At 6.5 %, our like-for-like growth was the highest for 26 years, enabling us to extend our head start over the sector by more than two percentage points. That in itself is a notable achievement, but is even more impressive when viewed against the backdrop of renewed momentum in the sector. Outside Germany, we added like-for-like sales growth of 8.9 % net of currency items to the previous year's already high figure. That was the highest rate of growth for 19 years. At € 2,386 per square meter, group-wide surface productivity at our DIY megastores also reached a new record level in 2019/20.

For me, the main reason for this growth is the way we consistently link our stationary retail business with our online business to form interconnected retail (ICR). We focus on what customers need – regardless of where they make their purchases and of whether they use stationary or digital channels or a combination of both. This way, we offer customers the best possible benefits, an approach underlined not least by our outstanding performance in a number of prestigious consumer surveys.

We laid the foundation for our success in the 2019/20 year under report by preparing intensively for the extremely important spring season. That may sound trivial, but is actually tricky and can quickly turn from a blessing to a curse. If we take a moment to recall: The aim was to make absolutely sure that the 2019 spring season should be better than the frosty and curtailed start to the season one year earlier. That is why we took on additional specialists in the 2018/19 winter quarter and ramped up stocks to be prepared for sales peaks in the spring months. You already know the bad news. That led to higher costs at our stores in the fourth quarter of 2018/19, not least because we overshot the mark in one or two other areas as well. But there is also good news: The detailed preparations we made for the season lent exceptional momentum to our sales performance in the 2019/20 financial year. Not only that, we learned some very useful lessons, which then helped us to achieve a better balance of employee input and stock management for spring 2020. After all, sales growth alone does not guarantee higher profits. One year ago, I reached the following conclusion after the 2018/19 financial year: "More than anything, the downturn in our operating earnings is a home-made cost problem that needs to be managed, rather than any demand-side problem." Since then, we have channeled great energy into addressing this core management task. And we succeeded, as the following key figures make clear:

- Thanks to greater cost responsibility and transparency at the stores and stricter prioritization of measures, particularly for store maintenance and conversion work, we reduced our group-wide general operating expenses by € 28 million, or 10.1 %, compared with the previous year. This was a key factor in the significant improvement in the store expense ratio.
- The increase in administration expenses, which in the past was significantly disproportionate to our sales growth, was successfully curbed. Changed structures in the interaction between operating regions and corporate functions and a greater focus on essentials in our ICR projects are reflected in the decrease in our administration expense ratio from 5.2 % to 4.9 %.
- We increased our EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) by around 68 % to € 227.0 million. The adjusted EBIT margin climbed from 3.1% to 4.8 %. If we exclude the positive EBIT item resulting from the conversion to the new IFRS 16 lease accounting standard, it is clear: Around 86% of our adjusted EBIT growth was driven by the striking improvement in our operating earnings strength!
- Earnings per share jumped from € 4.08 to € 6.56.

Cost efficiency does not simply happen at the click of a button. It is an arduous task, one that requires disciplined actions, transparent processes, and courageous decisions, and that across the whole of our organization. In the 2019/20 year under report, we harvested the first fruits of our labors, and these helped above all to bring about an impressive turnaround in our earnings in Germany. The figures which we can present to you in this Annual Report are of a nature to restore faith in the sustainability of our business model, confidence which clearly took a knock among some investors one year ago.

And yet who could have imagined a year ago that the actual endurance test still lay ahead, in the current 2020/21 financial year, due to the COVID-19 pandemic? To pre-empt the key insights gained from the first two coronavirus months of March and April 2020 (please also see Note 36 in the notes to the consolidated financial statements): In what was a difficult situation, HORNBACH was more fortunate than many. None of our locations suffered a complete shutdown. Since May 6, 2020, all stores have once again been open to all customers. And their needs were immense, which impressively documents the system relevance of DIY stores. We are pleased and proud to be one of those segments that plays a fundamental role in covering people's basic needs!

During the 2020 spring quarter, the sales growth we generated at the HORNBACH stores that remained open and at our online shops meant we more than made up for sales lost at stores where our stationary business with private customers was interrupted. Thanks to interconnected retail, we rapidly found solutions enabling private customers living in the catchment areas of closed stores to make their purchases via reserve and collect. Not only that, we significantly boosted logistics capacities to enable us to handle the surge in online orders. That took enormous efforts from across our entire organization. For that, I owe a special thank you to our employees, who kept HORNBACH on course with unwavering commitment and customer focus in these unprecedented weeks.

It is harder than ever before to provide an outlook for the new financial year. The uncertainties outlined in the outlook are enormous. By all appearances, and contrary to initial concerns, the Group's financial and earnings position will develop positively in the first quarter of 2020/21. However, the coronavirus-related risks of renewed lockdowns or severe economic disruption, both of which currently imponderable, hang like a sword of Damocles over the rest of the financial year. Equally possible is a continuation of the high level of customer demand, with people still wanting to make their own four walls as appealing as possible. It is currently hardly possible to assess whether customers are performing additional renovation work, bringing existing projects forward, or postponing tasks. At the end of this report, we formulate our expectations for the 2020/21 financial year, namely that sales will match the previous year's level and adjusted EBIT will fall slightly short of the level reported for the 2019/20 financial year – provided that there are no unpleasant coronavirus-related surprises. Thanks to our strategy and our financial strength, we are well placed to successfully cope with this crisis. I would like to take this opportunity to thank all investors and business partners who continue to place their trust in us as we tackle these challenges.

Yours faithfully,

Albrecht Hornbach
Chief Executive Officer of HORNBACH Management AG,
General Partner of HORNBACH Holding AG & Co. KGaA

Report of the Supervisory Board

Dr. John Feldmann

Dear Ladies and Gentlemen,

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

HORNBACH Holding AG & Co. KGaA significantly exceeded its sales and earnings targets in the 2019/20 financial year.

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

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

The Hornbach Baustoff Union GmbH subgroup also further expanded its market position as a regional builders' merchant business and strengthened this by making smaller-scale acquisitions. The company will further enhance the contribution it makes to the Holding's value.

With its real estate assets, which are predominantly used by the Group's DIY stores, HORNBACH Immobilien AG makes a major stabilizing contribution to the Group's value creation.

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

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

In the past 2019/20 financial year, we again dealt in great detail with the company’s situation, strategic alignment, and medium-term perspectives. We advised the Board of Management of the general partner, HORNBACH Management AG, in its management of the company and monitored its conduct in accordance with the tasks incumbent on us by law, the Articles of Association, and the Code of Procedure. At our meetings, the Board of Management of the general partner (hereinafter "Board of Management") provided us with regular, prompt and extensive written and oral reports on the business performance and economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with the Chief Executive Officer, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

The Supervisory Board held a total of four meetings in the 2019/20 financial year. All members attended all meetings of the Supervisory Board and of the committees to which they belonged in the year under report. Attendance at the meetings of the Supervisory Board and its committees amounted to 100 % in each case. Individualized disclosures on meeting attendance by Supervisory Board members can be found in the corporate governance declaration (simultaneously the joint corporate governance report of the Board of Management and the Supervisory Board pursuant to the German Corporate Governance Code in the version dated

February 7, 2017; referred to hereinafter as "corporate governance declaration"). No conflicts of interest arose in the year under report.

At our meetings, we dealt in detail with the business performance and economic situation of the company on the basis of oral and written reports provided by the Board of Management. We also extensively addressed the strategic enhancement of the company's business, investment and financial policy, and corporate governance. We informed ourselves in detail about the company's opportunity and risk situation, and the implementation of risk management, 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 sales, earnings, and financial position compared with the previous year and the budget. Budget variances were explained and measures discussed.

At the meeting held in May 2019 to approve the annual financial statements, we examined the annual and consolidated financial statements in great detail in the presence of the auditor, as was also the case in May 2020. Furthermore, the Audit Committee also reported on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the corporate governance declaration (simultaneously the joint corporate governance report of the Board of Management and the Supervisory Board pursuant to the German Corporate Governance Code in the version dated February 7, 2017; referred to hereinafter as "corporate governance declaration"), the risk report, and the compliance report were also discussed and approved at this meeting. Moreover, we approved the agenda for the Annual General Meeting, including the proposed resolutions. In May 2019, we also dealt with the audit of the non-financial group declaration in the presence of the auditors from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, as was also the case in May 2020.

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

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Declarations of Conformity

In December 2019, the Group's current business situation, risk report, and compliance report were discussed. At the same meeting, we discussed the efficiency of the Supervisory Board's activities and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). This declaration was made permanently available on the company's homepage. HORNBACH Holding AG & Co. KGaA 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 Holding AG & Co. KGaA can be found in the joint report of the Board of Management and Supervisory Board in the "Corporate Governance" chapter.

In moving from the Supervisory Board to the Board of Management of HORNBACH Baumarkt AG, Erich Harsch stood down from his position on the Supervisory Board of HORNBACH Holding AG & Co. KGaA. To fill the Supervisory Board position thereby becoming vacant, the Board of Management, acting with the approval of the Supervisory Board, requested Ludwigshafen District Court to appoint Simona Scarpaleggia as a Supervisory Board member until the conclusion of the next Annual General Meeting. Simona Scarpaleggia was correspondingly appointed by Ludwigshafen Registry Court as of March 24, 2020.

At its final meeting in the past 2019/20 financial year, held in February 2020, the Supervisory Board discussed the Group's current business situation as well as the budget for the financial years 2020/21 to 2024/25. Furthermore, reports were made on the latest status and implications of the coronavirus pandemic and on the challenges arising, particularly in the fields of procurement and logistics.

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

Committees and committee meetings

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

Directors and Officers
Supervisory Board committees

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

In May 2019, the Audit Committee discussed the annual financial statements of HORNBACH Holding AG & Co. KGaA and the consolidated financial statements, management reports, proposed appropriation of profits, and audit reports, including the dependent company report, in the presence of the CEO and the CFO. Further 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 2019 the half-year financial report was addressed in the presence of the auditors and the key audit focuses were specified for the audit of the consolidated financial statements. In December 2019, the Audit Committee held detailed discussions concerning the statement for the first nine months and also discussed the risk report, the compliance report, and the financial situation. The auditor reported on the current status of the work already begun on the audit of the financial statements. In February 2020, the budget for the financial years 2020/21 to 2024/25 was addressed in detail, as was the internal audit plan for the 2020/21 financial year.

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

The Special Committee formed by the Supervisory Board of HORNBACH Holding AG & Co. KGaA in the course of the change in legal form in October 2015 held two meetings in the 2019/20 financial year. The Special Committee performs the tasks of the Supervisory Board pursuant to § 8 (1) Sentence 2 of the Articles of Association. It is responsible in particular for checking and approving invoices submitted by the general partner pursuant to § 8 (3) of the Articles of Association. To this end, the Special Committee met in May and September 2019.

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

Composition of Supervisory Board

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

We thank Erich Harsch for his longstanding involvement in the Supervisory Board of HORNBACH Holding AG & Co. KGaA.

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

Annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim (Deloitte), audited the annual financial statements and consolidated financial statements of HORNBACH Holding AG & Co. KGaA as of February 29, 2020, as well as the combined management report and group management report of HORNBACH Holding AG & Co. KGaA for the 2019/20 financial year, and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Moreover, Deloitte confirmed that the Board of Management had suitably implemented the measures required by § 91 (2) AktG, particularly those concerning the establishment of an early warning risk management system, and that the monitoring system was suitable for the early detection of any developments that could threaten the company's continued existence.

Key audit focuses in the 2019/20 financial year included the recoverability of location properties and right-of-use assets for location properties, the measurement of inventories, and the first-time application of IFRS 16 in respect of the consolidated financial statements and the recoverability of financial assets and receivables due from associated companies in respect of the annual 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, 2020 and at the subsequent meeting of the Supervisory Board held the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Furthermore, Deloitte reported on the preliminary planning for the audit of the financial statements for the 2020/21 financial year. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse Deloitte's audit findings. We approve the annual and consolidated financial statements of HORNBACH Holding AG & Co. KGaA prepared by the Board of Management as of February 29, 2020. We endorse the appropriation of profits proposed by the Board of Management.

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

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

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

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

The Supervisory Board thanks the Board of Management and all employees in Germany and abroad for the great commitment shown in the past financial year.

Neustadt an der Weinstrasse, May 2020

The Supervisory Board

Dr. John Feldmann
Chairman

Corporate Governance Report with Corporate Governance Declaration

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBACH has always accorded priority to high-quality corporate governance. It forms the basis for sustainable economic success and helps us enhance the trust placed in our company by our customers, business partners, investors, employees, and the financial markets. The standards and guidelines we adhere to over and above legal requirements are summarized in the Corporate Governance Declaration (§ 289f HGB), which includes the Corporate Governance Report of the Board of Management and the Supervisory Board (Point 3.10 of the German Corporate Governance Code in the version dated February 7, 2017).

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

The general partner (HORNBACH Management AG, acting via its Board of Management) and the Supervisory Board of HORNBACH Holding AG & Co. KGaA hereby declare pursuant to § 161 of the German Stock Corporation Act (AktG):

I. Preliminary remarks

The German Corporate Governance Code (the "Code") is tailored to companies with the legal form of a stock corporation ("AG") or a European Company ("SE") and does not account for the special circumstances of partnerships limited by shares ("KGaA"). Many of the recommendations made in the Code can only be applied in modified form to HORNBACH Holding AG & Co. KGaA. The following factors in particular require consideration:

1. Management

Many of the Code recommendations refer to the Board of Management. Unlike an AG, however, the KGaA does not have a Board of Management. At a KGaA, the tasks incumbent on the Board of Management are performed by the general partner, in this case HORNBACH Management AG.

2. Supervisory Board

The Code recommendations concerning the Supervisory Board also do not account for the legal form of a KGaA, where the rights and obligations of the Supervisory Board differ from those at an AG. Specifically, the Supervisory Board of a KGaA does not have any personnel competence in respect of any Board of Management at the general partner and also cannot obligate the latter in terms of the company's management by laying down transactions subject to approval requirements.

3. Annual General Meeting

The Annual General Meeting of a KGaA basically has the same rights as that at an AG; it additionally passes resolution on the adoption of the company's annual financial statements. Unlike at an AG, some of the resolutions adopted by the Annual General Meeting require the approval of the general partner. These include the adoption of the company's annual financial statements.

II. Declaration

The company basically complied with the recommendations of the Code in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 since the submission of its previous Declaration of Conformity in December 2018 and will continue to do so in future.

No application was or will be made of the recommendations in Points 3.4 (1) Sentence 3, 3.8 (3), 4.1.3 Sentence 2, 4.1.5 Sentence 1, 4.2, 4.3, 5.1.2, and 5.2 (3).

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

a) Point 3.4 (1) Sentence 3:

The KGaA does not have a Board of Management. By resolution dated October 9, 2015, the Supervisory Board laid down the general partner's disclosure obligations in a Code of Procedure.

b) 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 the Supervisory Board. No such deductible has been agreed at the expense of Supervisory Board members. This would reduce the attractiveness of Supervisory Board activities, and thus also the company's chances in the competition to attract qualified candidates. The recommendation made in Point 3.8 (3) is therefore not followed.

c) Point 4.1.3 Sentence 2:

According to Point 4.1.3 Sentence 2, the Board of Management should institute appropriate measures reflecting the company's risk situation (compliance management system) and disclose the main features of those measures. The KGaA does not have a Board of Management. Irrespective of this, the company has a compliance management system and discloses its main features.

d) Point 4.1.5 Sentence 1:

According to Point 4.1.5 Sentence 1, when appointing the company's executives the Board of Management should consider the principle of diversity and in particular endeavor to achieve the appropriate consideration of women for such positions. The KGaA does not have a Board of Management.

e) Point 4.2:

In Point 4.2, the Code makes several recommendations concerning the composition and remuneration of the Board of Management. The KGaA does not have a Board of Management. The Supervisory Board of HORNBACH Holding AG & Co. KGaA has no responsibility for appointing and dismissing the members of the Board of Management at HORNBACH Management AG or for specifying their contractual terms and conditions.

f) Point 4.3:

In Point 4.3, the Code makes several recommendations concerning the treatment of conflicts of interest on the part of members of the Board of Management. The KGaA does not have a Board of Management. Conflicts of interest on the part of members of the Board of Management of the general partner, transactions with persons and enterprises closely related to such and any sideline activities are dealt with by the general partner. Pursuant to § 8 (1) Sentence 2 of the Articles of Association, however, the Supervisory Board represents the company in its dealings with the general partner in respect of all transactions.

g) Point 5.1.2:
The KGaA does not have a Board of Management. The Supervisory Board of a KGaA does not have any personnel competence in respect of the Board of Management of the general partner.

h) Point 5.2 (3):
The KGaA does not have a Board of Management. Within the framework of the amended responsibilities of the Supervisory Board, the Supervisory Board will, as previously, maintain contact with the general partner, inform the Supervisory Board and also convene extraordinary meetings for this purpose where appropriate.

Neustadt an der Weinstrasse, December 2019
HORNBACH Holding AG & Co. KGaA

The Supervisory Board of HORNBACH Holding AG & Co. KGaA The Board of Management of HORNBACH Management AG

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Declarations of Conformity

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

2. Specific Features of the Legal Form and Articles of Association of HORNBACH Holding AG & Co. KGaA

HORNBACH Holding AG & Co. KGaA, based in Neustadt an der Weinstrasse, is a partnership limited by shares (KGaA). Like a stock corporation, the KGaA is a corporation whose capital is divided into shares. Like a stock corporation, the KGaA is thus suited to a broad group of investors and to simple tradability of its shares. Like a limited partnership, the KGaA has two different groups of shareholders, the personally liable shareholder(s) on the one hand and limited shareholders on the other. HORNBACH Holding AG & Co. KGaA is governed by the requirements of German law and the provisions of its Articles of Association.

2.1 Share capital and share class
The share capital of HORNBACH Holding AG & Co. KGaA amounts to € 48,000,000.00 and is divided into 16,000,000 no-par ordinary bearer shares with a prorated amount of share capital of € 3.00 per share. The ordinary shares in the KGaA are admitted to trading in the Prime Standard of the Frankfurt Stock Exchange (ISIN DE0006083405/ WKN 608340).

2.2 Group management and supervisory structure and bodies
The statutory bodies of the KGaA are the general partner, the Supervisory Board, and the Annual General Meeting.

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The Articles of Association of HORNBACH Holding AG & Co. KGaA which, alongside legal requirements, define the competencies of the bodies in greater detail, can be downloaded from our website.

2.2.1 General partner
The general partner of HORNBACH Holding AG & Co. KGaA is HORNBACH Management AG, represented by its Board of Management, which currently consists of two members. The Board of Management of the general partner manages the business of HORNBACH Holding AG & Co. KGaA and represents the company to third parties. Pursuant to the Articles of Association, the authorization of the general partner to manage the business

also extends to exceptional management measures not requiring the approval of limited shareholders at the Annual General Meeting.

The general partner does not participate either in the profit or loss or in the assets of the KGaA. The general partner is required to report regularly to the Supervisory Board of the KGaA.

Hornbach Familien-Treuhandgesellschaft mbH holds all shares in HORNBACH Management AG. Consistent with the provisions of the Articles of Association of the KGaA, the level of shareholding held by Hornbach Familien-Treuhandgesellschaft mbH in the share capital of HORNBACH Holding AG & Co. KGaA has to exceed 10 %. Furthermore, Hornbach Familien-Treuhandgesellschaft mbH must hold at least 50 % plus one share of the shares in HORNBACH Management AG.

2.2.2 Supervisory Board

The supervisory board of a KGaA is essentially constituted in the same way as that of a stock corporation (AG). The Supervisory Board of HORNBACH Holding AG & Co. KGaA is obliged to supervise the company's management. However, it is not entitled to appoint the board of management of the general partner. Furthermore, as a general rule the supervisory board of a KGaA may not issue any code of procedure for the management or compile any list of transactions requiring its approval. Like at a stock corporation, members of the supervisory board are elected by the annual general meeting.

2.2.3 Annual General Meeting

Limited shareholders exercise their rights, including their voting rights, at the Annual General Meeting. Each ordinary share in HORNBACH Holding AG & Co. KGaA grants one vote. HORNBACH Holding AG & Co. KGaA provides its shareholders with the services of a voting proxy bound to vote in line with instructions.

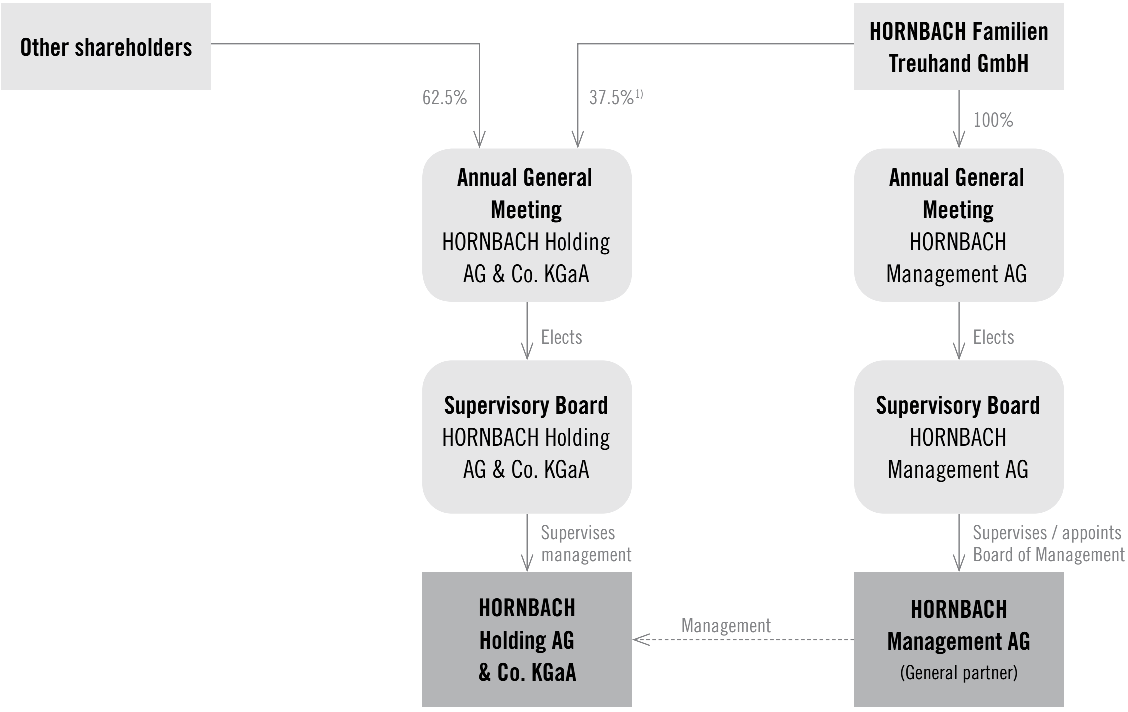
Legal requirements exclude the general partner, and for specific resolutions, its sole shareholder, Hornbach Familien-Treuhandgesellschaft mbH, from exercising voting rights. In particular, these include the election and dismissal of the Supervisory Board of HORNBACH Holding AG & Co. KGaA, which is therefore decided solely by the other limited shareholders. This means that Hornbach Familien-Treuhandgesellschaft mbH has no influence on the composition of the Supervisory Board of HORNBACH Holding AG & Co. KGaA. The voting prohibition also applies to the approval of the actions of the general partner and members of the Supervisory Board, as well as to the election of the auditor. The voting prohibition thus accounts for any potential conflict of interests.

The requirements governing the preparation and execution of the Annual General Meeting are basically analogous to those at stock corporations. Pursuant to the Articles of Association, the meeting is generally chaired by the Supervisory Board Chairman.

Unlike at the annual general meeting of a stock corporation, subject to the approval of the general partner the Annual General Meeting of HORNBACH Holding AG & Co. KGaA also resolves on the adoption of the annual financial statements. The Annual General Meeting also decides on the appropriation of net profit.

Consistent with legal requirements, resolutions adopted by the Annual General Meeting require the approval of the general partner unless this is prohibited from voting on the individual matter in hand. This approval requirement applies to all matters for which the limited partnership requires the approval both of its general partner and of its limited shareholders. Resolutions adopted by the Annual General Meeting to amend the Articles of Association and other fundamental resolutions therefore basically require the approval of the general partner. At the Annual General Meeting, the general partner declares whether it approves the resolutions or intends to exercise its veto right. Such declarations are recorded in the minutes of the meeting.

Structure of HORNBACH Holding AG & Co. KGaA
Status: February 29, 2020



[1] directly and indirectly; no voting rights for specific resolution items, such as the election of the Supervisory Board of HORNBACH Holding AG & Co. KGaA, formal approval of the actions of the general partner and Supervisory Board of the KGaA, election of the auditor: status: February 29, 2020.

Shareholders are regularly informed of all significant dates, such as the Annual General Meeting in particular, by means of the financial calendar published in the annual report, the quarterly financial reports, and on the company's homepage at www.hornbach-group.com.

3. Modus Operandi of Management and Supervisory Board

Unlike at a stock corporation, the dualistic system at a partnership limited by shares does not comprise a board of management and a supervisory board, but rather a general partner and a supervisory board.

3.1 Supervisory Board

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Supervisory Board

The Supervisory Board of HORNBACH HOLDING AG & Co. KGaA consists of six members. The CVs of the Supervisory Board members have been published on our website. Unless otherwise stipulated by mandatory legal requirements, the Supervisory Board has this number of members.

The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. At its meetings, the Supervisory Board adopts resolutions with a simple majority of the votes cast unless otherwise required by law or the Articles of Association. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the casting vote.

The general partner and the Supervisory Board work together closely in the interests of the company. The Supervisory Board of HORNBACH Holding AG & Co. KGaA monitors the management of the company by the general partner. To this end, the Board of Management of HORNBACH Management AG is required to report regularly, promptly, and extensively on its intended business policy, real estate strategy, and corporate planning, as well as on the company's current sales and earnings performance. Its duties to provide information include reports on the company's profitability, planned transactions with a material influence on the company's net asset, financial, and earnings position, and reports on the company's risk management and risk situation.

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 immediately 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 the general partner, 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 result in the resignation of such member. 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. The same applies to equivalent contracts with the general partner to the extent that the company is obliged by its Articles of Association to reimburse any resultant expenses. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Holding AG & Co. KGaA in the 2019/20 financial year.

The Supervisory Board of HORNBACH Holding AG & Co. KGaA has the following committees:
- Nomination Committee
- Audit Committee
- Special Committee

Directors and Officers
Supervisory Board committees

Report of the Supervisory Board
Committees and committee meetings

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

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

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

Taking due account of the recommendations made in Point 5.4.1 of the German Corporate Governance Code (in the version dated February 7, 2017; corresponds to Recommendation C.1 in the version dated December 16, 2019), on December 20, 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 Holding AG & Co. KGaA 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 managing a retail, service, and real estate group with activities in the fields of (a) building, acquiring and/or 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; (b) similar or other areas of the retail and wholesale sector; (c) manufacturing and processing products sold at the retail stores; (d) managing assets and acquiring, managing, and disposing of participating interests in domestic and foreign subsidiaries; (e) performing management and other services for subsidiaries and participating interests; and (f) acquiring, developing, planning, building, using, administering, disposing of and/or otherwise using land, whether built on or not, and leasehold rights. 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 Holding AG & Co. KGaA, 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, asset and investment management, and real estate management 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. The target share of women in the Supervisory Board to be reached by February 28, 2022 may of course be exceeded, but has been set at its existing level of no less than 1/6.
- 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.
- Supervisory Board members who have sat on the Supervisory Board for more than three terms in office are now longer deemed as independent.

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

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

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

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. The Supervisory Board currently includes four female members (status: May 2020), as a result of which the target of 1/6 set for February 28, 2022, while upholding the current status, has been met (c.f. “Share of Women in Senior Management Positions” in Section 3.3). No members of the Supervisory Board of HORNBACH Holding AG & Co. KGaA 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 as such.

The Supervisory Board currently includes four independent members: These are Dr. John Feldmann, Simone Krah, Simona Scarpaleggia (since March 24, 2020) and Melanie Thomann-Bopp.

3.1.3 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Dr. John Feldmann, Chairman	4/4	100.00
Martin Hornbach, Deputy Chairman	4/4	100.00
Erich Harsch, member until December 31, 2019	3/3	100.00
Simone Krah	4/4	100.00
Melanie Thomann-Bopp	4/4	100.00
Dr. Susanne Wulfsberg	4/4	100.00
Total		100.00

Audit Committee	Meetings attended	Attendance in %
Melanie Thomann-Bopp, Chairwoman	5/5	100.00
Dr. John Feldmann	5/5	100.00
Martin Hornbach	5/5	100.00
Simone Krah	5/5	100.00
Total		100.00

Special Committee	Meetings attended	Attendance in %
Melanie Thomann-Bopp	2/2	100.00
Dr. John Feldmann	2/2	100.00
Erich Harsch, member until December 31, 2029	2/2	100.00
Simone Krah, member since January 1, 2020*	-	-
Total		100.00

* No meetings of the Special Committee were held in the months of January and February 2020.

3.2 Composition and modus operandi of the Board of Management

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

The Board of Management of the general partner, HORNBACH Management AG, comprises two members. Members of the Board of Management are bound to uphold the company's best interests. Compliance activities to ensure that the company adheres to laws, legal requirements and its own internal guidelines represent a key management task. The Supervisory Board of HORNBACH Management AG has imposed a Code of Procedure on the Board of Management of the general partner governing its management of HORNBACH Holding AG & Co. KGaA. The composition and areas of responsibility of the Board of Management are presented in the "Directors and Officers" chapter in this report.

In performing its duties, the Board of Management is required to work together with the other boards at the general partner and the company on a basis of trust. The members of the Board of Management bear joint responsibility for the overall management of the company. They work together as colleagues and inform each other about all key measures and developments in their areas of responsibility. The Board of Management meets at least twice a month and on an ad-hoc basis when required in the interests of the company and/or the general partner.

The Board of Management provides the Supervisory Board of HORNBACH Holding AG & Co. KGaA with regular, prompt and extensive information on all matters relevant to the company's and Group'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 assessing the situation, development and management of the company. Transactions and measures requiring Supervisory Board approval are submitted in good time.

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In their decisions, members of the Board of Management may not pursue personal interests or exploit business opportunities available to the company and/or the general partner for their personal benefit. Members of the Board of Management are obliged to disclose conflicts of interest to the Supervisory Board of the general partner 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 of the general partner. The CVs of the members of the Board of Management have been published on our website.

3.3 Share of women in senior management positions

HORNBACH Holding AG & Co. KGaA 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 Supervisory Board and the two senior management tiers below the Board of Management (of the general partner). 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. Specifically:

3.3.1 Women on the Supervisory Board and Board of Management

At a meeting in July 2015, the Supervisory Board of HORNBACH Holding AG & Co. KGaA had set the target share of women on the Supervisory Board to be reached by June 30, 2017 at no less than 1/6 pursuant to § 111 (5) AktG. At its meeting on May 24, 2017, the Supervisory Board confirmed this target, which was achieved, and extended the target of no less than 1/6, while upholding the current status, through to February 28, 2022. The Supervisory Board currently has four female members (status: May 2020).

As the Supervisory Board is not responsible for personnel-related topics on the Board of Management at the general partner HORNBACH Management AG, it was not able to set any targets for that body.

3.3.2 Women in the management tier below the Board of Management

At a meeting in July 2015, the Board of Management of the general partner HORNBACH Management AG had set the target share of women in the management tier beneath the Board of Management at the general partner, which only comprises one manager reporting to the Board of Management, to be reached by June 30, 2017 at a level of at least 0 %. By resolution adopted pursuant to § 76 (4) AktG in the year under report, the Board of Management of the general partner confirmed this target, which was achieved, and extended the target of at least 0 %, while upholding the current status, through to February 28, 2022. The company does not have any other management tiers.

4. Reporting and Auditing of Financial Statements

The HORNBACH Holding AG & Co. KGaA Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The separate financial statements of HORNBACH Holding AG & Co. KGaA 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 Holding AG & Co. KGaA 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 Holding AG & Co. KGaA Group reports on its situation in its

- Quarterly statements and 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.

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 Holding AG & Co. KGaA which is not publicly known and which is likely to influence the company’s share price significantly is published in the form of ad-hoc announcements as insider information pursuant to Article 17 of the Market Abuse Regulation (MAR). All individuals working on behalf of the company and with access to insider information in the course of their activities are informed of the resultant obligations for them under insider law.

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Investor Relations
and Financial Calendar

Members of the Board of Management of the general partner and the Supervisory Board of HORNBACH Holding AG & Co. KGaA, 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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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 overall HORNBACH 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 of the general partner bears overall responsibility for compliance. One core component of HORNBACH's compliance system is the Compliance Committee, which acts as the topmost advisory body for compliance organization. The Chief Compliance Officer is responsible for coordinating group-wide compliance activities. This officer reports to the Board of Management and is responsible for permanently optimizing and further developing the Group’s compliance organization and structures. The Chief Compliance Officer is supported by compliance officers operating on a decentralized basis in all of HORNBACH’s regions and departments. HORNBACH's compliance system is subject to regular reviews and enhancements. Once a year, the Chief Compliance Officer holds a meeting with the compliance officers to coordinate compliance-related topics.

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

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

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

7. Remuneration Report

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

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Remuneration Report

8. Directors and Officers

Supervisory Board of HORNBACH Holding AG & Co. KGaA

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

Martin Hornbach
Deputy Chairman
Managing Partner
Corivus Gruppe GmbH

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

Simone Krah
(Managing) President of MMM-Club e.V.

Simona Scarpaleggia (since March 24, 2020)
Director of Global Initiative "Future of Work"
at Ingka Group (IKEA)

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

Dr. Susanne Wulfsberg
Director of Floggensee Stud, Veterinary Surgeon

Supervisory Board committees

Audit Committee

Melanie Thomann-Bopp	Chairwoman
Dr. John Feldmann	
Martin Hornbach	
Simone Krah	

Nomination Committee

Dr. John Feldmann	Chairman
Erich Harsch	until December 31, 2019
Simone Krah	
Melanie Thomann-Bopp	since January 1, 2020

Special Committee

Melanie Thomann-Bopp	
Dr. John Feldmann	
Erich Harsch	until December 31, 2019
Simone Krah	since January 1, 2020

Board of Management of HORNBACH Management AG
(general partner of HORNBACH Holding AG & Co. KGaA)

Members and areas of responsibility

Albrecht Hornbach
Chairman (CEO)
DIY Stores / Garden Centers (HORNBACH Baumarkt AG)
Builders' Merchants (HORNBACH Baustoff Union GmbH)
Real Estate (HORNBACH Immobilien AG)

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

Supervisory Board of HORNBACH Management AG
(general partner of HORNBACH Holding AG & Co. KGaA)

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

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

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

Albert Hornbach
SAP Interim Manager

Christoph Hornbach
School Director

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

Joerg Walter Sost
Managing Partner
J.S. Consulting GmbH

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

Dr. Susanne Wulfsberg
Director of Floggensee Stud, Veterinary Surgeon

Non-Financial Group Report

1. Fundamentals of Non-Financial Group Report

1.1 Group structure and business model

The structure and business model of the HORNBACH Group are presented below.

Group Management Report
Group Fundamentals

HORNBACH Holding AG & Co. KGaA is the parent company of the HORNBACH Group. It does not have any operations itself, but has a number of major subsidiaries. In addition to HORNBACH Baumarkt AG, the largest operating subgroup at which the do-it-yourself (DIY) retail activities across Europe are pooled, the HORNBACH Group also comprises the HORNBACH Baustoff Union GmbH subgroup (regional builders' merchants) and the HORNBACH Immobilien AG subgroup (real estate and location development). At the balance sheet date on February 29, 2020, the Group had a total of 21,505 employees, of which 9,424 outside Germany. In the 2019/20 financial year (March 1, 2019 to February 29, 2020), the HORNBACH Group generated net sales of around € 4.7 billion. The HORNBACH Group was founded in 1877 and is family managed, now in the fifth generation. It has the legal form of a partnership limited by shares (KGaA) and is publicly listed.

In accordance with the Articles of Association, the general partner of HORNBACH Holding AG & Co. KGaA is HORNBACH Management AG, represented by its Board of Management, which currently consists of two members. The Board of Management of the general partner manages the business of HORNBACH Holding AG & Co. KGaA and represents the company to third parties. Hornbach Familien-Treuhandgesellschaft mbH holds all shares in the general partner of HORNBACH Holding AG & Co. KGaA.

Our business activities focus on do-it-yourself (DIY) retail with DIY stores and garden centers, as well as on online DIY retail in Germany and eight other European countries. These retail activities, which focus on the needs of private end customers (business-to-consumer: B2C), are managed at HORNBACH Baumarkt AG, which is by far the largest operating subgroup. The DIY product range is structured in five product divisions: hardware / electrical, paint / wallpaper / flooring, construction materials / timber / prefabricated components, sanitary / tiles, and garden.

In addition, HORNBACH is also active in the regional builders' merchant business via its HORNBACH Baustoff Union GmbH subsidiary (HBU), which chiefly focuses on specialist retail with commercial customers in the main and secondary construction trades (business-to-business: B2B). The range of products and services in HBU's B2B segment comprise around 180,000 articles in ten product divisions: civil engineering, building construction, roof / façade, fittings, garden, construction elements, sanitary and tiles, specialist products, fuels, and transport/other.

The principal task performed by the HORNBACH Immobilien AG subgroup is to support the DIY retail business by developing stationary retail properties for group-internal use.

The internationalization of 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 and manufacturer the opportunity to structure the B2B store deliveries as efficiently as possible. Suppliers are able to make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. This way, we provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries.

With net sales of € 4.4 billion in the 2019/20 financial year, the HORNBACH Baumarkt AG subgroup contributed 93 % of consolidated sales and employed around 95 % of the HORNBACH Group's total workforce[1] at the balance sheet date. The HORNBACH Baustoff Union GmbH (HBU) subgroup accounts for € 299 million, and thus around 7 % of sales, as well as for around 5 % of the Group's employees. HORNBACH Immobilien AG does not have any operating customer business or proprietary employees.

1.2 Materiality analysis

Pursuant to § 289c of the German Commercial Code (HGB), non-financial topics count as material when they have significant implications for CSR aspects (environment, employees, human rights, social welfare, and anti-corruption) and are also relevant to the Group's business activities (business performance, business results, and situation).

In the 2019/20 financial year, the managers responsible for the respective topics at the Group, including representatives of both HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH, reviewed whether their assessment of the non-financial topics within the Group's own business activities or supply chain and at customers which impact on the aspects defined in § 289c HGB had changed to any significant extent compared with their assessment in the previous year. To this end, in an updated materiality matrix the non-financial topics were evaluated in terms of their relevance for our business activities and their implications for the aspects defined in § 289c HGB.

The managers responsible for the respective topics concluded that the following material topics identified in the 2018/19 financial year and presented below are still equally valid. These topics have therefore also been taken as the basis for the 2019/20 Non-Financial Group Report:

1. Product range and customer information
2. Responsible procurement
3. Product responsibility
4. Employee satisfaction and loyalty
5. Employee recruitment
6. Employee development
7. Compliance

The findings were agreed with the Board of Management of HORNBACH Management AG in order to ensure consistent and comprehensive reporting for the overall Group.

1.3 Risk assessment

All material non-financial topics were subject to a risk assessment to ascertain whether our business activities, supply chain, or customers gave rise to any material risks for the aspects defined in § 289c HGB. Our group-wide risk management did not identify any risks requiring report at the HORNBACH Holding AG & Co. KGaA Group.

Group Management Report
Risk Report

Coronavirus pandemic

Events of material significance to any assessment of the earnings, financial, and asset position of HORNBACH Holding AG & Co. KGaA and of the HORNBACH Group arose between the balance sheet date on February 29, 2020 and the time at which this Non-Financial Group Report was prepared. The global coronavirus pandemic, which has been accelerating since March 2020, is expected to impact negatively on the company's

[1] The terms "workforce" and "employees" refer to all genders.

sales, earnings, and liquidity situation in the 2020/21 financial year. However, no risks as defined in the German CSR Directive Implementation Act (CSR-RUG) have been identified at the HORNBACH Holding AG & Co. KGaA Group.

Acting at its own initiative, in early March HORNBACH Baumarkt AG already started implementing measures aimed at protecting its customers and employees from infection with the coronavirus (SARS-Cov-2) at its DIY stores with garden centers. The frequency of cleaning was increased, for example, while additional disinfectant dispensers were installed, checkout staff were provided with gloves, and customers were made aware of the need to maintain greater distances. Events, presentations, and employee training and travel of all kinds were canceled. Customers were only advised at information counters with a minimum distance of two meters between the participants. Mobile spacers were deployed in checkout areas. In some cases, customer flows had to be regulated by employees or security staff in order to minimize the risk of infection to the greatest possible extent.

Further information can be found under "Events after the balance sheet date" in the notes to the consolidated financial statements in the Annual Report of HORNBACH Holding AG & Co. KGaA.

1.4 Sustainability management

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HORNBACH Values

We base all of our group-wide entrepreneurial actions on the HORNBACH Values. These provide a firm foundation for the values underpinning our dealings with customers, as well as our conduct towards our fellow employees. Furthermore, we also base our actions on HORNBACH's CSR Policy, which includes the following core requirements:

- Equal opportunities in selecting and promoting our employees
- Minimum requirements in our suppliers' production sites
- Flawless quality of our products
- Enhancing our product range to account for sustainability
- Recycling and waste avoidance in our business operations

We are convinced that responsibility as embodied in corporate social responsibility (CSR) is a prerequisite for our long-term economic success and for our company's future prospects.

An internal CSR team with members from relevant departments across the Group is responsible for further developing the company's strategic CSR targets. The strategies, targets, and management approaches for non-financial topics are mainly defined by HORNBACH Baumarkt AG and managed by that company's Board of Management. The Board of Management is regularly involved in topic-specific measures and kept informed about their implementation. The topics of product range and customer information, responsible procurement, and product responsibility are allocated to the member of the Board of Management responsible for procurement, imports, store planning, store development, quality management, environment, and CSR. The topics of employee recruitment, employee satisfaction and loyalty, and employee development are managed by the member of the Board of Management responsible for personnel (labor director), who is responsible for personnel, organizational development, marketing, market research, internal communications, and public relations. In the period under report, the topic of compliance (anticorruption measures) was managed by the member of the Board of Management responsible for real estate, construction, technical procurement, internal audit, legal, and compliance. Since the beginning of the new 2020/21 financial year on March 1, 2020, compliance has been managed by the Chief Financial Officer, who is also responsible for accounting, tax, controlling, risk management, loss prevention, investor relations, internal audit, and legal.

At the HORNBACH Baustoff Union GmbH subgroup, the management is responsible for the strategies, targets, and management approaches for those non-financial topics deemed material. The topics of product range and customer information, responsible procurement, and product responsibility are allocated to the Chairman of the Management (Operations Director), who is responsible for the strategic development, outlet operations, real estate, marketing, and logistics divisions. The topics of employee recruitment, employee satisfaction and loyalty, employee development, and compliance are allocated to the Commercial Director, who is responsible for the finance and accounting, risk management and controlling, personnel, information technology, technical procurement, and legal and compliance divisions.

Within the Board of Management of HORNBACH Management AG, the general partner of HORNBACH Holding AG & Co. KGaA, the CEO is responsible for the operating business at the two subsidiaries HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH.

1.5 Framework

Reporting contents are based exclusively on the materiality definition and content requirements set out in the German CSR Directive Implementation Act (CSR-RUG). No use has been made of any framework.

2. Material Non-Financial Aspects

The HORNBACH Baumarkt AG subgroup holds a dominant position within the HORNBACH Group, and that both in terms of business activities and of their implications for the aspects defined in § 289c HGB as they pertain to the HORNBACH Holding AG & Co. KGaA Group. The B2C retail business at HORNBACH Baumarkt AG contributes by far the largest share of the Group’s sales and is therefore also the most important lever in terms of implications for the aspects defined in § 289c HGB.

The material non-financial aspects identified for the Group are also relevant to the HORNBACH Baustoff Union GmbH subgroup. The reporting has been supplemented in relevant sections to include the perspective of HORNBACH Baustoff Union GmbH.

In view of this, unless indicated otherwise, the concept described in this non-financial group report relates to the targets, strategies, management approaches, and measures at the HORNBACH Holding AG & Co. KGaA Group. In what follows, the terms “we”, “HORNBACH” and “group-wide” are synonymous with the entire HORNBACH Group. Diverging from this approach, we explicitly refer to any concepts pursued solely on the level of the HORNBACH Baumarkt AG or HORNBACH Baustoff Union GmbH subgroups.

2.1 Product range and customer information

2.1.1 Targets and strategy

Our DIY stores with garden centers, DIY online shops, and builders’ merchant outlets provide our customers with a broad and deep product range and also offer product and project-based information and competent advice with regard to product features and their suitability for implementing specific construction and renovation projects. This way, we aim to enable our customers to make the right purchase decision for their situation. The ability to make a well-informed, independent decision in favor of or against a specific product is a prerequisite for high customer satisfaction and for building a permanent, trust-based customer relationship. This in turn forms the basis for the Group's business success.

By offering the maximum possible transparency concerning the source, contents, and environmental implications of our product ranges – throughout their entire lifecycles – we also aim to enable our customers to consider ecological, health, and social welfare factors when reaching their purchase decisions. Given consumers' ever growing interest in responsible lifestyles, increasing the range of corresponding products on offer also harbors growth opportunities for the company. One example here relates to those products used in energy-efficient construction or energy-efficient refurbishments. These measures enable customers to save energy while at the same time reducing carbon dioxide emissions.

2.1.2 Management approach and measures

Internal evaluations and external consumer surveys provide us with indications of our customers' satisfaction with our product range and the information and services we offer.

As part of our operating activities, we collect feedback from our customers and analyze their purchasing behavior. We also factor customer evaluations posted at our online DIY stores into this process. On this basis, we endeavor to continually align our product range, services, and associated information and advice more closely to customers' needs. Not only that, when it comes to independent consumer surveys conducted to evaluate the performance of stationary DIY stores and garden centers in the European countries in which the Group operates we accord priority to being ranked among the best providers in terms of overall satisfaction, product range selection, specialist advice, value for money, and prices compared with competitors.

Non-Financial Group Report
2.5 Employee recruitment
2.6 Employee development

To ensure that our employees are available for customers, and thus also safeguard the quality of advice provided in our retail business, we base our staff deployment planning on expected seasonal customer frequency volumes. Two key factors highly significant to our business success are the ability to attract qualified specialist staff and the provision of regular training and further development measures to our employees. Furthermore, the HORNBACH Baumarkt AG subgroup provides digital product information and video tutorials in its online stores and on social media. These offer information on how to use the products, for example, or explain DIY projects on a step-by-step basis ("HORNBACH Meisterschmiede").

Our product range gives customers the option of using low-emission products for their construction and renovation projects and this way to minimize the use or presence of harmful substances in their living environments. These products are labeled with widely recognized seals, such as Blauer Engel or the eco-INSTITUT seal, which are applied for by the respective manufacturers and displayed on the packaging. Furthermore, we actively indicate the energy and water-saving functions of products and do not stock controversial products or articles that pose a risk to the environment, such as glyphosate herbicides or plants whose cultivation involves the use of neonicotinoids (bee conservation).

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The procurement organizations at HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH manage our product range and the need for product and project-based customer information. To enable us to account as closely as possible for customers' needs in the countries in which we operate our retail business, the procurement organizations account for both central and regional requirements when listing suppliers.

As a matter of principle, we base our product range on the HORNBACH Values. Conversely, that means we reserve the right to delist product ranges when they clearly infringe the HORNBACH Values or do not fit in with the company's ethos on other ethical or ecological grounds.

2.1.3 Target achievement status

HORNBACH does not collect any quantitative key performance data to measure or manage satisfaction with its product and application information or the sustainability of the product range. The company refers exclusively to qualitative indicators for this non-financial aspect. To this end, HORNBACH refers to numerous consumer surveys conducted by external service providers. The company's aim is to maintain its very good rankings across Europe and to improve those rankings that are less good.

In Kundenmonitor Deutschland (Servicebarometer AG) and equivalent consumer surveys conducted in other European countries in the 2019/20 financial year, the HORNBACH Baumarkt AG subgroup was ranked first in the "Overall satisfaction" shown by customers with DIY and home improvement stores, and that in nearly all regions covered by the respective surveys. Furthermore, HORNBACH's DIY stores and garden centers were awarded top rankings in most regions for the criteria relating to product range, value for money, specialist advice, and willingness to recommend to others.

2.2 Responsible procurement

2.2.1 Targets and strategy

Consistent, reliable product availability influences both HORNBACH's sales and its customers' satisfaction levels. Procurement and merchandise availability are therefore crucial to the company's business performance. One basic prerequisite involves ensuring the supply capability and reliability of our suppliers at all times. Moreover, in the context of our product responsibility we also attend to compliance with minimum social welfare and environmental protection standards within our supply chain, especially in the case of private label products, timber products, and natural stone products. Private label products account for around one quarter of sales in our DIY retail business. In the B2B business at HBU, which is more strongly focused on manufacturers' brands, private labels account for a medium single-digit percentage of sales.

Non-Financial Group Report
2.3 Product responsibility

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The minimum standards referred to are set out in HORNBACH's CSR Policy and include the prohibition of child and forced labor, as well as compliance with local environmental legislation.

These targets and strategic requirements basically apply for all companies within the overall Group.

2.2.2 Management approach and measures

For us, the basic requirements of social responsibility include acknowledgement of international standards as codified in the conventions of the International Labor Organization (ILO). ILO requirements form one basis for the audit catalog used in the factory audits HORNBACH commission or performs at its own initiative. Timber is a commodity of particularly great importance for the Group's product range. HORNBACH's CSR Policy requires that we exclusively procure FSC[2]-certified tropical timber or timber from sustainable and responsible European production. This is intended to ensure that the social welfare and work safety standards set out in the CSR Policy are complied with in the production of the timber. To document the source of the timber used and identify timber products from illegal or disputed sources, HORNBACH works closely with suppliers, particularly in the context of its involvement in the FSC, as well as with environmental protection organizations. Independent tests performed in the recent past, for example, have repeatedly indicated that non-certified charcoal products are often linked to deforestation or precarious social conditions. To account for this, in the 2019/20 financial year HORNBACH Baumarkt AG converted its range of charcoal products and now only sells FSC-certified charcoal and barbecue briquettes. HORNBACH Baustoff Union will be following its example in the 2020/21 financial year. Furthermore, when importing natural stones HORNBACH ensures

[2] Forest Stewardship Council

that these come from companies that can document their compliance with international social welfare and work safety standards in regular factory audits.

To monitor the supply chain, the HORNBACH Baumarkt AG subgroup works with an early-warning risk detection CSR system ("CSR map"). This system on the one hand includes the article master data for HORNBACH's DIY product range, as well as supplier audit reports. On the other hand, it provides country-specific information, including corruption indices, environmental indices, and social welfare indices. Together, all this data is used to present a so-called risk tree on the basis of which individual articles can be assessed. Not only that, the CSR map is also connected to a news system that processes items of news in real time. The news items are presented in relationship to the products, factories, and suppliers entered in the system. This way, potential interruptions and CSR-related risks in the supply chain can be rapidly detected and avoided or reduced.

The HORNBACH Baumarkt AG subgroup commissions standardized audits, mainly of production sites for the products which HORNBACH Baumarkt AG stocks as private label products or imports directly from non-EU countries. Upon the preparation of this report, the HORNBACH DIY stores and garden centers and the online DIY shops stocked around 50 private labels from across all five product divisions. The factory audits are conducted by certified, independent audit institutes at least once a year for each production site. Should any failure to comply with these standards be identified, then an action plan is agreed with the respective supplier. The identification of severe infringements would lead to the business relationship being terminated. Merchandise orders may only be placed with those private label and import suppliers that meet HORNBACH's criteria and pass all factory audits. Compliance with requirements in the order process is safeguarded by our SAP QM system and managed by the "Quality Management, Environment, and CSR" department.

Compared with its sister company HORNBACH Baumarkt AG, the HBU subgroup has a significantly lower share of imports and private labels. As of the reporting date, HBU stocked three private labels mainly focusing on product ranges for garden landscaping (natural stones, construction chemicals), plaster, and thermal insulation systems and tiles. Production sites in non-EU countries are audited at least once a year. This task is the responsibility of the Operations Director at HORNBACH Baustoff Union GmbH, who is supported for on-site factory audits by managers from HBU's procurement organization and regional experts specially commissioned for the purpose. The inspection managers are trained in line with HBU's specific requirements and prepared for their audit activities. Like at the HORNBACH Baumarkt AG subgroup, the key focus of the audit is to check compliance with environmental, social, and anticorruption standards.

2.2.3 Target achievement status

On the level of the HORNBACH Baumarkt AG subgroup, a total of 423 factory audits were conducted, mainly at suppliers of private label products and of products directly imported from non-EU countries, in the 2019/20 financial year (2018/19: 441). In the year under report, there were no cases (2018/19: 0) in which the subgroup was required to terminate the business relationship with the supplier as a result of these audits. The HORNBACH Baustoff Union GmbH subgroup performed a low double-digit number of factory audits at private label suppliers. HBU also did not report any cases in the 2019/20 year under report in which the subgroup was required to terminate the business relationship with its supplier on account of these audits (2018/19: 0).

2.3 Product responsibility

2.3.1 Targets and strategy

Product responsibility is one of the bases of our business success. One key aspect of this responsibility involves product quality, a factor which makes a key contribution to customer satisfaction and loyalty. As a sustainable retailer, our aim here is therefore to ensure that all products sold by HORNBACH are of flawless quality. Furthermore, we believe that responsible procurement and sustainable product features (water-saving, energy-saving, etc.), a factor which also includes environmentally compatible packaging and product disposal, play an ever more important role in how customers perceive companies. These therefore constitute further relevant aspects of our product responsibility. In the 2019/20 financial year, we stepped up our efforts to reduce the volume of packaging material. Where this is not possible, we are working on environmentally-friendly alternative solutions. On particular focus in the year under report was on reducing the volume of plastic packaging and packaging material within the actual sales packaging. A further target involves replacing composite packaging consisting of paper-plastic composites with materials comprising only one commodity.

Non-Financial Group Report
2.2 Responsible procurement

Our product responsibility particularly relates to private label products, as well as to other imported articles and articles including the commodities of timber and natural stone. Not only that, defective products also pose a risk to the retailer's reputation. We therefore make every effort to ensure the flawless quality of our entire product range.

2.3.2 Management approach and measures

HORNBACH's quality management covers the entire procurement chain, particularly in the case of imported and private label products.

Non-Financial Group Report
2.2 Responsible procurement

At the HORNBACH Baumarkt AG subgroup, these activities are located in organizational terms at the "Quality Management, Environment, and CSR" department. At HORNBACH Baustoff Union GmbH, responsibility lies with the central procurement department, whose employees report to the Operations Director. The operating units perform the following trial-sample product checks either themselves or by commissioning external service providers. These are intended to safeguard the highest possible level of product quality:

- Merchandise inspection both during production and prior to shipment
- Supervising the loading of merchandise into containers
- Merchandise inspection once the containers arrive at our logistics centers.

The HORNBACH Baumarkt AG subgroup also tests products in terms of safety, contaminants, and suitability for us with the assistance of certified testing institutes and regularly has checks performed on samples from its HORNBACH DIY stores and garden centers. Further tasks include complaints monitoring and product recalls, for example when defects arise in products already in circulation.

Within the product development process, we also work on optimizing the packaging for our private label products. Efforts are made here to reduce the volume of packaging and use recyclable materials and secondary resources.

Numerous different kinds of waste arise at our HORNBACH DIY stores with garden centers, builders' merchant outlets, and logistics centers. To simplify disposal processes, HORNBACH has operated its own internet-based recycling portal since 2015. This was completely revised in the summer last year. This portal is now used by more than 190 collection points in six countries. It also serves, for example, to order the collection of materials by HORNBACH's fleet of "resource liners".

To assist with environmentally compatible disposal, we offer group-wide solutions for the acceptance and disposal of lighting materials, old electrical appliances, waste oil, and batteries.

2.3.3 Target achievement status

In the 2019/20 financial year, quality management staff at HORNBACH Baumarkt AG and certified independent audit institutes performed 1,040 (2018/19: 1,592) product quality tests (safety, contaminants, suitability for use) and 2,139 (2018/19: 2,339) article acceptance audits. Together, these correspond to 3,963 person-days (2018/19: 4,349) performed by independent audit institutes on behalf of HORNBACH. The number of these tests is dependent in each case on order volumes.

2.4 Employee satisfaction and loyalty

2.4.1 Targets and strategy

We are convinced that highly motivated employees are the basis for the company's success. Particularly sales staff and advisors at our DIY stores with garden centers and our builders' merchant outlets play a key role in influencing the satisfaction of our customers. For HORNBACH, a corporate culture which is characterized by open communications, mutual appreciation, and diversity is therefore a basic requirement for upholding a high level of commitment among employees.

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HORNBACH Values

As a Group with operations across Europe and employees from more than 80 countries, we attach priority to creating a working environment that is free of prejudice. Ethnic origin, gender, age, physical restrictions, and religious affiliation are not important to us. The only qualities that count are specialist competence, ambition, commitment, and team spirit.

2.4.2 Management approach and measures

HORNBACH is convinced that all business relationships are based on trust. Trust is a core message in the HORNBACH Foundation and thus shapes our working life. It is indispensable for ensuring a high level of satisfaction and identification among the company's employees. The measures intended to uphold and improve employee satisfaction and loyalty are managed by the respective Personnel Departments at HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH.

Fair remuneration is a component of any trust-based work relationship. HORNBACH ensures that its employees receive pay in line with customary market rates in all of its regions. In Germany, HORNBACH Baumarkt AG voluntarily adheres to the collectively agreed rates for the retail sector throughout the country. We also draw on a variety of models to enable our employees to participate in the company's success.

HORNBACH offers its employees numerous additional benefits. These include, for example, profit sharing, payment of vacation and Christmas allowances, and the opportunity to participate in a company pension by way of a direct insurance scheme that is subsidized by the employer.

To offer employees a neutral point of contact, HORNBACH has created the position of ombudsman. He acts as contact partner to all HORNBACH employees in difficult situations. His main job is to act as an intermediary and arbitrator in misunderstandings and conflicts. This neutral point of contact is used by employees from across the Group and has met with high acceptance levels.

Furthermore, at HORNBACH Baumarkt AG the appropriate representation of our employees in Germany is safeguarded with our General Works Council, works councils at nearly all German locations, and the equal representation of employees and shareholders on the Supervisory Board of HORNBACH Baumarkt AG. Consistent with the German Works Council Constitution Act, we work with all works councils on a basis of trust.

2.4.3 Target achievement status

To measure and manage both employee satisfaction and employee loyalty, we refer to the personnel turnover rate as a quantitative indicator. In the year under report, the personnel turnover rate[3] amounted to 13.8 % (2018/19: 12.6 %). In the financial year under report, one case of discrimination was identified in the form of an infringement of the German General Equal Treatment Act (AGG). This was dealt with by agreeing a settlement at a conciliation hearing.

Non-Financial Group Report
2.6 Employee development

2.5 Employee recruitment

2.5.1 Targets and strategy

HORNBACH has a great need for specialist and management staff at its HORNBACH DIY stores and garden centers, builders' merchant outlets, logistics centers, and administration departments. As a general rule, we aim to meet our requirements for specialist and management staff with internal candidates.

2.5.2 Management approach and measures

We recruit a large share of our fresh talent from HORNBACH's training and study programs. We basically train the right number of people to cover our own requirements. This way, we ensure that all trainees and participants in dual work-study programs have good chances of being accepted by the company once they have successfully completed their training or study program. Recruitment is managed on a decentralized basis in line with requirements at individual locations. In selecting suitable applicants, the operating units are assisted by the relevant personnel department.

We aim to adapt the range of training positions on offer to current requirements in both quantitative and qualitative terms. To cover our need for personnel we work closely together, for example, with Chambers of Industry and Commerce (IHK), colleges offering dual work-study programs, and various cooperation partners in other European countries. Given the rapid advance of digitalization, numerous new career options have arisen in recent years, such as the "e-commerce specialist" dual work-study program at HORNBACH Baumarkt AG. The first generation of this newly created vocation began training in August 2018. The HORNBACH Baumarkt AG subgroup helped to introduce this new training vocation and employed three "e-commerce specialist" trainees in the 2019/20 financial year.

In training the next generation of suitably qualified staff, we benefit from the high quality standards offered by the dual vocational training system in Germany, among other factors. The HORNBACH Baumarkt AG subgroup also works with comparable dual work-study training programs in Austria and Switzerland. Not only that, in Romania we are working with other retailers and the International Chamber of Commerce to permanently establish a dual vocational training system. HORNBACH does not offer comparable training schemes in the other countries in which it operates.

Furthermore, we also access potential applicants by participating in recruitment fairs and applicant training programs across Europe in cooperation with local or regional organizations, as well as with our presence in numerous digital media.

Various factors meant that recruiting new employees was a challenge in the year under report. The unemployment rate was very low across large parts of Europe in the period under report. Moreover, the trend towards studying for a university degree is continuing and has exacerbated the already low attractiveness of the retail sector. Providing very good working conditions and development opportunities is therefore one of the key focuses in our efforts to recruit employees for HORNBACH.

Non-Financial Group Report
2.4 Employee satisfaction and loyalty
2.6 Employee development

[3] Number of (employee) resignations and (employer) terminations as a percentage of average number of employees in financial year. Calculation method amended since previous year.

2.5.3 Target achievement status

We collect quantitative key figures on trainees and current vacancies. We do not have any specific targets in respect of the key figures thereby collected. The recruitment of new employees is always based on current requirements.

In 2019/20, HORNBACH employed 1,039 trainees and participants in dual vocational training programs (2018/19: 1,014). A group-wide total of 347 trainees completed their training in the year under report (2018/19: 349), of which 55.7 % were accepted for regular employment (2018/19: 63.4 %). Including trainees accepted for a third year of training, the acceptance rate came to 63.5 % (2018/19: 71.3 %).

2.6 Employee development

2.6.1 Targets and strategy

Given our strategic focus on project customers at our DIY stores and garden centers and on commercial customers at our builders' merchant outlets, we have a great requirement for well-informed employees who are able to competently support our customers in complex construction and renovation projects. High-quality advice and service play a key role in determining the satisfaction of our customers and the Group's business performance and situation. Specialist staff in the stationary business therefore have to be familiar with the products offered within their area of activity and their uses, and must also be promptly trained when new models are introduced.

Where possible, key positions and management positions becoming vacant should be filled with internal candidates. By offering a range of development measures, we aim to act early to prepare suitable employees in a forward-looking manner for future positions.

A further declared aim of HORNBACH is to retain a large number of experienced employees at the company. Both the company and its customers benefit from the longstanding experience these employees have of HORNBACH's product range and services.

2.6.2 Management approach and measures

Practical knowledge about the products and their applications is communicated in practical and product-based training sessions offered in cooperation with suppliers. In addition, HORNBACH offers its own product and project-based training at on-site events or by video or print media. Furthermore, we work together with Chambers of Industry and Commerce and thus provide our employees with access to certified training programs. These include qualification as a retail specialist, for example. Regular training is available in internal and external seminars across the Group. These employee development measures are managed by the relevant personnel departments at HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH.

The delivery of goods is a key service provided to customers by HORNBACH Baustoff Union GmbH. For this, employees need a professional driving qualification. To maintain this qualification, HORNBACH Baustoff Union GmbH offers regular module training for its total of more than 100 professional drivers. Where necessary, it also enables further employees to acquire their professional driving qualification.

We prepare upcoming management staff at the HORNBACH Baumarkt AG subgroup for their new tasks with a separate training program. To this end, qualification modules have been developed for all store management positions. HORNBACH offers corresponding development opportunities to employees at its central administration departments and logistics centers as well. Employees can also obtain regular training at in-house and external seminars.

By holding regular meetings between HORNBACH managers and their employees, we aim to help make sure that all employees can develop their skills further in line with their needs and strengths. We believe that offering individual development opportunities is an effective way to boost employees' commitment to HORNBACH.

2.6.3 Target achievement status

No quantitative targets are in place to measure employee development, as training requirements may vary over time.

2.7 Compliance

Our compliance-related objectives, measures, and results are presented in the Corporate Governance Report with the Corporate Governance Declaration, Chapter 6.2 Compliance, of the HORNBACH Holding AG & Co KGaA Group.

Corporate Governance
Corporate Governance Report with Corporate Governance Declaration

Neustadt an der Weinstrasse, May 19, 2020

HORNBACH Holding AG & Co. KGaA
represented by its general partner HORNBACH Management AG,
represented by its Board of Management

Albrecht Hornbach Roland Pelka

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial group report 2019/2020 of HORNBACH Holding AG & Co. KGaA. The following text is a translation of the original German Independent Assurance Report.

To HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße

We have performed a limited assurance engagement on the non-financial group report of HORNBACH Holding AG & Co. KGaA according to § 315c HGB ("Handelsgesetzbuch": German Commercial Code), further consisting of the chapter "6.2 Compliance" within the Corporate Governance Report being incorporated by reference for the reporting period from 1 March 2019 to 29 February 2020 (hereafter non-financial report). Our engagement did not include any disclosures for prior years.

A. Management's responsibility

The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with § 315c HGB.
This responsibility includes the selection and application of appropriate methods to prepare the non-financial report as well as making assumptions and estimates related to individual disclosures, which are reasonable in the circumstances. Furthermore, the legal representatives are responsible for such internal controls that they have considered necessary to enable the preparation of a non-financial report that is free from material misstatement, whether due to fraud or error.

B. Auditor’s declaration relating to independence and quality control

We are independent from the Company in accordance with the provisions under German commercial law and professional requirements, and we have fulfilled our other professional responsibilities in accordance with these requirements.

Our audit firm applies the national statutory regulations and professional pronouncements for quality control, in particular the by-laws regulating the rights and duties of Wirtschaftsprüfer and vereidigte Buchprüfer in the exercise of their profession [Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer] as well as the IDW Standard on Quality Control 1: Requirements for Quality Control in audit firms [IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis (IDW QS 1)].

C. Auditor’s responsibility

Our responsibility is to express a limited assurance conclusion on the non-financial report based on the assurance engagement we have performed.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report of the Company has been prepared, in all material respects, in accordance with § 315c HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.

Within the scope of our assurance engagement, which has been conducted between March and May 2020, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the non-financial report, the risk assessment and the concepts of HORNBACH Holding AG & Co. KGaA for the topics that have been identified as material,
- Inquiries of employees responsible for data capture and consolidation as well as the preparation of the non-financial report, to evaluate the reporting processes, the data capture and compilation methods as well as internal controls to the extent relevant for the assurance of the non-financial report,
- Identification of likely risks of material misstatement in the non-financial report
- Inspection of relevant documentation of the systems and processes for compiling, aggregating and validating data in the relevant areas, e.g. compliance, environment and employees in the reporting period and testing such documentation on a sample basis,
- Analytical evaluation of disclosures in the non-financial report,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Evaluation of the presentation of disclosures in the non-financial report.

D. Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of HORNBACH Holding AG & Co. KGaA for the period from 1 March 2019 to 29 February 2020 has not been prepared, in all material respects, in accordance with § 315c HGB.

E. Intended use of the assurance report
We issue this report on the basis of the engagement agreed with HORNBACH Holding AG & Co. KGaA. The assurance engagement has been performed for the purposes of the Company and the report is solely intended to inform the Company as to the results of the assurance engagement and must not be used for purposes other than those intended. The report is not intended to provide third parties with support in making (financial) decisions.

F. Engagement terms and liability
The "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" dated 1 January 2017 are applicable to this engagement and also govern our relations with third parties in the context of this engagement (www.de.ey.com/general-engagement-terms). In addition, please refer to the liability provisions contained there in no. 9 and to the exclusion of liability towards third parties. We assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we do not update the assurance report to reflect events or circumstances arising after it was issued unless required to do so by law. It is the sole responsibility of anyone taking note of the result of our assurance engagement summarized in this assurance report to decide whether and in what way this result is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

Munich, 19 May 2020

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter	Hans-Georg Welz
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

The HORNBACH Holding Share

Key figures for the HORNBACH Holding share		2019/20	2018/19	2017/18	2016/17	2015/16
Year-end price[1]	€	50.90	46.10	70.30	65.85	56.90
12-month high[1]	€	65.30	72.80	82.38	67.41	82.60
12-month low[1]	€	44.00	40.10	63.53	53.80	50.43
Shares issued	Number	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000
Market capitalization	€ 000s	814,400	737,600	1,124,800	1,053,600	910,400
Earnings per share	€	6.56	4.08	5.11	4.84	5.04
Price / earnings ratio[2]		7.8	11.3	13.8	13.6	11.3
Book value per share	€	83.67	78.48	76.01	69.02	69.02
Price-to-book ratio[3]		0.6	0.6	0.9	1.0	0.8
Cash flow from operating activities per share	€	20.28	3.38	11.39	11.17	9.47
Price / cash flow ratio[4]		2.5	13.6	6.2	5.9	6.0
Dividend per share[5]	€	1.50	1.50	1.50	1.50	1.50
Distribution total[5]	€ 000s	24,000	24,000	24,000	24,000	24,000
Payout ratio[5,6]	%	22.9	36.7	29.4	31.0	29.8
Dividend yield[7]	%	2.9	3.3	2.1	2.3	2.6
Performance including dividend	%	13.7	(32.3)	8.9	18.6	(24.2)
Performance excluding dividend	%	10.4	(34.4)	6.8	15.7	(25.4)
Average daily trading volume[1]	Number	19,539	17,096	17,074	6,367	6,400

1) In Xetra trading
2) Year-end price ÷ earnings per share
3) Year-end price ÷ book value per share
4) Year-end price ÷ cash flow from operating activities per share
5) 2019/20: proposal to 2020 Annual General Meeting
6) Dividend per share ÷ earnings per share
7) Dividend per share ÷ year-end price

2019/20 on the stock markets

Setback in February after good year on markets in 2019

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

HORNBACH Holding share price performance

The HORNBACH Holding share price rose by 10.4 % during the 2019/20 financial year (March 1, 2019 to February 29, 2020). Including the distribution, and assuming reinvestment of the dividend, the increase amounted to 13.7 %. The share thus outperformed its comparative indices, namely the DAX (+3.3 %) and the SDAX (+4.9 %), but fell short of the DAXSector Retail Performance Index (+29.1 %).

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

The first months of the 2019/20 financial year were influenced by the previous year's unsatisfactory earnings performance, which made it necessary to publish a profit warning on March 20, 2019. The HORNBACH Holding share price fell to its annual low at € 44.00 on June 3, 2019. After positive Q1 results, the share briefly reached an interim high in early July before shedding nearly all of these gains by mid-August. The company's continued strong business performance in the first half, followed by a positive profit warning on December 10, 2019, then led to a significant rise in the share price, as a result of which it reached its annual high at € 65.30 on December 20, 2019. In January and February 2020, the HORNBACH Holding share price lost significant ground again, with this being due in part to the general downward trend in connection with the coronavirus crisis. The share closed the financial year on February 29, 2020 at € 50.90 in Xetra trading (2018/19: € 46.10). The market capitalization thus amounted to € 814 million at the end of the financial year (2018/19: € 738 million). The further positive profit warning on March 19, 2020 and first measures to ease the coronavirus lockdown in April provided renewed momentum. On April 30, 2020, the share was listed at € 52.00.

Interesting for value investors

Hornbach Familien-Treuhandgesellschaft mbH, the main shareholder in HORNBACH Holding AG & Co. KGaA, continued to hold 37.5 % of the share capital of the KGaA as of February 29, 2020. The other 62.5 % of the 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. At the end of the financial year, M&G plc (United Kingdom) had a share of more than five percent of voting rights. Since March 20, 2020, Finda Oy (Finland) has also held more than five percent of the shares.

Analysts' assessments

As of the balance sheet date on February 29, 2020, the HORNBACH Holding share was regularly covered by five financial analysts (2018/19: five) in research reports and studies. As of the reporting date, four analysts recommended buying and one holding the share. Their average share price target amounted to € 71, implying upward potential of around 40 % compared with the closing price at the end of our 2019/20 financial year.

www.hornbach-group.com
Investor Relations > Shares > Analysts' Recommendations

The current list of banks and research institutes regularly reporting on HORNBACH and their recommendations can be viewed at the HORNBACH Group's website.

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 the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose a dividend of € 1.50 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 10, 2020. The distribution total of € 24,000k corresponds to a distribution quota of 22.9 % (2018/19: 36.7 %) of earnings per share.

Financial communications

www.hornbach-group.com
Investor Relations

Our investor relations activities provided shareholders, analysts, the financial media, and the general public with prompt information on the business performance of the HORNBACH Holding AG & Co. KGaA 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.

Key data about the HORNBACH Holding share	
Type of share	No-par ordinary bearer shares
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification number	608340
ISIN	DE0006083405
Stock market ticker	HBH
Bloomberg (Xetra)	HBH:GR
Reuters (Xetra)	HBH.DE
Financial year	March 1 to February 28 (29)
Initial public offering	07.03.1987 (preference share of HORNBACH AG)
Number of shares	16,000,000
Share capital	€ 48,000,000

Financial Calendar 2020

Investor Relations
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May 27, 2020	Annual Results Press Conference 2019/20 Publication of Annual Report
June 26, 2020	Quarterly Statement: 1st Quarter of 2020/21 as of May 31, 2020
July 10, 2020	Annual General Meeting (virtual)
September 29, 2020	Half-Year Financial Report 2020/21 as of August 31, 2020 DVFA Analysts' Conference
December 22, 2020	Quarterly Statement: 3rd Quarter of 2020/21 as of November 30, 2020

COMBINED MANAGEMENT REPORT

Group Fundamentals

1. The Group at a Glance

HORNBACH Holding AG & Co. KGaA is the parent company of the HORNBACH Group. It does not have any operations itself, but manages a number of major subsidiaries. Alongside HORNBACH Baumarkt AG, its largest operating subgroup at which the European do-it-yourself (DIY) business with DIY stores and garden centers and DIY online retail are pooled, the HORNBACH Group also comprises two further subgroups – HORNBACH Baustoff Union GmbH (regional builders' merchants) and HORNBACH Immobilien AG (real estate and location development). At the balance sheet date on February 29, 2020, the Group had a total of 21,505 employees, of which 9,424 outside Germany. In the 2019/20 financial year (March 1, 2019 to February 29, 2020), the HORNBACH Group generated net sales of more than € 4.7 billion. The HORNBACH Group was founded in 1877 and is still family-managed, now in the fifth generation.

€ 4.7 bn
consolidated sales

The partnership limited by shares (KGaA) is publicly listed. Its share capital is divided into 16 million no-par ordinary bearer shares with voting rights. Ordinary shares in the KGaA (ISIN DE0006083405) are listed in the Prime Standard and the select SDAX index of the German Stock Exchange.

Pursuant to the Articles of Association, the general partner of HORNBACH Holding AG & Co. KGaA is HORNBACH Management AG, represented by its Board of Management, currently comprising two members. The Board of Management of the general partner manages HORNBACH Holding AG & Co. KGaA and represents this to third parties. Hornbach Familien-Treuhandgesellschaft mbH owns all the shares in the general partner of HORNBACH Holding AG & Co. KGaA.

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

Notes to Consolidated Financial Statements
Consolidated shareholdings

1.1 HORNBACH Baumarkt AG subgroup

At the balance sheet date on February 29, 2020, the HORNBACH Baumarkt AG subgroup operated 160 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 96 locations are in Germany. A further 64 stores are located in the following other European countries: Austria (14), the Netherlands (15), Luxembourg (1), the Czech Republic (10), Switzerland (7), Sweden (7), Slovakia (4), and Romania (6). With total sales areas of around 1.89 million m², the average size of a HORNBACH DIY store with a garden center amounts to around 11,800 m². In all of the countries in which it operates, HORNBACH combines its stationary retail business with its online stores (e-commerce) to act as a multichannel DIY retailer, an approach we also refer to as interconnected retail. This subgroup generated sales of more than € 4.4 billion in the 2019/20 financial year.

160
DIY stores and garden centers

1.2 HORNBACH Baustoff Union GmbH subgroup

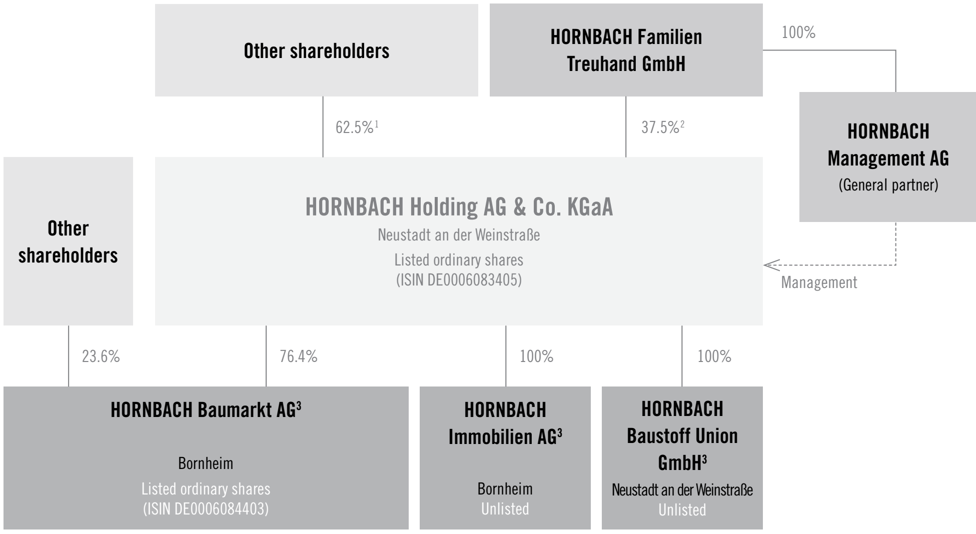
HORNBACH Baustoff Union GmbH is active in the regional builders' merchant business. At the balance sheet date on February 29, 2020, it operated a total of 32 outlets in south-western Germany and two locations close to the border in France. This subgroup generated sales of almost € 300 million in the 2019/20 financial year.

34
builders' merchant outlets

1.3 HORNBACH Immobilien AG subgroup

The HORNBACH Immobilien AG subgroup mainly develops retail properties for the operating companies in the HORNBACH Holding AG & Co. KGaA Group. The overwhelming share of these properties are let on within the Group on customary market terms. Of the rental income of around € 80 million in the 2019/20 financial year, 98 % resulted from the letting of properties within the overall Group.

Group structure and shareholders of HORNBACH Holding AG & Co. KGaA
Status: February 29, 2020



1) Including no-par ordinary shares held by members of the Hornbach family
2) Including no-par ordinary shares held by Hornbach family members, whose voting rights are exercised by Hornbach Familien-Treuhandgesellschaft mbH
3) Plus further shareholdings in Germany and abroad as presented in the complete overview in the notes to the consolidated financial statements.

2. Group Business Model

2.1 Retail activities

The business model is predominantly characterized by the retail activities at the **HORNBACH Baumarkt AG subgroup** (hereinafter "HORNBACH"). HORNBACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company relies not just on its stationary retail business, but also draws on the development potential harbored by e-commerce. HORNBACH's online store – a high-performing virtual DIY store and garden center – is available in all of the countries in which we have stationary DIY retail operations.

200,000
articles available at online shop

HORNBACH has an absolute focus on project customers. On the one hand, those are home improvement enthusiasts and professional customers wishing to implement extensive renovation and construction projects under their own steam in their houses, apartments, or gardens (do-it-yourself). On the other hand, they also include customers wishing to select their products themselves, but then to have all of the work involved in their project, including all services, performed by a competent partner (do-it-for-me). All of the company's stationary and online activities are tailored to these target groups. HORNBACH thus particularly offers its customers a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, reliable and transparent permanently low prices, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in consumer surveys. HORNBACH's product range encompasses an average of around 50,000 articles at its stationary stores and up to around 200,000 articles online. Products are available in the five divisions of Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

The Group's retail activities are supplemented by its regional activities in the builders' merchant business which are pooled at the **HORNBACH Baustoff Union GmbH subgroup**. This enables the HORNBACH Group to benefit from the growth potential in the construction industry. Its main target group involves professional customers in the main and secondary construction trades. HORNBACH Baustoff Union offers these customers construction materials and tools, which are both stocked and supplied, services, and professional advice for all major product ranges and lines of trades. Products range from shell construction to roofing, from interior fittings to facades, and from civil engineering through to garden and landscape construction, with all products being offered for new construction, conversion, or refurbishment projects. Furthermore, with its construction materials, services, and advice HORNBACH Baustoff Union also targets the needs of private construction clients.

2.2 Real estate activities

The HORNBACH Group has an extensive real estate portfolio. This chiefly consists of retail properties with surfaces totaling 1,888,545 m² that are used as DIY stores with garden centers. Based on sales areas, ownership was structured as follows at the balance sheet date on February 29, 2020:

	No. of stores	Sales area m²	Share %
Property owned			
HORNBACH Baumarkt AG subgroup	52	612,580	32.4
HORNBACH Immobilien AG subgroup	43	516,763	27.4
Subtotal of property owned	**95**	**1,129,343**	**59.8**
Land rented, buildings owned	4	34,968	1.9
Leased	61	724,234	38.3
Total	**160**	**1,888,545**	**100.0**

(Differences due to rounding up or down)

60 %
of sales areas in group ownership

The HORNBACH Group has an overriding strategy of ensuring that – measured in terms of sales areas and also accounting for potential sale and leaseback transactions – it owns at least half of the real estate used for operating purposes. At the balance sheet date on February 29, 2020, this share amounted to around 60 % (2018/19: 59 %). The remaining 40 % (2018/19: 41 %) of sales areas (including finance leases) are rented from third parties (38 %). In individual cases (2 %), only the land has been leased (hereditary lease). In addition, HORNBACH Immobilien AG and HORNBACH Baumarkt AG both hold a number of purchase options entitling them to acquire further land at first-class locations in Germany and abroad. Moreover, group companies also already own pieces of land in Germany and abroad which are also earmarked for use as retail locations.

The location development specialists and the employees responsible for the planning and execution of the construction of new stores, as well as for their fittings, are employed at the HORNBACH Baumarkt AG subgroup and also work on behalf of the associate HORNBACH Immobilien AG.

2.3 Hidden reserves in real estate assets

We believe that the real estate owned by the HORNBACH Immobilien AG and HORNBACH Baumarkt AG subgroups includes a high volume of hidden reserves which, based on our own assumptions and calculations, we indicate below. None of the disclosures made in Chapter 2.3 were audited.

In calculating hidden reserves, we generally refer to an average rental multiplier of 13, which we believe is an appropriate long-term average figure. Based on our assessment, this reflects a realistic, balanced ratio of opportunities and risks when calculating the capitalized earnings value of the DIY locations we own. Where up-to-date surveys are available for individual locations, these values are referred to rather than the general factor.

The property already completed and rented out by the HORNBACH Immobilien AG subgroup is reported at a carrying amount of around € 409 million in the balance sheet as of February 29, 2020. The application of an average multiplier of 13 based on the agreed rental income, as well as an age discount of 0.6 % p.a. in terms of the costs of acquisition, produces a calculated yield value of € 806 million at the balance sheet date (February 28, 2019: € 790 million). The deduction of the carrying amount of the real estate in question, amounting to € 409 million (February 28, 2019: € 403 million) leads to hidden reserves of € 397 million (February 28, 2019: € 387 million).

At the balance sheet date on February 29, 2020, the HORNBACH Baumarkt AG subgroup owned real estate in Germany and abroad used for proprietary purposes as DIY stores with garden centers with a carrying amount of around € 773 million. On the basis of intra-company rental income at usual market rates and a multiplier of 13, as well as an age discount of 0.6 % p.a. in terms of the costs of acquisition, the calculated yield value for the real estate amounts to around € 1,104 million (February 28, 2019: € 1,052 million). Deducting the carrying amount of € 773 million (February 28, 2019: € 733 million) leads to calculated hidden reserves of around € 331 million (February 28, 2019: € 319 million).

€ 728 m
hidden reserves in real estate assets

Based on this calculation method, the hidden reserves for the real estate used for operating purposes at the overall Group can be estimated at around € 728 million (February 28, 2019: € 706 million).

2.4 Reporting segments

The allocation of segments corresponds to the internal reporting system used by the management of the HORNBACH Holding AG & Co. KGaA Group for managing the company ("management approach"). This results in the following segments: "HORNBACH Baumarkt AG subgroup", "HORNBACH Immobilien AG subgroup", and "HORNBACH Baustoff Union GmbH subgroup". The respective business activities of these three segments are outlined in the introductory chapter to this report – "The Group at a Glance". Administration and consolidation items not attributable to individual segments are shown in the segment report in the columns "Corporate Functions" and "Consolidation".

3. Management System

The key management figures outlined below are used to manage both the HORNBACH Holding AG & Co. KGaA Group and HORNBACH Holding AG & Co. KGaA.

3.1 Most important key management figures

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

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

Group Management Report
Business Report
Earnings Position

3.2 Alternative key performance indicators

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

3.2.1 Key performance indicators for earnings position

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

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

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

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

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

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

The **administration expense ratio** corresponds to the quotient of administration expenses and net sales. General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of stationary DIY stores with garden centers and with the development and operation of online retail (e-business) which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses. As well as purely administrative expenses, these expenses also include project-related expenses, and in particular expenses for digitalization and interconnected retail (please also see information in "3.1 Sales performance" in the Business Report).

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

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

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

3.2.2 Key performance indicators for financial and asset position

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

Net financial debt is an alternative key performance figure used to comment on the financial position. This key figure is calculated as total current and non-current financial debt less cash and cash equivalents and – where applicable – less current financial assets (financial investments).

In managing its financial and asset position, the HORNBACH Holding AG & Co. KGaA 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 cost of goods sold to average inventories. The arithmetic mean of the period opening and period closing balances is taken as the average volume of inventories. The higher the inventory turnover rate, the lower the inventories and thus the volume of liquidity committed. Our aim is therefore to sustainably improve our inventory turnover rate at an above-average high level compared with competitors while also ensuring product availability.

Business Report

1. Macroeconomic and Sector-Specific Framework

Table
GDP growth rates

1.1 International framework

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

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

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

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

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

1.2 Business framework in Germany

1.2.1 Macroeconomic climate

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

1.2.2 Construction activity and construction trade

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

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

1.2.3 Retail and DIY

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

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

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

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

1.2.4 Regional builders' merchant business

Developments in the builders' merchant segment are significantly influenced by sector trends in the main construction trade in the sales area covered by the HORNBACH Baustoff Union GmbH subgroup, which largely comprises Rhineland-Palatinate, Saarland, and Baden-Württemberg. Nominal sales in the main construction trade (housing construction, companies with 20 or more employees) rose in 2019 – by 3.3 % in Rhineland-Palatinate, 7.7 % in Saarland, and 6.5 % in Baden-Württemberg (nationwide figure: plus 9.9 %). New orders grew by 0.3 % in Saarland and by 5.6 % in Baden-Württemberg but decreased by 0.3 % in Rhineland-Palatinate (nationwide figure: plus 9.7 %). The number of building permits issued for residential buildings fell by 4.9 % in Saarland. In Rhineland-Palatinate and Baden-Württemberg, the numbers of permits rose by 1.1 % and 2.9 % respectively.

The builders' merchant market in the sales area covered by HORNBACH Baustoff Union GmbH remains highly contested. Alongside numerous smaller-scale builders' merchants, DIY stores have been penetrating the market for commercial customers and private construction clients for some time now, offering new sales formats and services (e.g. drive-in, online business with delivery, tradesmen services, and focus on professional customers and projects). Accompanied by aggressive pricing policies, this trend has increased pressure on prices and squeezed gross margins in the stationary builders' merchant business.

2. Summary of 2019/20 Business Performance

2.1 Overall assessment of the Group's economic position

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

Against this backdrop, the HORNBACH Group showed a very pleasing performance. Net sales rose by 8.4 % to € 4,729 million, with growth momentum coming both from the DIY retail business and the builders' merchant business. The **HORNBACH Baumarkt AG subgroup** thus increased its net sales by 8.1 % to € 4,428 million in the 2019/20 financial year and, at 7.7 %, achieved the highest level of subgroup-wide like-for-like sales growth in 26 years. The same applies for Germany, where the subgroup's like-for-like growth of 6.5 % was clearly ahead of the DIY sector, enabling it to increase its market share even without opening any new stores. Thanks to this performance, the German DIY stores with garden centers approached the above-average growth shown by the international HORNBACH locations, whose like-for-like sales growth net of currency items, at 8.9 %, was higher than at any time since the 2000/01 financial year. Average annual sales at HORNBACH's DIY stores with garden centers increased from € 26.0 million to € 28.2 million in the year under report. Surface productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,218 to € 2,386 per m² (plus 7.6 %). Online retail, which we link closely to our stationary retail business, contributed to the Group's overall performance with growth of around 18 %.

The **HORNBACH Baustoff Union GmbH subgroup** generated sales growth of 13.2 % in the 2019/20 financial year. Net sales at the total of 34 outlets (2018/19: 30) thus amounted to € 299.5 million (2018/19: € 264.6 million).

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

Thanks to this strong sales growth and improved cost ratios, HORNBACH significantly boosted its operating earnings strength compared with the previous year. Operating earnings adjusted to exclude non-operating one-off items (adjusted EBIT) increased by around 68 % to € 227.0 million. The adjusted EBIT margin rose from 3.1% to 4.8%, thus clearly exceeding the long-term average of 4.4% since the conversion to IFRS accounting in 2001/02. Of the improvement in earnings by around € 92 million, around 86% was attributable to the operating business and only 14% to first-time application of the new IFRS 16 lease accounting requirements. Consolidated operating earnings (EBIT) increased by 77.3 % to € 213.8 million. This figure mainly includes non-operating unscheduled charges on earnings relating in particular to IAS 36 impairments (in the previous year also provisions pursuant to IAS 37), which fell from € 14.3 million in the 2018/19 financial year to € 13.2 million. Consolidated net income increased by 64.1 % to € 123.3 million. Earnings per share grew from € 4.08 to € 6.56.

In line with expectations, the Group reduced its cash-effective investments to € 131 million in the 2019/20 year under report (2018/19: € 196 million). This followed the significant increase in the previous year's budget due to unscheduled purchase opportunities (buyback of three leased stores, purchase of land in Switzerland). Of investments, 56 % related to land and buildings, while the remainder was mainly channeled into plant and office equipment for new and existing stores.

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

The Group's reinvigorated earnings and financial position is also clearly reflected in its cash flow statement, where the operating cash flow surged from € 54.0 million to € 324.5 million in the 2019/20 financial year. From an operating perspective, this was mainly driven by the increase in consolidated net income for the period, as well as by the significantly positive development shown by effects resulting from changes in working capital, which rose from minus € 127.8 million to minus € 9.0 million.

Given the conversion to IFRS 16, since March 1, 2019 the cash flow from operating activities has no longer included any significant volume of rental payments. If the cash flow statement is adjusted to exclude the positive IFRS 16 effects of € 72.8 million, the free cash flow comparable with the previous year came to plus € 130.1 million in 2019/20, as against minus € 136.7 million in the 2018/19 financial year.

The total assets of the HORNBACH Group grew to € 3,760.2 million as of February 29, 2020 (balance sheet date on February 28, 2019: € 3,011.5 million). This growth was mainly due to the first-time recognition of right-of-use assets for leased items and lease liabilities pursuant to IFRS 16. Despite this extension in the balance sheet, the equity ratio remained at a satisfactory level of 42.7 % (February 28, 2019: 50.0 %).

Net financial debt – excluding IFRS 16 lease liabilities – decreased to € 375.2 million at the balance sheet date (February 28, 2019: € 459.7 million). In view of our broad spectrum of financing sources, we still enjoy an adequate degree of security and flexibility to finance our further growth.

2.2 Major events

2.2.1 Development in stationary store network

3
new DIY store and garden centers in Kristianstad, Prešov, and Duiven

Two new DIY stores with garden centers were opened in September 2019, in this case in Prešov (Slovakia; store owned) und Kristianstad (Sweden; store let). This increased the total number of locations in Slovakia to four and in Sweden to seven. In January 2020, our 15th location in the Netherlands opened in Duiven (store owned). A small-scale location in Neunkirchen (Saarland) was closed at the end of August. Furthermore, existing stores were converted and expanded within the customary modernization program. Among other measures, further stores were extended by drive-in and/or construction material collection facilities. Including stores newly opened and closed in the year under report, we operated a total of 160 DIY retail stores as of February 29, 2020 (February 28, 2019: 158), of which 96 (97) in Germany and 64 (61) in other European countries. Sales areas at the HORNBACH Baumarkt AG subgroup totaled around 1.89 million m² as of February 29, 2020 (February 28, 2019: around 1.85 million m²).

HORNBACH Baustoff Union took over three locations in Stuttgart-Weilimdorf, Eislingen, and Ulm (Baden-Württemberg) from a competitor as of April 1, 2019. This was followed as of January 1, 2020 by a further takeover of a location in Gross-Rohrheim (Hessen). As a result, Hornbach Baustoff Union had a total of 34 outlets as of February 29, 2020.

2.2.2 Development in interconnected retail

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

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

2.2.3 Changes in the Board of Management and Supervisory Board

Erich Harsch (58), previously a member of the Supervisory Board of HORNBACH Baumarkt AG, was appointed as a regular member of the Board of Management and as Chief Executive officer of HORNBACH Baumarkt AG as of January 1, 2020. He succeeded Steffen Hornbach (62), who stood down from his position on the Board of Management due to health reasons as of December 31, 2019. Wolfger Ketzler (62) stood down from his position on the Board of Management as of February 29, 2020. He was most recently responsible for Real Estate, Construction, Technical Procurement, Internal Audit, Legal, and Compliance. The Board of Management of HORNBACH Baumarkt AG, which previously comprised seven members, was thus reduced to six members. Upon the departure of Wolfger Ketzler, responsibilities within the Board of Management of HORNBACH Baumarkt AG were amended as of March 1, 2020. Erich Harsch additionally assumed responsibility for Real Estate and Work Safety. The Internal Audit, Legal, and Compliance functions are now the responsibility of CFO Roland Pelka. Ingo Leiner is additionally responsible for the Construction and Technical Procurement functions.

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

2.3 Target achievement in 2019/20

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

2.3.1 Targets and results of the HORNBACH Holding AG & Co. KGaA Group in the 2019/20 financial year

	Targets for 2019/20	Results in 2019/20
Expansion of HORNBACH Baumarkt AG subgroup	**Stationary DIY business**: ■ 3 new store openings	**Stationary DIY business**: ■ **Prešov** (Slovakia), **Kristianstad** (Sweden), and **Duiven** (Netherlands) opened ■ **Neunkirchen** (Saarland) closed
Expansion of HORNBACH Baustoff Union GmbH subgroup	■ Takeover of 3 locations from a competitor	■ Takeover of Stuttgart-Weilimdorf, Eislingen, and Ulm locations from i&m baustoffring GmbH ■ Takeover of Gross-Rohrheim location from Stay GmbH
Investments	€ 110 million – € 130 million	**€ 131 million** including buyback of one store previously let
Sales performance		
Net sales	■ Original forecast: growth in **medium single-digit** percentage range ■ Updated forecast (09.26.2019): growth in **medium to upper single-digit** percentage range	**Plus 8.4 %** to € 4.7 billion
Like-for-like sales net of currency items (DIY)	■ Group-wide growth in **low to medium single-digit** percentage range ■ Higher sales growth in Other European Countries than in Germany	■ Group: **plus 7.7 %** ■ Germany: plus 6.5 % ■ Other European Countries: plus 8.9 %
Earnings performance		
Adjusted EBIT	■ Original forecast: more than 15 % higher than level in 2018/19 financial year (€ 134.9 million) ■ Updated forecast (09.26.2019): more than 20 % higher than level in 2018/19 financial year (€ 134.9 million) ■ Updated forecast (12.10.2019): increase in low to medium double-digit percentage range ■ Preliminary earnings figures (03.20.2020): **slightly higher than most recent forecast range**	**Plus 68.3 %** to € 227.0 million Improvement by € 92.1 million ■ of which operative: € 79.4 million ■ of which IFRS 16 conversion effect: € 12.7 million

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

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

The earnings performance at HORNBACH Holding AG & Co. KGaA is closely linked to developments on the level of its shareholdings and thus to the level and rate of change in its income from investments. As expected in the annual financial statements for the 2018/19 financial year, the annual net surplus of € 39.8 million was slightly higher than the previous year's comparative figure of € 37.4 million.

3. Earnings Position

3.1 Sales performance

3.1.1 Seasonal and calendar-related fluctuations

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

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

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

8.4 %
sales growth at HORNBACH Group in 2019/20 financial year

3.1.2 Net sales of the HORNBACH Group

As of the balance sheet date on February 29, 2020, the HORNBACH Holding AG & Co. KGaA Group comprised the HORNBACH Baumarkt AG, HORNBACH Baustoff Union GmbH (HBU), and HORNBACH Immobilien AG subgroups. In the 2019/20 financial year (March 1, 2019 to February 29, 2020), the HORNBACH Group increased its consolidated sales (excluding sales taxes) by 8.4 % to € 4,729 million (2018/19: € 4,362 million).

3.1.3 HORNBACH Baumarkt AG subgroup

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

The following comments refer to the development in currency-adjusted like-for-like sales at the HORNBACH Baumarkt AG subgroup, 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 subgroup's like-for-like sales in the online business or from its connection to the stationary DIY retail business (interconnected retail – ICR). This includes all sales generated from online mail order, click & collect ("reserve online & collect at store"), and other online transactions involving store contact. ICR sales are fully accounted for in the calculation of the like-for-like sales performance.

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

Like-for-like sales performance * of the HORNBACH Baumarkt AG subgroup by quarter
(in percent)

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

* Excluding currency items

- **Germany**

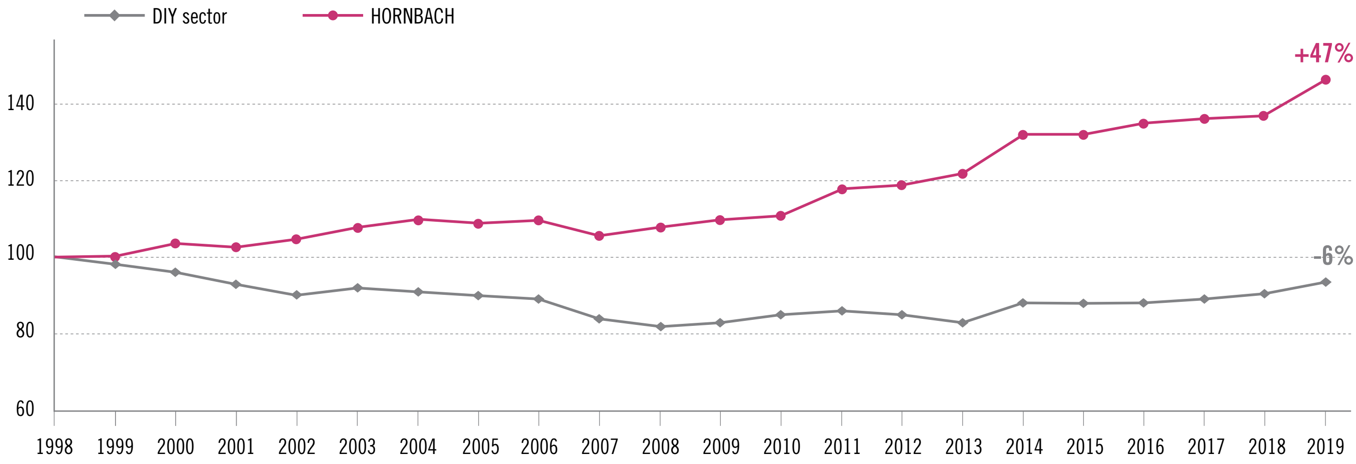
In terms of their sales performance in the 2019/20 financial year, HORNBACH's DIY stores and garden centers in Germany significantly exceeded the previous year's comparative figures and the DIY sector average. The HORNBACH DIY stores and garden centers in the Germany region increased their like-for-like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

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

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

In the year under report, HORNBACH benefited particularly clearly from the consistent way it has dovetailed its stationary DIY retail with its online business to provide interconnected retail (ICR). The aim here is to offer customers what they happen to be looking for and need for their construction or renovation projects, and that at every point of their customer journeys. Customers can inform themselves online about articles, their prices, and availability, for example, and also compare articles. Not only that, they can have their articles delivered directly to their homes by mail order or opt for our "Reserve online and collect at the store" service. Professional customers in particular see the benefits of being able to collect all articles

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



available at their desired HORNBACH store generally no later than two hours after reservation. The expertise required for this increasingly digitalized business model and the ICR infrastructure are becoming ever more of a competitive advantage. In Germany, ICR sales once again grew more rapidly overall than net sales in the region. The share of ICR sales most recently amounted to more than 10 %.

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

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

- **Other European Countries**

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

8.9 %
like-for-like, currency adjusted sales growth at HORNBACH's DIY stores and garden centers in Other European Countries

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

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

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

3.1.4 HORNBACH Baustoff Union GmbH subgroup

The HORNBACH Baustoff Union GmbH subgroup also reported substantial sales growth in the 2019/20 financial year. Including sales at newly opened locations, net sales at the total of 34 outlets increased by 13.2 % to € 299.5 million (2018/19: € 264.6 million).

13.2 %
sales growth at HORNBACH Baustoff Union subgroup in 2019/20 financial year

3.1.5 HORNBACH Immobilien AG subgroup

Rental income increased slightly to € 80.4 million in the 2019/20 financial year (2018/19: € 80.2 million). Of this sum, € 78.6 million (2018/19: € 77.7 million) involved rental income from the rental of properties within the overall Group.

3.2 Earnings performance of the HORNBACH Group

3.2.1 Summary

Key operating earnings figures for the 2019/20 financial year significantly exceeded the comparative figures for the previous year. This was mainly due to strong like-for-like sales growth (DIY), as well as to stricter cost management.

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

Key earnings figures of the HORNBACH Holding AG & Co. KGaA Group

Key figure (€ million, unless otherwise stated)	2019/20	2018/19	Change
Net sales	4,729	4,362	8.4 %
of which: in Germany	2,536	2,376	6.8 %
of which in Other European countries	2,193	1,986	10.4 %
Like-for-like sales growth	7.7 %	4.2 %	
EBITDA	419.8	234.7	78.8 %
EBIT	213.8	120.6	77.3 %
Adjusted EBIT	227.0	134.9	68.3 %
Consolidated earnings before taxes	166.2	98.5	68.7 %
Consolidated net income	123.3	75.1	64.1 %
EBITDA margin	8.9 %	5.4 %	
EBIT margin	4.5 %	2.8 %	
Gross margin	35.8 %	36.0 %	
Store expenses as % of net sales	26.7 %	28.2 %	
Pre-opening expenses as % of net sales	0.2 %	0.2 %	
General and administration expenses as % of net sales	4.9 %	5.2 %	
Tax rate	25.8 %	23.7 %	

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

3.2.2 Gross margin

Gross profit rose by 7.9 %, and thus less rapidly than sales, to € 1,694.2 million in the 2019/20 financial year (2019/20: € 1,570.1 million). The gross margin decreased slightly from 36.0 % to 35.8 %. Higher procurement prices and the structural change in our product mix due to the rising share of sales generated by our online shops were almost offset by adjustments to sales prices and positive currency items. It should be noted that the gross margin for the previous year's period included fixed-price terms in connection with the 50th anniversary of HORNBACH's DIY stores and garden centers.

3.2.3 Selling and store, pre-opening and administration expenses

The HORNBACH Group's **selling and store expenses** grew significantly less rapidly than sales, rising by 2.6 % to € 1,261.3 million (2018/19: € 1,229.0 million). The store expense ratio fell from 28.2 % to 26.7 %. Personnel expenses (excluding bonuses) rose less rapidly than sales. The improvement in the cost ratios was substantially due to general operating expenses, which were around € 28 million lower than in the previous year. One major reason for this reduction related to the measures introduced in the year under report to enhance cost transparency and achieve more efficient cost management. The sharply disproportionate increase in general operating expenses in the 2018/19 financial year, relating above all to conversion and maintenance measures and changes made to the presentation of product ranges, was one of the main causes of the poorer earnings situation one year ago.

Selling and store expenses included non-operating charges on earnings of around € 13.5 million (2018/19: € 14.3 million). These mainly relate to impairment losses recognized on DIY store properties, advertising-related assets, and tenant fittings (IAS 36 impairments), as well as depreciation of right-of-use assets.

After three new DIY store openings and one store closure, **pre-opening expenses** increased from € 6.6 million to € 7.3 million in the 2019/20 financial year. The pre-opening expense ratio remained unchanged at 0.2 %.

Administration expenses grew less rapidly than sales, rising by 3.1 % to € 233.5 million (2018/19: € 226.4 million). The administration expense ratio fell from 5.2 % to 4.9 %. This higher cost efficiency was due in particular to greater focusing and prioritization of the strategic projects implemented at central functions. This enabled savings to be achieved with external advisory expenses in particular. Furthermore, structural improvements in the interaction between central functions and the Germany operating region also contributed to the reduction in the administration expense ratio in the year under report.

3.2.4 Other income and expenses

Other income and expenses rose to € 21.7 million in the year under report (2018/19: € 12.4 million). Among other items, these include income and losses from damages cases and income from the sale of real estate and land no longer required for operations and of non-current assets.

3.2.5 EBITDA, adjusted EBIT, and EBIT

Thanks to substantial like-for-like sales growth and the noticeably slower development in expenses, key operating earnings figures showed significant growth. Consolidated earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) increased by 78.8 % to € 419.8 million (2018/19: € 234.7 million), corresponding to an EBITDA margin of 8.9 % (2018/19: 5.4 %). An amount of plus € 89.7 million was attributable to the first-time application of IFRS 16. Consolidated operating earnings excluding non-operating one-off items (adjusted EBIT) increased by 68.3 % to € 227.0 million (2018/19: € 134.9 million). Of this earnings growth, 86 % (€ 79.4 million) was attributable to the operating business and around 14 % (€ 12.7 million) to the first-time application of IFRS 16. The adjusted EBIT margin amounted to 4.8 % (2018/19: 3.1 %). EBIT including non-operating earnings items grew by 77.3 % to € 213.8 million (2018/19: € 120.6 million), producing an EBIT margin of 4.5 % (2018/19: 2.8 %). The non-operating earnings items included in store and administration expenses, as well as in other income and expenses, decreased from minus € 14.3 million to minus € 13.2 million.

+68.8 %
growth in adjusted EBIT in 2019/20 financial year

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

Notes to Consolidated Financial Statements Note 10

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

2019/20 in € million 2018/19 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Corporate Functions	Consolidation	HORNBACH Holding AG & Co. KGaA Group
Earnings before interest and taxes (EBIT)	**163.9**	**3.9**	**56.5**	**(3.6)**	**(7.0)**	**213.8**
	67.2	2.2	53.5	(2.9)	0.7	120.6
Non-operating earnings items	**17.9**	**(1.4)**	**(0.3)**	**0.0**	**(3.0)**	**13.2**
	14.7	1.4	(0.1)	0.0	0.3	14.3
Adjusted EBIT	**181.8**	**2.6**	**56.2**	**(3.6)**	**(10.0)**	**227.0**
	81.9	3.6	53.3	(2.9)	(1.0)	134.9

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

3.2.6 Net financial expenses, EBT and consolidated net income

Net financial expenses fell from minus € 22.1 million in the previous year to minus € 47.6 million in the 2019/20 financial year, a development mainly due to the first-time recognition of the interest portion of lease expenses (IFRS 16 conversion), which accounted for around minus € 19.9 million in the year under report, as well as to refinancing measures within the HORNBACH Baumarkt AG subgroup (see Chapter 3.3.1). Consolidated earnings before taxes (EBT) stood at € 166.2 million (2018/19: € 98.5 million).

Notes to Consolidated Financial Statements
Notes 8 and 9

Taxes on income rose from € 23.4 million to € 42.9 million. The effective tax rate on Group level increased from 23.7 % to 25.8 %. Consolidated net income including minority interests grew by 64.1 % to € 123.3 million (2018/19: € 75.1 million). The Group-wide return on sales rose from 1.7 % to 2.6 %. Earnings per share are reported at € 6.56 (2018/19: € 4.08).

3.3 Earnings performance by segment

3.3.1 HORNBACH Baumarkt AG subgroup

+122.1%
increase in adjusted EBIT at HORNBACH Baumarkt AG subgroup

The HORNBACH Group's positive earnings performance in the past 2019/20 financial year was largely determined by the earnings situation at the largest subgroup, HORNBACH Baumarkt AG. The subgroup's adjusted EBIT, i.e. operating earnings before non-operating one-off items, rose by 122.1 % to € 181.8 million (2018/19: € 81.9 million). Of this earnings growth of just under € 100.0 million, € 78.5 million (78 %) was attributable to the operating business and € 21.5 million (22 %) to the IFRS 16 conversion effect. The adjusted EBIT margin more than doubled to 4.1 % in the 2019/20 financial year (2018/19: 2.0 %).

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

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

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

The subgroup's net income rose by 92.2 % to € 78.7 million (2018/19: € 40.9 million). Taxes on income amounted to € 27.1 million (2018/19: € 10.7 million). The effective tax rate on subgroup level increased from 20.7 % to 25.6 %. Earnings per Baumarkt share are reported at € 2.47 (2018/19: € 1.29).

The reporting segments within the HORNBACH Baumarkt AG subgroup performed as follows in the 2019/20 financial year:

Notes to Consolidated Financial Statements
Notes 8 and 9

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

- The first-time application of IFRS 16 led to material changes in the income statement of the **Real Estate segment.** The presentation of rental expenses and rental income in internal reporting was adjusted as of March 1, 2019. Starting in the 2019/20 financial year, rental payments also include imputed rental payments for stores let from third parties and whose rental payments were previously charged directly to the Retail segment. As a result of this, rental income in the Real Estate segment, 98 % of which comprises internal rental income, showed a marked increase of € 102.2 million to € 280.7 million in the year under report (2018/19: € 178.5 million). Real estate expenses grew by € 85.8 million to € 191.7 million (2018/19: € 105.8 million). Chiefly as a result of the first-time recognition of right-of-use assets, depreciation and amortization jumped from € 40.1 million to € 183.7 million. Depreciation and amortization also include non-operating earnings items of € 17.5 million (2018/19: € 3.1 million). These mostly relate to impairment losses on right-of-use assets for DIY store properties let from third parties (IAS 36 impairments), which due to IFRS 16 required recognition for the first time in the Real Estate segment. In the 2018/19 financial year (pre-IFRS 16), provisions for pending losses in connection with onerous lease contracts were recognized pursuant to IAS 37 (2018/19: € 11.1 million) in the Retail segment. Conversely, IFRS 16 also led rental expenses to drop from € 56.5 million to € 1.0 million. EBIT in the Real Estate segment increased by 22.0 % to € 87.3 million (2018/19: € 71.6 million). EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) rose by 40.3 % to € 104.8 million (2018/19: € 74.7 million). Mainly due to the IFRS 16-related deterioration in net financial expenses from minus € 7.3 million to minus € 42.2 million, earnings before taxes (EBT) decreased by 29.7 % to € 45.2 million (2018/19: € 64.3 million).

3.3.2 HORNBACH Baustoff Union GmbH subgroup

At the HORNBACH Baustoff Union GmbH subgroup, EBIT adjusted for non-operating one-off items amounted to € 2.6 million in the 2019/20 financial year (2018/19: € 3.6 million). The adjusted EBIT margin decreased to 0.9 % (2018/19: 1.4 %). This was mainly due to a reduction in the gross margin. EBIT amounted to € 3.9 million (2018/19: € 2.2 million). This figure includes impairment losses of € 0.4 million (2018/19: € 1.4 million) mainly resulting from IAS 36 asset impairment tests, as well as accounting gains from the sale of properties no longer required for operations.

3.3.3 HORNBACH Immobilien AG subgroup

Adjusted for one-off items, EBIT at the HORNBACH Immobilien AG subgroup amounted to € 56.2 million in the 2019/20 financial year (2018/19: € 53.3 million). In the year under report, the sale of land and real estate not required generated non-operating income of € 0.3 million (2018/19: € 0.1 million). Including one-off items, EBIT at this subgroup increased to € 56.5 million (2018/19: € 53.5 million).

3.4 Earnings performance by geographical regions

In the 2019/20 financial year, we significantly increased our profitability both in the Germany region and in the Other European Countries region. Thanks to the very pleasing development in sales and costs, the Germany region once again contributed a somewhat higher share of consolidated net income.

EBITDA in **Germany** more than doubled from € 81.4 million to € 178.9 million. The domestic share of the Group's EBITDA rose from 35 % to 43 %. EBIT in the Germany region increased from € 11.2 million to € 60.2 million. The domestic share of operating earnings stood at 28 % (2019/20: 9 %). We improved the EBIT margin from 0.5 % to 2.4 %. Non-operating charges on earnings fell from € 8.4 million to € 4.6 million in the 2019/20 financial year. EBIT for the Germany region adjusted for non-operating earnings items increased from € 19.6 million to € 64.8 million in the 2019/20 financial year. The adjusted EBIT margin in Germany therefore advanced from 0.8 % to 2.6 %.

Other European Countries generated EBITDA of € 241.2 million (2018/19: € 153.1 million) and thus accounted for around 57 % of EBITDA at the HORNBACH Holding AG & Co. KGaA Group in the period under report (2018/19: 65 %). We increased our EBIT outside Germany by 40.7 % to € 154.0 million (2018/19: € 109.5 million). The international share of EBIT amounted to 72 % (2018/19: 91 %). The EBIT margin for Other European Countries is reported at 7.0 % (2018/19: 5.5 %). Non-operating charges on earnings, which in the 2018/19 financial year still amounted to € 5.9 million, rose to € 8.6 million in the year under report. Adjusted EBIT outside Germany increased to € 162.6 million (2018/19: € 115.4 million), while the adjusted EBIT margin reached 7.4 % (2018/19: 5.8 %).

3.5 Dividend proposal

€ 1.50
dividend proposal for 2019/20 financial year

The general partner and the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose a dividend of € 1.50 per no-par ordinary bearer share with dividend entitlement in the KGaA, and thus unchanged on the previous year, for approval by the Annual General Meeting planned to be held on July 10, 2020. The company thus intends to uphold its principle of dividend continuity for the 2019/20 financial year as well.

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 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 subsidiaries within the subgroup. Formal undertakings to companies outside the HORNBACH Baumarkt AG subgroup are provided either by HORNBACH Holding AG & Co. KGaA or by HORNBACH Immobilien AG.

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.

At the HORNBACH Baumarkt AG subgroup, external financing generally takes the form of unsecured loans from banks and on the capital market and, where applicable, real estate sales (sale and leaseback), while the HORNBACH Immobilien AG subgroup has additionally financed itself with secured mortgage loans. Consistent with HORNBACH's forward-looking financial policy, financial liabilities due to mature are refinanced where needed at the earliest opportunity.

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

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 Holding AG & Co. KGaA Group had financial debt of € 1,538.8 million at the balance sheet date on February 29, 2020 (2018/19: € 939.9 million). Net financial debt rose from € 623.7 million to € 1,170.5 million. Cash and cash equivalents increased from € 316.3 million in the previous year to € 368.3 million in the year under report.

The current financial debt (up to 1 year) of € 150.3 million (2018/19: € 343.0 million) comprises the portion of loans and bonds maturing in the short term, at € 59.5 million (2018/19: € 325.9 million), current lease liabilities of € 82.4 million (2018/19: € 10.8 million), current account liabilities and short-term time loans of € 3.4 million (2018/19: € 3.5 million), interest deferrals of € 4.6 million (2018/19: € 2.3 million), and the measurement of derivative financial instruments, at € 0.3 million (2018/19: € 0.5 million). The significant reduction in current financial debt is mainly due to the refinancing of the bond maturing in February 2020 at HORNBACH Baumarkt AG and the resultant reclassification to non-current financial debt. The significant increase in overall financial debt chiefly results from the amended recognition of lease liabilities pursuant to IFRS 16. Further information about this can be found in Note 13 "Leases" in the notes to the consolidated financial statements.

The specific composition of financial debt is presented in the following table.

Financial debt of the HORNBACH Holding AG & Co. KGaA Group

Type of financing	Liabilities broken down into remaining terms						2.29.2020	2.28.2019
€ million	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total	Total
Short-term bank debt[1]	8.0			0.0	0.0	0.0	8.0	5.8
Mortgage loans	12.4	11.7	19.7	12.6	12.6	8.2	77.1	103.1
Other loans[2] [3]	47.1	70.0	0.0	177.6	0.0	116.7	411.4	417.1
Bonds[3]	0.0	0.0	0.0	0.0	0.0	246.6	246.6	249.5
Negative fair values of derivative financial instruments	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.5
Lease liabilities	82.4	79.3	81.4	82.6	82.4	387.3	795.3	164.0
Total financial debt	**150.3**	**160.9**	**101.0**	**272.7**	**95.0**	**758.9**	**1,538.8**	**939.9**
Cash and cash equivalents							368.3	316.3
Net financial debt							**1,170.6**	**623.7**

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

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

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

- the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until October 25, 2026 and an interest rate of 3.25 %
- the promissory note bond of € 70 million at HORNBACH Immobilien AG with term until June 30, 2021
- two promissory note bonds at HORNBACH Holding B.V. with volumes of € 52 million and € 43 million and terms until September 13, 2023 and September 15, 2025
- two promissory note bonds at HORNBACH Baumarkt AG with volumes of € 126 million and € 74 million and terms until February 22, 2024 and February 23, 2026
- a short-term loan of CHF 50 million (€ 47 million) at HORNBACH Baumarkt (Schweiz) AG with a term until November 18, 2020
- Group-wide financing facilities of € 77.1 million secured by land charges (2018/19: € 103.1 million). Land charges of € 194.7 million have been registered as security for these financing facilities (2018/19: € 265.3 million).

€ 413 m
free credit lines

4.2.1 Credit lines

At the balance sheet date on February 29, 2020, the HORNBACH Holding AG & Co. KGaA Group had free credit lines amounting to € 412.6 million (2018/19: € 428.6 million) on customary market terms. These include an as yet unused syndicated credit line of € 350 million at HORNBACH Baumarkt AG, which has a term running until December 22, 2024. To ensure the maximum possible degree of flexibility, all major group companies have either credit lines denominated in local currencies or the possibility of acceding to the syndicated credit line at HORNBACH Baumarkt AG via supplementary bilateral loan agreements of up to € 70 million.

4.2.2 Covenants

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

In the case of the syndicated credit line at HORNBACH Baumarkt AG, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH Baumarkt AG subgroup and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. Pursuant to the definition in the syndicated loan agreement, lease liabilities classified as "operating leases" under IFRS principles prior to January 1, 2019 will not be viewed as financial liabilities. As a result, these obligations are not included in calculations such as the key financial ratios for the term of the loan facility.

Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries comparable to those agreed for the syndicated credit line were also agreed for the promissory note bonds at the HORNBACH Baumarkt AG subgroup. The corporate bond at HORNBACH Baumarkt AG is also subject to a comparable limit on financing facilities secured by land charges. The conditions governing the promissory note bond at HORNBACH Immobilien AG require the maintenance of a specified volume of unencumbered property, plant and equipment.

The interest cover, equity ratio, agreed financing limits, unencumbered property, plant and equipment, 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

The HORNBACH Holding AG & Co. KGaA Group is subject to a relevant restriction that limits the possibilities of using subsidiaries' assets to settle other subsidiaries' liabilities. This relates to liquid funds of € 302.2 million at HORNBACH Baumarkt AG and its subsidiaries (2018/19: € 242.5 million). Apart from an allowance of € 50 million, these funds must remain within the HORNBACH Baumarkt AG subgroup and may not be used to settle liabilities outside the HORNBACH Baumarkt AG subgroup.

Key financial figures of the HORNBACH Holding AG & Co. KGaA Group

Key figure	Definition		2.29.2020	2.28.2019
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	1,170.6	623.7
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		8.7	10.2

(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.

The significant increase in net financial debt and reduction in interest cover result from the first-time application of IFRS 16 and the associated substantial rise in financial debt and gross interest expenses.

4.3 Cash and cash equivalents

Cash and cash equivalents totaled € 368.3 million at the balance sheet date (2018/19: € 316.3 million). In the past financial year, liquidity was mainly held in the form of time, overnight, and notice deposits on the money market with a maximum investment horizon or notice period of three months. To avoid or reduce negative interest rates, in individual cases amounts have also been invested for longer periods. To increase security, maximum deposit limits per bank have been defined.

4.4 Cash flow statement and investments

€ 131 m
investments

The HORNBACH Holding AG & Co. KGaA Group invested a total of € 131.2 million in the 2019/20 financial year (2018/19: € 195.9 million), mainly in land, buybacks of stores previously let, buildings, and plant and office equipment at existing DIY stores with garden centers, and at DIY stores with garden centers under construction. The funds of € 131.2 million (2018/19: € 195.9 million) required for cash-effective investments were fully covered in the year under report by the cash flow of € 324.5 million from operating activities (2018/19: € 54.0 million). Around 56 % of total investments were channeled into new real estate, including properties under construction and buybacks of stores previously let, while around 44 % were invested largely in replacing and expanding plant and office equipment.

Cash flow statement (abridged) € million	2019/20	2018/19
Cash flow from operating activities	324.5	54.0
of which: funds from operations[1]	333.5	181.8
of which change in working capital[2]	(9.0)	(127.8)
Cash flow from investing activities	(121.6)	(190.7)
Cash flow from financing activities	(152.1)	288.9
Cash-effective change in cash and cash equivalents	**50.8**	**152.2**

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

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

The most significant investment projects related to the buyback of one store previously let from an external investor, 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 the builders' merchant business, investments in plant and office equipment, and in intangible assets, especially software.

The inflow of funds from operating activities showed significant year-on-year growth, rising from € 54.0 million to € 324.5 million in the 2019/20 financial year. Funds from operations increased to € 333.5 million (2018/19: € 181.8 million). This significant increase is mainly due to sales growth and strict cost management, as a result of which store and administration expenses rose significantly less rapidly than sales. Moreover, the first-time application of IFRS 16 led to material changes in the income statement, and thus also to an improvement in operative key figures by € 72.8 million. The impact of the change in the net balance of other non-cash income and expenses decreased from € 13.2 million to € 4.6 million. The change in working capital resulted in an outflow of funds of € 9.0 million (2018/19:

minus € 127.8 million). This was mainly due to the increase in inventories for the spring season in the subsequent year, a development that was only partly offset by an increase in trade payables. In the previous year, the significantly higher outflow of funds for working capital was due to a more substantial increase in inventories and a reporting date effect relating to the settlement of supplier liabilities.

The outflow of funds for investing activities fell from € 190.7 million to € 121.6 million. Cash-effective investments in non-current assets decreased to € 131.2 million (2018/19: € 195.9 million). By contrast, proceeds from disposals of non-current assets and of non-current assets held for sale rose to € 9.6 million (2018/19: € 5.2 million). As in the previous year, short-term finance planning did not give rise to any movements in financial fund investments in the period under report.

The outflow of funds from financing activities totaled € 152.1 million in the 2019/20 financial year, compared with an inflow of € 288.9 million in the previous year. Scheduled repayments of € 285.4 million for non-current financial debt were countered by taking up new long-term loans of € 248.1 million. The repayment of current and non-current lease liabilities led to an outflow of € 84.2 million (2018/19: € 10.3 million). At € 29.1 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. In its most recent publication, Standard & Poor's rated the HORNBACH Baumarkt AG Group at "BB" with a stable outlook. Moody's, by contrast, reduced its rating to "Ba3" with a negative outlook in its latest publication.

BB/Ba3
rating of HORNBACH Baumarkt AG Group

5. Asset Position

Balance sheet of the HORNBACH Holding AG & Co. KGaA Group (abridged version)

€ million	2.29.2020	2.28.2019	Change
Non-current assets	2,397.1	1,773.2	35.2 %
Current assets	1,363.1	1,238.3	10.1 %
Assets	**3,760.2**	**3,011.5**	**24.9 %**
Shareholders' equity	1,604.2	1,507.1	6.4 %
Non-current liabilities	1,489.9	700.1	112.8 %
Current liabilities	666.1	804.3	(17.2) %
Equity and liabilities	**3,760.2**	**3,011.5**	**24.9 %**

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

The Group's total assets showed significant year-on-year growth to € 3,760.2 million (plus 24.9 %). This was mainly due to the first-time recognition of right-of-use assets for leased properties and lease liabilities pursuant to IFRS 16. The equity of the Group as stated in the balance sheet amounted to € 1,604.2 million at the end of the financial year (2018/19: € 1,507.1 million). Due to the extension in the balance sheet resulting from application of IFRS 16, the equity ratio fell from 50.0 % in the previous year to 42.7 % at the end of the 2019/20 financial year.

5.1 Non-current and current assets

Non-current assets, which account for around 64 % (2018/19: 59 %) of total assets, amounted to € 2,397.1 million at the balance sheet date (2018/19: € 1,773.2 million). They mainly comprise property, plant and equipment and investment property of € 1,621.7 million (2018/19: € 1,589.9 million) and right-of-use assets for leased properties of € 741.3 million (2018/19: € 149.0 million). This increase by 35.2 % was mainly due to the first-time recognition of right-of-use assets of € 667.5 million pursuant to IFRS 16, other additions of € 169.5 million to non-current assets, and exchange rate movements that increased property, plant and equipment by € 16.6 million. These factors were countered by depreciation and amortization of € 206.6 million and disposals of assets amounting to € 4.0 million. Furthermore, assets of € 4.0 million were reclassified from property, plant and equipment and investment property to non-current assets held for sale.

The other non-current receivables and assets of € 4.7 million (2018/19: € 4.1 million) mainly involve the fair value of the interest-currency swap, deferrals of credit line expenses, and non-current lease receivables. Furthermore, the Group has deferred tax claims of € 13.1 million (2018/19: € 12.5 million). The increase chiefly resulted from adjustments made to temporary measurement differences for finance leases and the recognition of provisions.

Current assets grew by 10.1 % from € 1,238.3 million to € 1,363.1 million, or around 36 % of total assets (2019/20: 41 %). Due to the Group's expansion and seasonal preparations, inventories increased from € 798.9 million to € 861.3 million. Despite the rise in inventories, the inventory turnover rate could be maintained at 3.8, and thus almost unchanged on the previous year's high level (3.9). Cash and cash equivalents rose year-on-year by € 52.0 million from € 316.3 million to € 368.3 million in the year under report. Current receivables, contract assets, and other assets (including income tax receivables) rose by € 11.5 million to € 132.1 million. This was mainly due to higher trade and other receivables. Current income tax receivables fell from € 10.5 million in the previous year to € 8.7 million in the year under report.

Key balance sheet figures of the HORNBACH Holding AG & Co. KGaA Group

Key figure	Definition		2.29.2020	2.28.2019
Equity ratio	Equity / Total assets	%	42.7	50.0
Return on equity	Annual net income before minority interests / Average equity	%	7.9	5.1
Return on total capital	NOPAT[1]/ Average total capital[2]	%	6.1	4.2
Debt / equity ratio (gearing)	Net debt / Equity	%	73.0	41.4
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	837.0	195.9
Net working capital	Inventories and receivables less trade payables	€ million	726.8	677.7
Inventory turnover rate	Cost of goods sold / Average inventories		3.8	3.9

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

5.2 Non-current and current liabilities

Liabilities, including provisions, increased to € 2,156.0 million at the balance sheet date (2018/19: € 1,504.4 million). Non-current liabilities rose by € 789.8 million from € 700.1 million to € 1,489.9 million. This was primarily due to the first-time recognition of IFRS 16 lease liabilities and to the refinancing of the € 250 million corporate bond at HORNBACH Baumarkt AG which, in the previous year, was recognized under current financial debt. Non-current financial debt otherwise chiefly comprises long-term loan liabilities of € 428.9 million (2018/19: € 443.7 million) and IFRS 16 lease liabilities of € 712.9 million (2018/19: € 153.2 million). Provisions for pensions rose to € 24.9 million, up from € 14.3 million in the previous year. The deferred tax liabilities included in non-current liabilities fell from € 39.8 million to € 34.1 million.

Notes to Consolidated Financial Statements
Note 23:
Financial debt

Current liabilities decreased from € 804.3 million to € 666.1 million. This substantial reduction was chiefly due to the refinancing of the corporate bond at HORNBACH Baumarkt AG, which is now recognized under non-current financial debt. Primarily as a result of higher provisions for employee bonuses, other provisions and deferred liabilities rose from € 91.2 million in the previous year to € 105.1 million.

The net debt of the HORNBACH Holding AG & Co. KGaA Group, i.e. financial debt less cash and cash equivalents, rose from € 623.7 million to € 1,170.6 million. Excluding lease liabilities, net debt fell from € 459.7 million to € 375.2 million.

6. Notes to the Annual Financial Statements of HORNBACH Holding AG & Co. KGaA (HGB)

HORNBACH Holding AG & Co. KGaA, whose legal domicile is in Neustadt an der Weinstrasse, prepares its annual financial statements in accordance with the requirements of the German Commercial Code (HGB) and the supplementary provisions of the German Stock Corporation Act (AktG). HORNBACH Holding AG & Co. KGaA is the parent company of the HORNBACH Group. It is not itself active in the operating retail business, but rather has a number of major shareholdings. By far the most important operating shareholding is HORNBACH Baumarkt AG, which operates DIY megastores with integrated garden centers in Germany and abroad. Further retail activities are located at HORNBACH Baustoff Union GmbH (construction materials and builders' merchants). Furthermore, the development of retail locations for the operating subsidiaries within the HORNBACH Holding AG & Co. KGaA Group is pooled at the HORNBACH Immobilien AG shareholding. Around 46 % of the sales areas owned by the HORNBACH Group are held by HORNBACH Immobilien AG.

As in previous years, in the 2019/20 financial year HORNBACH Holding AG & Co. KGaA performed important services on behalf of its subsidiaries within the overall Group. The Chief Financial Officer of HORNBACH Management AG simultaneously holds this function for HORNBACH Holding AG & Co. KGaA and HORNBACH Baumarkt AG. The employees responsible for financial market communications (investor relations) and public relations are located at HORNBACH Holding AG & Co. KGaA and also work on behalf of its HORNBACH Baumarkt AG subsidiary. A control and profit transfer agreement is in place between HORNBACH Holding AG & Co. KGaA and its wholly-owned subsidiary HORNBACH Immobilien AG.

Group Management Report
Business Report
Macroeconomic and
Sector-Specific Framework

6.1 Business framework

The macroeconomic and sector-specific framework also relevant for HORNBACH Holding AG & Co. KGaA is described in detail in the Group Management Report.

Income Statement of HORNBACH Holding AG & Co. KGaA pursuant to HGB (abridged version)

€ 000s	2019/20	2018/19
Sales	925	932
Other operating income	42	798
Cost of services rendered	539	542
Gross profit	**428**	**1,188**
Personnel expenses	852	813
Depreciation and amortization	20	20
Other operating expenses	3,139	3,284
Income from investments	52,383	49,002
Write-downs of financial assets	0	0
Interest result	1,179	786
Taxes	**10,190**	**9,423**
Earnings after taxes	39,789	37,436
Other taxes	1	1
Annual net surplus	**39,788**	**37,435**
Allocation to other revenue reserves	15,788	13,435
Net profit	**24,000**	**24,000**

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

6.2 Business performance of shareholdings

The retail and real estate activities and the business performance of the HORNBACH Baumarkt AG, HORNBACH Baustoff Union GmbH, and HORNBACH Immobilien AG subgroups in the 2019/20 reporting period are presented in detail in the Group Management Report.

Group Management Report
Business Report

6.3 Earnings, financial, and asset position

6.3.1 Earnings performance

The sales of € 925k (2018/19: € 932k) mainly result from the charging on of material and personnel expenses to affiliated companies.

At € 0.9 million, personnel expenses rose slightly in the 2019/20 financial year. The remuneration paid by HORNBACH Management AG to the Board of Management is charged on together with other management-related expenses to HORNBACH Holding AG & Co. KGaA and recognized under other operating expenses. Other operating expenses fell slightly from € 3.3 million to € 3.1 million.

At minus € 3.6 million, earnings before interest, income from investments, and write-downs of financial assets (net balance of gross profit less personnel expenses, depreciation and amortization, and other expenses) fell short of the previous year's figure (minus € 2.9 million).

Income from investments rose year-on-year by € 3.4 million from € 49.0 million to € 52.4 million. This was due to the increase in the income of € 35.9 million transferred from HORNBACH Immobilien AG (2018/19: € 32.5 million). The income from the investment in HORNBACH Baumarkt AG remained unchanged at € 16.5 million.

At € 1.2 million, the positive interest result was slightly higher than the previous year's level (2018/19: € 0.8 million).

Net income tax expenses, which comprise current and deferred taxes, were reported at € 10.2 million for the 2019/20 financial year (2018/19: € 9.4 million). At € 39.8 million, the annual net surplus at HORNBACH Holding AG & Co. KGaA was higher than in the previous year (2018/19: € 37.4 million).

6.3.2 Asset position

Total assets amounted to € 354.6 million as of February 29, 2020 (2018/19: € 341.4 million). Non-current assets increased by € 80.0 million from € 182.5 million to € 262.4 million. This was chiefly due to the reclassification of receivables of € 80.0 million due from affiliated companies to loans to affiliated companies. The increase in other assets from € 5.1 million to € 5.5 million was chiefly attributable to higher tax refund claims.

Deferred tax assets amounted to € 1.1 million (2018/19: € 1.8 million). Shareholders' equity at HORNBACH Holding AG & Co. KGaA grew from € 329.0 million to € 344.8 million at the balance sheet date on February 29, 2020. Primarily due to lower non-period taxes, provisions for income taxes fell from € 10.7 million in the previous year to € 7.8 million in the year under report.

Balance sheet of HORNBACH Holding AG & Co. KGaA pursuant to HGB (abridged version)

Assets	2.29.2020 € 000s	2.28.2019 € 000s
Non-current assets	**262,462**	**182,455**
Receivables and other assets	52,493	131,339
Securities	91	94
Cash holdings and credit balances at banks	38,215	25,479
Current assets	**170,799**	**156,912**
Deferred expenses and accrued income	253	267
Deferred tax assets	1,085	1,761
Total assets	**354,599**	**341,395**
Equity and liabilities		
Shareholders' equity	344,773	328,985
Provisions	8,645	11,760
Liabilities	1,181	650
Total equity and liabilities	**354,599**	**341,395**

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

6.3.3 Financial position

Group Management Report
Business Report
Financial Position

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

Primarily due to lower group financing, cash and cash equivalents rose year-on-year by € 12.7 million to € 38.2 million in the 2019/20 financial year.

6.4 Overall assessment of earnings, financial, and asset position of HORNBACH Holding AG & Co. KGaA

The earnings, financial, and asset position of HORNBACH Holding AG & Co. KGaA remained satisfactorily stable in the 2019/20 financial year. At € 39.8 million, the annual net surplus was ahead of the previous year's figure of € 37.4 million. At 97.2 % (2018/19: 96.4 %), the equity ratio remains very high.

6.5 Proposed appropriation of net profit

HORNBACH Holding AG & Co. KGaA concluded the 2019/20 financial year with an annual net surplus of € 39,788,398.44. Following the allocation of € 15,788,398.44 to other revenue reserves, the Board of Management of the general partner proposes to appropriate the net profit of € 24,000,000.00 as follows:

- € 1.50 dividend per share with a nominal value of € 3.00 on 16,000,000 ordinary shares
- Dividend distribution: € 24,000,000.00.

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 value of the HORNBACH Group. The general partner of HORNBACH Holding AG & Co. KGaA, HORNBACH Management AG, as represented by its Board of Management (hereinafter "the Board of Management"), 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 Holding AG & Co. KGaA Group forms an integral part of the company's management structure. It consists of the central components of early risk identification, controlling and planning processes, reporting and an internal control system, and is continually enhanced and optimized. Responsibility for establishing, organizing and maintaining a suitable, target-based risk management system, and the internal control system in particular, lies with the Board of Management. In terms of the organization and maintenance of the system, the Board of Management is supported by the Director of Group Controlling / Risk Management.

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

Company risk assessment categories in ascending order

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

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

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

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

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

4. Internal Control and Risk Management System in respect of the Group Financial Reporting Process (pursuant to § 315 (4) HGB)

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

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

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

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

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

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

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

As an integral component of the internal control system, the Group Internal Audit Department regularly audits the effectiveness of the internal control system in respect of the financial reporting process on the basis of trial samples reviewed in line with a risk-oriented audit plan. However, even suitable functional systems cannot provide absolute assurance concerning the identification and management of risks.

Overview of overall risks*

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

* Unless otherwise stated, the risks hereby listed apply to the "HORNBACH Baumarkt AG subgroup", "HORNBACH Baustoff Union GmbH subgroup", and "HORNBACH Immobilien AG subgroup" segments.

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

5. Financial Risks

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

5.1 Exchange rate risks

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

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

5.2 Liquidity risks

The acquisition of land, investments in DIY megastores 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 at HORNBACH Baumarkt AG with a term running until December 22, 2024, a short-term loan of CHF 50 million (€ 47 million) at HORNBACH Baumarkt (Schweiz) AG, whose term expired on November 18, 2020, a promissory note bond of € 70 million at HORNBACH Immobilien AG with a term until June 30, 2021, two promissory note bonds at HORNBACH Holding B.V. with a total volume of € 95 million and terms running until 2023 and 2025, two 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 corporate bond issued by HORNBACH Baumarkt AG in October 2019, whose term runs until October 25, 2026.

HORNBACH counters the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to financing conditions on the capital markets by flexibly adjusting its investments and by 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 subgroup. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries of HORNBACH Baumarkt AG. Comparable maximum limits were agreed for the promissory note bonds at HORNBACH Baumarkt AG and HORNBACH Holding B.V. Apart from this, these bonds are only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. Maximum limits for financial facilities secured by land charges similar to those applicable to the syndicated credit line were agreed for the corporate bond at HORNBACH Baumarkt AG. Apart from this, the bond is only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. As of February 29, 2020, the equity ratio at the HORNBACH Baumarkt AG subgroup amounted to 31.8 % (2018/19: 45.7 %) and interest cover came to 11.6 (2018/19: 9.7).

In connection with the promissory note bond at HORNBACH Immobilien AG, this subgroup is required to ensure that a specified level of unencumbered property, plant and equipment is maintained at the HORNBACH Immobilien AG subgroup. Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2019/20 financial year.

The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month budgeting horizon, which is updated monthly, as well as by a daily financial forecast.

The Group currently faces no risks in connection with any follow-up financing necessary to cover maturing financial liabilities. At present, no liquidity risks are discernible.

5.3 Credit risks

Notes to Consolidated Financial Statements
Note (33):
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 are distributed among several financial institutions to counter the risk of bank deposit default. This approach was also maintained in the 2019/20 financial year. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced. Default risks in the builders' merchant business are managed using active debtor management procedures governing the application of creditworthiness-based limits for customer loans. Further detailed information about financial risks and sensitivity analyses can be found in the notes to the consolidated financial statements.

6. External Risks

6.1 Macroeconomic and sector-specific risks

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

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

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

6.2 Natural hazards

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

6.3 Coronavirus pandemic

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

7. Operating Risks

7.1 Location and turnover risks

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

7.2 Procurement risks

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

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

8. Legal Risks

8.1 Legislative and regulatory risks

As a result of its international business activities, the HORNBACH Holding AG & Co. KGaA 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 Holding AG & Co. KGaA Group are inevitably confronted with legal claims on the part of third parties, both in court and out of court. Precautionary accounting measures are taken by recognizing a suitable level of provisions for existing risks in connection with legal disputes. At present, HORNBACH is not involved in any current or foreseeable court or arbitration proceedings which could significantly impact on the Group's economic situation.

9. Management and Organizational Risks

9.1 IT risks

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

9.2 Personnel risks

The deployment of highly motivated and qualified employees represents one of the foundations for HORNBACH's success. This pillar of the corporate culture is therefore of great significance for the overall Group. Employee qualification levels are continually improved with appropriate training and development measures. Bonus models support the company in reaching its objectives. In its recruitment and retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

10. Overall Assessment of Risk Situation

There were no risks to the continued existence of the HORNBACH Holding AG & Co. KGaA Group in the 2019/20 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position over several years.

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Opportunity Report

The European DIY sector will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the Risk Report and the evaluation of the future macroeconomic framework provided in the Outlook. Against this backdrop, the company is consistently enhancing its retail format and corporate strategy, aiming to ensure continuity, reliability and sustainability so as to make optimal use of potential opportunities for future growth. This is subject in particular to the assumption that societies and economies around the world are able to normalize after passing through the coronavirus crisis (see Note 36 in Notes to Consolidated Financial Statements). Having said that, the crisis itself has also opened up new opportunities for the DIY store and garden center sector. With the escalation of the pandemic, customer flows were rechanneled in large areas of the retail sector during the lockdown phase.

1. Sector-Specific Opportunities

The growing need for modernization work plays a major role for DIY store and garden center operators, as do trends among consumers. These harbor various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens. Furthermore, opportunities are also presented by market consolidation in regions with particularly intense competition, such as Germany and Austria.

1.1 Construction activity

Construction work on existing buildings (the refurbishment, modernization, and renovation market) is a prominent factor in the business performance of DIY and garden stores, with more than half of all housing construction investments in Europe relating to this market segment. While new housing construction was the driving force for European construction activity in recent years, the European research and consulting network Euroconstruct expects construction work on existing buildings to show stronger growth compared with new housing construction once again in the years ahead. In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Based on calculations compiled by the German Institute for Economic Research (DIW), two thirds of the housing construction volumes of around € 245 billion in 2019 involved construction work on existing buildings. The growth drivers outlined below indicate fundamental development opportunities and should benefit the business performance of the DIY sector in the long term. It is currently not foreseeable whether the implications of the coronavirus crisis for the labor market, consumer behavior, and real estate market will lead to divergent developments in the 2020/21 financial year or in the medium term.

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

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

- Increasing momentum can also be expected from the renovation of buildings to improve their energy efficiency. Given the long-term increase in energy costs and climate protection, this is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. In Germany, for example, costs incurred for energy refurbishments of own-use residential properties have been partly deductible for tax purposes since January 1, 2020. At the same time, the Kreditanstalt für Wiederaufbau (KfW) has increased its subsidies for refurbishing old residential buildings. **Energy-efficient construction and renovation** enable a residential property's energy costs to be cut by up to three quarters and the property's operating costs to be sustainably reduced over its lifecycle. Energy-efficiency renovation also makes a major contribution towards cutting CO_2 emissions. Energy efficiency is therefore one of the top themes in the European DIY sector.

- Given demographic developments in Europe, **barrier-free construction** involves the challenge of adapting existing living space and urban infrastructure to enable elderly people to retain their freedom and live independently in their familiar surroundings for as long as possible. Demand for senior citizen-friendly construction solutions, such as barrier-free access to buildings and apartments, the installation of elevators, and doorway-widening and sanitary conversion measures, will therefore continue to rise. According to figures released by the Federal Statistical Office, only 2.4% of homes in Germany were barrier-free in 2018.

1.2 Consumer trends

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

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

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

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

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

1.3 Competition and consolidation

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

Germany is the largest DIY market in Europe. However, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 47 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so. Not only that, there is growing competition from pure players that are continually gaining market share in the DIY segment and stepping up the competitive pressure. Given these factors, further consolidation can be expected. Above all, this can be expected to benefit those companies that combine high-performing stationary retail with e-commerce in a multichannel retail business.

€ 47 bn
core DIY market in 2019

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

2. Strategic Opportunities

Our aim is to continually expand HORNBACH's position in the European DIY market by means of organic growth. Our sales and profitability are to be sustainably increased by expanding an internationally successful retail format. On the one hand, this involves focusing on the strategic enhancement of our concept and expanding our store network at locations offering above-average growth potential in Germany and abroad. On the other hand, we intend to further promote our online retail activities in Germany and other European countries to sustainably boost our competitive position as an omni-channel retailer.

2.1 Unmistakable concept

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

One unshakable component of our uniform strategy across the Group is our reliable **permanent low price policy**. We believe that we are better able to retain customers at HORNBACH in the long term by guaranteeing the best market price across our entire product range on a permanent basis, with identical prices in our stationary and online stores. Our permanent low price strategy applies not only to prices at stationary competitors, but also for online offerings. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. That is not possible with temporary discount campaigns.

2.2 Sustainable products

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

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

Moreover, further sales momentum may also be provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly.

2.3 Accessing new customer groups

We are continually expanding our range of services, information and advice in order to attract new customer groups to HORNBACH. These include home improvement demonstrations at the stores intended to motivate customers to do it themselves, and special workshops for women ("Women at Work"). These measures are backed up by the promotion of specialist skills on the part of the store personnel with the aim of achieving a further increase in product expertise and advisory competence, and thus in customer satisfaction.

Our DIY megastores with garden centers are also increasingly of interest to professional customers. Generous opening hours, the stocking of large quantities, the rapid handling of purchases at our drive-in stores and builders' merchant centers, and the uncomplicated acceptance of residual volumes no longer required make HORNBACH an attractive alternative to traditional specialist retail or wholesale procurement sources. The fact that our retail format is increasingly attracting professional customers to HORNBACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers.

We see the do-it-for-me (DIFM) market segment as offering promising growth opportunities, also within the broader context of the ageing population in Germany and other parts of Europe. This segment includes the target group of those customers who are on the lookout for solutions for their home improvement projects and who wish to purchase the product ranges themselves, but who then prefer to have the work undertaken by a specialist. Our tradesman service aims to tap this potential. HORNBACH cooperates at all of its locations with regional trade companies that implement the projects for our customers at fixed prices and assume the warranty for these projects. This way, customers receive the full service from a single source.

2.4 Interconnected retail

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

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

One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. This way, our customers can inform themselves online about products, prices, and availability, and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Furthermore, customers can have articles delivered directly to their homes by mail order or opt for our "Reserve online and collect at the store" service. From just two hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBACH store. This service is a real timesaver, especially for our professional customers. With a product range of up to around 200,000 articles, the online shop also offers significantly greater selection than is possible on limited sales space. To assist in the article search, the HORNBACH app has an image search function enabling customers to find suitable products in the online shop on the basis of a photo. Using virtual reality (VR), it will also be possible in future to present additional products on site at the stores. HORNBACH already uses VR at some stores to present bathroom design schemes.

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

Efficiency due to digital processes

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

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

Customer relationship management

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

New business fields

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

2.5 Internationalization

Our expansion into foreign markets will provide us with additional growth prospects in future as well. These markets offer greater sales potential and higher profitability compared with the saturated German market and enable us to achieve a better distribution of regional market risks. The internationalization of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply each of our stores as efficiently as possible. Suppliers are able make deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our product selection to regional requirements in those countries and to improve our margins due to benefits of scale.

2.6 Private labels

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

Assessment of opportunities in connection with the coronavirus pandemic

The general strategic opportunities facing our company and outlined in Sections 2.1 to 2.6 are thought to have become even more valid since the outbreak of the coronavirus pandemic in the spring of 2020 than in the past. As we explain in detail in the information provided on events after the balance sheet in Note 37 of the Notes to the Consolidated Financial Statements, in most regions within our European network the HORNBACH DIY stores and garden centers were able to remain open following the introduction of lockdown measures by the authorities in mid-March 2020. The number of stores permitted to open rose steadily through April 2020 until, as of May 6, all 160 stores were finally open to customers again. The significant year-on-year increase in demand since the beginning of the new 2020/21 financial year allows us to conclude that we have successfully addressed and convinced new customers who, prior to the crisis, still handled their purchases via competing chains or sales channels. Thanks to our interconnected retail activities, we benefited from this development in both our stationary and online channels. Specifically, it became apparent that order volumes in the online retail business settled down at higher levels even after full stationary operations had been relaunched in various regions. We have the impression that, particularly during the coronavirus crisis, HORNBACH has positively established itself as a brand among customers and the general public.

3. Explanatory Comments on the Risk and Opportunity Report of HORNBACH Holding AG & Co. KGaA

The risks and opportunities at HORNBACH Holding AG & Co. KGaA are largely consistent with those presented for the HORNBACH Holding AG & Co. KGaA Group.

Outlook

1. Macroeconomic and Sector-Specific Framework

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

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

1.1 Business framework in Europe

Economy on brink of recession

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

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

1.2 Business framework in Germany

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

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

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

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

+1.5 % to +1.8 %

sales growth forecast for German DIY store sector in 2020

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

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

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

2. Forecast Business Performance in 2020/21

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

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

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

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

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

2.1 Expansion

In the one-year forecast period, the **HORNBACH Baumarkt AG subgroup** will continue to focus on expanding and modernizing the store network in its existing country markets. Depending on the progress made in the building permit and construction planning stages, store openings may be rescheduled between individual years.

Given the challenges facing the sector in the field of e-commerce, in our stationary retail business we will be focusing even more closely than in the past on selective growth at premium locations. That is especially true for new store openings in Germany. In the coming five years, the number of HORNBACH DIY stores here will rise only marginally, not least as a result of planned closures for new replacement locations. The key focus of our medium-term expansion and investment activities will be outside Germany.

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

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

The **HORNBACH Baustoff Union subgroup** took over a longstanding sales partner in Saarland as a proprietary outlet as of March 1, 2020, increasing the total number of locations to 35 in the 2020/21 financial year. Furthermore, a new sales partner was gained in Wöllstein as of April 1, 2020. With a view to strengthening its leading market position in the region and beyond, the subgroup is reviewing further opportunities to acquire promising new locations.

2.2 Investments

The original budget provided for gross investments of between € 155 million and € 175 million at the HORNBACH Holding AG & Co. KGaA Group in the 2020/21 financial year. The overwhelming share of these funds was to be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure.

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

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

2.3 Sales performance

Our ongoing objective is that of achieving sustainable growth in our core operating business. The sales performance of the HORNBACH Group is essentially shaped by developments at the HORNBACH Baumarkt AG subgroup.

2.3.1 Sales forecast for the HORNBACH Baumarkt AG subgroup

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

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

2.3.2 Sales forecast for the HORNBACH Baustoff Union GmbH subgroup

Prior to the impact of coronavirus, the HORNBACH Baustoff Union GmbH subgroup had budgeted for growth in its like-for-like sales in a medium single-digit percentage range in the 2020/21 financial year.

2.3.3 Sales forecast for the HORNBACH Holding AG & Co. KGaA Group

Consistent with developments at the largest operating subgroup, HORNBACH Baumarkt AG, on the level of the overall HORNBACH Holding AG & Co. KGaA Group we expected consolidated sales to show growth in a medium single-digit percentage range in the 2020/21 financial year.

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

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

Weighing up all aspects, upon completion of this report it is considered likely that, should the lock-down-related restrictions on business activities last only a few days to weeks, then sales at the HORNBACH Group will approximately match the level reported for the 2019/20 financial year (€ 4.7 billion). Should a coronavirus-induced setback arise, however, with a comprehensive lockdown lasting several months, then consolidated sales are expected to decrease significantly.

2.4 Earnings performance by segment

Our indications for the future earnings performance of the HORNBACH Group are based on developments expected at the HORNBACH Baumarkt AG subgroup, HORNBACH Baustoff Union GmbH subgroup, and HORNBACH Immobilien AG subgroup segments.

2.4.1 Earnings forecast for the HORNBACH Baumarkt AG subgroup

- **Retail segment:**

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

  Based on our original expectations, the **gross margin** in the 2020/21 financial year should fall slightly short of the previous year's level. The development in the gross margin is being influenced by tough competition in the stationary and online DIY retail businesses. E-commerce is gradually gaining in significance throughout our European network and provides customers with maximum price transparency. HORNBACH has positioned itself here with a consistently implemented permanent low price policy and offers identical article prices to its customers both online and in its stationary business. Given the different product mix involved, we generate a lower gross margin in online retail compared with our stationary retail business. Not only that, the online retail margin is adversely affected by freight costs that are only partly covered by freight revenues. The rising share of the Group's online retail sales generated in the international regions with higher margins is nevertheless having a stabilizing effect. To support the gross margin in the long term, we intend to continually increase the share of sales generated with our private label products, among other measures.

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

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

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

At 0.2 %, the budgeted **pre-opening expense ratio** was at around the previous year's level.

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

According to the 2020/21 budget, the **administration expense ratio** should decrease slightly (2019/20: 4.9 %). In the 2019/20 financial year, one-off expenses were incurred for compensation packages and for the conversion of an administration building in Bornheim. Recurring head office expenses were set to rise significantly more slowly than sales. This was to be achieved with a range of measures already initiated in the year under report. Above all, these measures involve improving efficiency in the interaction between the company headquarters and the operating regions. One particular focus involves structural reorganization measures in the Germany region where, among other aspects, a more restrictive recruitment policy and normal staff turnover should contribute to a significant improvement in the earnings situation. Strategic projects are being systematically analyzed and prioritized in terms of their customer relevance and economic viability. The projects are reviewed by the Board of Management at regular intervals in terms of their focus, targeted progress, and costs, with adjustments made where necessary.

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

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

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

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

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

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

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

Summary for the HORNBACH Baumarkt AG subgroup

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

Overall, the Board of Management believes that it is likely that, due to the coronavirus-related effects to date, the adjusted EBIT of the HORNBACH Baumarkt AG subgroup for the 2020/21 financial year will fall slightly short of the level achieved in the 2019/20 financial year. Should the pandemic return on a massive scale in the quarters ahead, however, then adjusted EBIT can be expected to fall significantly short of the previous year's figure.

2.4.2 Earnings forecast for the HORNBACH Baustoff Union GmbH subgroup

In its original forecast for the 2020/21 financial year, the HORNBACH Baustoff Union GmbH subgroup expected to achieve a higher gross margin than in the previous year on a same-store basis and also forecast a disproportionate rise in store and administration expenses compared with sales. The subgroup's EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) should nevertheless exceed the level reported for the 2019/20 financial year.

The HORNBACH Baustoff Union GmbH subgroup has proved resilient during the coronavirus crisis to date. This is because demand from commercial customers was not directly affected by the official restrictions on the retail sector. In the event of a renewed and prolonged lockdown, however, the accompanying intensification in the economic downturn might also severely affect construction activity. Any resultant downturn in demand could lead the subgroup's adjusted EBIT to fall significantly short of the level seen in the 2019/20 financial year.

2.4.3 Earnings forecast for the HORNBACH Immobilien AG subgroup

In the original scenario, we budgeted rental income at the previous year's level at the HORNBACH Immobilien AG subgroup. No material disposal gains from real estate transactions were planned. The budget for 2020/21 includes a year-on-year increase in depreciation, amortization and operating expenses, mostly due to higher maintenance expenses. For the 2020/21 financial year, we expected the subgroup to generate adjusted EBIT at around the same level as in the previous 2019/20 financial year.

Assuming no changes are made to prices for rentals within the HORNBACH Group, the coronavirus crisis will not have any material implications for the earnings situation at the HORNBACH Immobilien AG subgroup. Should the sales and earnings performance of the HORNBACH Baumarkt AG subgroup deteriorate significantly due to a severe coronavirus-related setback, it would be possible to strengthen the earnings situation of the Baumarkt subgroup – at the expense of profitability at the HORNBACH Immobilien AG subgroup – by reducing or deferring intragroup rental payments to an extent customary to the market. This would not impact earnings on HORNBACH Group level. Upon completion of this report, however, there were no plans to adjust intragroup rental payments.

2.5 Earnings forecast for the HORNBACH Holding AG & Co. KGaA Group

Implications of coronavirus still uncertain

At the overall HORNBACH Holding AG & Co. KGaA Group, we assumed that EBIT adjusted to exclude non-operating earnings items (**adjusted EBIT**) for the one-year 2020/21 forecast period would be at the high level seen in the 2019/20 financial year (€ 227.0 million).

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

2.6 Earnings forecast for HORNBACH Holding AG & Co. KGaA (annual financial statements –HGB)

The earnings performance of HORNBACH Holding AG & Co. KGaA in the forecast period is closely linked to the respective outlooks on the level of its subsidiaries HORNBACH Baumarkt AG and HORNBACH Immobilien AG. The forecast development in earnings at the HORNBACH Baumarkt AG and HORNBACH Immobilien AG subgroups can be expected to impact accordingly on the level and rate of change in income from investments. Assuming a less severe course of the coronavirus crisis, the annual net surplus for the 2020/21 financial year may fall slightly short of the previous year's figure. Should the crisis take a more severe course, then a significant reduction in the annual net surplus is to be expected.

Remuneration Report

The remuneration report presents the basic features and structure of the remuneration of the Board of Management of the general partner (HORNBACH Management AG) and the Supervisory Board of HORNBACH Holding AG & Co. KGaA. It is a constituent component of the group management report.

1. Remuneration of Board of Management of HORNBACH Management AG

1.1 Remuneration system

Remuneration of members of the Board of Management is determined in line with the requirements of stock corporation law and of the Act on the Appropriateness of Management Board Remuneration (VorstAG), taking due account of levels of remuneration customary in the market. Total remuneration of members of the Board of Management comprises the components of fixed annual salary, annual variable remuneration, plus ancillary benefits customary to the market and the company. Total remuneration 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. This is paid monthly in twelve equal portions at the end of each calendar month. Fixed salaries are graded differently for the Chairman and the regular Board member.

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

  Individual variable remuneration is separately graded at different levels for the Chairman and the 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) after minority interests at HORNBACH Holding AG & Co. KGaA. Of variable remuneration calculated on the basis of average consolidated net income (IFRS) after minority interests, 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 Management AG and the respective member of the Board of Management reach a target agreement before the beginning of each financial year in which the individual targets, their respective percentage weighting and the respective degree of target achievement are determined by the full Supervisory Board. Following completion of the financial year, the full Supervisory Board determines the degree of individual target achievement for the respective member of the Board of Management.

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

- **Internal ratio of remuneration components:**
  No specific ratio of fixed salary to variable remuneration components has been stipulated. In particular, apart from the cap at a maximum of 150 % of the fixed salary, no specific relationship has been determined for the amount of fixed annual salary compared with the amount of annual variable remuneration. The structure of annual variable remuneration ensures that the overwhelming share of such remuneration (75 %) is based on long-term factors, complying with the predominantly multiyear nature called for in the relevant legislation. In individual cases, the remuneration system may be adapted by the full Supervisory Board, taking account of legal requirements, to the extent deemed necessary to account for the duties and performance of the member of the Board of Management.

1.2 Retirement and pension commitments

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

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

1.3 Additional benefits

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

Reimbursement of travel and other expenses incurred in the interests of HORNBACH Holding AG & Co. KGaA based on the actual amounts incurred

- Grants towards private health insurance, voluntary retirement pension scheme or alternatively contributions to a private life insurance policy
- Accident insurance covering fatality and invalidity
- Temporary continuation of payment of remuneration in event of sickness or death
- Claim to provision of a company car for work-related and private use.

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

Total remuneration of the Board of Management of the general partner HORNBACH Management AG for performing its duties on behalf of the HORNBACH Holding AG & Co. KGaA Group in the 2019/20 financial year amounted to € 1,963k (2018/19: € 1,878k). Of this, € 966k was fixed remuneration (2018/19: € 955k) and € 997k (2018/19: € 923k) involved performance-related components. Post-employment benefits of € 210k were incurred for active members of the Board in the 2019/20 financial year (2018/19: € 210k). These involve expenses to endow pension provisions. There are corresponding value credits. Given the company's size and its market position, we believe that the total remuneration of the Board of Management is appropriate.

The remuneration of the Board of Management is presented on an individualized basis below. The total remuneration paid to members of the Board of Management of HORNBACH Management AG is broken down into fixed remuneration components (basic remuneration plus ancillary benefits) and variable remuneration components. The individual retirement provision figures for members of the Board of Management of HORNBACH Management AG are presented separately.

1.5 Total remuneration of members of Board of Management of HORNBACH Management AG

Incumbent members	Financial year	Basic remuneration € 000s	Total ancillary benefits € 000s	Variable remuneration € 000s	Total € 000s
Albrecht Hornbach	**2019/2020**	**425**	**32**	**490**	**947**
	2018/2019	419	31	479	929
Roland Pelka	**2019/2020**	**480**	**29**	**507**	**1,016**
	2018/2019	480	26	443	949
Total	**2019/2020**	**905**	**61**	**997**	**1,963**
	2018/2019	899	57	922	1,878

(Differences due to figures being rounded up or down)

1.6 Retirement provision for members of Board of Management of HORNBACH Management AG

Incumbent members	Service cost in 2019/20 € 000s	Service cost in 2018/19 € 000s	Amount of pension provision February 29, 2020 * € 000s
Albrecht Hornbach	90	90	882
Roland Pelka	120	120	7.279
Total	**210**	**210**	**8.161**

* The obligation also includes voluntary payments by the members themselves.

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

On December 18, 2019, the Supervisory Board approved a new remuneration system for the members of the Board of Management of HORNBACH Management AG. This new remuneration system for the Board of Management of HORNBACH Management AG, which takes effect as of March 1, 2020, will be explained in the remuneration report in the 2020/21 Annual Report.

2. Remuneration of Supervisory Board of HORNBACH Holding AG & Co. KGaA

Supervisory Board remuneration is governed by § 17 of the Articles of Association of HORNBACH Holding AG & Co. KGaA. As well as reimbursement of expenses, each Supervisory Board member receives fixed remuneration of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed remuneration.

Supervisory Board members also sitting on a Supervisory Board committee receive additional fixed committee remuneration of € 9,000 for the Audit Committee and of € 4,000 for each other committee. This remuneration is retrospectively payable together with fixed remuneration. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the committee remuneration.

Should a member of the Supervisory Board also be a member of the Supervisory Board of the general partner and receive remuneration for his or her activities there, the remuneration paid under § 17 (1) Sentences 1, 3, and 4 of the company's Articles of Association is reduced by half. The same applies for the additional share of remuneration for the Chairman and Deputy Chairman pursuant to § 17 (1) Sentence 2 to the extent that the person in question is also Chairman or Deputy Chairman of the Supervisory Board of the general partner. The remuneration of the Supervisory Board for the 2019/20 financial year totals € 354k (2018/19: € 357k). Of this total, € 220k is basic remuneration (2018/19: € 225k) and € 134k for committee activity (2018/19: € 132k). The total remuneration for the Supervisory Board of HORNBACH Holding AG & Co. KGaA includes remuneration components amounting to € 166k in total for positions held on the Supervisory Board of HORNBACH Baumarkt AG (2018/19: € 183k). Of this € 97k is basic remuneration (€ 107k) and € 69k for committee activity (2018/19: € 76k).

3. Remuneration of Supervisory Board of HORNBACH Management AG

Supervisory Board remuneration is governed by the Articles of Association of HORNBACH Management AG. As well as reimbursement of expenses, each Supervisory Board member receives fixed remuneration of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed remuneration. Until July 2018, Supervisory Board members also sitting on a committee received additional fixed committee remuneration of € 9,000 for the Audit Committee, € 6,000 for the Personnel Committee, and € 4,000 for each other committee. This remuneration was retrospectively payable together with fixed remuneration. Supervisory Board members who chaired a Supervisory Board committee received two-and-a-half times the committee remuneration. There have no longer been any committees since July 2018 already. These were disbanded in connection with changes made to the Code of Procedure of the Supervisory Board. The remuneration of the Supervisory Board for the 2019/20 financial year totals € 227k (2018/19: € 261k). Of this, € 227k is basic remuneration (2018/19: € 230k) and € 0k for committee activity (2018/19: € 31k).

4. Individualized Presentation of Supervisory Board Remuneration

The Supervisory Board remuneration paid to members of the Supervisory Boards of HORNBACH Holding AG & Co. KGaA and HORNBACH Management AG is presented in individualized form below. Total remuneration of the Supervisory Board members is broken down into basic remuneration and total committee remuneration. Total remuneration for functions on the Supervisory Boards of HORNBACH Baumarkt AG, HORNBACH Holding AG & Co. KGaA, and HORNBACH Management AG amounted to € 581k in the 2019/20 financial year (2018/19: € 618k). Of this, € 447k was basic remuneration (2018/19: € 455k) and € 134k for committee activity (2018/19: € 163k).

Total remuneration for Supervisory Board positions at the HORNBACH Management AG Group

Incumbent members	Financial year	Basic remuneration HORNBACH Holding AG & Co. KGaA € 000s	Basic remuneration HORNBACH Management AG € 000s	Total committee remuneration HORNBACH Holding AG & Co. KGaA € 000s	Total committee remuneration HORNBACH Management AG € 000s	Total € 000s
Dr. Wolfgang Rupf [1)]	**2019/20**	**0**	**50**	**0**	**0**	**50**
	2018/19	23	50	14	13	100
Dr. Susanne Wulfsberg [1) 2)]	**2019/20**	**10**	**20**	**0**	**0**	**30**
	2018/19	10	27	2	5	44
Dr. John Feldmann [1) 2) 3)]	**2019/20**	**65**	**40**	**35**	**0**	**140**
	2018/19	53	33	29	3	118
Erich Harsch [1) 2) 3)]	**2019/20**	**25**	**17**	**11**	**0**	**53**
	2018/19	30	20	14	0	64
Albert Hornbach [1)]	**2019/20**	**0**	**20**	**0**	**0**	**20**
	2018/19	0	20	0	0	20
Christoph Hornbach [1)]	**2019/20**	**0**	**20**	**0**	**0**	**20**
	2018/19	0	20	0	2	22
Georg Hornbach [1)]	**2019/20**	**0**	**20**	**0**	**0**	**20**
	2018/19	0	20	0	3	23
Martin Hornbach [2) 3)]	**2019/20**	**60**	**0**	**24**	**0**	**84**
	2018/19	60	0	25	0	85
Joerg Walter Sost [1)]	**2019/20**	**0**	**20**	**0**	**0**	**20**
	2018/19	10	20	8	5	43
Prof. Dr.-Ing. Jens P. Wulfsberg [1)]	**2019/20**	**0**	**20**	**0**	**0**	**20**
	2018/19	0	20	0	0	20
Simone Krah [2)]	**2019/20**	**20**	**0**	**14**	**0**	**34**
	2018/19	13	0	8	0	21
Melanie Thomann-Bopp [2) 3)]	**2019/20**	**40**	**0**	**50**	**0**	**90**
	2018/19	26	0	32	0	58
Total	**2019/20**	**220**	**227**	**134**	**0**	**581**
	2018/19	225	230	132	31	618

(Differences due to figures being rounded up or down)

1) Member of Supervisory Board of general partner (HORNBACH Management AG)

2) Member of Supervisory Board of HORNBACH Holding AG & Co. KGaA

3) Member of Supervisory Board of HORNBACH Baumarkt AG; remuneration for this function included in remuneration at KGaA.

Other Disclosures

1. Disclosures under § 315a and § 289a HGB and Explanatory Report of the Board of Management

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

1.1 Composition of share capital

The share capital of HORNBACH Holding AG & Co. KGaA, amounting to € 48,000,000.00, is divided into 16,000,000 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 shareholdings

Based on the WpHG voting right notifications we have received, the following parties directly or indirectly hold more than 10 % of the voting rights:

- Hornbach Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, Germany, 37.50 %

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

HORNBACH Holding AG & Co. KGaA does not have a Board of Management. The Supervisory Board of a KGaA has no personnel-related competence for the Board of Management of the general partner. Amendments to the Articles of Association are governed by the legal requirements referred to in § 278 of the German Stock Corporation Act (AktG).

1.4 Change of control

No agreements taking effect upon any change of control are in place between HORNBACH Holding AG & Co. KGaA and third parties.

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

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Investor Relations >
Corporate Governance

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

3. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2019/20 financial year pursuant to § 312 of the German Stock Corporation Act (AktG). With regard to those transactions requiring report, the report states: "Our company has received adequate counterperformance for all legal transactions executed with the controlling company or any associate of such or at the instigation or on behalf of any of these companies in accordance with the circumstances known to us at the time at which the legal transactions were performed. No measures were taken or omitted at the instigation of or on behalf of the controlling company or any associate of such."

Non-Financial Statement

The German CSR Directive Implementation act (CSR-RUG) requires listed companies to report once a year on the implications of their business activities on environmental, social, and employee concerns, compliance with human rights, measures to combat corruption and bribery, and material associated risks. HORNBACH Holding AG & Co. KGaA has submitted a non-financial group declaration for the 2019/20 financial year pursuant to § 315b HGB. This will be published at the same time as the Annual Report as a separate non-financial group report on the company's homepage (www.hornbach-group.com/NFS).

www.hornbach-group.com/NFS

DISCLAIMER

Our combined management report should be read in conjunction with the audited financial data of the HORNBACH Holding AG & Co. KGaA 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 HORNBACH Holding AG & Co. KGaA Group

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

	Notes	2019/20 € 000s	2018/19 € 000s	Change %
Sales	1	4,729,218	4,362,393	8.4
Cost of goods sold	2	3,035,007	2,792,250	8.7
Gross profit		**1,694,211**	**1,570,143**	**7.9**
Selling and store expenses	3/10	1,261,284	1,229,002	2.6
Pre-opening expenses	4/10	7,295	6,572	11.0
General and administration expenses	5/10	233,511	226,377	3.2
Other income and expenses	6/10	21,681	12,406	74.8
Earnings before interest and taxes (EBIT)		**213,802**	**120,597**	**77.3**
Other interest and similar income		979	876	11.8
Other interest and similar expenses		49,237	23,425	>100
Other financial result		693	487	42.3
Net financial expenses	**7**	**(47,565)**	**(22,061)**	**115.6**
Consolidated earnings before taxes		**166,238**	**98,537**	**68.7**
Taxes on income	8	42,897	23,394	83.4
Consolidated net income		**123,341**	**75,142**	**64.1**
of which: income attributable to shareholders of HORNBACH Holding AG & Co. KGaA		104,956	65,325	60.7
of which: non-controlling interest		18,385	9,818	87.3
Basic/diluted earnings per share (€)	**9**	**6.56**	**4.08**	**60.8**

Statement of Comprehensive Income of the HORNBACH Holding AG & Co. KGaA Group

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

	Notes	2019/20 € 000s	2018/19 € 000s
Consolidated net income		**123,341**	**75,142**
Actuarial gains and losses on defined benefit plans	24/25	(8,954)	(3,397)
Deferred taxes on actuarial gains and losses on defined benefit plans		1,421	328
Other comprehensive income that will not be recycled at a later date		**(7,533)**	**(3,070)**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity [1]	32/33	(135)	(137)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		382	470
Exchange differences arising on the translation of foreign subsidiaries		9,432	(1,170)
Deferred taxes on gains and losses recognized directly in equity	8	(51)	(67)
Other comprehensive income that will possibly be recycled at a later date		**9,629**	**(904)**
Total comprehensive income		**125,437**	**71,168**
of which: attributable to shareholders of HORNBACH HOLDING AG & Co. KGaA		106,296	61,838
of which: attributable to non-controlling interest		19,141	9,330

[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 Holding AG & Co. KGaA Group

as of February 29, 2020

Assets [1]	Notes	2.29.2020 € 000s	2.28.2019 € 000s
Non-current assets			
Intangible assets	11	16.089	17.594
Property, plant, and equipment [1]	12	1.595.341	1.560.726
Investment property	12	26.370	29.209
Right-of-use assets [1]	13	741.301	149.006
Financial assets	14	112	22
Other non-current receivables and assets	15	4.726	4.133
Deferred tax assets	16	13.127	12.528
		2.397.066	**1.773.218**
Current assets			
Inventories	17	861.253	798.872
Trade receivables	18	39.299	37.362
Contract assets	18	1.566	1.569
Other current assets	18	82.507	71.111
Income tax receivables	27	8.697	10.530
Cash and cash equivalents	19	368.286	316.268
Non-current assets held for sale	20	1.502	2.541
		1.363.111	**1.238.253**
		3.760.177	**3.011.471**

Equity and liabilities [1]	Notes	2.29.2020 € 000s	2.28.2019 € 000s
Shareholders' equity	21		
Share capital		48.000	48.000
Capital reserve		130.373	130.373
Revenue reserves		1.160.387	1.077.290
Equity of shareholders of HORNBACH HOLDING AG & Co. KGaA		**1.338.760**	**1.255.663**
Non-controlling interest		265.446	251.393
		1.604.206	**1.507.056**
Non-current liabilities			
Non-current financial debt [1]	23	675.644	443.696
Non-current lease liabilities [1]	23	712.920	153.221
Provisions for pensions	24	24.867	14.326
Deferred tax liabilities	16	34.109	39.795
Other non-current liabilities	25/28	42.336	49.086
		1.489.876	**700.124**
Current liabilities			
Current financial debt [1]	23	67.871	332.231
Current lease liabilities [1]	23	82.401	10.796
Trade payables	26	266.534	241.715
Contract liabilities	26	34.419	30.904
Other current liabilities	26	83.290	76.532
Income tax liabilities	27	26.484	20.959
Other provisions and accrued liabilities	28	105.095	91.154
		666.095	**804.291**
		3.760.177	**3.011.471**

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

Statement of Changes in Equity of the HORNBACH Holding AG & Co. KGaA Group

2018/19 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to shareholders	Non-controlling interest	Total group equity
Balance at March 1, 2018		**48,000**	**130,373**	**(1,079)**	**18,485**	**1,020,386**	**1,216,165**	**246,759**	**1,462,924**
Adjustments due to IFRS 15						1,344	1,344	417	1,760
Adjustments due to IFRS 9						456	456	49	505
Balance at March 1, 2018 (adjusted)		**48,000**	**130,373**	**(1,079)**	**18,485**	**1,022,186**	**1,217,965**	**247,224**	**1,465,190**
Consolidated net income						65,325	65,325	9,818	75,142
Actuarial gains and losses on defined benefit plans	24/25					(2,354)	(2,354)	(716)	(3,070)
Measurement of derivative financial instruments (cash flow hedge), net after taxes	32/33			266			266		266
Exchange differences arising on the translation of foreign subsidiaries					(1,398)		(1,398)	228	(1,170)
Total comprehensive income				**266**	**(1,398)**	**62,971**	**61,838**	**9,330**	**71,168**
Dividend distribution	22					(24,000)	(24,000)	(5,118)	(29,118)
Treasury stock transactions	21					(141)	(141)	(42)	(183)
Balance at February 28, 2019		**48,000**	**130,373**	**(813)**	**17,087**	**1,061,016**	**1,255,663**	**251,393**	**1,507,056**

2019/20 financial year **€ 000s**	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to shareholders	Non-controlling interest	Total group equity
Balance at March 1, 2019		**48,000**	**130,373**	**(813)**	**17,087**	**1,061,016**	**1,255,663**	**251,393**	**1,507,056**
Adjustments due to IFRS 16						709	709	0	709
Balance at March 1, 2019 (adjusted)		**48,000**	**130,373**	**(813)**	**17,087**	**1,061,725**	**1,256,373**	**251,393**	**1,507,766**
Consolidated net income						104,956	104,956	18,385	123,341
Actuarial gains and losses on defined benefit plans	24/25					(5,801)	(5,801)	(1,732)	(7,533)
Measurement of derivative financial instruments (cash flow hedge), net after taxes	32/33			197			197	0	197
Exchange differences arising on the translation of foreign subsidiaries					6,944		6,944	2,488	9,432
Total comprehensive income				**197**	**6,944**	**99,155**	**106,296**	**19,141**	**125,437**
Dividend distribution	22					(24,000)	(24,000)	(5,118)	(29,118)
Treasury stock transactions	21					91	91	29	121
Balance at February 29, 2020		**48,000**	**130,373**	**(616)**	**24,031**	**1,136,971**	**1,338,760**	**265,446**	**1,604,206**

Cash Flow Statement of the HORNBACH Holding AG & Co. KGaA Group

	Notes	2019/20 € 000s	2018/19 € 000s [1]
Consolidated net income		**123,341**	**75,142**
Depreciation and amortization of property, plant, and equipment and intangible assets [1]	10	105,992	102,608
Depreciation of right-of-use assets [1]	13	100,615	12,521
Change in provisions		8,648	5,132
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(470)	(391)
Change in inventories, trade receivables and other assets		(70,252)	(116,802)
Change in trade payables and other liabilities		61,216	(10,948)
Other non-cash income/expenses		(4,636)	(13,244)
Cash flow from operating activities		**324,454**	**54,018**
Proceeds from disposal of non-current assets and of non-current assets held for sale		9,637	5,196
Payments for investments in property, plant, and equipment		(126,670)	(191,511)
Payments for investments in intangible assets		(4,486)	(4,359)
Payments for acquisitions of shareholdings and other business units		(90)	0
Cash flow from investing activities		**(121,609)**	**(190,674)**
Dividends paid	22	(29,118)	(29,118)
Proceeds from taking up long-term debt [1]	23	248,080	347,933
Repayment of long-term debt	23	(285,379)	(20,515)
Repayment of current and non-current lease liabilities [1]	23	(84,238)	(10,342)
Payments for transaction costs		(1,557)	(840)
Change in level of shareholding in subsidiary with no change in control		0	(84)
Change in current financial debt [1]		120	1,868
Cash flow from financing activities		**(152,092)**	**288,903**
Cash-effective change in cash and cash equivalents		50,753	152,247
Change in cash and cash equivalents due to changes in exchange rates		1,265	(35)
Cash and cash equivalents at March 1		316,268	164,056
Cash and cash equivalents at balance sheet date		**368,286**	**316,268**

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

Cash and cash equivalents include cash on hand, credit balances at banks, and other short-term deposits. The other non-cash income/expenses item mainly relates to deferred taxes, the updating of financing expenses deferred using the effective interest method, expenses for interest deferrals, write-ups on non-financial non-current assets, non-cash income/expenses for leases, and unrecognized exchange rate differences.

The cash flow from operating activities was reduced by income tax payments of € 41,697k (2018/19: € 40,234k) and interest payments of € 48,498k (2018/19: € 24,714k) and increased by interest received of € 979k (2018/19: € 876k). Of interest payments, € 26,778k (2018/19: € 7,304k) involved interest paid on leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

HORNBACH Holding AG & Co. KGaA, whose legal domicile is at Le Quartier Hornbach 19, Neustadt an der Weinstrasse, and its subsidiaries develop and operate DIY megastores with garden centers on an international basis. In addition, HORNBACH Holding AG & Co. KGaA and its subsidiaries are active on a regional level in the professional construction materials and builders' merchant business. The company is entered in the Commercial Register (No. HRB 64616) at Ludwigshafen am Rhein District Court. Shares in HORNBACH Holding AG & Co. KGaA are listed in the Prime Standard and traded under ISIN DE0006083405 on the Xetra and Frankfurt am Main exchanges.

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

Basis of preparation

In line with § 315e (1) of the German Commercial Code (HGB), HORNBACH Holding AG & Co. KGaA prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. New IFRS are only applied following their endorsement by the European Union. Application has been made of all IFRS and pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) with binding effect for the 2019/20 financial year. The consolidated financial statements and group management report of HORNBACH Holding AG & Co. KGaA are published in the Federal Gazette (*Bundesanzeiger*).

The financial year of HORNBACH Holding AG & Co. KGaA 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 Holding AG & Co. KGaA. 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 general partner HORNBACH Management AG prepared the consolidated financial statements of HORNBACH Holding AG & Co. KGaA and approved them for publication on May 19, 2020. The period in which adjusting events could be accounted for thus expired as of this date.

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

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

Changes to accounting policies due to new accounting requirements
The following policies require mandatory application from the 2019/20 financial year onwards:
- IFRS 16 "Leases"
- IFRIC 23 "Uncertainty over Income Tax Treatments"
- Amendment to IAS 19 "Employee Benefits"
- Amendment to IAS 28 "Investments in Associates and Joint Ventures"
- Amendment to IFRS 9 "Financial Instruments"
- Annual Improvements to IFRS, 2015-2017 Cycle

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

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

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

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

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

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

€ million	Carrying amount IAS 17 2.28.2019	Reclassification	Conversion effect for leases previously not requiring recognition	Carrying amount IFRS 16 3.1.2019
Non-current assets				
Property, plant, and equipment	1,709.7	(149.0)	0.0	1,560.7
Right-of-use assets	0.0	149.0	667.5	816.5
Other non-current receivables and assets	4.1		1.8	5.9
Current assets				
Other current assets	71.1		0.1	71.2
Shareholders' equity				
Revenue reserves	1,077.3		0.7	1,078.0
Equity of shareholders of HORNBACH HOLDING AG & Co. KGaA	1,255.7		0.7	1,256.4
Non-current liabilities				
Non-current financial debt	596.9	(153.2)	0.0	443.7
Non-current lease liabilities	0.0	153.2	620.4	773.6
Deferred tax liabilities	39.8		0.3	40.1
Other non-current liabilities	49.1		(16.6)	32.5
Current liabilities				
Current financial debt	343.0	(10.8)	0.0	332.2
Current lease liabilities	0.0	10.8	69.5	80.3
Other current liabilities	76.5		(0.6)	75.9
Other provisions and accrued liabilities	91.2		(4.5)	86.7

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

The items capitalized upon first-time application took due account of the practical expedient concerning impairment testing. As of March 1, 2019, the provision recognized for onerous rental agreements was therefore offset against the carrying amount of the corresponding right-of-use asset. This reduced right-of-use assets by € 14.4 million. Furthermore, incentive payments received and deferred as liabilities through to February 28, 2019 and deferred obligations relating to graduated rental agreements were offset against the corresponding right-of-use assets, reducing the latter item by € 7.2 million. Right-of-use assets were further reduced by € 1.2 million due to the reclassification of a subletting arrangement from operating to finance leases. This is now recognized by way of a current and non-current lease receivable of € 2.2 million rather than a right-of-use asset. The conversion effects resulting from this reclassification were recognized in revenue reserves, taking due account of deferred taxes.

Accounting for conversion and current effects (and excluding the effects of finance lease contracts already recognized in accordance with IAS 17 and write-downs of right of use assets), EBIT for the 2019/20 financial year was positively affected by € 13.5 million, while earnings per share were negatively affected by € 0.31. First-time application of the new standard increased the cash flow from operating activities by € 72.8 million.

Reconciliation of lease liabilities (€ million)	
Off-balance sheet lease obligations as of 2.28.2019	**689.1**
Properties not yet available for use	(9.9)
"Low value" and "short-term" leases	(0.4)
Purchase options for equipment which are reasonably certain	0.2
Extension or termination options which are reasonably certain (reassessed)	150.1
Lease liabilities as of 3.1.2019 (undiscounted)	**829.1**
Discounting	(139.1)
Lease liabilities resulting from first-time application of IFRS 16 as of 3.1.2019	**690.0**
Lease liabilities relating to IAS 17 finance leases as of 2.28.2019	164.0
Total lease liabilities as of 3.1.2019	**854.0**

Upon initial application, the weighted average incremental borrowing rate amounted to 3.0 %.

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

Standards and interpretations not applied prematurely

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

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

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

These provisions are not expected to have any material implications for the consolidated financial statements of HORNBACH Holding AG & Co. KGaA.

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

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

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

Consolidation principles

The annual financial statements of the companies included in the consolidated financial statements are based on uniform recognition and measurement principles. The separate financial statements of the companies included in the consolidated financial statements have been prepared as of the balance sheet date for the consolidated financial statements. Subsidiaries have been included in the consolidated financial statements in accordance with IFRS 10.

Business combinations have been recognized using the purchase method. Any resultant debit differences have been recognized as goodwill. This is tested for impairment in the event of any indication of such and at least once a year.

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

Intercompany sales, income and expenses, and receivables and liabilities between the consolidated companies have been offset against each other. Where material, intercompany profits have been eliminated. Within equity, minority interests in subsidiaries have been recognized separately from group equity.

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA 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 Holding AG & Co. KGaA on the date on which control is gained. Should any circumstances or facts indicate a change in the control relationship, then a reassessment is performed. Interests in companies not included in the scope of consolidation have been recognized at cost in accordance with IFRS 9. There were no interests in companies requiring recognition at equity at the balance sheet date.

In addition to HORNBACH Holding AG & Co. KGaA, the consolidated financial statements include 15 domestic and 45 foreign subsidiaries by way of full consolidation.

HORNBACH Holding AG & Co. KGaA is the sole shareholder in HORNBACH Immobilien AG and Hornbach Baustoff Union GmbH and the majority shareholder with a 76.4 % stake in HORNBACH Baumarkt AG (2018/19: 76.4 %). Further information about direct and indirect voting rights has been presented in the "Consolidated shareholdings" overview. The following subsidiaries made full use of the exemption provided for in § 264 (3) of the German Commercial Code (HGB) in the 2019/20 financial year:

- HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse
- Union Bauzentrum HORNBACH GmbH, Neustadt/Weinstrasse
- Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse
- Robert Röhlinger GmbH, Neustadt/Weinstrasse

The HORNBACH Baumarkt AG subsidiary compiles its own consolidated financial statements together with its subsidiary companies. The companies consolidated at that subsidiary are included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA.

Changes in the scope of consolidation

HORNBACH Baumarkt AG subgroup

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

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

HORNBACH Baustoff Union GmbH subgroup

Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, Neustadt/Weinstrasse, was merged with Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse, in the 2019/20 financial year. Furthermore, to extend the network of outlets within the subgroup three locations were taken over in a business combination as of April 1, 2019. This did not involve taking over a legal entity, but rather the business, including the assets and individual liabilities. From the date of the takeover onwards, the assets and liabilities acquired have been included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA. The property, plant and equipment thereby included mainly involve the location properties and plant and office equipment. The liabilities taken over chiefly relate to lease liabilities and provisions for pending losses. No material incidental acquisition costs were incurred for the transaction. The purchase price was settled in cash. The negative difference primarily results from the disclosure of hidden reserves for a property in the context of the purchase price allocation. This has been recognized as non-operating income under selling and store expenses.

The acquisition involved taking over the following assets and liabilities:

Fair value (€ 000s)	Additions 2019/20
Property, plant, and equipment	4,181
Right-of-use assets	1,950
Inventories	2,000
Total assets	**8,131**
Non-current liabilities	2,082
Current liabilities	389
Total liabilities	**2,471**
Net assets	**5,660**
Purchase price	**5,110**
Negative difference	**550**

Hornbach Baustoff Union Grundstücksentwicklungsgesellschaft GmbH, Neustadt/Weinstrasse, Germany, was renamed as HIAG Grundstücksentwicklungsgesellschaft GmbH, Neustadt/Weinstrasse, Germany, in the 2019/20 financial year.

The development in the scope of consolidation was as follows:

	2019/20	2018/19
March 1	**62**	**62**
Companies consolidated for the first time	1	0
Companies sold	1	0
Companies merged	1	0
February 28/29	**61**	**62**

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
Germany			
HORNBACH Baumarkt AG, Bornheim	76.4[2][3]	606,315	EUR
HORNBACH Immobilien AG, Bornheim	100[3]	138,661	EUR
HORNBACH International GmbH, Bornheim	76.4[2]	106,019	EUR
HORNBACH Beteiligungen GmbH, Bornheim	76.4[2]	7,809	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	76.4[2]	44	EUR
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	100[3]	69,537	EUR
Union Bauzentrum Hornbach GmbH, Neustadt/Weinstrasse	100	9,323	EUR
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	100	13,631	EUR
Robert Röhlinger GmbH, Neustadt/Weinstrasse	100	3,141	EUR
HB Reisedienst GmbH, Bornheim	76.4[2]	7,281	EUR
BODENHAUS GmbH, Essingen	76.4[2]	(788)	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	76.4[2]	281	EUR
HORNBACH Forst GmbH, Bornheim	76.4[2]	(547)	EUR
HIAG Immobilien Jota GmbH, Bornheim	100	98	EUR
HIAG Grundstücksentwicklungs GmbH, Neustadt/Weinstraße	100	1,289	EUR
Other countries			
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	76.4[2]	57,705	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	76.4[2]	14,113	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	76.4[2]	1,708	EUR
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	99.8	(364)	EUR
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	99.8	(245)	EUR
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	99.8	(122)	EUR

[1] Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Imobiliare SRL, however, equity has been determined in accordance with IFRS.
[2] Of which: 0.018 % in current assets.
[3] Direct shareholding
[4] Of which: 1 % direct shareholding.

Company name and domicile	Shareholding in %	Equity[1)] in thousands, local currency	Local currency
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	76.4[2)]	10,837	EUR
HORNBACH Holding B.V., Amsterdam, Netherlands	76.4[2)]	160,924	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	76.4[2)]	27,912	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	76.4[2)]	12	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	76.4[2)]	15	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	76.4[2)]	1,226	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	76.4[2)]	1,179	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	76.4[2)]	1,550	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	76.4[2)]	555	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	76.4[2)]	1,517	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	76.4[2)]	1,349	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	76.4[2)]	732	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	76.4[2)]	(77)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	76.4[2)]	1,615	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	76.4[2)]	1,205	EUR
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	100	97	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	76.4[2)]	1,436	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	76.4[2)]	1,778	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	76.4[2)]	1,093	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	76.4[2)]	2	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	76.4[2)]	(2,311)	EUR
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	76.4[2)]	3,728,748	CZK
HORNBACH Immobilien H.K. s.r.o., Prague, Czech Republic	97.6	664,901	CZK
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	76.4[2)]	145,613	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	76.4[2)]	27,524	SEK
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	100	69,086	SEK
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	100	34,547	SEK
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	100	631	SEK
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	100	171,675	SEK
HIAG Fastigheter i Botkyrka AB, Gothenburg, Sweden	100	73,766	SEK
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	100	16,053	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	76.4[2)]	23,081	EUR
HORNBACH Centrala SRL, Domnesti, Romania	76.4[2)]	153,787	RON
HORNBACH Imobiliare SRL, Domnesti, Romania	100	231,699	RON
Etablissement Camille Holtz et Cie S.A., Phalsbourg, France	99.92	699	EUR
Saar-Lor Immobilière S.C.L., Phalsbourg, France	99.97	150	EUR
HORNBACH Asia Ltd., Kowloon, Hong Kong	76.4[2)]	10,564	HKD

1) Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Imobiliare 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.

Control and profit and loss transfer agreements have been concluded between HORNBACH Holding AG & Co. KGaA and HORNBACH Immobilien AG and between HORNBACH Baustoff Union GmbH and Robert Röhlinger GmbH, Union Bauzentrum HORNBACH GmbH, and Ruhland-Kallenborn & Co. GmbH. Furthermore, 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 Holding AG & Co. KGaA and its consolidated subsidiaries, transactions in currencies other than the respective company's functional currency have been translated into the relevant functional currency at the transaction rate. All receivables and liabilities in currencies other than the respective company's functional currency have been measured, irrespective of any currency hedges, at the reporting date rate. The resultant exchange gains and losses have generally been included in the income statement. Embedded forward exchange transactions have been recognized at fair value.

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

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.29.2020	2.28.2019	2019/20	2018/19
RON Romania	4,8130	4,7434	4,75437	4,66621
SEK Sweden	10,6738	10,4844	10,61918	10,34089
CHF Switzerland	1,0614	1,1335	1,10221	1,14991
CZK Czech Republic	25,3900	25,6010	25,57998	25,69596
USD USA	1,0977	1,1416	1,11325	1,16638
HKD Hong Kong	8,5550	8,9613	8,70980	9,14648

Accounting policies

General principles

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

Balance sheet item	Valuation principal
Assets	
Goodwill	Impairment only approach
Intangible assets	
with indefinite useful lives	Impairment only approach
with finite useful lives	At amortized cost
Property, plant, and equipment	At amortized cost
Right-of-use assets	At amortized cost
Investment property	At amortized cost
Financial assets (current/non-current)	
Equity instruments	At fair value
Debt instruments	At amortized cost or fair value depending on business model
Assets from derivatives	At fair value
Inventories	Lower of cost and fair value less costs to sell
Trade receivables	At amortized cost or fair value depending on business model
Contract assets	At amortized cost
Other current assets	
Other receivables (financial instruments)	At amortized cost
Assets from derivatives	At fair value
Non-financial items	At amortized cost
Cash and cash equivalents	At amortized cost
Non-current assets held for sale	Lower of carrying amount and fair value less costs to sell
Equity and liabilities	
Financial liabilities (current/non-current)	
Liabilities to banks	At amortized cost
Liabilities from derivatives	Fair Value
Lease liabilities	At amortized cost
Provisions	
Provisions for pensions	Present value of future obligations (projected unit credit method)
Other provisions	Expected settlement amount
Trade payables	At amortized cost
Contract liabilities	At amortized cost
Other liabilities	At amortized cost
Refund liabilities	Expected refund
Accrued liabilities	At amortized cost

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

Goodwill

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

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

Intangible assets (except goodwill)

Intangible assets with finite useful lives are recognized at amortized cost.

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

	Years
Software and licenses	3 to 8
Other intangible assets	3 to 20

Impairment losses are recognized when there are indications of impairment and the recoverable amount falls short of the carrying amount. Corresponding write-ups to a maximum of amortized cost are recognized when the reasons for impairment losses recognized in previous years no longer apply. Further details can be found under "Impairment of non-current non-financial assets".

Property, plant and equipment and investment property

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

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

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

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

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

Lease contracts

Since March 1, 2019, leases have been recognized in accordance with IFRS 16 requirements. As a result, lessees recognize essentially all leases for which no practical expedient or exemption is applied in the balance sheet with a right-of-use asset for the leased item and a lease liability for the (discounted) payment obligation assumed. The previous year's figures have been recognized using the accounting policy previously applied pursuant to IAS 17.

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

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

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

If the interest rate implicit in the lease cannot be determined, application is made of the lessee's incremental borrowing rate.

The lease liability develops on an annuity basis in accordance with the contractually agreed conditions. Interest expenses resulting from compounding are recognized under net financial expenses.

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

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

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

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

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

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

Intragroup leases between subgroups and/or segments are presented as right-of-use assets within the respective segments and eliminated accordingly in consolidation.

Impairment of non-current non-financial assets

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

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

The value in use of a cash generating unit is calculated by reference to the discounted future cash flows of the cash generating unit expected on the basis of the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future (perpetuity) have been based on growth factors of 1.0 % to 1.5 % (2018/19: 1.0 % to 1.5 %) unless the assets in question have finite useful lives. The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current developments in and future expectations as to those procurement terms which significantly determine the expected gross profit (key assumptions).

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium accounts for a risk premium appropriate to a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. The interest rates used for discounting are based on market data. Depending on the countries and activities involved, the discount rates thereby applied ranged from 3.5 % to 11.2 % after taxes (2018/19: 4.5 % to 9.5 %) and from 3.9 % to 13.4 % before taxes (2018/19: 5.7 % to 11.3 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

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

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

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

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

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

Inventories

Inventories are carried at cost or at their net realizable value, if lower. The net realizable value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Supplier compensation requiring measurement as a reduction to cost is recognized within inventories.

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

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

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

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

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

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

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

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

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

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

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

Provisions and accrued liabilities

Provisions are recognized for uncertain obligations to third parties where these result from past events and are likely to lead to a future outflow of resources. Provisions are stated at the expected settlement amount, having accounted for all identifiable risks, and are not offset against recourse claims. This item also includes provisions for severance payments, for which actuarial surveys are obtained. If the overall effect is material, non-current provisions are measured at present value discounted to the end of the respective terms.

Provisions for pending losses and onerous contracts are recognized if the contractual obligations are higher than the expected economic benefits.

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

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

In the case of accrued liabilities, the date and level of the respective obligation are no longer uncertain.

Financial instruments

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

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

Primary financial assets include financial investments in equity instruments and debt instruments.

Classification

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

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

Measurement

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

Debt instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial debt (except derivatives) is 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 rate risks. In line with the Group's risk principles, no derivative financial instruments are held for speculative purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are directly expensed.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 or IFRS 9 are measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the balance sheet date. 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 Holding AG & Co. KGaA 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 generally expects these service obligations to be fulfilled within the next 12 months. Settlement of customer credit, by contrast, is at the discretion of the customer and may thus involve a longer period.

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

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

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

Other income

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

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

Expenses

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

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

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

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

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

Discretionary decisions

Discretionary decisions made when applying the accounting policies and which materially influence the amounts recognized in the consolidated financial statements chiefly relate to determining the term of leases and calculating the incremental borrowing rate. In determining the term of leases, all facts and circumstances that could provide HORNBACH with an economic incentive to exercise an extension option or not exercise a termination option are duly accounted for and assessed. In calculating the incremental borrowing rate, both the calculation of the risk-free interest rate and the determination of the risk premium are subject to discretionary decisions. More detailed information can be found in Notes 13 and 23.

Assumptions and estimates

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

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11, & 12), the recognition and measurement of provisions (Notes 24, 25 & 28), the calculation of the recoverable amount to determine the amount of any impairments of non-current non-financial assets (Notes 10, 11, 12 & 13), the determination of the net realizable price for inventories (Note 17), and the ability to obtain future tax relief (Notes 8, 16 & 27). Further information can be found in the accounting policies relating to the respective topic and in the aforementioned notes.

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

Segment Reporting

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

Segment delineation

The allocation of segments corresponds to the internal reporting system used by the management of the HORNBACH Holding AG & Co. KGaA Group for managing the company (“management approach”). Based on the management approach, the Group has the following segments: “HORNBACH Baumarkt AG subgroup”, “HORNBACH Immobilien AG subgroup”, and “HORNBACH Baustoff Union GmbH subgroup”. The cornerstone of the HORNBACH Holding AG & Co. KGaA Group is the HORNBACH Baumarkt AG subgroup, which operates DIY megastores with garden centers in Germany and abroad and online shops in the nine countries in our European network. The retail activities of the HORNBACH Holding AG & Co. KGaA Group are rounded off by the HORNBACH Baustoff Union GmbH subgroup, which operates in the construction materials and builders’ merchant business and mainly has business customers. The HORNBACH Immobilien AG subgroup develops retail real estate and lets this out, mostly to operating companies within the HORNBACH Holding AG & Co. KGaA Group. Administration items not allocable to the two aforementioned segments and consolidation items are further subdivided into the "Corporate functions" and "Consolidation adjustments" categories.

Segment earnings

As the Group's key earnings figure, adjusted EBIT have been taken to represent the segment earnings.

Segment assets and liabilities

Apart from income tax receivables, income tax liabilities and deferred taxes, asset and liability items in the consolidated balance sheet have been directly allocated to the individual segments as far as possible. Remaining assets and liabilities have been allocated as appropriate. Liabilities in the consolidated balance sheet have been increased by liabilities to group companies in the individual segments and allocated to the individual segments in line with their causation. Items allocable to central administration are presented in the "Corporate functions" column. Items eliminated between segments are presented in the "Consolidation adjustments" column. Investments relate to the non-current assets allocable to the respective segment.

2019/20 in € million 2018/19 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Corporate functions	Consolidation adjustments	HORNBACH HOLDING AG & Co. KGaA Group
Segment sales	**4,428.0**	**299.5**	**80.4**	**0.0**	**(78.7)**	**4,729.2**
	4,095.5	264.6	80.3	0.0	(78.0)	4,362.4
Sales to third parties	4,423.6	299.3	0.0	0.0	0.0	4,722.8
	4,092.1	264.3	0.0	0.0	0.0	4,356.4
Sales to affiliated companies	0.0	0.1	0.0	0.0	(0.1)	0.0
	0.0	0.3	0.0	0.0	(0.3)	0.0
Rental income from third parties	4.5	0.1	1.8	0.0	0.0	6.4
	3.4	0.0	2.6	0.0	0.0	6.0
Rental income from affiliated companies	0.0	0.0	78.6	0.0	(78.6)	0.0
	0.0	0.0	77.7	0.0	(77.7)	0.0
EBIT	**163.9**	**3.9**	**56.5**	**(3.6)**	**(7.0)**	**213.8**
	67.2	2.2	53.5	(2.9)	0.7	120.6
of which: depreciation and amortization/write-ups	249.9	8.1	17.9	0.0	(69.9)	206.0
	92.0	8.4	13.6	0.0	0.1	114.1
Segment earnings (adjusted EBIT)	**181.8**	**2.6**	**56.2**	**(3.6)**	**(10.0)**	**227.0**
	81.9	3.6	53.3	(2.9)	(1.0)	134.9
Segment assets	**3,551.7**	**186.4**	**482.6**	**149.5**	**(631.9)**	**3,738.4**
	2,326.3	175.3	467.4	136.3	(116.8)	2,988.5
of which: credit balances at banks	260.6	1.5	26.1	38.2	0.0	326.4
	219.0	1.6	46.4	25.5	0.0	292.5
Investments	**173.8**	**15.4**	**22.1**	**0.0**	**(41.8)**	**169.5**
	183.5	8.7	3.7	0.0	0.0	195.9
Segment liabilities	**2,401.9**	**112.9**	**216.4**	**2.0**	**(637.8)**	**2,095.4**
	1,242.8	103.8	211.2	1.7	(115.8)	1,443.7
of which: financial debt	1,875.5	6.5	181.2	0.0	(524.4)	1,538.8
	762.1	5.7	172.1	0.0	0.0	939.9

Reconciliation EBIT <> adjusted EBIT in € million	2019/20	2018/19
EBIT	**213.8**	**120.6**
Impairment losses due to IAS 36 impairment test	14.9	7.9
Reversal of impairment losses (IAS 36)	(0.6)	(1.0)
Additions to provisions for onerous contracts	0.0	9.4
Result of real estate sales/measurement of properties not required for operations	(0.8)	(1.0)
Other	(0.2)	(1.0)
Segment earnings (adjusted EBIT)	**227.0**	**134.9**

Reconciliation in € million	2019/20	2018/19
Segment earnings (adjusted EBIT)	**227.0**	**134.9**
Non-operating items	(13.2)	(14.3)
Net financial expenses	(47.6)	(22.1)
Consolidated earnings before taxes	**166.2**	**98.5**
Segment assets	**3,738.4**	**2,988.5**
Deferred tax assets	13.1	12.5
Income tax receivables	8.7	10.5
Total assets	**3,760.2**	**3,011.5**
Segment liabilities	**2,095.4**	**1,443.7**
Deferred tax liabilities	34.1	39.8
Income tax liabilities	26.5	21.0
Total liabilities	**2,156.0**	**1,504.4**

Geographical disclosures

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, Romania, and France (exclusively builders' merchants).

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

2019/20 in € million 2018/19 in € million	Germany	Other European countries	Reconciliation	HORNBACH HOLDING AG & Co. KGaA Group
Sales	**2,860.1**	**2,192.7**	**(323.6)**	**4,729.2**
	2,679.3	1,986.4	(303.3)	4,362.4
Sales to third parties	2,534.9	2,188.0	0.0	4,722.8
	2,373.7	1,982.7	0.0	4,356.3
Rental income from third parties	1.9	4.4	0.0	6.4
	2.6	3.4	0.0	6.0
Sales to affiliated companies	323.2	0.3	(323.6)	0.0
	303.1	0.3	(303.3)	0.0
EBIT	**60.2**	**154.0**	**(0.3)**	**213.8**
	11.2	109.5	(0.1)	120.6
Depreciation and amortization/write-ups	**118.7**	**87.2**	**0.0**	**206.0**
	70.2	43.6	0.3	114.1
Segment earnings (adjusted EBIT)	**64.6**	**162.7**	**(0.3)**	**227.0**
	19.5	115.4	0.0	134.9
EBITDA	**178.9**	**241.2**	**(0.3)**	**419.8**
	81.4	153.1	0.3	234.7
Assets	**2,398.2**	**1,748.6**	**(408.4)**	**3,738.4**
	2,116.9	1,365.6	(494.1)	2,988.5
of which: non-current assets [1)]	1,365.1	1,216.3	(198.2)	2,383.3
	1,061.2	902.3	(203.3)	1,760.1
Investments	**78.4**	**91.1**	**0.0**	**169.5**
	104.8	91.1	0.0	195.9

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

Notes to Consolidated Income Statement

(1) Sales

Sales mainly involve revenues from contracts with customers in the "HORNBACH Baumarkt AG subgroup" and "HORNBACH Baustoff Union GmbH subgroup" segments. Furthermore, income of € 6,370k (2018/19: € 6,043k) from the letting of real estate has also been reported under sales.

Sales include revenues of € 26,403k which were recognized at the beginning of the period as contract liabilities (2018/19: € 22,542k). Furthermore, these also include retrospective sales of € 2,107k for performance obligations pursuant to IFRS 15 that were satisfied in previous years (2018/19: € 801k).

The following table presents the breakdown of sales by segment:

External sales 2019/20 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	HORNBACH HOLDING AG & Co. KGaA Group
of which: Germany	2,244.7	290.2	1.6	2,536.5
of which: Other European Countries	2,183.4	9.3	0.0	2,192.7
	4,428.1	**299.5**	**1.6**	**4,729.2**

External sales 2018/19 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	HORNBACH HOLDING AG & Co. KGaA Group
of which: Germany	2,118.4	255.1	2.6	2,376.1
of which: Other European Countries	1,977.1	9.2	0.0	1,986.3
	4,095.5	**264.3**	**2.6**	**4,362.4**

(2) Cost of goods sold

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

	2019/20 € 000s	2018/19 € 000s
Expenses for auxiliary materials and purchased goods	2,937,208	2,708,380
Expenses for services rendered	97,799	83,870
	3,035,007	**2,792,250**

(3) Selling and store expenses

Selling and store expenses include those costs incurred in connection with the operation of DIY stores with garden centers and builders' merchant 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, and maintenance and upkeep expenses.

(4) Pre-opening expenses

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

(5) General and administration expenses

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

(6) Other income and expenses

Other income and expenses are structured as follows:

	2019/20 € 000s	2018/19 € 000s
Other income from operating activities		
Income from damages	14,234	3,071
Income from advertising allowances and other reimbursements of suppliers	1,674	1,967
Income from payment differences	1,385	1,753
Income from disposal of non-current assets	1,297	1,334
Miscellaneous other income	18,934	15,793
	37,524	**23,918**
Other income from non-operating activities		
Income from disposal of real estate	942	1,024
Income from write-ups to property, plant, and equipment and investment property	328	390
	1,270	**1,414**
Other income	**38,794**	**25,332**

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

	2019/20 € 000s	2018/19 € 000s
Other expenses from operating activities		
Losses due to damages	8,979	3,228
Impairments and defaults on receivables	3,632	4,440
Losses on disposal of non-current assets	1,009	1,876
Expenses from payment differences	146	81
Miscellaneous other expenses	3,348	3,301
Other expenses	**17,114**	**12,926**
Net income from other income and expenses	**21,681**	**12,406**

(7) Net financial expenses

	2019/20 € 000s	2018/19 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	694	801
Interest income on financial instruments used as hedging instruments	0	0
Other	285	75
	979	**876**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	20,455	14,329
Interest expenses from lease liabilities, measured at amortized cost	26,778	7,304
Interest expenses on financial instruments used as hedging instruments	382	470
Interest expenses from compounding of provisions	230	240
Other	1,392	1,082
	49,237	**23,425**
Net interest expenses	**(48,258)**	**(22,548)**
Other financial result		
Gains/losses on derivative financial instruments	1,726	(118)
Gains and losses from foreign currency exchange	(1,033)	605
	693	**487**
Net financial expenses	**(47,565)**	**(22,061)**

Other interest income includes interest income of € 285k on tax refund claims (2018/19: € 75k).

In line with IFRS 16 "Leases", the interest component of the lease instalments, amounting to € 26,778k (2018/19: € 7,304k) is recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,409k in the year under report (2018/19: € 2,799k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. The average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 2.3 % (2018/19: 2.7 %).

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

Gains/losses on derivative financial instruments include gains and losses of € 1,726k on derivative currency instruments (2018/19: € -118k).

The gains and losses from foreign currency exchange for the 2019/20 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 393k (2018/19: net income of € 592k). Furthermore, this item also includes realized exchange rate gains of € 5,227k (2018/19: € 7,400k) and realized exchange rate losses of € 5,866k (2018/19: € 7,387k). Gains and losses from foreign currency exchange include expenses of € 48k (2018/19: income of € 397k) from the reclassification of currency items relating to an interest-currency swap within a hedging relationship (cash flow hedge). This reclassification compensates for the currency items relating to the hedged loan.

(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 Holding AG & Co. KGaA Group are subject to an average trade tax rate of approximately 13.6 % of their trading income (2018/19: approx. 13.6 %). The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. The income tax rates applied to foreign companies range from 8.5 % to 28 % (2018/19: 8.5 % to 28 %).

The actual income tax charge of € 42,897k (2018/19: € 23,394k) is € 6,974k lower (2018/19: € 6,167k) than the expected tax charge of € 49,871k (2018/19: € 29,561k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Holding AG & Co. KGaA (2018/19: 30 %) to the Group's pre-tax earnings of € 166,238k (2018/19: € 98,537k).

Deferred tax assets have been stated for losses carried forward amounting to € 18,971k (2018/19: € 32,339k). HORNBACH Holding AG & Co. KGaA 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 € 51,566k (2018/19: € 46,254k), as future realization of the resultant benefit is not expected. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated. Losses carried forward amounting to € 294k for which no deferred taxes had been recognized were utilized (2018/19: € 8k).

Taxes on income due in future in connection with planned profit distributions at subsidiaries have been recognized as deferred tax liabilities. A budgeting horizon of one year has been assumed. The distributions for which deferred tax liabilities have been recognized at the HORNBACH Holding AG & Co. KGaA Group are subject to German taxation at 5 %. No deferred tax liabilities have been recognized for retained profits of € 1,205,268k at subsidiaries (2018/19: € 1,134,484k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of tax charge:

	2019/20 € 000s	2018/19 € 000s
Current taxes on income		
Germany	13,876	12,320
Other countries	34,578	24,009
	48,454	**36,329**
Deferred tax expenses/income		
due to changes in temporary differences	(9,736)	(5,973)
due to changes in tax rates	101	(551)
due to losses carried forward	4,078	(6,411)
	(5,557)	**(12,935)**
Taxes on income	**42,897**	**23,394**

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

	2019/20		2018/19	
	€ 000s	%	€ 000s	%
Expected income tax charge	49,871	100.0	29,561	100.0
Difference between local tax rate and group tax rate	(13,405)	(26.9)	(9,546)	(32.3)
Tax-free income	(871)	(1.7)	(1,290)	(4.4)
Tax reductions/increases due to changes in tax rates	101	0.2	(551)	(1.8)
Tax increases attributable to expenses not deductible for tax purposes	4,335	8.7	4,344	14.7
Tax effects on losses carried forward	1,446	2.9	2,056	7.0
Non-period current and deferred taxes	1,420	2.8	(1,180)	(4.0)
Taxes on income	**42,897**	**86.0**	**23,394**	**79.2**
Effective tax rate in %	25.8		23.7	

The non-period current tax income of € 334k (2018/19: tax expenses of € 2,638k) chiefly results from adjustments to provisions for the external tax audit concluded for the years from 2012 to 2016 (€ 718k).

The non-period deferred tax expenses of € 1,773k (2018/19: € 3,818k) chiefly result from the derecognition of deferred tax assets which are no longer expected to be realized in future, as well as from adjustments to non-current assets due to the external tax audit for the years from 2012 to 2016.

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

	2019/20 € 000s	2018/19 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	(8,954)	(3,397)
Change in deferred taxes	1,421	328
	(7,533)	**(3,070)**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	247	333
Change in deferred taxes	(51)	(67)
	197	**266**
Initial application of IFRS 16 (2018/19: IFRS 9 & 15)		
Changes in value due to first-time application of IFRS 16 (2018/19: IFRS 9 & 15)	1,013	3,102
Change in deferred taxes	(304)	(837)
	709	**2,265**
Exchange differences arising on the translation of foreign subsidiaries	**9,432**	**(1,170)**
Other comprehensive income, net after taxes	**2,805**	**(1,708)**
of which: other comprehensive income before taxes	1,739	(1,132)
of which: change in deferred taxes	1,066	(577)

(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 Holding AG & Co. KGaA by the weighted average number of shares in circulation during the financial year. As in the previous year, there were no dilutive effects.

	2019/20	2018/19
Consolidated net income in € attributable to shareholders in HORNBACH Holding AG & Co. KGaA	104,955,885	65,324,504
Number of ordinary shares issued	16,000,000	16,000,000
Earnings per share in €	**6.56**	**4.08**

(10) Other disclosures on the income statement

Non-operating items

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

2019/20 financial year € 000s	Impairments due to IAS 36 impairment test	Reversal of impairment losses (IAS 36)	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(14,858)	320	0	0	991	(13,547)
Pre-opening expenses	0	0	(132)	(533)	(228)	(893)
Other income and expenses	0	328	942	0	0	1,270
	(14,858)	**648**	**810**	**(533)**	**763**	**(13,170)**

2018/19 financial year € 000s	Impairments due to IAS 36 impairment test	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Other	Total
Selling and store expenses	(7,911)	605	(9,360)	0	2,379	(14,287)
Pre-opening expenses	0	0	0	0	(1,391)	(1,391)
Other income and expenses	0	390	0	1,024	0	1,414
	(7,911)	**995**	**(9,360)**	**1,024**	**989**	**(14,263)**

Personnel expenses

The individual functional expense items include the following personnel expenses:

	2019/20 € 000s	2018/19 € 000s
Wages and salaries	696,944	633,762
Social security contributions and pension expenses	153,236	137,310
	850,180	**771,072**

Depreciation and amortization

	2019/20 € 000s	2018/19 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment, investment property, and right-of-use assets	191,618	107,218
Impairments of intangible assets, property, plant and equipment, investment property, and right-of-use assets	14,989	7,911
	206,607	**115,129**

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

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

2019/20 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	926	91,394	98,748	191,068
Pre-opening expenses	0	289	0	289
General and administration expenses	5,073	8,311	1,867	15,251
	5,999	**99,993**	**100,615**	**206,607**

2018/19 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	210	89,004	12,521	101,734
Pre-opening expenses	0	135	0	135
General and administration expenses	5,086	8,175	0	13,261
	5,296	**97,313**	**12,521**	**115,129**

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

Notes to Consolidated Balance Sheet

(11) Intangible assets

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

€ 000s	Franchises, industrial property rights, and similar rights and values as well as licenses to such rights and values	Goodwill	Assets under construction	Total
Cost				
Balance at March 1, 2018	**101,645**	**4,415**	**2,427**	**108,487**
Additions	3,799	0	560	4,359
Disposals	185	0	631	816
Reclassifications	1,317	0	(1,315)	2
Foreign currency translation	(6)	0	0	(6)
Balance at February 28/March 1, 2019	**106,570**	**4,415**	**1,041**	**112,026**
Additions	2,939	0	1,547	4,486
Disposals	502	0	0	502
Reclassifications	117	0	(104)	13
Foreign currency translation	5	0	0	5
Balance at February 29, 2020	**109,129**	**4,415**	**2,484**	**116,028**
Depreciation and amortization				
Balance at March 1, 2018	**88,180**	**1,143**	**0**	**89,323**
Additions	5,296	0	0	5,296
Disposals	185	0	0	185
Foreign currency translation	(2)	0	0	(2)
Balance at February 28/March 1, 2019	**93,289**	**1,143**	**0**	**94,432**
Additions	5,999	0	0	5,999
Disposals	504	0	0	504
Foreign currency translation	7	0	0	7
Balance at February 29, 2020	**98,796**	**1,143**	**0**	**99,939**
Carrying amount at February 29, 2020	**10,333**	**3,272**	**2,484**	**16,089**
Carrying amount at February 28, 2019	13,281	3,272	1,041	17,594

Additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values and to assets under construction mainly relate to the acquisition of software licenses and expenses incurred to prepare the software for its intended use. As in the previous year, there are no major restrictions on ownership and disposition rights.

The goodwill relates to two garden centers in the Netherlands, with around 50 % of the respective figure being allocable to each of these. As in the previous year, the mandatory annual impairment test performed on goodwill in the 2019/20 financial year did not identify any impairment requirement. The recoverable amounts of the two cash generating units are based in each case on their value in use.

The pre-tax discount rates applied in the 2019/20 financial year amounted to 8.7 % and 4.7 % (2018/19: 8.6 % and 6.1 %). As in the previous year, the changes deemed possible in key assumptions (increase in discount rate or reduction in gross profit) would not result in any impairments at the two locations.

In the 2019/20 financial year, impairment requirements were identified for intangible assets in the "HORNBACH Baumarkt AG Subgroup" segment. These were written down by € 766k to their net realizable value (2018/19: € 105k). Furthermore, reference is made to the information on property, plant and equipment in Note 12.

(12) Property, plant and equipment and investment property

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

€ 000s	Land, leasehold rights, and buildings, including buildings on third-party land	Right-of-use assets	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost						
Balance at March 1, 2018	**1,772,563**	**188,034**	**59,048**	**679,737**	**53,956**	**2,753,338**
Reclassifications to/from non-current assets held for sale	(3,141)	0	(1,068)	0	0	(4,209)
Additions	120,196	0	1,109	54,217	15,989	191,511
Disposals	4,371	0	0	28,274	106	32,751
Reclassifications pursuant to IAS 40	7,696	0	(7,696)	0	0	0
Reclassifications	31,297	0	0	4,873	(36,172)	(2)
Foreign currency translation	(4,649)	(263)	(82)	(835)	549	(5,280)
Balance at February 28/March 1, 2019	**1,919,591**	**187,771**	**51,311**	**709,718**	**34,216**	**2,902,607**
Adjustments due to IFRS 16	0	667,528	0	0	0	667,528
Balance at March 1, 2019 adjusted	**1,919,591**	**855,300**	**51,311**	**709,718**	**34,216**	**3,570,136**
Reclassifications to/from non-current assets held for sale	0	0	(8,293)	0	0	(8,293)
Changes in scope of consolidation	0	0	0	0	(380)	(380)
Additions	54,881	37,426	5,226	51,762	15,563	164,858
Disposals	227	20,895	3,541	25,149	708	50,520
Reclassifications pursuant to IAS 40	166	0	(166)	0	0	0
Reclassifications	9,567	0	0	1,327	(10,907)	(13)
Foreign currency translation	11,517	5,251	(43)	2,448	845	20,018
Balance at February 29, 2020	**1,995,495**	**877,082**	**44,494**	**740,106**	**38,629**	**3,695,806**
Amortization						
Balance at March 1, 2018	**524,743**	**26,278**	**20,515**	**514,512**	**2**	**1,086,050**
Additions	45,269	12,521	660	51,384	0	109,834
Write-ups	(305)	0	(390)	(300)	0	(995)
Disposals	3,465	0	0	25,978	3	29,446
Reclassifications pursuant to IAS 40	(1,341)	0	1,341	0	0	0
Reclassifications	(9)	0	0	9	0	0
Foreign currency translation	(1,067)	(34)	(24)	(652)	0	(1,777)
Balance at February 28/March 1, 2019	**563,825**	**38,765**	**22,102**	**538,975**	**(1)**	**1,163,666**
Reclassifications to/from non-current assets held for sale	0	0	(4,241)	0	0	(4,241)
Additions	43,739	100,615	3,405	52,850	0	200,609
Write-ups	(648)	0	0	0	0	(648)
Disposals	100	4,037	2,751	23,116	(4)	30,000
Reclassifications pursuant to IAS 40	384	0	(384)	0	0	0
Reclassifications	103	0	0	(108)	0	(5)
Foreign currency translation	1,141	438	(7)	1,841	0	3,413
Balance at February 29, 2020	**608,444**	**135,781**	**18,124**	**570,442**	**3**	**1,332,794**
Carrying amount at February 29, 2020	**1,387,051**	**741,301**	**26,370**	**169,664**	**38,626**	**2,363,012**
Carrying amount at February 28, 2019	1,355,766	149,006	29,209	170,743	34,217	1,738,941

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

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

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

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

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m²)	5.25 €	5.75 €
Outside area (€/m²)	1.31 €	1.44 €
Administrative costs (% per annual earnings)	1.00 %	1.00 %
Maintenance costs (€/m²)	0.98 €	2.44 €
Real estate interest rate	5.25 %	5.50 %

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

Due to changes in the planning scenarios on the level of individual cash generating units, the impairment tests performed at the "HORNBACH Baumarkt AG Subgroup" in the 2019/20 financial year resulted in the identification of impairment requirements on intangible assets, marketing-oriented and sales promotional plant and office equipment, real estate, and right-of-use assets at 15 stores, which each constitute cash generating units. At the "HORNBACH Baustoff Union GmbH Subgroup", impairment requirements were identified for marketing-oriented and sales promotional plant and office equipment. These items were written down by € 14,989k to their values in use or net realizable values. The recoverable amount of these locations amounts to € 204,802k. The pre-tax discount rates used to determine the values in use ranged between 4.7 % and 11.9 %.

In the previous year, impairment requirements were identified for intangible assets, marketing-oriented and sales promotional plant and office equipment and for real estate at four stores in the "HORNBACH Baumarkt AG subgroup" segment and in the "HORNBACH Baustoff Union GmbH subgroup" segment. These items were written down by € 7,911k to the value in use or net realizable value. The recoverable amount for these locations amounted to € 187,948k.

In the 2019/20 financial year, write-ups of € 320k to net realizable value were recognized in the "HORNBACH Baustoff Union GmbH subgroup" segment. These related to the write-back of impairments recognized for buildings in previous years. The recoverable amount comes to € 3,410k. The net realizable value was determined by reference to external property valuations. The values of the respective properties were determined using the capitalized earnings method pursuant to the German Real Estate Valuation Ordinance (ImmoWertV).

In the previous year, write-ups of € 995k were recognized in the "HORNBACH Baumarkt AG Subgroup" segment. Of these, € 305k involved write-backs of impairment losses recognized in previous years for buildings while € 300k involved write-backs of marketing-oriented and sales promotional plant and office equipment at two stores. The recoverable amount for these locations amounted to € 48,055k. Furthermore, a write-back of € 390k to net realizable value was recognized for a piece of land not used for operations. The net realizable value was determined on the basis of available real estate sale contracts and by reference to external property surveys. The value of the real estate in question was surveyed by reference to ground values of suitable comparable pieces of land as determined by the surveyor and by reference to the capitalized earnings value pursuant to the German Real Estate Valuation Ordinance (ImmoWertV).

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

	2019/20	2018/19
HORNBACH Baumarkt AG subgroup		
Intangible assets	766	105
Land	756	2,993
Buildings	3,427	2,329
Outdoor facilities	0	211
Right-of-use assets	8,189	0
Other equipment, plant, and office equipment	1,424	855
	14,562	**6,493**
HORNBACH Baustoff Union GmbH subgroup		
Buildings	0	482
Other equipment, plant, and office equipment	427	936
	427	**1,418**
Total	**14,989**	**7,911**

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

The real estate assets are predominantly owned by HORNBACH Immobilien AG, 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, Union Bauzentrum HORNBACH GmbH, Ruhland Kallenborn & Co. GmbH, and Robert Röhlinger GmbH in the case of German consolidated companies and to HORNBACH Baumarkt GmbH, HORNBACH Baumarkt Luxemburg SARL, HORNBACH Baumarkt CS spol s.r.o., HORNBACH Baumarkt SK spol s.r.o., HORNBACH Bouwmarkt (Nederland) B.V., HORNBACH Baumarkt (Schweiz) AG, HORNBACH Byggmarknad AB, HORNBACH Centrala SRL, HORNBACH Asia Ltd. and Etablissement Camille Holtz et Cie. SA in the case of foreign consolidated companies.

Investment property mainly relates to retail properties at various locations in Germany and abroad. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to around € 35.5 million (2019/20: € 38.4 million). The fair values have been determined by independent external surveyors, who generally calculate the capitalized earnings value pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). The calculation is based on Level 3 input data. Key input factors include future rental income, the property rate, and operating costs. Application is also made of the comparative value method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

Rental income of € 2,211k was generated on properties let to third parties in the year under report (2018/19: € 2,207k). Expenses of € 1,279k were incurred for the maintenance of the properties let to third parties (2018/19: € 1,216k). Expenses of € 286k were incurred for all other items of investment property (2018/19: € 249k). The real estate acts as security for bank loans in the form of registered land charges amounting to € 194.7 million (2018/19: € 265.3 million).

(13) Leases

Leases developed as follows in the 2019/20 financial year:

2019/20 financial year € 000s	Land, leasehold rights, and buildings, including buildings on third-party land	Other equipment, plant, and office equipment	Total
Carrying amount at March 1, 2018	**161,756**	**0**	**161,756**
Depreciation	12,521	0	12,521
Foreign currency translation	(229)	0	(229)
Carrying amount at February 28, 2019	**149,006**	**0**	**149,006**
Carrying amount at March 1, 2019	**149,006**	**0**	**149,006**
Adjustments due to IFRS 16	658,800	8,728	667,528
Carrying amount at March 1, 2019 (adjusted)	**807,806**	**8,728**	**816,535**
Additions	29,481	7,945	37,426
Depreciation	91,801	8,814	100,615
Disposals	14,783	2,075	16,858
Foreign currency translation	4,814	(1)	4,813
Carrying amount at February 29, 2020	**735,517**	**5,784**	**741,301**

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

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

As of February 29, 2020, the contract portfolio comprises 143 property lease agreements. The weighted remaining term of this portfolio amounts to 10.4 years. The weighted remaining term of leases for plant and office equipment amounts to 2.0 years.

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

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

	2019/20 € 000s
Sales / other operating income	
Income from operating lease contracts	8,014
Income from sublease contracts	2,280
Other income from real estate lease contracts (service charge)	1,724
Selling and store expenses / pre-opening expenses / general and administration expenses	
Expenses for short-term lease contracts	3,858
Expenses for leases involving low-value assets	1,425
Other expenses for real estate lease contracts (service charge)	4,702
Depreciation and amortization	
Depreciation of right-of-use assets	92,426
Impairment of right-of-use assets	8,189
Net financial expenses	
Interest expenses for lease liabilities	26,778
Financing income on net investment in lease	39
Outflow of cash in connection with leases	**126,741**

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

Lease liabilities have the following maturities:

€ 000s	2019/20		2018/19	
	Nominal value	Present value	Nominal value	Present value
Maturity < 1 year	107,490	82,401	17,592	10,796
Maturity 2 - 5 years	399,494	325,655	70,369	48,142
Maturity > 5 years	448,215	387,265	121,316	105,079
	955,199	**795,321**	**209,277**	**164,017**

The receivables of € 20,963k from operating lease contracts (2018/19: € 19,208k) mainly relate to retail properties let to third parties, open space, and office space. The contracts generally have terms of up to 15 years. There are no purchase options on the part of the lessees. In individual cases, the contracts include provisions governing extension options.

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

Rental income from third parties € 000s	Maturities						Total
	1 year	2 years	3 years	4 years	5 years	> 5 years	
February 29, 2020	6,298	3,340	2,785	2,088	1,167	5,285	20,963
February 28, 2019	7,697	3,798	2,435	1,780	1,221	2,277	19,208

The receivables from finance lease contracts result from a subletting arrangement for a retail property for which the term is consistent with that of the head lease.

	2019/20 € 000s
Maturity < 1 year	480
Maturity 1 - 2 years	480
Maturity 2 - 3 years	480
Maturity 3 - 4 years	400
Nominal amount of lease payments	**1,840**
Gross investment	**1,840**
Financing income not yet realized	67
Net investment	**1,773**

(14) Financial assets

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

€ 000s	Investments	Total
Cost		
Balance at February 28/March 1, 2019	**22**	**22**
Additions	90	90
Balance at February 29, 2020	**112**	**112**
Carrying amount at February 29, 2020	**112**	**112**
Carrying amount at February 28, 2019	22	22

There were no material changes in financial assets in the 2019/20 financial year. Dividends of € 4k were paid in the 2019/20 financial year (2018/19: € 3k).

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

(15) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of accruals and swaps of € 2,871k with a remaining term of more than one year (2018/19: € 3,609k) and non-current lease receivables of € 1,324k (2018/19: € 0k).

(16) Deferred taxes

Deferred taxes relate to the following items:

	2.29.2020		2.28.2019	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	7.379	49.491	8.081	53.647
Leases	12.141	134	2.953	0
Inventories	911	4.846	823	4.457
Other assets and liabilities	903	3.556	4.369	2.037
Liabilities	1.251	1.101	197	679
Other provisions	13.057	518	11.198	591
Tax-free reserves	0	0	0	532
Losses carried forward	3.022	0	7.055	0
	38.664	**59.646**	**34.676**	**61.943**
Set-off	-25.537	-25.537	-22.148	-22.148
Total	**13.127**	**34.109**	**12.528**	**39.795**

(17) Inventories

	2.29.2020 € 000s	2.28.2019 € 000s
Raw materials and supplies	2,296	2,231
Finished products and merchandise	871,491	808,766
Inventories (gross)	**873,787**	**810,997**
less valuation allowances	12,534	12,125
Inventories (net)	**861,253**	**798,872**
Carrying amount of inventories measured at net realizable value	36,412	35,570

Expenses of € 2,924,767k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2019/20 financial year (2018/19: € 2,694,539k).

(18) Trade receivables and other current assets

These comprise the following items:

	2.29.2020 € 000s	2.28.2019 € 000s
Trade receivables	39.291	37.354
Receivables from affiliated companies	8	8
Contract assets	1.566	1.569
Positive fair values of derivative financial instruments	339	185
Other receivables and assets	82.168	70.926
	123.372	**110.042**

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

Trade receivables include receivables of € 1,765k (2018/19: € 1,618k) assigned within factoring agreements that have not been derecognized as all of the credit risk remains at the HORNBACH Holding AG & Co. KGaA Group. A corresponding liability has been recognized in the same amount. For these receivables, the business model involves selling these assets; in view of this, these receivables are measured at fair value. Given the short-term nature of the relevant receivables and the corresponding liability, their fair values are basically equivalent to their carrying amounts.

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 9. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 38k (2018/19: € 30k) that represents the likely liability risk. Any liability-related issues are generally addressed shortly after the assignment of the receivable. The maximum risk of loss amounted to € 2,392k as of February 29, 2020 (2018/19: € 1,949k) and was based on the total loss of all relevant receivables. This amount was derived by multiplying the balance of receivables thereby assigned with the respective liability quota. The company does not generate any gain or loss at the time at which the receivable is assigned. The expenses recognized in the 2019/20 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 371k (2018/19: € 308k).

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

Other receivables and assets mainly consist of receivables in connection with credit notes for goods and bonus agreements, receivables from credit card companies, pledged funds, and deferred charges and prepaid expenses. This item also includes recourse claims of € 4,270k for expected returns (2018/19: € 3,737k). Furthermore, this item also includes tax refund claims of € 6,341k (2018/19: € 12,391k) Further information about these can be found in Note 27.

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

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

€ 000s	Trade receivables		Other receivables and assets	
	2019/20	2018/19	2019/20	2018/19
Allowances at March 1	**3,863**	**3,168**	**822**	**2,251**
Utilization	633	701	124	1,730
Reversals	1,202	748	267	48
Additions	2,549	2,141	153	347
Foreign currency translation	4	3	5	2
Allowances at February 29/28	**4,581**	**3,863**	**589**	**822**

Within the allowances recognized for trade receivables, the risk provision is basically accounted for using the simplified allowance model as follows: A risk provision of € 2,950k depending on the term and in the range 0.47 % - 1.86 % (2018/19: € 2,824k in the range: 0.43 % - 2.36 %) and individual allowances of € 1,631k recognized due to objective indications or payment difficulties (2018/19: € 1,039k).

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

The complete derecognition of receivables resulted in expenses of € 867k (2018/19: € 1,836k). The receipt of receivables already derecognized resulted in income of € 121k (2018/19: € 114k).

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

(19) Cash and cash equivalents

	2.29.2020 € 000s	2.28.2019 € 000s
Cash balances at banks	326,391	292,540
Checks and cash on hand	41,895	23,728
	368,286	**316,268**

(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 2019/20 financial year, one property with a carrying amount of € 2,549k in the "HORNBACH Baustoff Union GmbH subgroup" segment was reclassified out of the "investment property" balance sheet line item and sold. A profit of € 226k was realized. A further property with a carrying amount of € 1,502k was reclassified out of the "property, plant and equipment" balance sheet line item at the "HORNBACH Immobilien AG subgroup" segment. Moreover, the piece of land already included in the "HORNBACH Immobilien AG subgroup" segment at the beginning of the 2019/20 financial year was sold. A profit of € 7k was realized. The disposal gains thereby generated have been recognized under other operating income from non-operating activities.

In the previous year, one piece of land with a carrying amount of € 776k was reclassified out of the "investment property" balance sheet line item and sold with a profit of € 824k. A further piece of land with a carrying amount of € 600k was reclassified out of the "property, plant and equipment" balance sheet line item and sold at its carrying amount. Both of these pieces of land were allocated to the "HORNBACH Baumarkt AG subgroup" segment. In the "HORNBACH Immobilien AG subgroup" segment, one piece of land with a carrying amount of € 293k was reclassified out of the "investment property" balance sheet line item and sold with a profit of € 142k. A further piece of land with a carrying amount of € 2,541k was reclassified out of the "property, plant and equipment" balance sheet line item.

As in the previous year, no impairment losses or write-ups were recognized on non-current assets held for sale in the 2019/20 financial year.

(21) Shareholders' equity

The development in the shareholders' equity of the HORNBACH Holding AG & Co. KGaA Group is shown in the statement of changes in group equity for the 2018/19 and 2019/20 financial years.

Share capital

At the balance sheet date on February 29, 2020, the share capital of HORNBACH Holding AG & Co. KGaA amounted to € 48,000,000 and was divided into 16,000,000 ordinary shares with a prorated nominal amount in the share capital of € 3.00 per share.

Publication of 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. The disclosure 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 except for the 3 % threshold.

Pursuant to § 40 WpHG, HORNBACH Holding AG & Co. KGaA is obliged to publish such notifications immediately, and no later than three trading days after receipt. We received and published a number of such notifications in the reporting period from March 1, 2019 to February 29, 2020. 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 and "other revenue reserves", as well as accumulated earnings and equity components recognized in equity that are attributable to shareholders.

Minority interests

Shares held by third parties in the equity of consolidated subsidiaries (non-controlling interests) are reported under minority interests.

Within the HORNBACH Holding AG & Co. KGaA Group, material non-controlling interests relate solely to HORNBACH Baumarkt AG. The share of capital and voting rights for the non-controlling interests in HORNBACH Baumarkt AG amounts to 23.65 % (2018/19: 23.65 %). Based in Bornheim (Germany), HORNBACH Baumarkt AG is the parent company of the HORNBACH Baumarkt AG Group. This subgroup constitutes a proprietary segment within the HORNBACH Holding AG & Co. KGaA Group. As the non-controlling interests in HORNBACH Baumarkt AG impact on the inclusion of the entire subgroup in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA, the information below is presented in aggregated form for the HORNBACH Baumarkt AG subgroup. The information is presented prior to the elimination of intercompany transactions with other subsidiaries included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA.

€ 000s	2.29.2020	2.28.2019
Sales	4,428,038	4,095,535
Consolidated net income	78,685	40,930
of which: attributable to non-controlling interests	18,293	9,774
Other comprehensive income	1,308	(1,263)
Total comprehensive income	**84,949**	**39,667**
of which: attributable to non-controlling interests	19,042	9,286
Assets	3,564,257	2,337,931
Liabilities	2,432,203	1,269,314
Net assets	**1,132,054**	**1,068,616**
of which: attributable to non-controlling interests	264,537	251,193
Cash flow from operating activities	327,475	3,695
Cash flow from investing activities	(94,853)	(179,639)
Cash flow from financing activities	(174,308)	316,298
Cash-effective change in cash and cash equivalents	**58,314**	**140,354**
Dividends paid to non-controlling interests	5,118	5,118

[1] The dividend payments are included in the outflow of cash for financing activities.

Disclosures about capital management
The capital management practiced by HORNBACH Holding AG & Co. KGaA 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 unutilized committed credit lines) are monitored monthly as part of the company's internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2019/20 financial year. The equity ratio amounted to 42.7 % as of February 29, 2020 (2018/19: 50.0 %).

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

(22) Distributable earnings and dividends
The distributable amounts involve the unappropriated net profit reported in the balance sheet of HORNBACH Holding AG & Co. KGaA prepared in accordance with German commercial law.

HORNBACH Holding AG & Co. KGaA concluded the 2019/20 financial year with an annual net surplus of € 39,788,398.44. Following the allocation of € 15,788,398.44 to other revenue reserves, the unappropriated net profit amounts to € 24,000,000.00.

The Board of Management of the general partner HORNBACH Management AG and the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose to the Annual General Meeting that the unappropriated net profit be appropriated as follows:

	€
Dividend of € 1.50 on 16,000,000 shares	24,000,000.00
	24,000,000.00

The Annual General Meeting held on July 5, 2019 approved a dividend of € 1.50 in the 2019/20 financial year. The total amount distributed thus amounted to € 24,000k (2018/19: € 24,000k).

(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	2.29.2020 Total
Bonds		0	246,646	246,646
Liabilities to banks	67,546	304,015	124,983	496,544
Lease liabilities	82,401	325,655	387,265	795,321
Negative fair values of derivative financial instruments	325	0	0	325
Total	**150,272**	**629,670**	**758,894**	**1,538,836**

€ 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	82,248	306,278	137,418	525,944
Lease liabilities	10,796	48,142	105,078	164,017
Negative fair values of derivative financial instruments	523	0	0	523
Total	**343,027**	**354,420**	**242,497**	**939,944**

The HORNBACH Holding AG & Co. KGaA Group had current financial debt amounting to € 150.3 million at the balance sheet date on February 29, 2020 (2018/19: € 343.0 million). This consists of the portion of loans and bonds maturing in the short term, amounting to € 59.5 million (2018/19: € 325.9 million), lease liabilities of € 82.4 million (2018/19: € 10.8 million), current account liabilities and short-term time loans of € 3.4 million (2018/19: € 3.5 million), interest deferrals of € 4.6 million (2018/19: € 2.3 million), and liabilities of € 0.3 million relating to the measurement of derivative financial instruments (2018/19: € 0.5 million). The significant reduction in current financial debt is chiefly due to the refinancing of the corporate bond maturing at HORNBACH Baumarkt AG in February 2020 and the resultant statement under non-current financial debt. The significant increase in total financial debt is mainly due to the amended recognition of lease liabilities pursuant to IFRS 16. Further information about this can be found in Note 13 "Leases".

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

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

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

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

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

Borrower	Instrument	Amount		Start of term	Maturity	Interest
Subgroup	Promissory note bond	70 million	EUR	6.30.2015	6.30.2021	Fixed*
HORNBACH Holding B.V.	Promissory note bond	52 million	EUR	9.13.2018	9.13.2023	Fixed*
HORNBACH Holding B.V.	Promissory note bond	43 million	EUR	9.13.2018	9.15.2025	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	126 million	EUR	2.22.2019	2.22.2024	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	74 million	EUR	2.22.2019	2.23.2026	Fixed*
HORNBACH Baumarkt (Schweiz) AG	Bilateral loan	50 million	CHF	11.22.2019 ***	11.18.2020	Variable **

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

Alongside the aforementioned unsecured financing facilities, the Group has further non-current liabilities, generally secured by mortgages, to banks. Liabilities to banks, originally of a non-current nature, are structured as follows:

2019/20 financial year	Currency	Interest agreement in % (including swap)	Maturity	**Amount 2.29.2020 € 000s**
Loans	EUR	1.13 to 3.80	2021 to 2026	364,289
Mortgage loans	EUR	3.71 to 4.97	2022 to 2023	28,015
	CZK	2.19 to 5.22	2020 to 2026	29,991
	SEK	1.50 to 4.97	2024 to 2028	19,113
				441,408

2018/19 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2019 € 000s
Loans	EUR	1.13 to 3.80	2021 to 2026	364,141
Mortgage loans	EUR	1.25 to 5.54	2019 to 2023	46,147
	CZK	2.19 to 5.22	2020 to 2026	34,719
	SEK	4.97 to 5.89	2019 to 2028	22,208
				467,215

The overwhelming majority of non-current liabilities to banks have fixed interest rates. The loan with floating rate in place at the end of the financial year has an interest rate based on a short-term Euribor plus a bank margin of 1.60 percentage points (2018/19: 1.60). Interest swaps are generally concluded to secure the interest rate on non-current liabilities with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

As of February 29, 2020, the HORNBACH Holding AG & Co. KGaA Group had total credit lines of € 422.6 million (2018/19: € 437.4 million) on customary market terms. Unutilized credit lines amounted to € 412.6 million (2018/19: € 428.6 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits.

The credit lines at the HORNBACH Holding AG & Co. KGaA Group include a syndicated credit line of € 350 million at HORNBACH Baumarkt AG that was agreed on December 22, 2017 and has a term until December 22, 2024. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 70 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBACH Baumarkt AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line.

No assets have been provided as security for the credit lines, the promissory note bonds, or the corporate bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as change of control, cross default, and cross acceleration arrangements for major financing facilities. In the case of the syndicated credit line 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 subgroup 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 subgroup. The corporate bond at HORNBACH Baumarkt AG is also subject to a comparable limit on financing facilities secured by land charges. The conditions governing the promissory note bond at HORNBACH Immobilien AG require the maintenance of a specified volume of unencumbered property, plant and equipment. The interest cover, equity ratio, agreed financing limits, unencumbered property, plant and equipment, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report.

As of February 29, 2020, land charges of € 194.7 million had been provided as security for liabilities to banks (2018/19: € 265.3 million).

The HORNBACH Holding AG & Co. KGaA Group is subject to a relevant restriction that limits the possibilities of using subsidiaries' assets to settle subsidiaries' liabilities. This relates to liquid funds of € 302.2 million at HORNBACH Baumarkt AG and its subsidiaries (2018/19: € 242.5 million). Apart from an allowance of € 50 million, these funds must remain within the HORNBACH Baumarkt AG subgroup and may not be used to settle liabilities at companies outside the subgroup.

The transition of future lease payments for leases has been presented in Note 13 "Leases".

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

Reconciliation pursuant to IAS 7 in € 000s	3.1.2019	Initial effect of IFRS 16	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.29.2020
					Changes in exchange rates	Changes in fair values	Other changes	
Bonds	249,459	0	(13,164)	9,688	0	0	665	246,647
Liabilities to banks	525,944	0	(44,744)	9,296	3,487	0	2,560	495,544
Lease liabilities	164,017	689,916	(111,049)	26,811	5,511	0	20,114	795,321
Financial and similar liabilities	**939,420**	**689,916**	**(168,956)**	**45,795**	**8,998**	**0**	**23,339**	**1,538,512**
Positive fair values of derivative financial instruments from financing activities	1,830	0	(382)	382	(32)	201	12	2,010
Derivative financial assets	**1,830**		**(382)**	**382**	**(32)**	**201**	**12**	**2,010**

Reconciliation pursuant to IAS 7 in € 000s	1.3.2018	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.28.2019
				Changes in exchange rates	Changes in fair values	Other changes	
Bonds	248,844	(9,688)	9,688	0	0	614	249,459
Liabilities to banks	200,919	320,867	5,777	(2,298)	0	679	525,944
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	36	(16)	16	(1)	(34)	0	0
Financial and similar liabilities	**623,914**	**293,595**	**22,784**	**(2,132)**	**(34)**	**1,293**	**939,420**
Positive fair values of derivative financial instruments from financing activities	1,172	(445)	445	(44)	1,147	0	1,830
Derivative financial assets	**1,172**	**(445)**	**445**	**(44)**	**1,147**	**0**	**1,830**

(24) Pensions and similar obligations

As a result of legal requirements in individual countries and individual commitments made to its directors and officers, the HORNBACH Holding AG & Co. KGaA 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 Holding AG & Co. KGaA Group. The total of all defined contribution pension expenses amounted to € 63,634k in the 2019/20 financial year (2018/19: € 58,889k). Of this total, an amount of € 35,182k involved the employer's share of contributions to the state pension scheme in Germany (2018/19: € 34,365k).

Multiemployer defined benefit 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 Holding AG & Co. KGaA has no obligation to assume liability for the contributions of other employers participating in the plan. No probable material risks have been identified in connection with the multiemployer defined benefit pension plan. The company expects to pay contributions of € 4,939k in the 2020/21 financial year.

Defined benefit plans

- **Switzerland**

  The HORNBACH Holding AG & Co. KGaA Group has one fund-financed pension plan which is financed via an external pension provider. This pension plan exists due to legal requirements in Switzerland (Swiss Occupational Pensions Act - BVG) and grants old-age, invalidity and fatality pensions and payments for 881 beneficiaries.

  The pension plan offers benefits that exceed the statutory minimum requirements under the BVG legislation. The employee covers around 35 % of the premiums to be paid for the savings balances, as well as further clearly defined costs. The remaining expenses are covered by the employer. Retirement pension contributions are age-dependent and rise with increasing age. Risk and cost premiums are calculated by the insurance company on an individual basis and reassessed each year. The actuarial risk in connection with this plan is borne by HORNBACH Holding AG & Co. KGaA. 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**

  HORNBACH Baumarkt AG, HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH have undertaken to provide members of their Boards of Management or their managing directors with a securities-financed pension plan. This model offers the opportunity to increase pension claims, while the companies simultaneously guarantee a minimum return of 2 % p.a. for members of their Boards of Management. Pension assets and voluntary additional contributions by members of the Boards of Management or managing directors 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 the companies and Allianz Treuhand GmbH. Where amendments to the capital investment concept do not contravene the fiduciary objective, the companies themselves may to have such amendments made. The risk that the trust assets do not generate the minimum return of 2 % p.a. is borne by the companies.

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 employee's 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 Holding AG & Co. KGaA guarantees the value retention of amounts contributed to value credits and thus bears the investment risk. Salary components contributed by the company or employees are managed within a so-called double fiduciary model by Allianz Treuhand GmbH, Frankfurt am Main. Provisions for obligations in connection with working time accounts have been offset as of the balance sheet date against the corresponding cover assets in the form of fund shares. Due to their pension-like character, these "other long-term benefits" have been recognized under pensions and similar obligations.

Pensions and similar obligations are structured as follows:

	2019/20 € 000s	2018/19 € 000s
Present value of pension obligation	96,763	78,421
less fair value of plan assets	(71,897)	(64,095)
Pension commitments as reported in balance sheet	**24,866**	**14,326**
of which: pension provisions	24,866	14,326

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

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

Change in pension obligation

	2019/20 € 000s	2018/19 € 000s
Present value of pension obligation at the beginning of the period	78,422	66,934
Current service cost of employer	4,961	4,183
Past service cost	(402)	(181)
Employee contributions	3,884	2,977
Interest cost	942	724
Payments from the plan	(3,322)	382
Remeasurement effects because of:		
Changes in demographic assumptions	(4,979)	9
Changes in financial assumptions	14,151	1,255
From experience adjustments	(153)	2,569
Insurance premiums	(1,359)	(1,344)
Foreign currency translation	4,354	912
Transfers	264	0
Present value of pension obligation at the end of the period	**96,763**	**78,421**

Change in plan assets

	2019/20 € 000s	2018/19 € 000s
Plan assets at beginning of period	64,095	56,073
Employer contributions	4,029	3,981
Employee contributions	3,884	2,977
Payments from the plan	(3,312)	382
Interest income	821	627
Return on plan assets (excluding interest income)	435	701
Insurance premiums	(1,359)	(1,344)
Foreign currency translation	3,303	697
Plan assets at the end of the period	**71,897**	**64,095**

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 Holding AG & Co. KGaA analyses the portfolio structure and performance at regular intervals in order to identify any need for action.

The expenses for defined benefit plans are presented below. As well as expenses and income recognized through profit or loss under personnel expenses and net financial expenses, these also include plan-related amounts recognized in other comprehensive income within equity.

	2019/20 € 000s	2018/19 € 000s
Current service cost of employer	4,961	4,183
Past service cost	(402)	(181)
Interest cost	942	724
Interest income	(821)	(627)
Effects recognized in P&L	**4,680**	**4,100**
Remeasurement effects because of:		
Changes in demographic assumptions	4,979	(9)
Changes in financial assumptions	(14,151)	(1,255)
From experience adjustments	153	(2,569)
Return on plan assets (excluding interest income)	435	701
Effects recognized in OCI	**(8,584)**	**(3,132)**
Costs for defined benefit plans	**13,264**	**7,232**

The amounts recognized through profit or loss are included in the income statement in the personnel expenses for the following functional areas and in net financial expenses:

	2019/20 € 000s	2018/19 € 000s
Selling and store expenses	3,191	2,672
Pre-opening expenses	0	61
General and administration expenses	1,369	1,270
Net interest expenses	120	97
	4,680	**4,100**

Actuarial assumptions

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

	2.29.2020		2.28.2019	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.0 %	-0.1 % to 0.3 %	1.0 %	0.9 % to 1.3 %
Future salary increases	1.8 %	1.5 % to 3.0 %	1.8 %	1.5 % to 3.0 %
Future pension increases	0.4 %	0.0 % to 2.0 %	0.4 %	0.0 % to 2.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 2018 G". Swiss plans are governed by the "BVG 2015 Generationentafel".

Sensitivity analysis

The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in present value of pension obligation

€ 000s	2.29.2020		2.28.2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(3,488)	3,776	(2,834)	3,083
Rate of pension increase (0.10 basis points change)	803	n/a	771	n/a
Mortality (+ 1 year)	1,532	n/a	1,234	n/a

Future cash flows

Payments of contributions amounting to € 4,033k are expected for the 2020/21 financial year.

Expected payments	2.29.2020 € 000s
2020/2021	1,200
2021/2022	7,241
2022/2023	4,461
2023/2024	931
2024/2025	1,075
2025 to 2029	10,194

Expected payments	2.28.2019 € 000s
2019/2020	872
2020/2021	495
2021/2022	6,671
2022/2023	4,038
2023/2024	839
2024 to 2028	7,520

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 38,638k (2018/19: € 40,150k). These include provisions of € 15,684k (2018/19: € 15,068k) for contractually assumed structural maintenance obligations and personnel provisions of € 20,629k (2018/19: € 12,750k). The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The personnel provisions mainly relate to provisions recognized due to statutory requirements in Austria for employees in the event of their leaving the company (severance payments) and to anniversary bonus claims and part-time early retirement obligations. Further information about the severance payment obligation can be found at the end of this chapter. Other non-current liabilities also include accruals of € 265k (2018/19: € 7,176k).

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

The development in provisions is presented in Note 28.

Severance payments

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

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

Change in pension obligation and costs of plan

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

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

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

Actuarial assumptions and sensitivity analysis

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

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The biometric calculation has been based on "AVÖ 2018 P – Rechnungsgrundlage für die Pensionsversicherungen". The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in the present value of the pension obligation

€ 000s	2.29.2020		2.28.2019	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(453)	501	(427)	470
Rate of salary increase (0.25 basis points change)	236	(227)	224	(215)

(26) Trade payables and other current liabilities

	2.29.2020 € 000s	2.28.2019 € 000s
Trade payables	266,213	241,490
Liabilities to affiliated companies	321	226
of which: to shareholders	321	226
Contract liabilities	34,419	30,904
Other liabilities	83,291	76,532
of which: other taxation	30,058	27,389
of which: social security contributions	5,591	5,001
	384,244	**349,152**

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

Other taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions particularly include contributions yet to be remitted to the social security funds. In addition to the aforementioned items, other liabilities mainly include deposits and pledged funds, and amounts due for outstanding invoices. Other liabilities include refund liabilities of € 7,589k (2019/20: € 6,594k), which mainly relate to expected price guarantees and returns.

(27) Income tax receivables and liabilities

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes for previous financial years. Current income tax liabilities are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Tax liabilities for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The income tax receivables of € 8.7 million (2018/19: € 10.5 million) mainly result from deductions for capital gains tax on the dividend from HORNBACH Baumarkt AG, as well as from prepayments of trade tax.

Reference is made to the information about deferred taxes included in Note 16 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(28) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2019/20 financial year:

€ 000s	Opening balance at 3.1.2019	Offsetting of provision for onerous contracts (IFRS 16)	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.29.2020	of which: non-current
Other provisions									
Personnel	12,748	0	2,666	0	10,545	0	3	20,629	20,629
Miscellaneous	33,679	14,423	2,558	1,284	4,181	18	115	19,727	18,009
	46,426	**14,423**	**5,224**	**1,284**	**14,725**	**18**	**119**	**40,356**	**38,638**
Accrued liabilities									
Other taxes	1,216	0	497	80	725	0	(9)	1,355	0
Personnel	55,485	0	51,913	632	74,646	0	37	77,623	0
Miscellaneous	28,177	0	23,323	3,218	22,666	0	98	24,400	0
	84,878	**0**	**75,734**	**3,930**	**98,037**	**0**	**126**	**103,378**	**0**
	131,304	**14,423**	**80,958**	**5,214**	**112,763**	**18**	**244**	**143,733**	**38,638**

Reference is made to Note 26 with regard to details of non-current provisions.

The accrued liabilities for personnel obligations primarily relate to outstanding vacation entitlements, vacation pay, Christmas bonuses, contributions to employer's liability insurance associations, and employee bonuses. Miscellaneous accrued liabilities relate in particular to utility expenses (gas, water, electricity), property duties, advertising expenses, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(29) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 29, 2020.

(30) Other financial obligations

€ million	Maturities			2.29.2020
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Purchase obligations for investments	109.0	0.0	0.0	109.0
Software rental / licenses	10.2	11.6	0.0	21.8
Other financial obligations	2.9	0.2	0.0	3.1
	122.1	**11.8**	**0.0**	**133.9**

€ million	Maturities			2.28.2019
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Purchase obligations for investments	137.1	0.0	0.0	137.1
Obligations under rental, leasehold and leasing contracts	93.8	290.4	304.9	689.1
Other financial obligations	5.9	0.5	0.0	6.4
	236.8	**290.9**	**304.9**	**832.6**

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

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

(31) Legal disputes

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

(32) Supplementary disclosures on financial instruments

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

€ 000s	IFRS 9 category	Carrying amount 2.29.2020	Fair value 2.29.2020	Carrying amount 2.28.2019	Fair value 2.28.2019
Assets					
Financial assets	FVtOCI	112	112	22	22
Trade receivables	AC	37,534	37,534	35,744	35,744
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	1,765	1,765	1,618	1,618
Contract assets	AC	1,566	1,566	1,569	1,569
Other current and non-current assets					
Derivatives with hedge relationship	n/a	2,010	2,010	1,831	1,831
Derivatives without hedge relationship	FVtPL	339	339	185	185
Other assets	AC	63,899	63,899	47,546	47,546
Cash and cash equivalents	AC	368,286	368,286	316,268	316,268
Equity and liabilities					
Financial debt					
Bonds	AC	246,646	261,213	249,459	257,650
Liabilities to banks	AC	496,544	494,990	525,944	526,575
Lease liabilities	n/a	795,321	795,321	164,017	180,134
Derivatives without hedge relationship	FVtPL	325	325	523	523
Trade payables	AC	266,534	266,534	241,715	241,715
Contract liabilities	AC	34,419	34,419	30,904	30,904
Other current and non-current liabilities	AC	15,850	15,850	187,459	187,459
Accrued liabilities	AC	24,400	24,400	28,175	28,175

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

The following items are outside the scope of IFRS 7: other current and non-current assets of € 20,985k (2018/19: € 25,682k), other current and non-current liabilities of € 101,549k (2018/19: € 103,342k), and accrued liabilities of € 78,978k (2018/19: € 56,702k).

Aggregate totals by IFRS 9 measurement category € 000s	Carrying amount 2.29.2020	Carrying amount 2.28.2019
Amortized cost (AC) financial assets	471,285	401,127
FVtOCI	112	22
FVtPL	2,104	1,803
Amortized cost (AC) financial liabilities	1,084,393	1,263,657
FVtPL	325	523

Cash and cash equivalents, trade receivables, other assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date. Available for sale financial assets include shareholdings recognized at cost due to the lack of an available fair value.

The derivative financial instruments within hedges recognized in the balance sheet mainly involve interest hedges (interest swaps). Derivative financial instruments outside of hedges include foreign currency items for outstanding orders and measurement items for outstanding forward exchange transactions. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of lease contracts have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk premiums available on the market. The fair value of the publicly listed corporate bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

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

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet or the notes:

€ 000s	IFRS 9 category	2.29.2020	2.28.2019
Assets			
Valuation based on level 2 input data			
Derivatives with hedge relationship	n.a.	2,010	1,831
Derivatives without hedge relationship	FVtPL	339	185
Liabilities			
Valuation based on level 1 input data			
Bonds	AC	261,213	257,650
Valuation based on level 2 input data			
Liabilities to banks	AC	494,990	526,575
Lease Liabilities	n/a	795,321	180,134
Derivatives without hedge relationship	FVtPL	325	523

Net result by measurement category	2019/20 € 000s	2018/19 € 000s
Amortized cost (AC) financial assets	(1,522)	(1,462)
Amortized cost (AC) financial liabilities	468	975
FVtPL	1,726	(118)

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.

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap and forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions. The Group currently does not have any forward exchange transactions in terms of derivatives with hedge relationships (swaps) or without hedge relationships (forward exchange transactions) which are eligible for netting. In the previous year, it had forward exchange transactions of € 3k which were eligible for netting.

(33) Risk management and financial derivatives

Risk management principles

The assets, liabilities and planned financial transactions of the HORNBACH Holding AG & Co. KGaA 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 risk

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 Holding AG & Co. KGaA 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 Holding AG & Co. KGaA 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.

Foreign currency loans whose foreign currency risk is hedged by cash flow hedges do not result in any foreign currency risk. These items have therefore not been accounted for in the sensitivity analysis.

The foreign currency risks faced by the HORNBACH Holding AG & Co. KGaA Group in its business operations mainly relate to the purchase of goods in the Far East using US dollars and from intragroup supplies and services, which are basically handled in euros. The US dollar currency risk is hedged with fixed deposits denominated in US dollars and forward exchange transactions.

Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

000s	2.29.2020	2.28.2019
EUR	(76,214)	(87,511)
USD	2,309	5,483
SEK	(67)	44
CZK	(857)	(325)

The above EUR currency position results from the following currency pairs: SEK/EUR € -29,700k (2018/19: € -36,417k), RON/EUR € -27,702k (2018/19: € -29,357k), CHF/EUR € -16,985k (2018/19: € -25,622k), and CZK/EUR € -1,828k (2018/19: € 3,885k).

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 € 7,735k lower (2018/19: € 9,307k). 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 € 7,735k higher (2018/19: € 9,307k). The hypothetical impact on earnings of € +7,735k (2018/19: € +9,307k) is the result of the following sensitivities: EUR/SEK € 2,979k (2018/19: € 3,696k), EUR/RON € 2,804k (2018/19: € 2,984k), EUR/CHF € 1,635k (2018/19: € 2,524k), EUR/USD € 221k (2018/19: € 522k), and EUR/CZK € 96k (2018/19: € 420k).

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 (2018/19: € 250,000k), two promissory note bonds amounting to € 95,000k at HORNBACH Holding B.V. (2018/19: € 95,000k), and two promissory note bonds amounting to € 200,000k at HORNBACH Baumarkt AG (2018/19: € 200,000k). Furthermore, the Group still held an unsecured promissory note bond of € 70,000k (2018/19: € 70,000k). Moreover, the Group also has short-term and long-term EUR loans amounting to € 28,184k (2018/19: € 29,398k), long-term CZK loans amounting to € 29,991k (2018/19: € 34,719k), long-term SEK loans amounting to € 19,338k (2018/19: € 39,464k), and a short-term CHF loan of € 47,108k (2018/19: € 52,933k). The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments. Moreover, the Group had current liabilities to banks of € 3,447k as of the balance sheet date (2018/19: € 3,515k).

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

In the sensitivity analysis for interest rate risks, it has been assumed that the volumes as of the balance sheet date are representative of the financial year as a whole. A parallel shift in the interest rate curve has been assumed.

If the market interest rate had been **100 base points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 2,592k higher (2018/19: € 2,350k) and equity before deferred taxes would have been € 326k higher (2018/19: € 372k). 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 € 259k lower (2018/19: € 235k) and equity before deferred taxes would have been € 33k lower (2018/19: € 44k).

Credit risk

Credit risk or default risk involves the risk that a contractual party is unable to comply in part or in full with the obligations entered into upon the conclusion of a financial instrument. The credit risk of the Group is strictly limited to the extent that financial assets and derivative financial instruments are as far as possible only concluded with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

Impairment of financial assets

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

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

Trade receivables and contract assets

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

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

The development in the allowances recognized for trade receivables and contract assets 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.

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

Liquidity risk

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

€ 000s	Carrying amount 2.29.2020	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	246,646	8,125	32,500	266,250
Liabilities to banks	496,544	71,713	326,870	128,211
Lease liabilities	795,321	107,490	399,494	448,215
Trade payables	266,534	266,534	0	0
Contract liabilities	34,419	34,419	0	0
Other current and non-current liabilities	15,850	13,019	2,831	0
Accrued liabilities	24,400	24,400	0	0
	1,879,714	**525,700**	**761,695**	**842,676**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	325	325	0	0
	325	**325**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	339	29,005	0	0
Interest derivatives in connection with cash flow hedges	2,010	7	0	0
	2,349	**29,012**	**0**	**0**
		555,038	**761,695**	**842,676**

€ 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	525,944	90,054	335,180	143,498
Liabilities in connection with finance leases	164,017	17,592	70,369	121,316
Trade payables	241,715	241,715	0	0
Contract liabilities	30,904	30,904	0	0
Other current and non-current liabilities	187,459	185,699	1,760	0
Accrued liabilities	28,175	28,175	0	0
	1,427,674	**853,853**	**407,309**	**264,814**
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
Interest derivatives in connection with cash flow hedges	1,831	94	8	0
	2,015	**24,362**	**8**	**0**
		881,020	**407,317**	**264,814**

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

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

With regard to the management of liquidity risk, reference is made to Note 23 and to the disclosures on the financial situation in the management report.

Hedging measures

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

Cash flow hedge – interest rate risk

Payer interest swaps are concluded to secure the interest rates on major long-term financial liabilities with floating interest rates. These enable the variable interest rates on the loans to be converted into fixed interest rates. In individual cases where long-term loans are concluded in currencies other than the functional currency of the respective group company, the foreign currency risk is hedged with currency or interest-currency swaps. Creditworthiness risks are not hedged.

The HORNBACH Holding AG & Co. KGaA Group meets IAS 39 hedge accounting requirements in that it already documents the relationship between the derivative financial instrument used as a hedge and the underlying transaction, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also involves assessing the effectiveness of the hedging instruments deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

A Swedish subsidiary took up a long-term EUR mortgage loan in the 2012/13 financial year. This loan of € 30 million has a term running until June 30, 2022. The interest rate is based on the 3-month Euribor, plus a fixed bank margin. To secure the interest and exchange rates, an interest-currency swap consistent with the loan structure was concluded (loan interest rate, including EUR-SEK interest currency swap of 4.42 %). This swap enables the floating-rate EUR payment installments to be secured as fixed-interest SEK payment installments.

As of February 29, 2020 the Group also had an interest-currency swap with a nominal value of € 15,000k (2018/19: € 17,000k) enabling a euro loan with a floating interest rate to be converted into a fixed-interest SEK loan. At the end of the 2019/20 financial year, the fair value of this interest-currency swap amounted to € 2,010k (2018/19: € 1,831k). This item has been reported under other assets.

The interest-currency swap met hedge accounting requirements as of February 29, 2020. A hedge ratio of 1:1 has been determined for this hedge, as the characteristics of the hedging instrument are congruent with those of the hedged item. Ineffectivenesses may nevertheless arise in the calculation of value changes in the hedging instrument and the hedged item, as the currency basis and forward points were not excluded upon designation of the hedging instrument.

HORNBACH expects a prospective economic relationship between the hedged item and the hedging instrument, as the risk of the hedging instrument corresponds to the hedged risk. Fair value changes are recognized in the hedging reserve in equity up to recognition of the results of the hedged transaction.

As of the balance sheet date and based on historic experience values the HORNBACH Group expects the underlying transaction currently designated as a cash flow hedge to materialize. The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.29.2020 in € 000s	Nominal value at 2.28.2019 in € 000s	Reference rate
6.29.2012	6.30.2022	15,000	17,000	3-month Euribor

The hedging instruments which the Group has designated in hedging relationships had the following implications for the balance sheet as of February 29, 2020:

€ 000s	2.29.2020	2.28.2019
Balance sheet item	Derivatives with hedge relationship	Derivatives with hedge relationship
Carrying amount of assets	2,010	1,831
Carrying amount of liabilities	0	0
Change in fair value of hedges held as of the reporting date	180	658
Nominal amount	15,000	17,000

The aforementioned hedging relationships had the following implications for the income statement or other comprehensive income (OCI):

€ 000s	2019/20	2018/19
Change in fair value of the underlying transaction	(180)	(658)
Cash flow hedge reserve for existing hedges	180	658
Cash flow hedge reserve for no longer existing hedges	0	0
Ineffectiveness recognized in income	0	0
Amount reclassified from OCI due to non-occurrence of underlying transaction	0	0
Amount reclassified from OCI due to maturity of underlying transaction	0	0

Other hedging measures – foreign currency risk

The HORNBACH Holding AG & Co. KGaA Group also deploys hedging measures which do not meet IAS 39 hedge accounting requirements, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line its risk management principles. For example, the HORNBACH Holding AG & Co. KGaA Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by concluding forward exchange transactions or making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including embedded forward exchange transactions, amounts to € 14k (2018/19: € -338k). Of this total, € 339k has been recognized under other assets (2018/19: € 185k) and € -325k under financial debt (2018/19: € -523k).

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

Derivatives

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

2.29.2020	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Interest rate and currency swap	Total
Nominal value in € 000s	26,000	37,211	0	15,000	78,211
Fair value in € 000s (before deferred taxes)	311	(297)	0	2,010	2,024

2.28.2019	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Interest rate and currency swap	Total
Nominal value in € 000s	23,000	29,882	0	17,000	69,882
Fair value in € 000s (before deferred taxes)	182	(520)	0	1,831	1,492

As the interest swap is included in an effective hedging relationship, the changes in its value, less deferred taxes, have basically been recognized in the hedging reserve within equity. The ineffective portion is recognized through profit or loss under net financial expenses.

(34) Sundry disclosures

Employees

The average number of employees was as follows:

	2019/20	2018/19
Salaried employees	19,453	19,466
Trainees	1,024	1,001
	20,477	**20,467**
of which: part-time employees	6,112	5,817

In terms of geographical regions, 11,472 of the average workforce were employed in Germany during the 2019/20 financial year (2018/19: 11,804) and 9,005 in Other European Countries (2018/19: 8,663).

Auditor's fee

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

	2019/20 € 000s	2018/19 € 000s
Audit services [1)]	807	1,071
Other confirmation services [2)]	54	17
Tax advisory services [3)]	0	45
	861	**1,133**

The fees comprise the following elements:

[1)] Half-year, annual, and consolidated financial statements, dependent company report, annual financial statements of subsidiaries

[2)] Comfort letters, certificates of sales, covenants, Special Committee correspondence

[3)] Tax advice in various matters

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

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

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management of HORNBACH Management AG and the Supervisory Board of HORNBACH Holding AG & Co. KGaA in December 2019 and made available to shareholders on the company's homepage.

(35) Related party disclosures

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

The associated companies are:

HORNBACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels (ultimate controlling party)
Administrative support was provided to HORNBACH Familien-Treuhandgesellschaft mbH in the past financial year. The services thereby performed in the 2019/20 financial year were valued at customary market prices of € 3k (2018/19: € 3k).

HORNBACH Management AG, Annweiler am Trifels (General Partner)
Pursuant to the Articles of Association of HORNBACH Holding AG & Co. KGaA, HORNBACH Management AG is reimbursed for all expenses directly attributable to its management activities. Furthermore, the company receives a return of 5 % of the share capital (general partner compensation).

The expenses incurred at HORNBACH Holding AG & Co. KGaA for the management activities performed by HORNBACH Management AG amounted to € 1,614k.

Income	€ 000s
Other services	
Other services to HORNBACH Management AG	1
	1

Expenses	€ 000s
General partner compensation to HORNBACH Management AG	13
Management allocation to HORNBACH Management AG	1,601
	1,614

Liabilities	€ 000s
Liabilities to HORNBACH Management AG	
Trade payables	321
	321

Some of the companies included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler am Trifels, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 12k were performed by the seminar hotel in the 2019/20 financial year (2018/19: € 18k). These services were invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 29, 2020.

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

(36) Events after the balance sheet date

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

The world in coronavirus shock

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

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

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

Events of particular significance for the HORNBACH Holding AG & Co. KGaA Group

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

Within the HORNBACH Group, only the HORNBACH Baumarkt AG subgroup was affected by the packages of measures taken by governments. The builders' merchant locations operated by the HORNBACH Baustoff Union GmbH subgroup in Germany and France, which mainly serve commercial customers, remained open without restriction. There were also no implications for the HORNBACH Immobilien AG subgroup, as no changes arose in rents settled on an intragroup basis.

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

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

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

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

In what follows, we provide information on relevant events at the HORNBACH Baumarkt AG subgroup in its Germany and Other European Countries regions:

Germany

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

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

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

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

Other European Countries

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

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

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

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

The consolidated financial statements of HORNBACH Holding AG & Co. KGaA for the 2019/20 financial year were approved for publication by the Board of Management of the general partner HORNBACH Management AG on May 19, 2020.

(37) Supervisory Board and Board of Management

The management of HORNBACH Holding AG & Co. KGaA is performed by the general partner HORNBACH Management AG, represented by its Board of Management Albrecht Hornbach and Roland Pelka. The remuneration paid to the board members is borne by HORNBACH Management AG and is reported as expenses in that company's income statement. Pursuant to § 8 (3) of its Articles of Association, HORNBACH Holding AG & Co. KGaA reimburses all expenses incurred in connection with the remuneration of board members at the general partner. The following persons were members of the Board of Management of HORNBACH Management AG in the period from March 1, 2019 to February 29, 2020:

Albrecht Hornbach DIY Stores and Garden Centers (HORNBACH Baumarkt AG) Builders' Merchants (HORNBACH Baustoff Union GmbH) Real Estate (HORNBACH Immobilien AG)	**Chairman (CEO)** First appointed: October 9, 2015 Appointed until: October 31, 2021
Roland Pelka Finance, Accounting and Tax, Group Controlling, Risk Management, Loss Prevention, Group Communications	First appointed: October 9, 2015 Appointed until: October 31, 2021

The total remuneration of the Board of Management of HORNBACH Management AG for performing its duties for the Group in the 2019/20 financial year amounts to € 1,963k (2018/19: € 1,878k). Of short-term benefits, € 966k (2018/19: € 955k) relates to fixed remuneration and € 997k (2018/19: € 923k) to performance-related components.

Post-employment benefits of € 210k were incurred for active members of the Board of Management in the 2019/20 financial year (2018/19: € 210k). These involve expenses incurred to endow pension provisions (Note 24).

Further individualized disclosures and information can be found in the Remuneration Report (see "Combined Management Report").

Members of the Supervisory Board:

Dr. John Feldmann Supervisory Board Chairman of KION Group AG (until May 9, 2019) Former Executive Board member at BASF SE	**Chairman** Member since: January 17, 2014 Chairman since: July 6, 2018 Appointed until: end of 2023 AGM
Martin Hornbach Managing Partner Corivus Gruppe GmbH	**Deputy Chairman** Member since: July 10, 2015 Dep. Chairman since: October 9, 2015 Appointed until: end of 2023 AGM
Erich Harsch CEO of dm-drogerie markt GmbH & Co. KG (until December 31, 2019) CEO of HORNBACH Baumarkt AG (since January 1, 2020)	until December 31, 2019
Simone Krah (Managing) President of MMM-Club e.V.	Member since: July 6, 2018 Appointed until: end of 2023 AGM
Simona Scarpaleggia Director of Global Initiative "Future of Work" at Ingka Group (IKEA)	Member since: March 24, 2020 Appointed until: end of 2020 AGM
Melanie Thomann-Bopp CFO of Sonova Retail Deutschland GmbH	Member since: July 6, 2018 Appointed until: end of 2023 AGM
Dr. Susanne Wulfsberg Director of Floggensee Stud, Veterinary Surgeon	Member since: July 5, 2013 Appointed until: end of 2023 AGM

The total remuneration of the Supervisory Board for the 2019/20 financial year amounted to € 354k (2018/19: € 357k). Of short-term benefits, € 220k (2018/19: € 225k) related to basic remuneration and € 134k (2018/19: € 132k) to committee activities.

Further individualized disclosures and information can be found in the Remuneration Report (see "Combined Management Report").

The total remuneration of the Board of Management and Supervisory Board amounted to € 2,317k (2018/19: € 2,235k).

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

Dr. John Feldmann

a) HORNBACH Baumarkt AG (Deputy Chairman)
HORNBACH Management AG (Deputy Chairman)
KION Group AG (Chairman; until May 2019)

Erich Harsch (until December 31, 2019)

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

Martin Hornbach

a) Corivus AG (Chairman)
HORNBACH Baumarkt AG
b) Corivus Swiss AG (Chairman of Administrative Board)

Simona Scarpaleggia (since March 24, 2020)

a) IKEA Foundation
EDGE Certified Foundation
HORNBACH Baumarkt AG (since January 1, 2020)
b) ZHdK – Zurich University of the Arts (Advisory Board member)
Economics Faculty of Zurich University (Advisory Board member)
Faculty of International Management at St. Gallen University (Advisory Board member)
Digital Switzerland (Advisory Board member)

Melanie Thomann-Bopp

a) HORNBACH Baumarkt AG

Dr. Susanne Wulfsberg

a) HORNBACH Management AG

Members of the Board of Management

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

Albrecht Hornbach

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

Roland Pelka

a) HORNBACH Immobilien AG (Deputy Chairman)
WASGAU Produktions & Handels AG
b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Neustadt an der Weinstrasse, May 19, 2020

HORNBACH Holding AG & Co. KGaA
represented by its general partner HORNBACH Management AG,
represented by its Board of Management

Albrecht Hornbach Roland Pelka

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.

Neustadt an der Weinstrasse, May 19, 2020

HORNBACH Holding AG & Co. KGaA
represented by HORNBACH Management AG

Albrecht Hornbach

Roland Pelka

INDEPENDENT AUDITOR'S REPORT

To HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany

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

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 29 February 2020, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 March 2019 to 29 February 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany, for the financial year from 1 March 2019 to 29 February 2020. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement pursuant to Section 315d German Commercial Code (HGB) combined with the corporate governance statement pursuant to Section 289fHGB nor the content of the consolidated non-financial report pursuant to Sections 315b and 315c HGB, each referred to in the combined management report. In addition, we have not audited the content of the disclosures in the section "2.3 Hidden reserves in real estate assets" in the combined management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 29 February 2020 and of its financial performance for the financial year from 1 March 2019 to 29 February 2020, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the consolidated corporate governance statement pursuant to Section 315d HGB combined with the corporate governance statement pursuant to Section 289f HGB referred to above nor the content of the consolidated non-financial report pursuant to Sections 315b and 315c HGB referred to above nor the content of the disclosures in section "2.3 Hidden reserves in real estate assets".

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 March 2019 to 29 February 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:
1. recoverability of real estate at individual locations and rights of use of real estate at individual locations
2. measurement of inventories
3. first-time adoption of IFRS 16

Our presentation of these key audit matters has been structured as follows:
a) description (including reference to corresponding information in the consolidated financial statements)
b) auditor's response

1. Recoverability of real estate at individual locations and rights of use of real estate at individual locations

a) The consolidated financial statements of HORNBACH Holding AG & Co. KGaA as at 29 February 2020 state "land, land rights and buildings including buildings on third-party land" (so-called real estate at individual locations) of mEUR 1,387.1 and rights of use of "land, land rights and buildings including buildings on third-party land" (so-called "rights of use of real estate at individual locations") of mEUR 735.5. This makes up 56.4% of total assets. As at 29 February 2020, total impairments of mEUR 14.1 on these assets were recognised as an expense.

   The recoverability of the real estate at individual locations and rights of use of real estate at individual locations is determined at the level of the individual DIY stores, each of which constitute a cash-generating unit. If there are events that indicate an impairment and any related requirement for a write-down of the real estate at individual locations and/or the rights of use of these assets, the Group determines the value in use of the individual cash-generating unit as part of an impairment test according to IAS 36. If the value in use is below the carrying value of the cash-generating unit, the fair value less costs to sell (net realisable value) is determined for the real estate attributable to this cash-generating unit. The higher of both values is used to determine the impairment.

   The outcome of the measurement is largely dependent on the executive directors' judgement and estimate of the future cash inflows and on the discount rate applied. In addition, the recoverability of the real estate at individual locations and of the rights of use of the real estate at individual locations depends on each individual location and the resulting alternative uses. Therefore, this measurement involves a high degree of uncertainty.In order to determine the net realisable value of real estate at individual locations, the Group consulted external experts. Therefore, this matter was of particular significance in the scope of our audit.

   The information provided by the executive directors on the real estate at individual locations, rights of use of individual locations and impairments made is included in the section "Accounting policies", and in the notes "(10) Other disclosures on the statement of profit or loss", "(12) Property, plant and equipment and investment property" and "(13) Leases" in the notes to the consolidated financial statements.

b) During our audit, we obtained an understanding of the corporate planning process and the process applied to design the impairment tests. In addition, we obtained, in particular, an understanding of and assessed the method applied in the impairment test. For the purpose of our risk assessment, we gathered information on and considered the correlation of actual results with budget over the past years.

   We compared the expected future cash flows to be considered in the measurement with the corresponding detailed planning and group planning approved by the supervisory board. In view of the assessment of the appropriateness of the assumptions and propositions, processes and measurement methods, we consulted internal experts of our Valuation Services function, who also helped us to assess the method applied in the impairment tests and the parameters used to determine the discount factors including the weighted average cost of capital and calculation schemes. For evaluating the appropriateness of the budgeting, we compared general and industry-specific market expectations and considered comprehensive explanations of the executive directors regarding the impairment tests. As only slight changes in the discount rate may have significant effects on the value in use, we evaluated the underlying parameters for plausibility based on information provided by the executive directors and own market research and checked the calculation of the value in use for accuracy.

   In addition, we evaluated the competence, capabilities and objectivity of the independent experts consulted by the Group to determine the net realisable values of the real estate at individual locations and assessed their results with the help of our own real estate valuation experts.

2. Measurement of inventories

a) The inventories recognised in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA as at 29 February 2020 amount to mEUR 861.3. This makes up 22.9% of total assets. As at 29 February 2020, write-downs of the inventories amounted to mEUR 12.5.

   The inventories are measured at the lower of cost, including ancillary cost and cost deductions, or the net realisable value. Inventories are written down based on estimates made by the executive directors of the saleability of the inventories.

   Any required write-downs are determined on the basis of an approach that considers the various risks of saleability.

   As the measurement of the inventories is based on judgement due to the defined approach including its underlying assumptions and as the inventories are of major significance for the Group's assets, liabilities, financial position and financial performance, we identified the measurement of inventories as a key audit matter.

   The information on the inventories is provided by the executive directors in the section "Accounting policies" as well as note "(17) Inventories" in the notes to the consolidated financial statements.

b) During our audit, we assessed internal controls over the measurement of inventories and tested the operating effectiveness of the implemented controls relevant to the audit concerning initial and subsequent measurement.

   In this context, we evaluated and assessed, in particular, the Group's approach to determining write-downs of inventories. On a sample basis, we verified the appropriateness of the estimates regarding the saleability of the inventories made by the executive directors on the basis of historic information and current selling prices and vouched our sample to supporting evidence. In this context, we also checked the corresponding calculations for accuracy. Moreover, we gained assurance that the write-downs thus determined were recorded accurately.

3. First-time adoption of IFRS 16

a) The rights of use to leased objects in the balance sheet as at 29 February 2020 amount to mEUR 741.3 and are recognised as assets in the consolidated balance sheet. They account for 30.9% of non-current assets and 19.7% of total assets. In addition, lease liabilities recognised as liabilities in the balance sheet amount to mEUR 795.3. The first-time adoption of IFRS 16 contributed to a reduction in the consolidated equity ratio to 42.7%.

The first-time adoption of IFRS 16 was based on the modified retrospective approach and the reference figures for the prior year were not adjusted.

As part of the first-time adoption of the standard, the Group extended the existing ERP system used for calculating the rights of use and lease liabilities. The data available in the real estate management system used by the Group were transferred to the ERP system and complemented by the relevant parameters pursuant to IFRS 16.

The new IFRS 16 requires the executive directors to make estimates and to exercise judgement. This particularly relates to the estimate regarding the exercise of extension options defined in the lease agreements, which affects the term of the lease, possibly also to the interest rate, the amount of the lease liability and the related effects on the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of cash flows. For these reasons and due to the complexity of the new requirements, we identified the presentation of leases according to IFRS 16 as a key audit matter in the scope of our audit.

The information on the recognition of leases in the balance sheet is provided by the executive directors in the sections "Changes to accounting policies due to new accounting requirements" and "Accounting policies" as well as note "(13) Leases" in the notes to the consolidated financial statements.

b) During our audit, we assessed, among other things, the appropriateness and implementation of the processes and audit-relevant controls, which were designed by the Group to ensure the complete and exact identification and recording of leases, and tested the operating effectiveness of these processes and controls.

First, we audited the complete recording of the relevant lease agreements by comparing the leased locations of DIY stores operated by the Group with the lease agreements stated as rights of use. Furthermore, on a sample basis, we compared the rental/lease payments, agreed terms and further measurement-relevant parameters, which are recorded in the system as data sets, with the underlying agreements. On a sample basis we used IT audit tools to analyse the IT system's calculation logic . In this context, we compared the results of the calculations of the ERP system with the results of the audit tools and analysed variances. To this end, we evaluated, in particular, the appropriateness of the estimates regarding the exercise of extension options under the lease agreements, which affect the term of the lease, as well as the appropriateness of the interest rate, of the amount of the lease liability and the related effects on the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of cash flows by inspecting selected agreements, and other appropriate evidence and on the basis of enquiries of employees of the Group.

In addition, we evaluated whether the journal entries, which were generated by the system, were properly included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA and whether the disclosures were complete and accurate.

Other Information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises the following documents obtained up to the date of this auditor's report:

- the consolidated corporate governance statement pursuant to Section 315d HGB combined with the corporate governance statement pursuant to Section 289f referred to in the combined management report,

- the disclosures in the section "2.3 Hidden reserves in real estate assets" in the combined management report,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) sentence 4 and Section 315 (1) sentence 5 HGB, respectively, and
- all the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report.

In addition, the other information comprises the separate consolidated non-financial report pursuant to Sections 315b and 315c HGB, which is expected to be published subsequently on the website of HORNBACH Holding AG & Co. KGaA by 30 June 2020.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our group audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by

the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the general meeting on 5 July 2019. We were engaged by the supervisory board on 5 July 2019. We have been the group auditor of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany, since the financial year 2019/2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the Engagement

The German Public Auditor responsible for the engagement is Patrick Wendlandt.

Mannheim/Germany, 19 May 2020

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Steffen Schmidt	Signed: Patrick Wendlandt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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