

ANNUAL REPORT 2020/2021

HORNBACH BAUMARKT

AG GROUP

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Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2019/20 on previous year	IFRS									
		2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
Sales and earnings figures											
Net sales	15.6%	5,117	4,428	4,096	3,891	3,710	3,535	3,357	3,152	3,020	3,001
of which in other European countries	12.8%	2,463	2,183	1,977	1,820	1,670	1,524	1,390	1,325	1,279	1,272
Sales growth as % of net sales		15.6	8.1	5.3	4.9	5.0	5.3	6.5	4.4	0.6	5.8
EBITDA	22.0%	505	414	159	183	174	162	167	161	156	184
as % of net sales		9.9	9.3	3.9	4.7	4.7	4.6	5.0	5.1	5.2	6.1
EBIT	57.8%	259	164	67	102	98	90	110	105	99	128
as % of net sales		5.1	3.7	1.6	2.6	2.6	2.6	3.3	3.3	3.3	4.3
Adjusted EBIT ¹⁾	53.3%	279	182	82	110	103	99	115	111	101	132
as % of net sales		5.4	4.1	2.0	2.8	2.8	2.8	3.4	3.5	3.3	4.4
Earnings before taxes	89.3%	200	106	52	81	79	78	95	87	74	106
as % of net sales		3.9	2.4	1.3	2.1	2.1	2.2	2.8	2.8	2.5	3.5
Net income for the year	94.6%	153	79	41	59	53	72	70	56	52	77
as % of net sales		3.0	1.8	1.0	1.5	1.4	2.0	2.1	1.8	1.7	2.6
Gross margin as % of net sales		35.9	36.6	36.7	37.3	37.2	37.7	38.0	37.4	37.3	37.4
Store expenses as % of net sales		26.5	28.1	29.9	29.6	29.8	30.2	29.8	29.4	29.7	29.0
Costs of central administration as % of net sales		4.5	5.1	5.4	5.3	5.0	5.0	4.7	4.5	4.7	4.3
Pre-opening expenses as % of net sales		0.1	0.2	0.2	0.1	0.2	0.3	0.4	0.3	0.3	0.2
Cash flow figures											
Cash flow from operating activities	1.8%	334	327	4	134	115	107	107	144	95	104
Investments ²⁾	43.8%	140	97	184	129	157	139	100	72	117	104
Proceeds from divestments		3	2	4	2	2	2	1	5	3	11
Earnings potential ³⁾	1.6%	341	335	10	139	121	117	122	155	105	111
as % of net sales		6.7	7.6	0.2	3.6	3.3	3.3	3.6	4.9	3.5	3.7
Dividend distribution		21.6	21.6	21.6	21.6	21.6	19.1	19.1	15.9	15.9	15.9
Balance sheet and financial figures											
Total assets	5.6%	3,765	3,564	2,338	1,998	1,960	1,986	1,731	1,670	1,597	1,628
Non-current assets	0.2%	2,352	2,349	1,253	1,165	1,124	1,023	786	729	722	668
Inventories	16.0%	945	814	756	658	626	588	533	505	482	476
Cash and cash equivalents	10.7%	335	302	243	102	113	283	335	371	317	404
Shareholders' equity	10.9%	1,255	1,132	1,069	1,049	1,011	973	922	862	823	792
Shareholders' equity as % of total assets		33.3	31.8	45.7	52.5	51.6	49.0	53.3	51.6	51.5	48.6
Return on shareholders' equity based on net income - in %		12.8	7.2	3.9	5.7	5.5	7.6	7.8	6.7	6.5	10.2
Net working capital	18.6%	772	651	607	469	471	408	382	345	349	358
Additions to non-current assets ⁴⁾	(79.5)%	275	1,341	184	129	176	312	100	72	117	104
Inventory turnover rate per year		4.1	3.8	3.9	3.8	3.9	4.0	4.1	4.0	4.0	4.0
Retail store data											
Number of stores		163	160	158	156	155	153	146	141	138	134
of which in Germany ⁵⁾		98	96	97	98	98	99	97	92	92	91
of which in other European countries		65	64	61	58	57	54	49	49	46	43
Like-for-like sales growth in %		14.7	7.7	4.2	3.6	3.0	2.6	4.4	2.7	(1.4)	2.8
Sales area in m ² (based on BHB)	1.6%	1,918,354	1,888,545	1,853,068	1,821,807	1,805,729	1,771,480	1,704,187	1,646,712	1,597,949	1,549,085
Weighted average net sales per m ² in €	13.1%	2,698	2,386	2,218	2,135	2,068	2,023	1,985	1,940	1,912	1,933
Average store size in m ²	(0.3)%	11,769	11,803	11,728	11,678	11,650	11,578	11,673	11,679	11,579	11,560
Weighted average sales per store		31.8	28.2	26.0	24.9	24.1	23.4	23.2	22.7	22.1	22.3
Other information											
Employees - annual average - converted into full-time equivalents	4.3%	17,766	17,039	16,229	15,431	15,016	14,570	13,967	13,390	12,674	12,188
Sales per employee in € 000s	10.8%	288	260	252	252	247	243	240	239	238	246
Number of shares ⁶⁾		31,801,760	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000
Earnings per share in € ⁶⁾		4.82	2.47	1.29	1.84	1.66	2.28	2.19	1.77	1.64	2.43

¹⁾ Adjusted for non-operating earnings items

²⁾ Excluding investment in short-term financial deposits (2016/17 financial year: € 30 million)

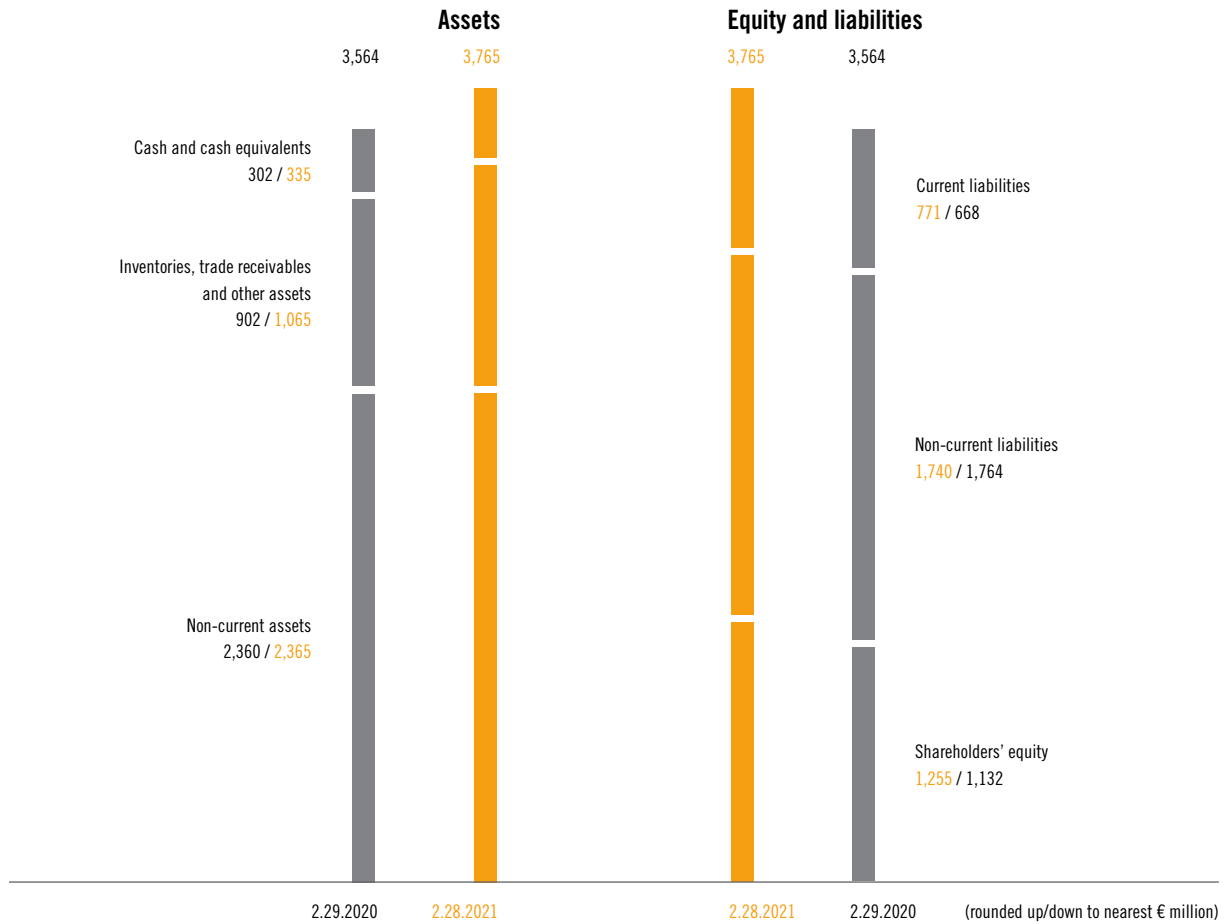
³⁾ Cash flow from operating activities plus pre-opening expenses

⁴⁾ Starting in the 2019/20 financial year: including right-of-use assets (IFRS 16)

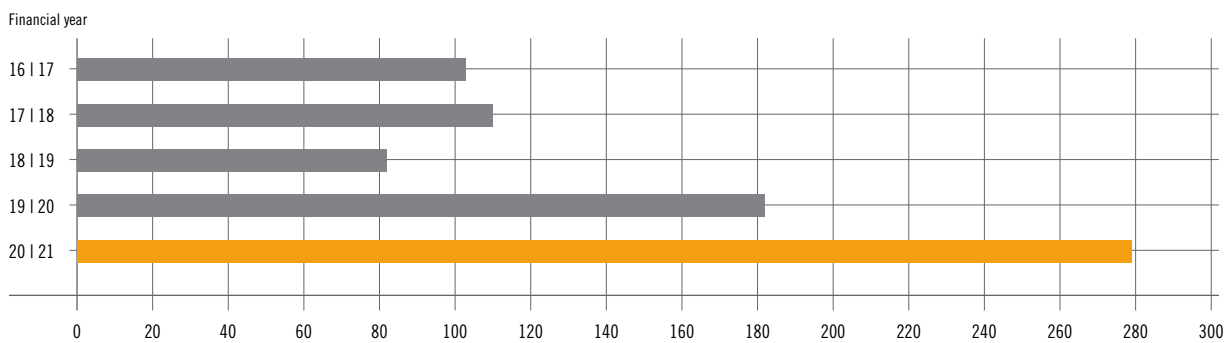
⁵⁾ Starting in the 2020/21 financial year: including BODENHAUS outlets

⁶⁾ 5,240 excess shares from the share buyback for the employee share program are held as treasury stock as of the balance sheet date on 2.28.2021 and will be used for the program in the 2021/22 financial year.

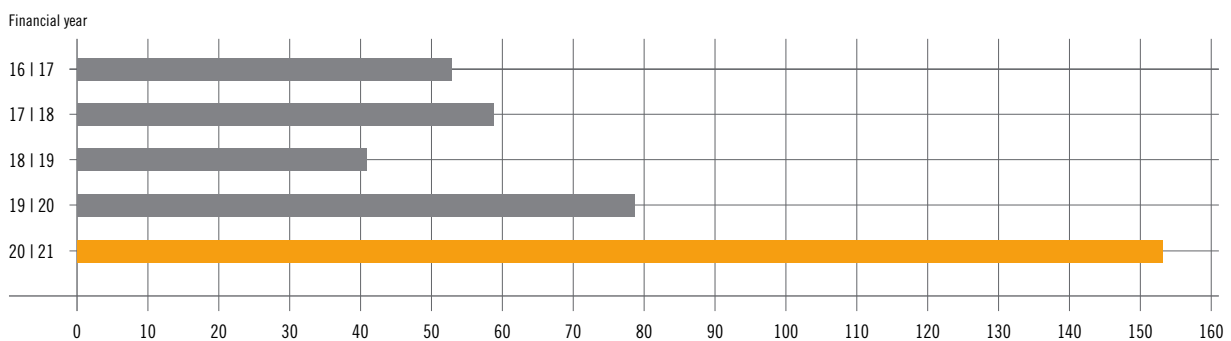
Structure of consolidated balance sheet
(€ million)



Adjusted EBIT
(€ million)

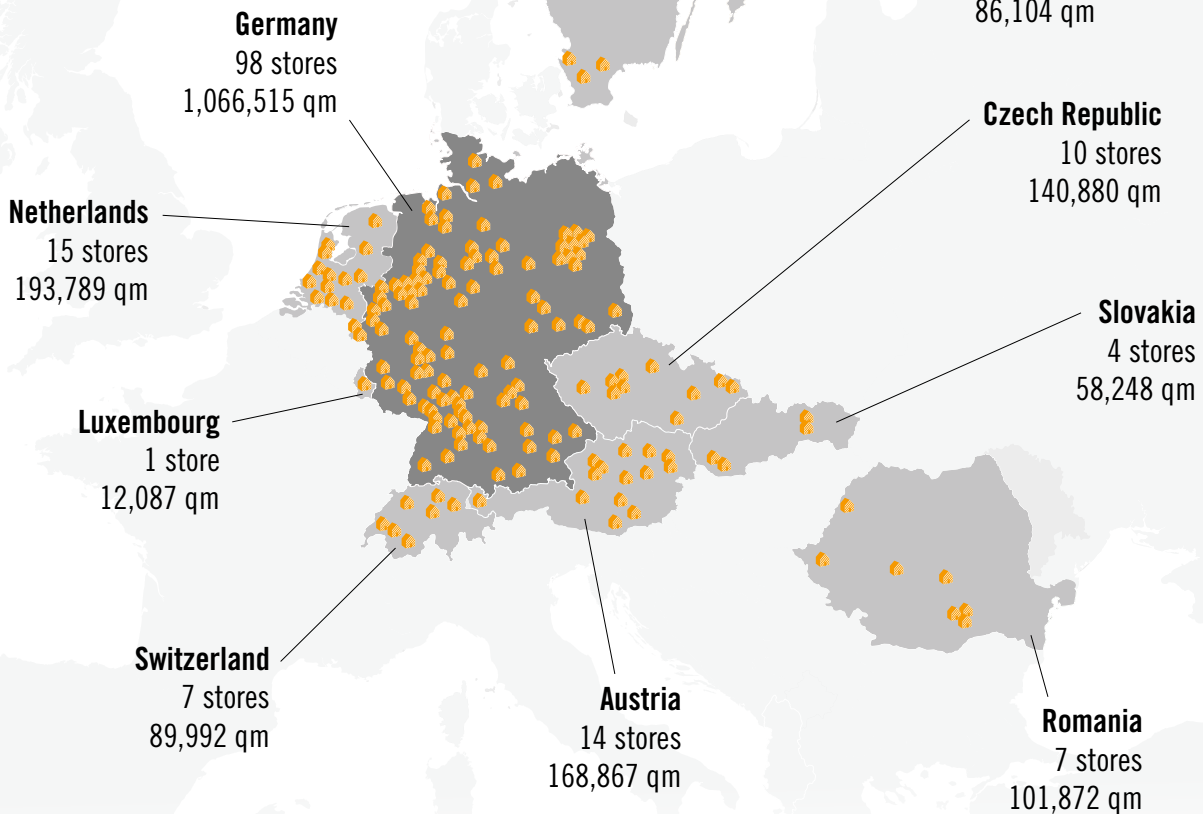


Net income for the year
(€ million)



163 locations in Europe

Status: February 28, 2021



Company Profile

HORNBAACH is one of the leading DIY retail groups in Germany and Europe, with 161 DIY stores and garden centers, 2 specialist stores and online shops in nine European countries. HORNBAACH'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. HORNBAACH supplements its products with a wide range of project-based advice and services.

1968

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

€ 5,1 billion

Consolidated sales rose by 15.6% in the 2020/21 financial year.

€ 2,698

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

Dividend gem

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

No. 1

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

60%

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

TO OUR SHAREHOLDERS

Letter from the CEO

Dear Ladies and Gentlemen,
Dear Colleagues,



Erich Harsch

The 2020/21 financial year was certainly memorable. Shaped by the implications of the coronavirus pandemic, which are still far from overcome, it was – despite and not least because of the crisis – a record year for us.

By the end of the 2020/21 financial year, the HORNBAACH Bau- markt AG Group had increased its sales by 15.6 % to more than five billion euros for the first time, posted the highest rate of like-for-like sales growth (plus 14.7 %) since its IPO in 1993, and achieved an impressive jump in its earnings. We would have to go back 22 years to find the last time we reported an adjusted EBIT margin of more than 5 %. These are all good reasons to propose a higher dividend of € 0.90 for the past financial year for approval by the 2021 Annual General Meeting.

All in all, we have been very fortunate during the pandemic, and that despite the extremely challenging coronavirus restrictions whose implementation varied very widely between individual regions. That is partly because consumers needed DIY stores more than ever during the crisis and partly because we did a particularly good job of meeting these higher requirements even in the toughest conditions.

The past financial year brought repeated rounds of restrictions on sales activities in many of the areas in which we operate. However, consumers' withdrawal to their own four walls and the increasing number of people working from home created unprecedented demand for DIY product ranges. Never before has so much renovation work been done, have so many pools and saunas been installed, barbecues bought, or insect hotels built. For many people, projects at home and in the garden were and still are a welcome way to keep busy during the uneventful months of the pandemic. Not only that, commercial customers, and tradespeople in particular, increasingly see DIY stores as competent partners and procurement sources.

We had to work very hard for our success. The pandemic presented and continues to present HORNBAACH with enormous challenges. In spring 2020, we developed hygiene concepts in no time at all to protect our employees and staff. During the 2020/21 financial year, we speedily made additional dispatch centers operational to cope with the sharp rise in online orders. We continually adapted our processes in line with ever new requirements to combat the pandemic, sometimes introduced at very short notice. We benefited from the fact that we have operated inter-connected retail (ICR) for many years already and have learned how to make ourselves available to our customers across all channels. Nearly all of our product range is available online, as are very many additional articles. At times when private customers were not permitted to enter stores, we generated a large part of our normal sales with click & collect, in which customers collected the goods at the car park, or by sending products directly to customers. This combination of a proprietary logistics networks and our megastores, which also serve as warehouses and offer good stocking capacities, was a key factor in our success.

Even more decisive, however, was the great commitment shown by our employees, who I would like to take this opportunity to thank sincerely. They had to adapt to ever new and difficult conditions and did a fantastic job. They supported our customers in using their extra time at home for meaningful DIY and renovation projects. With their energy and stamina, they all enabled us to conclude the 2020/21 financial year on such a successful note. These hugely dynamic developments also had positive side-effects. We learned to take decisions faster. And trusting people in individual operating units to act under their own responsibility and successfully react to the individual situation on hand certainly paid off.

Our highly functional ICR and logistics strategy also provided us with advantages over our competitors. This enabled HORNBAACH to gain additional market share, in some cases significantly so, in our country markets. That is particularly true for Germany, where – based on the 2020 calendar year – our like-for-like sales outperformed the sector average by nearly eight percentage points. Particularly pleasing is the striking improvement in our profitability in Germany thanks to its above-average sales growth (2020/21 financial year: plus 18 %). Our adjusted EBIT margin climbed 150 base points to 3.1 %. Having said that, we also made further notable advances on our course of substantial growth in other European countries. That was not to be taken for granted, not least as the measures introduced to tackle the pandemic varied very widely between the individual countries in which we operate.

Who would have thought that the coronavirus pandemic would present us with even greater challenges in spring 2021 than in the previous year? Since December 2020, we have lived with substantial restrictions on sales in our DIY retail business in many areas where we operate. Please don't get me wrong: We are grateful that as a DIY retailer we have any options at all for stationary activity. Having said that, in many places the policies adopted to combat the pandemic and the way they are implemented by the authorities still offer room for improvement and would benefit from a more practical touch. For us, it was difficult to understand why DIY stores counted as systemically relevant in spring 2020 but lost their basic supplier status one year later in many federal states and then throughout the country and for no particular reason with the "emergency brake". Not only that, formulations that were at times imprecise in the implementing regulations were not especially helpful, not to mention the odd "cloak and dagger" operation in which our stores had to react to new requirements announced just a few hours in advance. That all goes to show that life in the second financial year since the onset of the crisis has not become any easier.

For the current financial year, this means we have to expect lower sales in some countries with stricter restrictions on sales now in place compared with the exceptional 2020/21 financial year. In other regions that were particularly affected by repeated lockdowns last year, clearly positive developments in sales are possible. Overall, we have observed a change in consumer behavior, one that has accelerated existing trends. We believe people will invest more in bringing their homes up to scratch in future as well, will work from home more often, and order more things online. That should benefit the DIY store sector in general and HORNBAACH in particular. Despite the restrictions still in place, we are therefore optimistic that we will more or less match the previous year's record level of sales in the current 2021/22 financial year, provided that the pandemic is successfully contained in the further course of the year and that we can gradually return to normal operations.

I am confident that we will come through these hard times of the pandemic in good shape and seize our competitive opportunities in future as well.

Yours faithfully,

Erich Harsch
CEO of HORNBAACH Baumarkt AG

Report of the Supervisory Board



Albrecht Hornbach

Dear Ladies and Gentlemen,

One year ago, the Supervisory Board of HORNBACH Baumarkt AG reported to you on 2019/20, one of the most successful financial years in the company's history. At the same time, given the spread of the Covid-19 pandemic we provided a cautiously optimistic outlook for 2020/21 in which we stated that, although it was too soon to provide any kind of all-clear, the Supervisory Board was convinced that, at the given time, the company would latch onto the success of the previous year and further strengthen its market position and earnings strength.

Today, we can report to our shareholders on the 2020/21 financial year. We do so with pride and tremendous gratitude to the company's employees, who defied the manifold tough challenges presented by the pandemic to provide the company with an unprecedented level of record earnings. It goes without saying that, for many people, the restrictions on social life offered an opportunity to refocus on their own direct living environment while releasing both the energy and the creativity to optimize or even redesign their own four walls. Demand for ideas, suggestions, and advice for projects along these lines, as well as for the materials needed to implement them, rose sharply in all countries in which we operate.

The HORNBACH Baumarkt AG team succeeded this year, and that despite difficult conditions due to the measures needed to contain the pandemic, in providing their customers with the desired products and services and in positioning the company more clearly than ever as the preferred partner both for DIY enthusiasts and for professional customers. The impressive sales performance in the year under report and the fact that the company significantly expanded its market position in all regional markets for which figures are available underline the success of the interconnected retail strategy pursued by the HORNBACH Group for years now.

During the year under report, the company's megastores with garden centers were repeatedly subject to a wide variety of access restrictions. The preventative measures taken at stores during periods in which they

were open proved to be efficient and document the effectiveness of our hygiene concept. However, customers also made greater use of the option of reserving goods online and collecting them at the store (“click & collect”). The web shop, which is available in all countries in which HORNBAACH operates, naturally posted an especially strong performance with direct sales. The integrated supply of goods and services in the stores and at the web shop, a factor that already played a key role in the HORNBAACH Group’s market success in recent years, proved particularly valuable during the pandemic and met with an increasingly enthusiastic response from customers. At the same time, granting employees on location greater scope to determine the best way to meet the requirements of their customers turned out to be the right decision and produced the desired effect.

Despite the exceptional challenges presented by the pandemic, HORNBAACH Baumarkt AG achieved record earnings in the 2020/21 financial year. These earnings, on a scale not expected at the beginning of the year, are consistent with the development in sales and market share. This was possible despite the increased complexity of sales handling due to the partial shift to click & collect and direct mail orders and despite the special measures required by our successful hygiene concept to protect customers and employees. Our strategic merchandise planning and enhanced procurement logistics helped us to defend margins in our retail business, as did the technological maturity and scalability of our web shop. HORNBAACH Baumarkt AG simultaneously pressed ahead with its initiatives to further develop its range of services with an unrestricted focus on the wishes and needs of its customers and to further expand its market position.

In the past 2020/21 financial year, we again dealt in great detail with the company’s situation, perspectives, and strategic alignment. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association, and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and economic situation of the company and its subsidiaries. The Supervisory Board, which also held regular meetings without the Board of Management, 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 five meetings in the 2020/21 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 Statement. No conflicts of interest arose in the year under report.

At our meetings, we referred to the oral and written reports provided by the Board of Management and dealt in detail with the economic situation of the company, its business performance, corporate strategy and planning, investment and financial policy, opportunity and risk situation, risk management, corporate governance, and compliance 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, particularly with regard to the impact of the coronavirus pandemic on its retail activities, and on the development in its 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 2020 to approve the annual financial statements, we examined the annual and consolidated financial statements for the past financial year in great detail in the presence of the auditor, as was also the case in May 2021. 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 was also approved at the respective meetings, and the corporate governance statement, risk report, and compliance report were discussed. Moreover, we approved the agenda for the Annual General Meeting, including proposed resolutions, and adopted the resolution in respect of the new remuneration system for the Board of Management pursuant to § 87a AktG.

At the meeting held directly before the virtual Annual General Meeting in July 2020, the Board of Management reported on the current situation of the Group and the dates of scheduled meetings up to and including the 2021/22 financial year were also agreed.

In September 2020, an extraordinary meeting of the Supervisory Board was convened at which, acting on the recommendation submitted by the Personnel Committee, we appointed Karin Dohm to the Board of Management of HORNBACH Baumarkt AG for the period from January 1, 2021 to December 31, 2023. This extension to the Board of Management prepared the succession for CFO Roland Pelka in good time.

In December 2020, the Group's current business situation, risk report, and compliance report were discussed. At the same meeting, we extended the appointment of Susanne Jäger to the Board of Management for five further years beyond November 30, 2021 and approved the retirement of Roland Pelka from the Board of Management at the end of March 31, 2021. We also assessed the way in which we discharge our duties as the overall Supervisory Board and in our committees and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). Like the Code of Procedure adopted for the Supervisory Board by resolution on December 17, 2020, this declaration was made permanently available on the company's homepage. HORNBACH Baumarkt AG largely complied with and continues to comply with the recommendations of the German Corporate Governance Code with only a few exceptions. Further information about corporate governance at HORNBACH Baumarkt AG can be found in the "Corporate Governance Statement" chapter.

At its final meeting in the past 2020/21 financial year, held in February 2021, the Supervisory Board discussed the Group's current business situation as well as the budget for the financial years 2021/22 to 2025/26. Based on a recommendation made by the Personnel Committee, the target values for variable remuneration of members of the Board of Management were laid down for the coming financial year. The resolution on the future allocation of responsibilities within the Board of Management required due to the retirement of Roland Pelka was also adopted at the February meeting. The current composition of the Board of Management and its areas of responsibility can be found in the "Directors and Officers" chapter of this Annual Report.

Committees and committee meetings

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

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

In May 2020, the Audit Committee discussed the annual financial statements of HORNBACH Baumarkt AG and the consolidated financial statements, management reports, proposed appropriation of profits, and audit reports, including the dependent company report, in the presence of the auditor and the members of the Board of Management. 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, an assessment of the quality of the audit, and the candidate to



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be proposed for election as auditor. At the June meeting the statement for the first quarter was discussed and in September 2020 the half-year financial report was addressed in the presence of the auditor and the key audit focuses were specified for the audit of the consolidated financial statements.

In December 2020, 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 2021, the budget for the financial years 2021/22 to 2025/26 was addressed in detail, as was the internal audit plan for the 2021/22 financial year. All meetings of the committee received reports on the latest status and impact of the coronavirus pandemic and the associated challenges.

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

The Personnel Committee held three meetings in the year under report. The object of the meeting in August 2020 was the presentation of Karin Dohm who, following an extensive selection process, was chosen to succeed CFO Roland Pelka in 2021. Following in-depth deliberations, the Personnel Committee decided at this meeting to recommend to the Supervisory Board that Karin Dohm should be appointed as a member of the Board of Management as of January 1, 2021. The Personnel Committee meeting in December 2020 address the forthcoming contract extension with Susanne Jäger, a member of the Board of Management. The committee also addressed the retirement of Roland Pelka from the Board of Management on the basis of mutual agreement as of March 31, 2021. In February 2021, recommendations were adopted for the target values for variable remuneration payable to members of the Board of Management for the coming financial year.

The Nomination Committee held one meeting in the year under report, namely in May 2020. At this meeting, the committee dealt with the recommendation to the Supervisory Board to elect Simona Scarpaleggia to the Supervisory Board. Her previous court appointment to the Supervisory Board was limited in time to the conclusion of the following Annual General Meeting in July 2020.

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

Composition of Board of Management

In the interests of safeguarding company's future, the development of management staff is an important task incumbent on the Supervisory Boards and Boards of Management at the HORNBACH Group. Here, we rely on a good balance between continuity and change.

Roland Pelka, a member of the Board of Management of HORNBACH Baumarkt AG for nearly 25 years and also CFO in the Board of Management of HORNBACH Management AG, the general partner of HORNBACH Holding AG & Co. KGaA, entered his well-deserved retirement as of March 31, 2021. Roland Pelka made a substantial contribution to building what is now the Group's highly efficient and effective finance division. He stands for competence, reliability, and due care in designing a sustainably effective financial structure, and for transparent and trustworthy governance and reporting. We wish him the very best of health and happiness for the years ahead.

In September 2020, the Supervisory Board decided to appoint Karin Dohm as a new member of the Board of Management as of January 1, 2021. Since April 1, 2021, she has succeeded Roland Pelka, the former CFO of HORNBACH Baumarkt AG and HORNBACH Management AG. Karin Dohm is a proven financial expert who, thanks to her consulting and supervisory board activities, has in-depth experience of the retail sector. With



**Directors and Officers
Board of Management**

Karin Dohm, the company has found an ideal candidate to succeed Roland Pelka, and one who will superbly complement the Board of Management teams. We look forward to working with Karin Dohm and to the contribution she will make to the company's further development.

Developing the product range and services offered by the HORNBACH Baumarkt AG has been the responsibility of Susanne Jäger for many years now. At its meeting in December 2020, the Supervisory Board of HORNBACH Baumarkt AG extended her Management Board contract for five further years beyond November 30, 2021 through to November 30, 2026 and thus enabled her to continue her successful activity.

Composition of Supervisory Board

We are pleased that the appointment of Simona Scarpaleggia, initially limited in time until July 2020, was confirmed by the Annual General Meeting and that we can now welcome her as a permanent member of our Supervisory Board.

Upon being appointed for the first time, Simona Scarpaleggia received special training concerning the rights and obligations of the Supervisory Board. The company also provides suitable support for other training and development measures for its Supervisory Board members.

Annual and consolidated financial statements

Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim (Deloitte), audited the annual financial statements and consolidated financial statements of HORNBACH Baumarkt AG as of February 28, 2021, as well as the combined management report and group management report of HORNBACH Baumarkt AG for the 2020/21 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 2020/21 financial year included the recoverability of location properties and measurement of inventories in respect of the annual financial statements and the recoverability of location properties and right-of-use assets for location properties, the measurement of inventories, and the application of IFRS 16 in respect of the consolidated financial statements.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 19, 2021 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 2021/22 financial year. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse Deloitte's audit findings. We approve the annual and consolidated financial statements of HORNBACH Baumarkt AG prepared by the Board of Management as of February 28, 2021; the annual financial statements of HORNBACH Baumarkt AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

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

“Based on the audit and assessment we have undertaken in accordance with professional standards, we confirm that

1. the factual disclosures made in the report are correct
2. the company’s performance in the transactions listed in the report was not incommensurately high.”

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

Upon the compilation of this report, there is great uncertainty as to further developments in the pandemic and the measures to contain the spread of infections, as well as in respect of the future priorities and needs of our customers. The Supervisory Board is nevertheless convinced that the Group, which is excellently positioned at present, will be able to build on the success of the past financial year with its clear focus on customer benefits and its convincing strategic concept and management model. The Board of Management and all employees are working with courage, commitment and competence to further improve the company’s position on a long-term sustainable basis, to implement the necessary measures consistently and with great focus, and to further boost the company’s earnings strength.

The Supervisory Board thanks the Board of Management and all employees in Germany and abroad for the great dedication they showed in the past financial year.

Bornheim, May 2021

The Supervisory Board

Albrecht Hornbach
Chairman

Corporate Governance Statement

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 to enhance the trust placed in our company by our customers, business partners, investors, employees, and the financial markets. In what follows, you will find the Corporate Governance Statement pursuant to § 289f and § 315d of the German Commercial Code (HGB). The Corporate Governance Statement forms the core of our reporting on corporate governance (cf. Principle 22 of the German Corporate Governance Code dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020). The Corporate Governance Statement forms part of the Combined Management Report pursuant to § 289f and § 315d HGB.¹

1. Declaration in respect of the German Corporate Governance Code dated December 2020 pursuant to § 161 AktG

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

I. Declaration in respect of the German Corporate Governance Code in the version dated February 7, 2017

The recommendations of the “German Corporate Governance Code” in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 were basically complied with since the submission of the previous Declaration of Conformity in December 2019 through to the publication of the German Corporate Governance Code in its version dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020. No application was made of the recommendations in Points 3.8 (3), 4.2.5 (3), and 5.4.6 (3) Sentence 1; through to March 1, 2020, no application was also made of the recommendation in Point 4.2.3 (2) Sentence 3.

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

a) Point 3.8 (3):

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

b) Point 4.2.3 (2) Sentence 3:

According to Point 4.2.3 (2) Sentence 3, variable components of management board remuneration should generally have a multiple-year assessment basis that essentially has forward-looking characteristics. Based on and due to the employment contracts in place at the time, the company deviated from this recommendation through to the new remuneration system taking effect as of March 1, 2020.

¹ The Corporate Governance Statements pursuant to § 289f and § 315d HGB constitute an unaudited component of the Combined Management Report pursuant to § 317 (2) Sentence 6 HGB.

c) Point 4.2.5 (3):

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

d) Point 5.4.6 (3) Sentence 1:

In Point 5.4.6 (3) Sentence 1, the Code recommended that the remuneration of supervisory board members be reported in the notes to the financial statements or the management report on an individual basis and broken down into its constituent components. Given that the amount of remuneration paid to the Supervisory Board is governed by the Articles of Association, we did not see any need to disclose individual remuneration packages.

II. Declaration in respect of the German Corporate Governance Code in the version dated December 16, 2019**1. Future-related section**

The company will in future basically comply with the recommendations of the “German Corporate Governance Code” in the version dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020. No application is made of the following recommendations: C.10 Sentence 1 Case 1 and G.10.

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

a) Recommendation C.10 Sentence 1 Case 1:

According to Recommendation C.10 Sentence 1 Case 1, the Supervisory Board Chairman should be independent from the company and its Board of Management. Albrecht Hornbach was Chairman of the company’s Board of Management from 1998 to 2001 and has been a member of the company’s Supervisory Board since April 25, 2002, i.e. for more than 12 years. Given the way in which he has critically accompanied the company’s development for decades now and the fact that his actions are always well considered and guided by the company’s best interests, there can nevertheless not be any doubts as to his suitability as Supervisory Board Chairman.

b) Recommendation G.10:

G.10 recommends that, taking the respective tax burden into consideration, variable remuneration granted to a member of the Board of Management should be predominantly invested in company shares by the respective member or should be granted predominantly as share-based remuneration and that granted long-term variable remuneration components should be accessible to members only after a period of four years.

Members of the Board of Management will in future be obliged to invest 50 % of the amount paid out to them as multiyear variable remuneration (“MVR”) each year in company shares. Furthermore, the MVR is linked to a share-based performance criterion in the form of the relative total shareholder return (“TSR”). The company’s remuneration system thus has a significant, if not predominant, share-based alignment. The Supervisory Board is of the opinion that, in combination with the obligation to acquire and hold shares, the weighting selected for the TSR share-based performance criterion nevertheless creates well-balanced incentives for members of the Board of Management. The Supervisory Board believes that this lends the necessary weighting to other performance criteria and thus ensures the appropriateness of remuneration for the Board of Management.

The recommendation that granted long-term variable remuneration components should only be accessible to members of the Board of Management after four years is basically satisfied in respect of the MVR: The company grants tranches of the MVR to members of the Board of Management with a performance period of four years in each case. The payout amount calculated for each tranche is only due for payment after the final financial year in the performance period. For the 2020/21, 2021/22, and 2022/23 financial years, members of the Board of Management nevertheless each have the possibility of receiving a prepayment amounting to 25 % of the target amount of the tranche stipulated for the respective financial year. This possibility is intended to make up for the three-year payment gap arising due to the conversion from the retrospective three-year MVR valid up to and including the 2019/20 financial year to the prospective MVR. Given this option on the part of members of the Board of Management, the company has – on a precautionary basis – declared a deviation to this recommendation.

2. Past-related section

The company basically complied with the recommendations of the “German Corporate Governance Code” in the version dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020 with the exception of the deviations already stated and substantiated for the future in Section II.1 above.

Furthermore, the company did not comply with Recommendations D.1, Clause 2, and G.3 Sentence 1, Final Clause, with this being due to the following considerations:

a) Recommendation D.1, Clause 2:

The recommendation that the Supervisory Board should publish its rules of procedure on the company's website is new. The Supervisory Board did not deem this necessary because it viewed its rules of procedure as an internal matter. In addressing the first Declaration of Conformity with the German Corporate Governance Code in its version dated December 16, 2019, the Supervisory Board nevertheless decided to comply with the recommendation to publish the rules of procedure and initiated the publication of such.

b) Recommendation G.3 Sentence 1, Final Clause:

The new Recommendation G.3 Sentence 1, which requires the assessment of whether the specific total remuneration of members of the Management Board members is in line with usual levels compared to other companies to be determined by reference to an appropriate peer group of other third-party companies, was already implemented by resolution of the Supervisory Board dated December 17, 2019 concerning the new remuneration system for the Board of Management effective from March 1, 2020. As explained in the remuneration report for the 2019/20 financial year, however, the new remuneration system for the Board of Management will only be explained in the remuneration report in the 2020/21 Annual Report. This being so, the Supervisory Board did not deem it appropriate to already publish the peer group on a standalone basis and taken out of context in the remuneration report in the 2019/20 Annual Report. This information will nevertheless be published in the remuneration report in the 2020/21 Annual Report.

Bornheim bei Landau, December 2020

HORNBACH Baumarkt AG
The Supervisory Board
The Board of Management

The above Declaration of Conformity dated December 2020 has been published on our website together with all earlier Declarations of Conformity and is also available as a download.



2. Share Capital and Share Class

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

3. Structure and Modus Operandi of Company Boards

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

3.1 Supervisory Board

The Supervisory Board of HORNBACH Baumarkt AG comprises sixteen members and, consistent with the German Codetermination Act (MitbestimmG), includes equal numbers of shareholder and employee representatives. The CVs of the Supervisory Board members have been published on our website. Shareholder representatives are elected by the Annual General Meeting. The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the casting vote in the second round, if renewed voting also produces a parity.

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

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Baumarkt AG in the 2020/21 financial year.

The Supervisory Board has the following committees:

- Mediation Committee
- Personnel Committee
- Audit Committee
- Nomination Committee

The composition of the committees is presented in the "Directors and Officers" chapter.



Directors and Officers
Supervisory Board
committees

The Mediation Committee is convened when required, i.e. when the Supervisory Board is unable to appoint members of the Board of Management pursuant to § 31 (2) MitbestimmG.

The Personnel Committee prepares the appointment by the Supervisory Board of members to the Board of Management and decisions in respect of their remuneration. In this, it takes due account of the objectives set by the Supervisory Board for the composition of the Board of Management, including diversity considerations. By compiling reports and drafting resolutions, the Personnel Committee prepares the Supervisory Board's regular review of the remuneration paid to the Board of Management, the development in such, and the remuneration system. It addresses succession planning on an ongoing basis. The Personnel Committee holds regular meetings.

The Audit Committee particularly prepares the deliberations and resolutions to be adopted by the Supervisory Board for all issues of accounting and specifically of the annual financial statements. It also addresses matters of risk management and compliance, the necessary independence of the auditor, the award of the audit assignment to the auditor, the setting of audit focuses, fee arrangements, and the other tasks assigned to it pursuant to § 107 (3) Sentence 2 AktG. The Audit Committee monitors the auditor and regularly assesses the quality of its services. It takes suitable measures to establish and monitor the independence of the auditor and to supervise any additional services performed by the auditor. The Audit Committee prepares a recommendation for the proposal submitted by the Supervisory Board to the Annual General Meeting in respect of the election of the auditor. In preparing this recommendation, it obtains a declaration from the designated auditor in respect of any relationships in the previous financial year between the auditor, its governing bodies, and audit managers on the one hand and the company and the members of its governing bodies on the other. The Audit Committee holds regular meetings.

Unless otherwise determined by the Audit Committee Chairwomen, meetings of the Audit Committee are also attended by the CEO and the member of the Board of Management responsible for accounting.

The Nomination Committee identifies suitable candidates for the Supervisory Board based on the objectives set by the Supervisory Board for its composition (including the competence profile and diversity concept) and prepares the proposals to be submitted by the Supervisory Board to the Annual General Meeting in respect of the election of Supervisory Board members. The Nomination Committee meets when required.

The committee chairs exchange information with the Supervisory Board Chairman and the company's Board of Management, also outside the meeting framework.

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

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

Taking due account of the recommendations made in Point 5.4.1 of the German Corporate Governance Code (in the version dated February 7, 2017; corresponds to Recommendation C.1 in the version dated December 16, 2019), on December 19, 2017 the Supervisory Board adopted the targets for its composition, including a competence profile for the overall board. The corresponding Supervisory Board resolution also includes the diversity concept for the Supervisory Board. The objective here is to continually develop the specific composition, and thus the expertise and experience, of the Supervisory Board and to achieve a good balance between continuity and renewal. Given the diverse composition thereby envisaged, the concept is intended

to ensure that the Supervisory Board can optimally perform its tasks thanks to the resultant variety of viewpoints and perspectives considered.

Pursuant to the competence profile, the Supervisory Board of HORNBAACH Baumarkt AG must possess the expertise needed to fulfill its supervisory function and to assess and monitor the transactions performed by the company. To this end, the Supervisory Board members must collectively be familiar with the sector in which the company operates. This particularly includes knowledge, skills, and professional expertise in operating large-scale retail stores, especially DIY stores and home improvement centers, with or without garden centers, specialist stores, other specialist retail businesses, and e-commerce. It 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 specific objectives for its composition which are 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 HORNBAACH Baumarkt AG, and must have sufficient time to dedicate to their duties as members of the Supervisory Board.
- The Supervisory Board must collectively have the knowledge, skills, and professional expertise required to properly perform its duties. In particular, expertise in matters relating to the operation of a retail company must be available in the Supervisory Board, as must management experience, experience in managing and organizing companies, and experience in working in Supervisory Boards.
- The Supervisory Board must avoid potential conflicts of interest, and will continue to do so in future.
- The Supervisory Board should not include any members who hold directorships or perform advisory functions at any significant competitors.
- The composition of the Supervisory Board accounts for the diversity criterion, in particular with regard to the ages, genders, educational and career backgrounds of its members.
- As a general rule, the Supervisory Board should only include individuals who were no older than 70 at the time of their election.
- As a general rule, the Supervisory Board should only include individuals who have not been members of the Supervisory Board for four full terms already at the time of their election.
- The Supervisory Board should include a suitable number of independent members. The Supervisory Board believes that it is sufficient in this respect if at least half of its shareholder representative members are independent.
- Shareholder representatives who have been members of the Supervisory Board for more than three terms in office are now no longer deemed as independent in this respect.

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

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

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

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

The Supervisory Board currently includes five independent shareholder representatives. These are Dr. John Feldmann, Simona Scarpaleggia, Vanessa Stütze, Melanie Thomann-Bopp, and Prof. Dr. Jens Wulfsberg. Prof. Dr. Jens Wulfsberg has been a member of the Supervisory Board for more than 12 years. Given his contributions, which are always carefully weighed up and differentiated, and his voting behavior, which has always clearly been guided by the company's best interests, the Supervisory Board nevertheless views him as independent.

3.1.3 Allocation of competences in Supervisory Board of HORNBACH Baumarkt AG

Management	Retail	Marketing / services	Technology / digitalization
Dr. John Feldmann Albrecht Hornbach Martin Hornbach Markus Lass Simona Scarpaleggia Vanessa Stütze Melanie Thomann-Bopp Prof. Dr. Jens Wulfsberg	Mohamed Elaouch Christian Garrecht Albrecht Hornbach Martin Hornbach Markus Lass Jörg Manns Anke Matrose Brigitte Mauer Johannes Otto Simona Scarpaleggia Kay Strelow Vanessa Stütze Melanie Thomann-Bopp	Albrecht Hornbach Simona Scarpaleggia Vanessa Stütze Prof. Dr. Jens Wulfsberg	Dr. John Feldmann Martin Hornbach Markus Lass Simona Scarpaleggia Vanessa Stütze Melanie Thomann-Bopp Prof. Dr. Jens Wulfsberg

Accounting / auditing	Capital market / financing	Corporate governance / compliance / risk management	Personnel management / communication
Dr. John Feldmann Georg Hornbach Melanie Thomann-Bopp	Dr. John Feldmann Albrecht Hornbach Georg Hornbach Melanie Thomann-Bopp	Dr. John Feldmann Christian Garrecht Albrecht Hornbach Georg Hornbach Martin Hornbach Markus Lass Simona Scarpaleggia Melanie Thomann-Bopp	Dr. John Feldmann Christian Garrecht Albrecht Hornbach Georg Hornbach Martin Hornbach Markus Lass Simona Scarpaleggia Vanessa Stütze Melanie Thomann-Bopp Prof. Dr. Jens Wulfsberg



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3.1.4 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Albrecht Hornbach, Chairman	5/5	100.00
Kay Strelow, Deputy Chairman	5/5	100.00
Dr. John Feldmann, Deputy Chairman	5/5	100.00
Mohamed Elaouch	5/5	100.00
Christian Garrecht	5/5	100.00
Georg Hornbach	5/5	100.00
Martin Hornbach	5/5	100.00
Markus Lass	5/5	100.00
Jörg Manns	5/5	100.00
Anke Matrose	5/5	100.00
Brigitte Mauer	5/5	100.00
Johannes Otto	5/5	100.00
Simona Scarpaleggia	5/5	100.00
Vanessa Stütze	5/5	100.00
Melanie Thomann-Bopp	5/5	100.00
Prof. Dr. Jens Wulfsberg	5/5	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
Albrecht Hornbach	5/5	100.00
Georg Hornbach	5/5	100.00
Martin Hornbach	5/5	100.00
Markus Lass	5/5	100.00
Kay Strelow	5/5	100.00
Vanessa Stütze	5/5	100.00
Total		100.00

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

Nomination Committee	Meetings attended	Attendance in %
Albrecht Hornbach, Chairman	1/1	100.00
Dr. John Feldmann	1/1	100.00
Martin Hornbach	1/1	100.00
Melanie Thomann-Bopp	1/1	100.00
Total		100.00

3.2 Board of Management

The Board of Management of HORNBACH Baumarkt AG has a Chairman and, through to the retirement of Roland Pelka as of March 31, 2021, also had a Deputy Chairman. The position of Deputy Chairman has not been refilled. At the end of the 2020/21 financial year, the Board of Management had seven members. Since April 1, 2021, and thus since Roland Pelka stood down from his position to enter retirement, the Board of Management has been reduced to six members once again. His successor, Karin Dohm, has been a member of the Board of Management since January 1, 2021 already. The Board of Management has a self-imposed Code of Procedure. The management of the company's business is the joint responsibility of all of its members. Compliance activities to ensure that the company adheres to laws, legal requirements, and its own internal guidelines represent a key management task. The Board of Management usually meets once a week, or on an ad-hoc basis when necessary.

The Board of Management provides the Supervisory Board with regular, prompt and extensive information on all matters relevant to the company's corporate strategy, planning, business performance, financial and earnings position, risk situation, risk management, and compliance. Furthermore, it presents the group investment, financial and earnings budgets to the Supervisory Board both for the forthcoming financial year and for the medium term (five years). The Chief Executive Officer provides immediate report to the Supervisory Board Chairman of any significant events of material relevance for any assessment of the situation, development, and management of the company. Transactions and measures requiring approval by the Supervisory Board are presented to the Supervisory Board in good time. Members of the Board of Management are obliged to disclose conflicts of interest to the Supervisory Board without delay and to inform other members of the Board of Management. Members of the Board of Management may only pursue sideline activities, in particular Supervisory Board mandates outside the Group, with the approval of the Supervisory Board Chairman. The CVs of the members of the Board of Management have been published on our website.

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

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

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



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

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

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

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

Overall, the Board of Management, which has also included two women since January 1, 2021, has the knowledge, skills and professional expertise needed to properly perform its duties. No member of the Board of Management exceeds the targeted regular age limit.

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

3.3 Share of women in senior management positions

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

3.3.1 Women on the Board of Management and Supervisory Board

At its meeting on July 8, 2015, the company's Supervisory Board had set the target share of women on the Board of Management to be reached by June 30, 2017 at no less than 1/7 pursuant to § 111 (5) AktG. At its meeting on May 23, 2017, the company's Supervisory Board confirmed this target, which was achieved, and extended the target of no less than 1/7, while upholding the current status, to February 28, 2022. From January 1, 2021 to March 1, 2021, the share amounted to 2/7. Since April 1, 2021, the share of women on the Board of Management has amounted to 2/6.

The Supervisory Board currently includes five female members (status: May 2021). The legal requirement for the Supervisory Board to meet the minimum share of female members in terms of its overall composition was rejected. In line with the requirements then applicable, both the employee and the shareholder representatives on the Supervisory Board each include at least two female members.

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

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

3.4 Annual General Meeting

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

4. Reporting and Auditing of Financial Statements

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

5. Transparency

The company's shareholders, all capital market participants, financial analysts, investors, shareholder associations, and the media are regularly provided with up-to-date information about the company's situation, results, and any material changes in its business situation. The HORNBAACH Baumarkt AG Group reports in its

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

Members of the Board of Management and the Supervisory Board of HORNBAACH Baumarkt AG and individuals closely related to such are required by Article 19 of the Market Abuse Regulation (MAR) to disclose transactions involving shares in the company or related financial instruments. In the year under report, the company was not notified of any transactions by directors or individuals closely related to such.



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



www.hornbach-group.com
Investor Relations >
Mandatory Disclosures

6. Relevant Corporate Governance Practices

We base our entrepreneurial activities on the legal frameworks valid in the various countries in which we operate. This places a wide variety of obligations on the HORNBAACH Baumarkt AG Group and its employees in Germany and abroad. As well as managing the company responsibly in accordance with the relevant laws, ordinances and other guidelines, we have also compiled internal group guidelines setting out the system of values and management principles we adhere to at the Group. We have published the information referred to below on our website.



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

6.1 Our system of values: the HORNBAACH Foundation

HORNBAACH 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 “HORNBAACH 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. HORNBAACH's corporate culture is based on these principles.

HORNBAACH has a value-based compliance system which primarily pursues the objective of preventing compliance infringements before they arise, where possible. The “HORNBAACH Foundation” forms the basis for HORNBAACH's system of values. The principles included in the “HORNBAACH Foundation” are fleshed out in the “HORNBAACH 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 “HORNBAACH Values” have been translated into all languages relevant to the Group and made available to all employees.



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

The “Accepting and Granting Gratuities” code of conduct sets out guiding principles which make clear what HORNBAACH 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 HORNBAACH Values and the codes of conduct.

The Board of Management bears overall responsibility for compliance. One core component of HORNBAACH'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 HORNBAACH's regions and departments. Once

a year, the Chief Compliance Officer holds a meeting with the compliance officers to coordinate compliance-related topics. Due to the coronavirus pandemic, this on-site meeting did not take place at HORNBACH Baumarkt AG in the year under report.

Compliance activities have a particular focus on the risks of “Improper conduct/corruption” and “Cartel law violations”. Compliance Officers are surveyed in a structured manner to assess the development in risks which are already known and the potential materialization of new risks. Meetings between Compliance Officers and the respective managers were mostly held on a virtual basis in the 2020/21 year under report. These meetings discussed any changes in risks already reported, adjusted the relevant assessments where necessary, and included new risks. 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. Two such notifications were received in the year under of report, neither of which was subsequently substantiated.

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 mid single-digit number of confirmed compliance infringements at the HORNBACH Baumarkt AG 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 at: www.hornbach-group.com/compensation_report/HBM.



8. Directors and Officers

Supervisory Board

Albrecht Hornbach

Chairman
Chief Executive Officer
HORNBACH Management AG

Kay Strelow*

Deputy Chairman
Section Manager, Berlin-Marzahn Store

Dr. John Feldmann

Further Deputy Chairman
Former Executive Board member of BASF SE

Mohamed Elaouch*

Section Manager, Mainz Store

Christian Garrecht*

Operative Head of Workplace Safety and Fire Protection

Georg Hornbach

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

Martin Hornbach

Managing Partner
Corivus Gruppe GmbH

Markus Lass*

District Director

Jörg Manns*

Sales Employee, Wiesbaden Store

Anke Matrose*

Checkout Assistant, Bremen Store

Brigitte Mauer*

Section Manager, Tübingen Store

Johannes Otto*

Assistant Store Director, Schwetzingen Store

Simona Scarpaleggia (since January 1, 2020)

Director of Global Initiative "Future of Work" at Ingka Group (IKEA) (until August 31, 2020)
Global CEO of EDGE Strategy AG (since September 1, 2020)

Vanessa Stütze

Managing Director of E-Commerce/Omni-channel
Parfümerie Douglas (until May 10, 2020)
Chief Digital Officer and Member of Management at
Douglas Group (since May 11, 2020)

Melanie Thomann-Bopp

Chief Financial Officer (CFO) at Sonova Retail Deutschland GmbH (until April 14, 2021)
Commercial Director at Nolte Küchen GmbH & Co. KG and Express Küchen GmbH & Co. KG (since April 15, 2021)

Prof. Dr.-Ing. Jens P. Wulfsberg

Professor of Production Technology
Helmut-Schmidt-Universität/Universität der Bundeswehr
Hamburg

* Employee representative

Supervisory Board committees**Audit Committee**

Melanie Thomann-Bopp Chairwoman
 Dr. John Feldmann
 Albrecht Hornbach
 Georg Hornbach
 Martin Hornbach
 Markus Lass
 Kay Strelow
 Vanessa Stütze

Personnel Committee

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

Mediation Committee

Dr. John Feldmann Chairman
 Albrecht Hornbach
 Johannes Otto
 Kay Strelow

Nomination Committee

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

Board of Management**Members and their areas of responsibility****Erich Harsch**

CEO
 Strategic Development, Operative Sales and Services,
 Expansion; since April 1, 2021 CSR

Roland Pelka until March 31, 2021

Deputy Chairman
 Finance, Accounting, Tax, Controlling,
 Risk Management, Internal Audit, Legal, Compliance,
 Investor Relations

Karin Dohm since January 1, 2021
since April 1, 2021 responsible for Finance,
Accounting, Tax, Controlling, Risk Management, Internal
Audit, Legal, Compliance, Investor Relations**Susanne Jäger**

Product Range, Product-Related Services, Private Labels, Pro-
 curement, Quality Assurance, Store Development

Karsten Kühn

Marketing, Public Relations, Organizational Development,
 Chief People Officer and Labor Director

Ingo Leiner

Logistics, Construction, Technical Procurement

Dr. Andreas Schobert

Technology

CVs of Directors and Officers

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



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

The HORNBAACH Baumarkt Share

Key figures for the HORNBAACH Baumarkt share		2020/21	2019/20	2018/19	2017/18	2016/17
Year-end price ¹⁾	€	33.70	17.00	18.26	30.50	29.72
12-month high ¹⁾	€	46.05	23.50	31.25	33.32	31.50
12-month low ¹⁾	€	13.30	15.45	16.82	28.90	23.69
Shares issued	Number	31,801,760	31,807,000	31,807,000	31,807,000	31,807,000
Market capitalization	€ 000s	1,071,719	540,719	580,796	970,114	945,304
Earnings per share	€	4.82	2.47	1.29	1.84	1.66
Price / earnings ratio ²⁾		7.0	6.9	14.2	16.6	13.0
Book value per share	€	39.46	35.59	33.60	32.97	30.59
Price-to-book ratio ³⁾		0.9	0.5	0.5	0.9	1.0
Cash flow from operating activities per share	€	10.49	10.30	0.12	4.22	3.62
Price / cash flow ratio ⁴⁾		3.2	1.7	157.2	7.2	8.2
Dividend per share ⁵⁾	€	0.90	0.68	0.68	0.68	0.68
Distribution total ⁵⁾	€ 000s	28,622	21,629	21,629	21,629	21,629
Payout ratio ^{5),6)}	%	18.7	27.5	52.7	37.0	41.0
Dividend yield ⁷⁾	%	2.7	4.0	3.7	2.2	2.3
Performance including dividend	%	102.2	(3.2)	(37.9)	4.8	18.6
Performance excluding dividend	%	98.2	(6.9)	(40.1)	2.6	15.3
Average daily trading volume ¹⁾	Number	36,509	22,164	6,884	5,399	8,201

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⁾ 2020/21: proposal to 2021 Annual General Meeting

⁶⁾ Dividend per share ÷ earnings per share

⁷⁾ Dividend per share ÷ year-end price

2020/21 on the stock markets

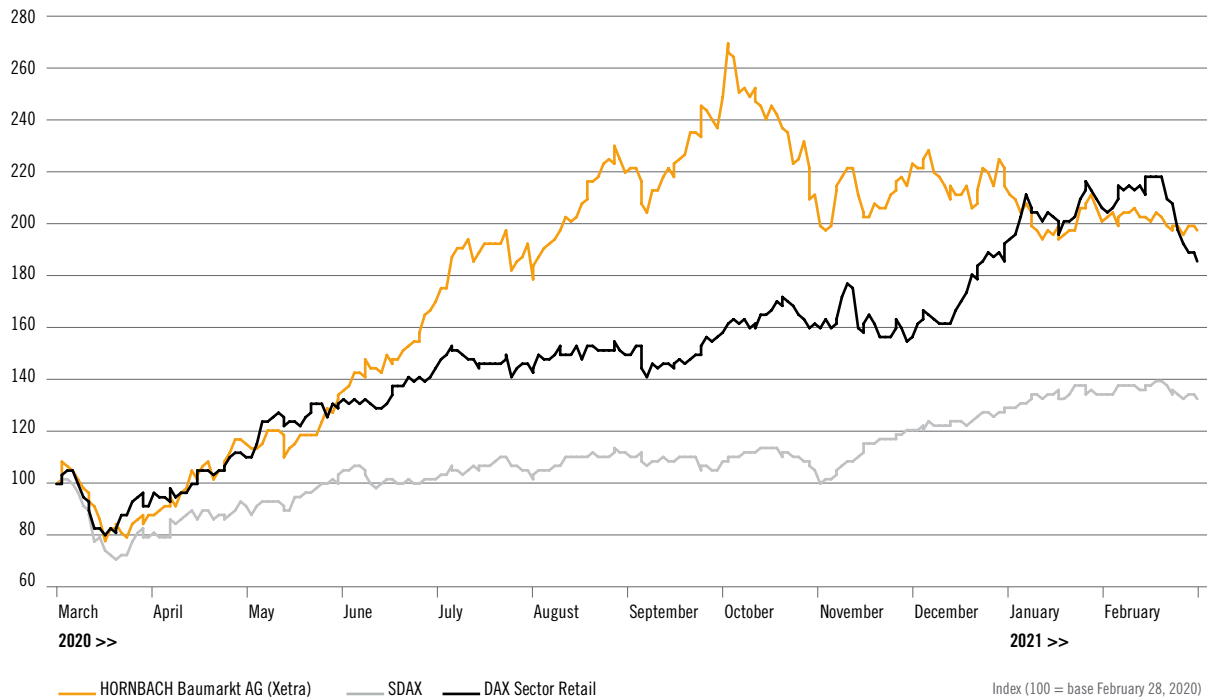
Stock market boom in year of coronavirus

Notwithstanding the coronavirus pandemic and the contraction in economic output in most countries around the world, international stock markets reported significant gains in the period between March 1, 2020 and February 28, 2021. There was particularly great demand for shares which benefited from the “stay at home” trend, which also included the shares of DIY store operators. The DAX, Germany's lead index, rose by around 16 % to 13,786 points at February 28, 2021.

HORNBAACH Baumarkt share price performance

The HORNBAACH Baumarkt share price rose by 98.2 % in the 2020/21 financial year (March 1, 2020 to February 28, 2021). Including the distribution, and assuming reinvestment of the dividend, the increase amounted to 102.2 %. The share price thus significantly outperformed its comparative indices: SDAX (+33.4 %) and DAXsector Retail Index (+86.2 %). Particularly during the lockdown-free period from June to December 2021, the share benefited from upward momentum provided by the convincing business performance of the HORNBAACH Baumarkt AG Group and left its comparative indices well behind, before being checked by worsening developments in the pandemic.

Share price performance: March 1, 2020 to February 28, 2021



The 2020/21 financial year opened with falling stock prices in the first half of March due to heightened uncertainty concerning the further course of the coronavirus crisis. The HORNBAACH Baumarkt share price fell to its annual low at € 13.30 on March 16, 2020. Once it became clear that, despite strict contact restrictions, most HORNBAACH DIY stores and garden centers would be permitted to remain open in many countries in which HORNBAACH operates and that demand for DIY product ranges was increasing significantly, the share price began to rise consistently. This positive trend was confirmed in ad-hoc announcements issued to raise the forecast on May 18, 2020, June 9, 2020 and August 10, 2020, as well as by the company's very pleasing quarterly results. The share price reached its annual high at € 46.05 on September 29, 2020, having already been accepted into the SDAX on August 24, 2020 due to the substantial increase in market capitalization (until March 22, 2021).

Given the renewed rise in infection totals, global stock markets posted significant losses in October, a trend which the HORNBAACH Baumarkt share was also unable to escape. Lockdown measures were re-imposed in most countries in which HORNBAACH operates in the fourth quarter (December 1, 2020 to February 28, 2021), with DIY stores and garden centers far more significantly affected this time than in the spring. The share closed at € 33.70 in Xetra trading on February 28, 2021 (2019/20: € 17.00). The market capitalization stood at € 1,072 million at the end of the financial year (2019/20: € 541 million).

Interesting for value investors

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

Share buyback for employee stock program

The annual issue of employee shares has a long tradition at HORNBAACH. Since the 1993/94 financial year, the year of the company's IPO, employees entitled to subscribe have been offered the opportunity to acquire shares in HORNBAACH Baumarkt at advantageous prices and thus to benefit from the company's sustainable business performance and long-term success. A total of 2,450 HORNBAACH Group employees participated in last year's employee stock program, with a total of around 45,000 shares being transferred. HORNBAACH Baumarkt AG will use 5,240 surplus shares resulting from the buyback for the annual employee stock program to issue corresponding shares in 2021 and will hold these shares as treasury stock until then.

Analysts' assessments

As of the balance sheet date on February 28, 2021, the HORNBAACH Baumarkt share was regularly covered by one financial analyst (2019/20: two) in research reports and studies, with a buy recommendation as of the reporting date. The share price target of € 52 implied upward potential of more than 50 % compared with the closing price at the end of our 2020/21 financial year. The current list of banks and research institutes regularly reporting on HORNBAACH and their most recent recommendations for the share can be viewed at the HORNBAACH Group's website.



www.hornbach-group.com

Investor Relations >
Shares > Analysts'
Recommendations

Dividend policy

HORNBAACH pursues a continuity-based dividend policy which aims to maintain a fair balance between shareholders' interests on the one hand and financing the company's growth on the other hand. The Board of Management and Supervisory Board of HORNBAACH Baumarkt AG will propose an increase in the dividend from € 0.68 to € 0.90 per share with dividend entitlement for approval by the Annual General Meeting on July 7, 2021. The distribution total of € 28,622k corresponds to a distribution quota of 18.7 % and a dividend yield of 2.7 % based on the closing price at the end of the 2020/21 financial year.

Financial communications

Our investor relations activities provided shareholders, analysts, the financial media, and the general public with prompt information on the business performance of the HORNBAACH Baumarkt AG Group in the past financial year. All quarterly statements, annual reports, press releases, and additional financial information were published on the website of the HORNBAACH Group. The Annual General Meeting, the annual results press conference, analysts' 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.



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Investor Relations

Key data about the HORNBAACH Baumarkt share	
Type of share	No-par ordinary bearer shares
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification number	608440
ISIN	DE0006084403
Stock market ticker	HBM
Bloomberg	HBM GY
Reuters (Xetra)	HBMG.DE
Financial year	March 1 to February 28 (29)
Initial public offering	11.15.1993
Number of shares	31,801,760
Share capital	€ 95,421,000

FINANCIAL CALENDAR 2021

May 27, 2021	Annual Results Press Conference 2020/21 Publication of Annual Report Analysts' Conference
June 25, 2021	Quarterly Statement: 1 st Quarter of 2021/22 as of May 31, 2021
July 7, 2021	Annual General Meeting (virtual)
September 30, 2021	Half-Year Financial Report 2021/22 as of August 31, 2021
December 22, 2021	Quarterly Statement: 3 rd Quarter of 2021/22 as of November 30, 2021

Investor Relations

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COMBINED MANAGEMENT REPORT

Group Fundamentals

1. The Group at a Glance

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

At the balance sheet date on February 28, 2021, the Group operated 161 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 96 locations are in Germany. A further 65 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 (7). With total sales areas of around 1.92 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. Under the management of BODENHAUS GmbH, HORNBACH opened two specialist hard floor stores and an online shop in Germany in the fourth quarter of 2020/21.

In the 2020/21 financial year (March 1, 2020 to February 28, 2021), the HORNBACH Baumarkt AG Group generated net sales of more than € 5.1 billion. This makes HORNBACH the third-largest retail group in the German DIY sector and the fifth-largest player in Europe. At the balance sheet date on February 28, 2021, the HORNBACH Baumarkt AG Group had a total of 22,136 employees across Europe (including passive employment relationships), of which 10,259 outside Germany.

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

HORNBACH Baumarkt AG is a listed stock corporation. Its parent company HORNBACH Holding AG & Co. KGaA holds 76.4 % of the total of around 31.8 million ordinary shares in the company (ISIN DE0006084403, Prime Standard). 23.6 % of its shares are in free float (status: February 28, 2021). The company was founded in 1877 and has been listed in the Prime Standard at Frankfurt Stock Exchange since 1993.

2. Group Business Model

2.1 Retail activities

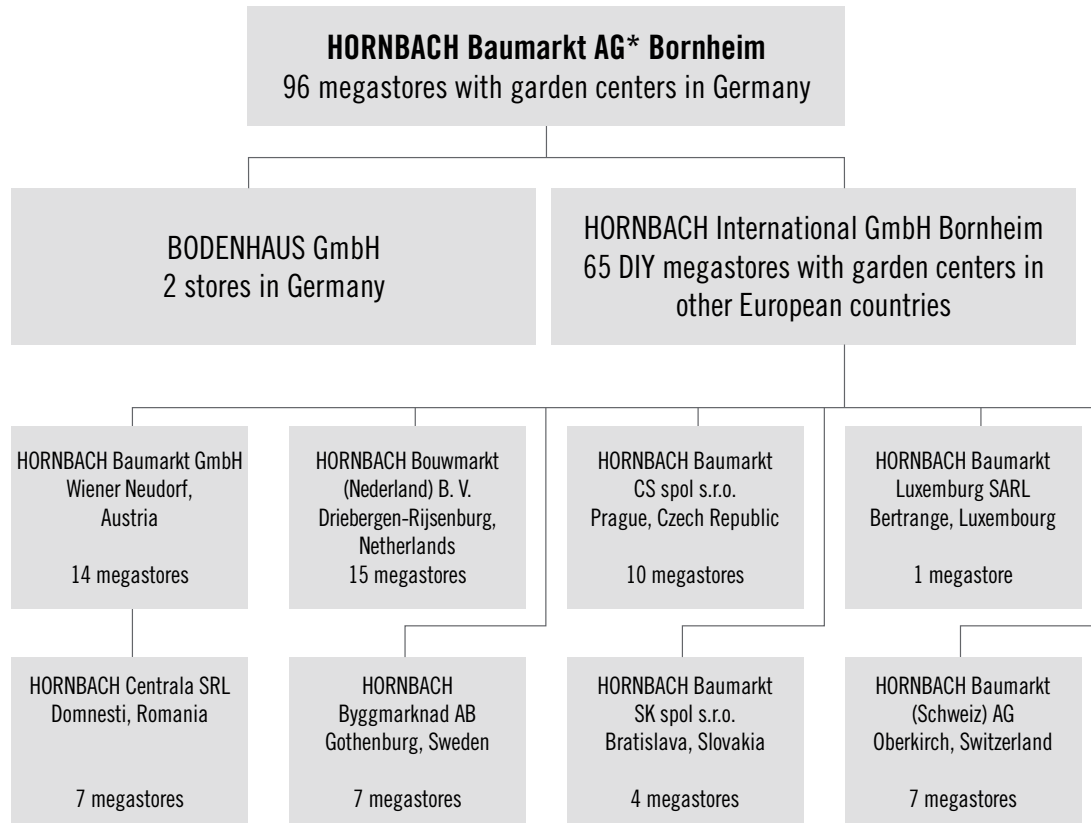
HORNBACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio of locations in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess 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. Furthermore, HORNBACH has worked for years now to consistently develop and expand its high-performing online shops in all nine countries in which it is present. The extensive virtual offering enables all customers to select and buy products or obtain advice, and that around the clock.

163

locations across Europe

€ 5.1 bn

consolidated sales



* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 28, 2021

Key focus on project customers

HORNBACH has an absolute focus on project customers. On the one hand, those are home improvement enthusiasts and commercial 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.

HORNBAACH'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 five divisions:

- Hardware / Electrical
- Paint / Wallpaper / Flooring
- Construction Materials / Timber / Prefabricated Components
- Sanitary / Tiles
- Garden Hardware/Plants.

With its very broad selection of tiles, parquets, laminates, vinyl, and decking, the new BODENHAUS specialist retail concept chiefly targets professional tradespeople, but is also aimed at private consumers wishing to lay floors themselves or have them laid. Unlike at traditional specialist retailers, at BODENHAUS nearly all products are directly available in large quantities or can be reserved or ordered via the online shop. The concept is rounded off with various additional services, such as delivery of the material to the construction site, a proprietary design center, and rubble disposal.

2.2 Real estate activities

The HORNBAACH Baumarkt AG Group has a substantial real estate portfolio. This predominantly relates to retail properties used by the company itself. At the balance sheet date on February 28, 2021, 33 % of sales areas were owned by the Group. HORNBAACH Immobilien AG and its subsidiaries owned a further 27 % of the Group's DIY sales areas. The overriding strategy is for the overall HORNBAACH Holding AG & Co. KGaA Group to retain ownership of at least half of the real estate, measured in terms of sales areas, used for operating purposes.

2.3 Reporting segments

The delineation of business segments is consistent with the internal reporting structures used by the Board of Management of the HORNBAACH Baumarkt AG Group to manage the company. The "Retail" segment comprises the 161 DIY megastores with garden centers pooled at the HORNBAACH Baumarkt AG Group (2019/20: 160), the two Bodenhaus specialist stores, and the online shops in all the countries in which HORNBAACH operates. Sales at the HORNBAACH Baumarkt AG Group are primarily generated in the Retail segment, i.e. in the operating retail business. The "Real Estate" segment comprises the retail properties and logistics center owned and rented by the HORNBAACH Baumarkt AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are shown in the columns "Central Functions" and "Consolidation".

3. Management System

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

3.1 Key management figures relevant for outlook

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

Adjusted EBIT (adjusted operating earnings) is 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.

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 (please see Chapter “3.2.1 Adjusted operating earnings” for information about calculation). 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**) have also been included in the catalog 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

HORNBAACH aims to generate a positive value spread (**ROCE premium over WACC**) - expressed as the return on capital employed (ROCE) less weighted average cost of capital (WACC). The ROCE is calculated by dividing operating earnings less allocable taxes (Nopat = Net operating profit after Tax) by capital employed. Here, capital employed is defined as equity plus financial debt less cash and cash equivalents. The WACC expresses the level of return required to cover the costs of capital employed as a percentage, taking due account of the weighting of equity and debt capital. This capital cost rate is usually determined by reference to data available on the market for comparable companies (peer groups) and their equity and debt capital structures. Furthermore, country-specific risk premiums are also included. For the purpose of measuring target achievement, an average WACC is determined by weighting the country-specific WACCs and their respective segment share of the Group's total assets. The aim is to generate a return that is in line with the market.

The ROCE premium over WACC is a core component of multiyear variable remuneration for members of the Board of Management (please also see Section 1.1.3 in the Remuneration Report).

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

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

In managing its financial and asset position, the HORNBACH Baumarkt AG Group pursues the objective of safeguarding the Group's liquidity at all times and covering the financing requirements for the Group's sustainable growth at the least possible expense. Other key management figures relevant in this respect include cash-effective **investments** in land, buildings, plant and office equipment for new and existing DIY stores with garden centers, and intangible assets. Here, we aim to finance investments wherever possible from the cash flow from operations to enable a **free cash flow (FCF)** to be generated.

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

1.1 International framework

The pandemic led to a contraction in the European economy in the 2020 calendar year. Based on figures released by the European Union statistics authority (Eurostat), gross domestic product fell by 6.2 % (2019: plus 1.6 %) in the European Union as a whole (EU 27) and by 6.6 % (2019: plus 1.3 %) in the euro area. Economic output declined in all nine European countries in which HORNBAACH operates. Private consumer spending in the EU 27 and euro area countries fell by 7.4 % and 8.0 % respectively.



Table

GDP growth rates

The European construction sector was affected to a slightly lesser extent by the coronavirus crisis than the overall economy. According to estimates compiled by Eurostat, construction output fell by 4.8 % in the EU 27 and by 5.5 % in the euro area in 2020. Based on the Euroconstruct Group assessment, European construction volumes in its 19 partner countries fell by 7.8 % in 2019. The most severe reductions were due in particular to the disruptions, at times substantial, to construction work in the spring and summer.

Non-food retail volumes (excluding motor fuels) fell by 1.7 % in the EU 27 and by 2.7 % in the euro area in 2020. In terms of the countries in which HORNBAACH operates, the non-food retail sector only reported a decline in sales in Austria, Switzerland, and Luxembourg. According to figures released by the GfK consumer research association for the 2020 calendar year, gross sales in the do-it-yourself (DIY) retail sector grew by 13.8 % in Germany, by 10.9 % in Austria, by 10.2 % in Switzerland (in national currency), and by 22.1 % in the Netherlands. Sales in the Czech Republic fell by 0.8 %. No data is available for the other countries in which HORNBAACH operates.

GDP growth rates in countries with HORNBAACH DIY stores and garden centers

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1 st Quarter 2020	2 nd Quarter 2020	3 rd Quarter 2020	4 th Quarter 2020	Calendar Year 2020 vs. 2019
Germany	(2.0)	(9.7)	8.5	0.3	(4.9)
Austria	(3.0)	(10.7)	11.8	(2.7)	(6.6)
Czech Republic	(3.1)	(8.7)	7.1	0.6	(5.6)
Luxembourg	(1.6)	(7.3)	9.3	1.6	(1.3)
Netherlands	(1.5)	(8.5)	7.8	(0.1)	(3.8)
Romania	0.6	(11.8)	5.6	4.8	(3.9)
Slovakia	(5.1)	(8.3)	11.6	0.2	(5.2)
Sweden	(0.3)	(7.6)	6.4	(0.2)	(2.8)
Switzerland	(1.9)	(7.2)	7.6	0.3	(2.9)
Euro area (EA 19)	(3.8)	(11.6)	12.5	(0.7)	(6.6)
EU 27	(3.3)	(11.2)	11.6	(0.5)	(6.2)

1.2 Business framework in Germany

1.2.1 Macroeconomic climate

According to the Federal Statistical Office (Destatis), the German economy witnessed a GDP contraction of 4.9 % in 2020 (calendar-adjusted: minus 5.3 %). A downturn of historic proportions in the second quarter was initially followed by strong growth in the summer. In the fourth quarter, this recovery was slowed by the second wave of coronavirus infections and the renewed lockdown toward the end of the year. This had a particularly severe effect on private consumer spending, which fell by 6.1 % on a price adjusted basis in the 2020 calendar year.

1.2.2 Construction activity and construction trade

The German construction industry proved robust even in the year of the pandemic. Considerable sums continued to be invested in building new and refurbishing existing residential buildings, a factor that significantly supported developments in the industry. According to calculations compiled by the German Institute for Economic Research (DIW), housing construction volumes rose by 4.9% in nominal terms in 2020, with a slightly lower rate of growth of 4.7 % in the market for refurbishment, renovation, and modernization measures at existing buildings, which is more relevant for the DIY store sector.

According to the Federal Statistical Office, sales in the finishing trade grew by 6.2 % in 2020, while the number of employees rose by 1.0 %. At the same time, however, a significant rise in the number of consumers performing their own refurbishment work was observed, as a result of which the total volume of refurbishment activity can be expected to have shown higher growth.

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 € 577.4 billion in 2020. Sector sales therefore rose by 5.7 % in nominal terms compared with 2019. Online retail (e-commerce) grew by 20.7 % to € 71.5 billion (2019: € 59.2 billion). Online sales thus accounted for a 12.4 % share of total retail sales in 2020 (2019: 10.8 %).

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 13.8 % to € 22.14 billion in the 2020 calendar year (2019: € 19.46 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 growth of 14.1 %. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) rose by 6.8 % to € 4.42 billion (2019: € 4.14 billion). The market volume of all DIY and home improvement stores thus grew by 12.6 % to € 26.56 billion in 2020.

The restrictions on contact and sales provided a particular boost to e-commerce with home improvement, construction materials, and garden product ranges. According to figures compiled by market researchers at Teipel Research & Consulting, the online shops of stationary retailers, mail order players and pure online retailers ("pure players") generated gross sales of € 4.97 billion with core DIY product ranges in Germany in 2020 (2019: € 3.93 billion). That represents year-on-year growth of 26.5 %. DIY store chains with stationary operations benefited from the fact that click & collect sales were in most cases also possible during lockdown periods and increased their online sales by 38.2 % to more than € 1.18 billion. They thus raised their share of the e-commerce market – at the expense of pure players – from 21.7 % in 2019 to 23.7 % most recently.

13.8%

sales growth at large-scale
DIY stores in 2020

2. Summary of 2020/21 Business Performance

2.1 Overall assessment of the Group's economic position

The 2020/21 financial year (March 1, 2020 to February 28, 2021) was dominated by the coronavirus pandemic, the world's worst crisis since the end of the Second World War. To contain the first major wave of infections, in spring 2020 most European states introduced far-reaching measures to restrict social contacts. These had a massive impact on society, healthcare systems, and the economy, and not least on stationary retailers.

For the DIY retail business at the HORNBAACH Baumarkt AG Group, the pandemic had sharply contrasting implications. On the one hand, consumers' withdrawal into their own four walls, the greater number of people working from home, and sustainably altered consumer behavior have significantly boosted demand for DIY and home improvement product ranges since the onset of the pandemic. On the other hand, the substantial restrictions on sales imposed by the authorities during the lockdown led to a temporary but noticeable loss of sales in the private customer business in parts of the group-wide store network.

In March 2020, public life was brought largely to a halt in all countries in which HORNBAACH operates with the exception of Sweden. In some regions, DIY stores were also affected by these measures. We provide an overview of the times at which coronavirus-related restrictions applied in the table below. A group-wide total of up to 40 % of our stores, most of which outside Germany, were affected by the spring lockdown. Due to exemptions, however, most HORNBAACH DIY stores and garden centers remained consistently open for private and commercial customers in the first quarter (March 1 to May 31, 2020). The longest restrictions to our operations were in Switzerland and Slovakia, where we were only able to return to full operations at the end of April and start of May 2020 respectively. As the number of infections ebbed significantly in the summer, all stores were open throughout the second quarter (June 1 to August 31, 2020).

With the beginning of the second wave of infections in the fall, sales activities were once again restricted from October 2020, with the Czech Republic and Austria most affected in the third quarter (September 1 to November 30, 2020). In the fourth quarter (December 1, 2020 to February 28, 2021), the majority of HORNBAACH stores were required to close for private customers. At times in January, only our stores in Sweden (7), Switzerland (7), and Romania (7) were open to private customers without significant restrictions; that corresponds to 13 % of all HORNBAACH stores. The first notable easing in restrictions came on February 8, 2021, with the opening of DIY stores in Austria. This was followed from March 2021 by further store openings in various federal states in Germany. Information about the development in restrictions on stationary sales at the beginning of the 2021/22 financial year can be found in the comments on events after the balance sheet date in Note 36 of the notes to the consolidated financial statements.

One crucially important factor for the very positive overall business performance of the HORNBAACH Baumarkt AG Group in the 2020/21 year under report was our interconnected retail strategy in conjunction with our store and logistics infrastructure. The previous periods of lockdown clearly showed the importance of the close links between the stationary retail business and e-commerce. These meant that end consumers could buy locally via click & collect or have reserved goods delivered even when stationary stores were closed. Not only that, during all of the lockdowns sales to commercial customers were still possible in most regions and at most stores. These made an important contribution to our overall sales. Our online shops were available to customers in all regions in which we operate throughout the year under report.

By drawing on all aspects of interconnected retail, the HORNBACH Baumarkt AG Group was able to match most of the previous year's sales in the regions affected by significant restrictions on sales while also meeting increased demand for basic DIY supplies. Due to restrictions on contact, consumers spent far more time at home, and dedicated more of this time than they had prior to the crisis to implementing home improvement and renovation projects and to repairs. Working from home further reinforced this trend. The higher level of demand led to substantial group-wide sales growth at the HORNBACH stores that were open and at all online shops in the 2020/21 year under report. This more than made up, and that to a significant extent, for the loss of sales due to the closure of stationary DIY stores and garden centers subject to lockdown measures.

Overview of coronavirus-related restrictions on sales (DIY) in 2020/21 financial year

Country / Federal State	Stationary store closures for private customers	No. of stores
Germany *		96
Bavaria	3.20.2020 to 4.19.2020 and 12.16.2020 to 2.28.2021	14
Lower Saxony	3.23.2020 to 4.3.2020 and 12.16.2020 to 2.28.2021	9
Saxony	3.23.2020 to 4.20.2020 and 12.14.2020 to 2.28.2021	5
Baden-Württemberg, Berlin, Brandenburg, Bremen, Hamburg, Hesse, North Rhine-Westphalia, Rhineland-Palatinate, Saarland, Saxony-Anhalt, Schleswig-Holstein, Thuringia	12.16.2020 to 2.28.2021	68
Other European Countries		65
Austria	3.16.2020 to 4.14.2020; 11.17.2020 to 12.6.2020; 12.26.2020 to 2.7.2021	14
Czech Republic	3.14.2020 to 4.9.2020; 10.22.2020 to 12.2.2020; 12.27.2020 to 2.28.2021	10
Luxembourg	3.16.2020 to 4.20.2020; 12.28.2020 to 01.20.2021	1
Netherlands	12.15.2020 to 2.28.2021	15
Romania	No significant restrictions on sales	7
Slovakia	3.14.2020 to 5.6.2020; 12.19.2020 to 2.28.2021	4
Sweden	No significant restrictions on sales	7
Switzerland	3.17.2020 to 4.27.2020	7
Group		161

*earlier opening of garden centers in some federal states

2.1.1 Seasonal and calendar-related factors and other underlying conditions

The 2020/21 year under report had an average of 1.9 business days fewer than the previous year. The resultant calendar effect was distributed among the quarters as follows:

- 1st quarter (Q1): minus 1.3 business days
- 2nd quarter (Q2): plus 0.1 business days
- 3rd quarter (Q3): plus 0.5 business days
- 4th quarter (Q4): minus 1.1 business days

As many of our stores were subject to significant restrictions due to the coronavirus crisis, but not entirely closed, we have not adjusted the number of business days to account for this factor.

Overall, weather conditions were favorable for the implementation of DIY projects in the first half of the 2020/21 financial year. In many regions, the spring and summer were predominantly dry and sunny with

mostly moderate temperatures. Following a changeable fall, the winter brought above-average volumes of rain, with snow as well in many regions at the end of January and in February.

2.1.2 Asset, financial, and earnings position

Driven by a sharp rise in demand due to the coronavirus pandemic and despite repeated closures of parts of its store network to private customers, HORNBACH generated significant sales growth that resulted from high demand in the stationary retail business during the periods in which stores were open and from commercial customers, as well as from strong growth in the online retail business and in demand for click & collect purchases.

Net sales rose by 15.6 % to € 5,117 million, having already increased by 8.1 % to € 4,428 million in the previous year. Our group-wide like-for-like sales growth of 14.7 % was the highest since the company's IPO in 1993. Our online retail business received a distinct boost in the 2020/21 financial year, as ever more customers drew on the advantages of online orders and click & collect during the pandemic. Sales in the e-commerce business (including click & collect) more than doubled (2019/20: plus 18 %). The online share of consolidated sales rose from around 10 % to almost 17 %.

Net sales including online retail at HORNBACH Baumarkt AG in Germany increased by 18.2 % to € 2,654 million in the 2020/21 financial year (2019/20: € 2,245 million). Like-for-like growth amounted to 18.6 % (2019/20: 6.5 %). Most recently, we significantly extended our head start over competitors in the DIY sector in Germany. Based on the 2020 calendar year, we outperformed the sector average by more than eight percentage points and increased our market share, also without opening any new stores, from 11.3 % to 12.0 %.

The international HORNBACH locations, which were more severely affected by restrictions on sales than the German stores, particularly in spring 2020, reported sales growth of 12.8 % to € 2,463 million (2019/2020: € 2,183 million). On a like-for-like basis and net of currency items, sales in Other European Countries rose by 10.8 % (2019/20: 8.9 %). Based on the data available for the Netherlands, Austria, Switzerland, and the Czech Republic, our international HORNBACH stores also outperformed the respective DIY sector averages.

Our DIY stores and garden centers also further improved their productivity in the 2020/21 financial year. Average annual sales at HORNBACH's DIY stores and garden centers increased from € 28.2 million to € 31.9 million in the year under report. Surface productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,386 to € 2,698 per m² (plus 13.1 %).

Thanks to its strong sales growth, HORNBACH significantly boosted its operating earnings strength compared with the previous year. Additional costs due to the pandemic and one-off payments to employees totaling around € 31 million were countered by government grants, rent reductions, and other Covid-19-related income of around € 6 million. EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) showed clearly disproportionate growth compared with sales, rising by 53.3 % to € 278.8 million (2019/20: € 181.8 million). The adjusted EBIT margin rose from 4.1 % to 5.5 % most recently, thus reaching its highest level since the company's conversion to IFRS accounting in the 2001/02 financial year.

One aspect worth highlighting is the striking improvement in the company's profitability in Germany, where the adjusted EBIT margin climbed by 150 base points to 3.1 %. Having said this, the Other European Countries region also further improved its profitability at a high level and increased its adjusted EBIT margin by 130 base points to 8.0 %.

Consolidated operating earnings (EBIT) improved by 57.8% to € 258.6 million (2019/20: € 163.9 million). This figure includes non-operating unscheduled charges on earnings relating in particular to IAS 36 impairments of € 20.2 million (2019/20: € 17.9 million). Consolidated earnings before taxes (EBT) and consolidated net income rounded off this highly positive earnings performance, rising by 89.3% to € 200.2 million (EBT) and by 94.6% to € 153.1 million. At € 4.82, earnings per share were significantly ahead of the previous year's figure (€ 2.47).

Cash-effective investments rose to € 139.6 million in the 2020/21 year under report (2019/20: € 97.1 million). Of investments, 56% related to land and buildings, while the remainder was mainly channeled into plant and office equipment new and existing stores.

The operating cash flow grew from € 327.5 million to € 333.5 million. This increase was mainly driven by the higher level of net income for the period, which more than offset the opposing development in working capital from minus € 4.3 million to minus € 60.0 million. The free cash flow amounted to € 196.6 million (2019/20: € 232.6 million).

Total assets of the HORNBACH Baumarkt AG Group grew to € 3,765.2 million as of February 28, 2021 (balance sheet date on February 29, 2020: € 3,564.3 million). At 33.3%, the equity ratio remained at a satisfactory level (February 29, 2020: 31.8%).

HORNBACH further reduced its debt in the year under report. Overall, net financial debt decreased from € 1,573.3 million to € 1,525.2 million. The net debt ratio (net debt / EBITDA) eased from 3.8 to 3.0. Excluding IFRS 16 lease liabilities, net financial debt fell to € 256.5 million as of the balance sheet date (February 29, 2020: € 289.7 million).

Given our broad spectrum of financing sources, we still enjoy a good degree of security and flexibility to finance our further growth. At the same time, we have also increased our resilience in coping with the coronavirus crisis.

2.2 Further major developments

2.2.1 Development in HORNBACH's stationary store network

A new DIY store with a garden center was opened in Oradea (Romania) on September 30, 2020. This increased the number of DIY store locations in Romania to seven and the group-wide total to 161. Furthermore, existing stores were converted and expanded within the customary modernization program. Among other measures, further stores were extended to include drive-in and/or construction material collection facilities.

On January 11, 2021 and February 4, 2021, HORNBACH opened two specialist hard floor stores within its new "BODENHAUS" sales concept in Berlin and Cologne. Due to pandemic-related restrictions, both stores initially opened only for commercial customers. Private customers nevertheless had the option of purchasing goods via click & collect at the BODENHAUS online shop.

Including the stores newly opened, we operated a group-wide total of 163 retail stores as of February 28, 2021 (February 29, 2020: 160), of which 98 (96) in Germany and 65 (64) in other European countries. Total sales areas at the HORNBACH Baumarkt AG Group amounted to around 1.92 million m² as of February 28, 2021 (February 29, 2020: around 1.89 million m²).

2.2.2 Development in interconnected retail

HORNBACH is continually working to expand its ICR architecture with the aim of further enhancing customers' shopping experience, being able to react flexibly to increased demand, and continuing to ensure a high degree of scalability and security. In 2020/21, the year of the pandemic, one particularly important factor was the rapid integration of additional direct mail solutions into B2C logistics to enable the sharp rise in online orders to be handled promptly. The company on the one hand established new direct mailing centers while on the other hand significantly increasing the number of store dispatch centers, which are connected to the individual HORNBACH store and take goods directly from the store's product range. Furthermore, HORNBACH continued to invest in connecting all its European stores and logistics centers to the fiber-optic network to ensure a fast Wi-Fi connection for employees and customers alike.

The web shops are continually being extended to include new features and functionalities, as is the HORNBACH app. Key focuses in the year under report on the one hand involved applications for contact-free shopping, such as prepayment solutions for click & collect, developing a cart-scan app, and launching video advice. On the other hand, solutions were developed to increase the efficiency of online shopping, for example, for order picking and for order tracking and cancellation by customers.

With its BODENHAUS online shop, HORNBACH also began the process of migrating to a new web shop platform that, alongside improved scalability, also offers numerous operating benefits.

2.2.3 Changes in the Board of Management and Supervisory Board

Karin Dohm (48) was appointed as an ordinary member of the Board of Management of HORNBACH Baumarkt AG and of HORNBACH Management AG as of January 1, 2021. By extending the Board of Management, the company prepared at early stage for the succession of CFO Roland Pelka (63), who retired on March 31, 2021 after nearly 25 years of board responsibility at HORNBACH Baumarkt AG and HORNBACH Management AG.

2.3 Target achievement in 2020/21

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

2.3.1 Targets and results of the HORNBACH Baumarkt AG Group in the 2020/21 financial year

	Targets for 2020/21	Results in 2020/21
Expansion	DIY stores and garden centers: <ul style="list-style-type: none"> ■ 1 new store opening 	DIY stores and garden centers: <ul style="list-style-type: none"> ■ Oradea (Romania) Specialist stores (BODENHAUS): <ul style="list-style-type: none"> ■ Berlin, Cologne (Germany) ■ BODENHAUS online shop
Investments	€ 150 million – € 170 million	€ 139.6 million
Sales performance		
Consolidated sales	<ul style="list-style-type: none"> ■ Original forecast: at previous year's level ■ Forecast adjusted on 8.10.2020 (ad-hoc): growth of 5 % - 15 % ■ Range narrowed on 9.29.2020 (H1): growth of 9 % - 15 % ■ Forecast adjusted on 11.9.2020 (ad-hoc): growth of 14 % - 18 % 	Plus 15.6 % to € 5.1 billion
Earnings performance		
Adjusted EBIT	<ul style="list-style-type: none"> ■ Original forecast: slightly below previous year's level ■ Forecast adjusted on 8.10.2020 (ad-hoc): € 180 million – € 280 million ■ Range narrowed on 9.29.2020 (H1): € 220 million - € 280 million ■ Forecast adjusted on 11.9.2020 (ad-hoc): € 240 million – € 310 million ■ Preliminary earnings on 3.23.2021 (Trading Statement): around € 280 million 	Plus 53.3 % to € 278.8 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 mid 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% to 10%, while "significant" is equivalent to changes of more than 10%.

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

In the management report of HORNBACH Baumarkt AG, whose development is shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, our sales forecast for the 2020/21 financial year stated that, assuming the coronavirus crisis did not take too severe a course, sales would match the previous year's figure and the annual net surplus could fall slightly short of the previous year's figure. Were the crisis to take a severe course, sales and the annual net surplus were expected to decrease significantly. Due to the high level of customer demand and despite restrictions on sales, we increased sales by 17.0% to € 3,224.4 million. The annual net surplus grew to € 83.4 million (2019/20: € 31.9 million).

3. Earnings Position

Sales and growth by quarter

(€ million / %)

Financial year	Q1	Q2	Q3	Q4				
2019/20	1260.7	1184.0	1054.5	928.8				
	4428.0							
2020/21	1492.1	+ 18.4%	1456.8	+ 23.0%	1275.2	+ 20.9%	892.7	- 3.9%
	5116.9				+ 15.6%			

3.1 Sales performance

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

3.1.1 Net sales

The HORNBAACH Baumarkt AG Group increased its net sales by 15.6% to € 5,117 million in the 2020/21 financial year (2019/20: € 4,428 million). Net sales in the Germany region grew by 18.2% to € 2,654 million in the period under report (2019/20: € 2,245 million). Outside Germany (Other European Countries region) and including one newly opened DIY megastore, we reported sales growth of 12.8% to € 2,463 million (2019/20: € 2,183 million). The international stores were affected more significantly overall by lockdown measures than the German stores. As a result, their share of consolidated sales decreased slightly from 49.3% to 48.1%.

The Covid-19 pandemic left its mark on various aspects of our sales performance in 2020/21. On average, 87% of our stores maintained regular stationary operations in the first quarter of 2020/21. This figure rose to 100% in the second quarter and still stood at 96% in the third quarter. Severe disruptions came in the fourth quarter, when the entire store network in Germany was required to discontinue stationary sales to private end consumers, above all from mid-December 2020 to the end of February 2021. In the final three months of our year under report, an average of less than one third of our 163 locations was also open for private customers.

Customer frequency and average purchase

During the first lockdown, customer frequencies initially fell significantly while the average purchase per customer rose considerably. In the first wave of infections in spring 2020, we recorded – on a monthly basis – a group-wide total of up to 18% fewer purchase transactions, while the average purchase volume rose by up to one third. In the period from May to November 2020, when only few restrictions applied to stationary sales, we recorded between 2% and 14% more purchases than in the previous year's period. The average purchase volume fluctuated between plus 11% and plus 20%. Taken in combination, this increase in the frequency and

volume of purchases underlined that consumer demand for DIY products was significantly higher during the pandemic than in pre-crisis times.

The massive restrictions on sales across Europe during the fourth quarter led monthly customer frequencies to fall by up to 50 % while average purchase volumes rose by up to two thirds.

For the 2020/21 financial year as a whole, a reduction in the number of purchases by just under 5 % was countered by an increase in the average purchase volume by more than one fifth. In structural terms, sales were also affected by the increased use of online channels and by above-average sales growth in the retail business with commercial customers. In the past financial year, the volume of an online purchase was around three times higher on average than a stationary purchase, while commercial customers spent on average more than twice as much per purchase as private customers.

Sales by product division

Apart from several individual factors, the sales growth in the past year was generated across the whole of HORNBAACH's product range. All product divisions reported sales growth, in most cases on a double-digit scale. Sanitary/Tiles was the only product division to witness a slightly lower level of momentum, as customers shifted their main focus to other DIY and renovation projects in their houses and gardens.

All in all, the share of sales attributable to the five product divisions remained relatively stable on a full-year basis. At just under 30 %, the Construction Materials/Timber/Prefabricated Components division still accounted for the largest share of sales in the 2020/21 year under report, followed by the Hardware/Electrical division. The Garden Hardware/Plants division contributed around one fifth of consolidated sales. The product ranges in the Sanitary/Tiles and Paint/Wallpaper/Flooring divisions still accounted for the lowest shares of the Group's sales.

During the pandemic, there was particularly great demand for products that play a key role in improving people's gardens. Garden construction materials, fencing and privacy screens, bagged goods, and timber (planed and course) topped the list of those ranges showing the strongest growth by value. Pools, battery-powered tools and grills were also particularly in demand. Not only that, the increased purchases of varnishes, garden irrigation articles, summer houses, and car ports also show that people spent their time during the pandemic with a meaningful occupation by bringing their gardens up to scratch.

3.1.2 Like-for-like sales

The following comments refer to the development in currency-adjusted like-for-like sales at the HORNBAACH Baumarkt AG Group, which thus take no account of stores newly opened or closed in the past twelve months. We most recently generated around 17 % (2019/20: around 10 %) of the Group's like-for-like sales in the online business or from its connection to the stationary DIY retail business (interconnected retail – ICR). This includes all sales generated from online mail order, click & collect (“reserve online & collect at store”), and other online transactions involving store contact. ICR sales are fully accounted for in the calculation of the like-for-like sales performance.

Like-for-like sales performance * by quarter

(in percent)

2020/21 financial year 2019/20 financial year	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Group	17.5	21.4	19.7	(3.5)	14.7
	7.8	8.8	4.6	9.7	7.7
Germany	24.4	24.1	25.5	(4.9)	18.6
	6.9	8.0	3.3	7.9	6.5
Other European countries	10.3	18.6	14.0	(2.2)	10.8
	8.7	9.6	5.9	11.6	8.9

* Excluding currency items

The Group's like-for-like sales rose by 14.7% in the **2020/21 financial year** net of currency items (including currency items: 14.7%). However, developments varied very widely between individual regions in line with the extent to which sales activities were restricted during lockdown periods.

■ Germany

The HORNBAACH DIY stores and garden centers in the Germany region increased their like-for-like sales by 18.6% in the 2020/21 financial year. Particularly during the important spring season, Germany was less affected by restrictions on sales than were the international regions.

From the second half of March 2020, 28 out of our total of 96 HORNBAACH DIY stores and garden centers in Germany were closed to the public due to orders issued by the authorities in the federal states of Bavaria, Lower Saxony, and Saxony. In many areas, sales to private customers were still permitted using “contact-free” channels, such as the collection or delivery of goods reserved online. Stationary sales to commercial customers, and thus above all to tradespeople, were still permitted, albeit with reduced opening hours. In some cases, the restrictions on contact and measures introduced in the retail sector were handled very differently between individual federal states and were tightened or eased at short notice.

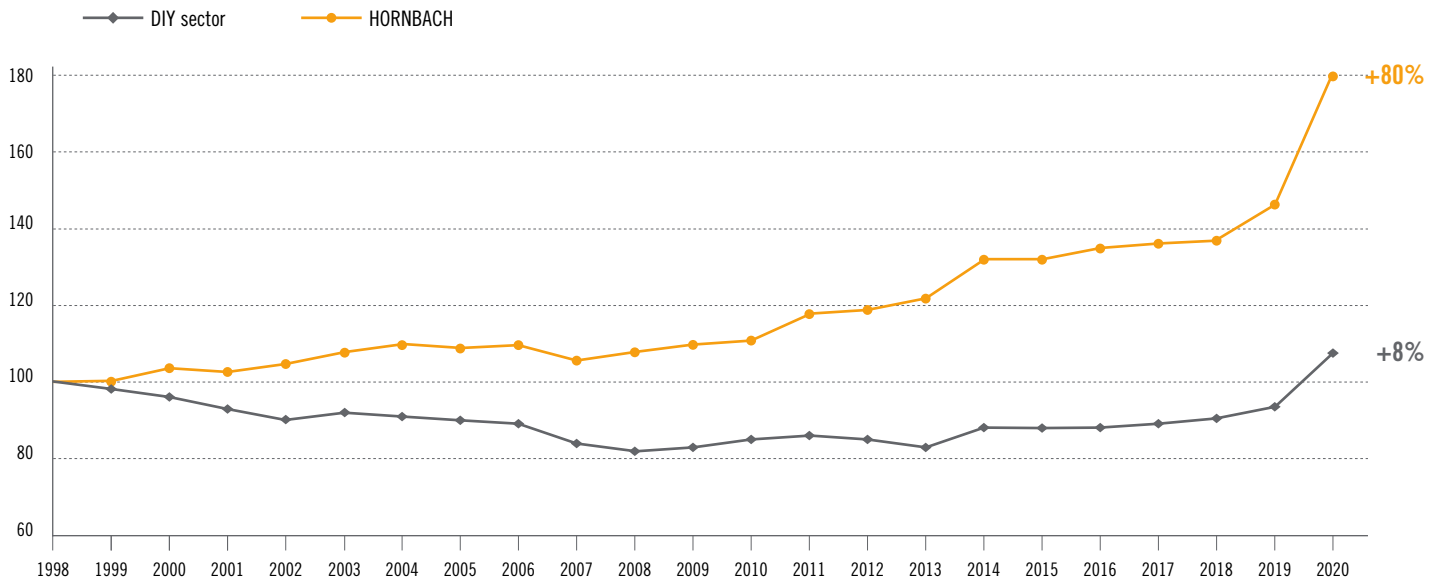
Thanks to exemptions for specific retail segments, which included DIY stores and garden centers, business operations could be upheld at the other 68 German locations (end of March 2020) provided that strict requirements were met in terms of controlling access, hygiene requirements, and distancing rules. The federal state of Lower Saxony generally allowed sales to private customers once again from April 4, 2020 and was followed just over two weeks later by Bavaria and Saxony, meaning that all of HORNBAACH's 96 locations in Germany were open once again. Customers raced to catch up on missed purchases in May 2020, paving the way for a very pleasing overall performance in the Germany region in the first quarter. During the second and third quarters, the stores managed to uphold this high pace of growth in the absence of pandemic-related restrictions on sales. It was a different picture in the fourth quarter: All HORNBAACH DIY stores and garden centers in Germany were closed to private customers from mid-December 2020 until the end of the financial year on February 28, 2021. One challenge faced by regional and local managers at our locations related to the pandemic regulations in force in individual federal states, which were in some cases highly heterogeneous. Particularly with regard to click & collect sales and to whether and how commercial customers would be allowed to continue visiting stationary stores, it took some time for the underlying conditions to take shape in a practical manner that met the needs of stationary DIY retailers and their customers.

18.6%

like-for-like sales growth at
HORNBAACH DIY stores and
garden centers in Germany

Like-for-like sales performance in Germany

(Index: 1998 = 100 %, calendar year)



Despite these substantial restrictions due to the pandemic, the impact of large volumes of sales being brought forward in December and of high sales in the online business, via click & collect, and with commercial customers meant that sales for the fourth quarter of 2020/21 as a whole fell only slightly short of the figure for the same quarter in the previous year.

HORNBAACH significantly outperformed the average for the do-it-yourself sector in Germany in 2020. 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 14.1 % in the period from January to December 2020. Based on direct comparison, HORNBAACH's growth rate of 22.7 % was 860 base points ahead of this figure (previous year: 230 base points). If the 1998 calendar year is taken as an index value of 100 %, by 2020 HORNBAACH had increased its like-for-like sales in Germany to 180 %. By contrast, the overall sector only reached an index value of 108 % in 2020.

HORNBAACH benefited particularly during periods of lockdown from the consistent way it has dovetailed its stationary DIY retail with its online business to provide interconnected retail (ICR), as the collection of click & collect goods was generally permitted, as were sales to commercial customers. The company's ICR sales (direct mail order and click & collect) in Germany more than doubled in the 2020/21 financial year. ICR sales accounted for around 19 % of sales.

HORNBAACH'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, HORNBAACH was ranked first in terms of overall satisfaction in 2020. 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 2020 calendar year without opening any new stationary stores. Based on aggregate sales at all DIY stores and garden centers (2020: € 26.6 billion), our market share grew from 11.3 % to 12.0 %. In the segment of German DIY stores and garden centers

with sales areas of more than 1,000 m² (2020: € 22.1 billion), we now have a market share of 14.4 % (2019: 13.7 %).

■ Other European Countries

HORNBAACH generated double-digit sales growth in its store network outside Germany as well, with sales here growing by 10.8 % (2019/20: 8.9 %). Including currency items, like-for-like sales also grew by 10.8 % (2019/20: 9.2 %). Depending on divergent lockdown rules, however, the rates of growth varied widely between regions.

In the first quarter of 2020/21, our HORNBAACH DIY stores and garden centers in Luxembourg (1 store), Austria (14), Switzerland (7), Slovakia (4), and the Czech Republic (10) were required by the authorities to close to private customers from the second half of March. Apart from the stores in Austria and Slovakia, however, stationary sales to commercial customers were still permitted. In the Netherlands (15 stores), Romania (6), and Sweden (7), our stationary stores remained open to all customers. In some cases, customer volumes were limited by official requirements and opening hours adjusted. Starting in April 2020, store closures were gradually lifted in the Czech Republic (April 9), Austria (April 14), Luxembourg (April 20), Switzerland (April 27), and finally in Slovakia (May 6). Similar to the situation in Germany, online shops, the associated use of alternative collection or delivery concepts, and sales with commercial customers made it possible to offset most of the sales lost due to store closures during the lockdown.

Following their respective reopening, the stores very quickly regained the high degree of sales momentum seen prior to the lockdown and generated pleasing double-digit growth rates in the second and third quarters. During the second wave of infections in the late fall, the first stores in Europe to feel the effects of lockdown measures through to early December were those in the Czech Republic (from October 22) and Austria (from November 17). At that time, the number of infections deteriorated so drastically that from mid-December 2020 ever more countries across Europe also restricted DIY retail activities. Romania, Sweden, and Switzerland were the only countries in which our stationary operations continued without any significant restrictions on sales. Our stores in Luxembourg and Austria returned to regular stationary operations on January 21 and February 8, 2021 respectively. At the end of the financial year, 29 of our 65 stores outside Germany were still in lockdown. Against this backdrop, the marginal reduction of 2.2 % in like-for-like sales net of currency items in the fourth quarter is remarkable.

Despite the extreme conditions presented by the pandemic, our stores in other European countries increased their like-for-like sales net of currency items by 10.8 % in the 2020/21 financial year. There were great variations between the performances of individual countries. The stores in **Slovakia**, for example, had to cope with the longest restrictions on sales in spring 2020 and therefore had the most ground to catch up. For the year as a whole, they limited the downturn in sales to 6.5 %. In the **Czech Republic**, which was particularly hard hit by the pandemic in the third and fourth quarters, we matched the previous year's level of sales. In **Luxembourg**, the **Netherlands**, **Austria**, **Romania**, **Sweden**, and **Switzerland**, we posted substantial like-for-like sales growth net of currency items that ranged from 9.2 % to 32.8 %.

Overall, HORNBAACH gained further market share in key country markets. Based on sales indicators available to us for four countries in our network outside Germany (Netherlands, Austria, Czech Republic, Switzerland), we outperformed the respective DIY sector averages in the 2020 calendar year.

10.8%

like-for-like sales growth net of currency items at HORNBAACH DIY stores and garden centers outside Germany

Our interconnected retail activities are exercising an ever greater influence on our sales performance in our international business as well. The trend towards online purchases and online reservations accelerated noticeably due to the change in consumer behavior during the pandemic.

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 HORNBAACH brand once again in the 2020/21 year under report. Top marks for the assessment criteria of “Overall Satisfaction”, “Selection and Product Variety”, “Product Quality”, and “Value for Money” have shaped the survey results in recent years.

Key earnings figures of the HORNBACH Baumarkt AG Group

Key figure (€ million, unless otherwise stated)	2020/21	2019/20	Change
Net sales	5,117	4,428	15.6 %
EBITDA	504.6	413.8	22.0 %
EBIT	258.6	163.9	57.8 %
Adjusted EBIT	278.8	181.8	53.3 %
Consolidated earnings before taxes	200.2	105.8	89.3 %
Consolidated net income	153.1	78.7	94.6 %
EBITDA margin	9.9 %	9.3 %	
EBIT margin	5.1 %	3.7 %	
Adjusted EBIT margin	5.4 %	4.1 %	
Tax rate	23.5 %	25.6 %	

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

3.2 Earnings performance

The key operating earnings figures of the HORNBACH Baumarkt AG Group for the 2020/21 financial year significantly exceeded the comparative figures for the previous year. This was driven above all by strong like-for-like sales growth and a proportionately lower increase in costs.

3.2.1 Earnings performance of the HORNBACH Baumarkt AG Group

Earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose by 22.0 % to € 504.6 million (2019/20: € 413.8 million). The EBITDA margin (as a percentage of net sales) increased from 9.3 % to 9.9 %.

Adjusted EBIT, i.e. operating earnings before non-operating one-off items, increased by 53.3 % to € 278.8 million (2019/20: € 181.8 million). The adjusted EBIT margin rose 5.4 % (2019/20: 4.1 %), its highest value since the conversion to IFRS accounting in the 2001/02 financial year.

Non-operating charges on earnings, which chiefly relate to IAS 36 impairments, rose from € 17.9 million to € 20.2 million in the 2020/21 year under report. One reason for this increase was the change in the WACC. Due to the coronavirus pandemic, the risk-adjusted interest rate has risen noticeably. The amendment in this calculation parameter led to higher impairment requirements on the level of the cash generating units (CGUs), i.e. on store level. As a proportion of EBIT, however, the impairment ratio fell from 10.9 % to 7.8 %.

Consolidated operating earnings before interest and taxes (**EBIT**) including one-off non-operating earnings items jumped from € 163.9 million to € 258.6 million (plus 57.8 %). The EBIT margin climbed from 3.7 % to 5.1 %.

At minus € 58.4 million, **net financial expenses** remained almost unchanged in the 2020/21 financial year. Within this line item, the improvement in net interest expenses by € 3.5 million was slightly more than offset by negative currency items (net balance of minus € 3.6 million).



Notes to Consolidated
Financial Statements
Note 10

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

2020/21 in € million 2019/20 in € million	Retail segment	Real Estate segment	Central Functions	HORNBACH Baumarkt AG Group
Operating earnings (EBIT)	185.7	94.3	(21.4)	258.6
	94.1	87.3	(17.5)	163.9
Non-operating earnings items	1.3	18.9	0.0	20.2
	0.4	17.5	0.0	17.9
Adjusted EBIT	186.9	113.2	(21.4)	278.8
	94.5	104.8	(17.5)	181.8

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

The significant increase in the company's operating earnings strength is also reflected in its other key earnings figures. **Consolidated earnings before taxes** increased by 89.3% to € 200.2 million (2019/20: € 105.8 million). **Consolidated net income** rose by 94.6% to € 153.1 million (2019/20: € 78.7 million). Taxes on income amounted to € 47.1 million (2019/20: € 27.1 million). The effective tax rate on Group level eased from 25.6% to 23.5%. The Group-wide return on sales rose from 1.8% to 3.0%. Earnings per Baumarkt share are reported at € 4.82 (2019/20: € 2.47).

3.2.2 Earnings performance of the Retail segment

The Retail segment comprises the operating retail business within the Group. At the balance sheet date on February 28, 2021, we operated a total of 161 DIY retail outlets across Europe (2019/20: 160) and online retail in the nine countries within our European network. Since the introduction of IFRS 16 lease accounting in the 2019/20 financial year, the external rental expenses for the properties have been charged as imputed rental expenses to the Retail segment by the Real Estate segment.

Key earnings figures of the Retail segment

Key figure (€ million, unless otherwise stated)	2020/21	2019/20	Change
Net sales	5,114	4,424	15.6%
of which: in Germany	2,654	2,245	18.2%
of which in other European countries	2,460	2,179	12.9%
Like-for-like sales growth	14.7%	7.7%	
EBITDA	238.2	148.7	60.2%
EBIT	185.7	94.1	97.4%
Adjusted EBIT	187.0	94.5	97.9%
EBIT margin	3.6%	2.1%	
Adjusted EBIT-Margin	3.7%	2.1%	
Gross margin	35.9%	36.5%	
Store expenses as % of net sales	28.4%	30.0%	
Pre-opening expenses as % of net sales	0.1%	0.2%	
General and administration expenses as % of net sales	4.1%	4.7%	

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

■ **Sales performance:**

Net sales in the Retail segment increased by 15.6 % to € 5,114.5 million in the 2020/21 financial year (2019/20: € 4,423.6 million). Sales in this segment are largely congruent with consolidated sales. Further comments on our sales performance can be found in Chapter 3.1.

■ **Gross margin:**

Gross profit rose by 13.6 % to € 1,836.0 million in the 2020/21 financial year (2019/20: € 1,615.9 million). The gross margin eased from 36.5 % to 35.9 %. This was primarily due to the sharp rise in the share of sales generated at our online shops, which led to a structural change in the product mix within the segment. In an online shopping cart, the share of lower-margin articles is usually higher than in a stationary shopping cart. Thanks to favorable procurement terms, adjustments to retail prices, and positive currency items, we were able to offset part of the negative impact on the margin.

■ **Selling and store, pre-opening and administration expenses:**

Selling and store expenses in the Retail segment grew less rapidly than sales, rising by 9.2 % to € 1,450.7 million (2019/20: € 1,328.4 million). The store expense ratio fell by more than 160 base points from 30.0 % to 28.4 %. The sharper cost growth compared with the previous year (plus 2.9 %) was due on the one hand to additional expenses incurred due to the coronavirus pandemic. From the onset of the pandemic, we had already introduced numerous safety and hygiene measures at our stores to protect customers and employees alike. Above all, these measures included commissioning security firms to manage entry restrictions, procuring disinfectants and face masks, additional cleaning and disinfection measures, and installing perspex screens, distancing cordons and barriers. The resultant expenses amounted to € 17.7 million in the 2020/21 financial year. This way, we were able to safeguard operations at our stores and set standards in terms of the safe organization of retail activities in the pandemic. Furthermore, to acknowledge the personal commitment shown by our employees in extreme work conditions, group-wide coronavirus bonuses of € 13.5 million were paid out, with the greater share of this total being allocated to store personnel expenses.

On the other hand, based on the pleasing earnings performance in the second half of the 2020/21 financial year more funds were made available once again for necessary conversion and maintenance measures, some of which had been postponed, and for revising the product ranges at the stores in order to sustainably enhance the attractiveness of the store network for customers while also tackling a backlog of maintenance measures. The transparency and prioritization of these measures was safeguarded with a centrally managed cost management system. The resultant additional costs in a double-digit million euro range were the main reason for the disproportionate rise in general and administration expenses compared with sales growth.

Earnings particularly benefited in the past financial year from the year-on-year decrease in advertising expenses. Due to the pandemic, marketing activities were significantly scaled back, particularly during lockdown periods. Moreover, an absolute reduction in depreciation and amortization also contributed to the improvement in the store expense ratio.

After one new DIY store opening (2019/20: three) and the opening of two BODENHAUS specialist retail stores, **pre-opening expenses** decreased from € 7.1 million to € 4.5 million in the 2020/21 financial year. The pre-opening expense ratio fell from 0.2 % to 0.1 %.

Administration expenses showed a slight increase of 1.9 % to € 210.0 million (2019/20: € 206.1 million). The administration expense ratio fell from 4.7 % to 4.1 %. This shows that the targeted efficiency en-



hancements in the interaction between corporate headquarters and the operating regions are taking effect. As an annual average and converted into full-time equivalents, the number of administration employees remained unchanged. Strategic projects were analyzed and prioritized in terms of their customer relevance and economic viability and regularly monitored to assess their target progress and costs.

■ **Key earnings figures:**

Thanks to the striking level of like-for-like sales growth, key operating earnings figures in the Retail segment showed very substantial growth. EBITDA jumped by 60.2% to € 238.2 million in the 2020/21 financial year (2019/20: € 148.7 million). This corresponds to an EBITDA margin of 4.7% (2019/20: 3.4%). EBITDA includes non-operating charges on earnings of € 1.3 million (2019/20: € 0.4 million) due to IAS 36 write-downs of advertising-related assets at four stores outside Germany. Segment EBIT adjusted to exclude non-operating earnings items (adjusted EBIT) almost doubled to € 187.0 million (2019/20: € 94.5 million). The adjusted EBIT margin amounted to 3.7% (2019/20: 2.1%). Operating earnings (EBIT) including non-operating one-off items showed an analogous performance and jumped from € 94.1 million to € 185.7 million (plus 97.4%). This resulted in an EBIT margin of 3.6% (2019/20: 2.1%).

3.2.3 Earnings performance of the Real Estate segment

All real estate activities at the HORNBACH Baumarkt AG Group are pooled in the Real Estate segment. Its main business activities involve building and subsequently letting DIY store properties within the Group. The respective DIY store properties are charged to the Retail segment on rental and other terms customary to the market (imputed rent).

Key earnings figures of the Real Estate segment

Key figure (€ million, unless otherwise stated)	2020/21	2019/20	Change
Rental income	282.5	280.7	0.6%
Real estate expenses	185.5	191.7	(3.2)%
Net rental income	97.1	89.0	9.0%
Disposal gains/losses	0.0	(0.1)	
Net real estate income	97.0	88.9	9.1%
EBITDA	277.6	271.2	2.4%
EBIT	94.3	87.3	8.0%
Adjusted EBIT	113.2	104.8	8.0%
EBT	53.3	45.2	18.1%

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

■ **Earnings from rental activities and real estate earnings:**

Rental income in the Real Estate segment, 98% of which comprises internal rental income, showed a marginal increase of 0.7% to € 282.5 million in the year under report (2019/20: € 280.7 million).

The measures to achieve greater cost transparency and more efficient cost management in the Real Estate segment led to a further reduction in general operating expenses from € 6.4 million to € 2.5 million (minus 60.4%). Depreciation and amortization decreased by 0.8% to € 182.2 million (2019/20: € 183.7 million). Depreciation and amortization include non-operating earnings items of € 18.9 million (2019/20: € 17.5 million). These mostly relate to impairment losses on right-of-use assets for six DIY store properties let from third parties (IAS 36 impairments). Real estate expenses decreased by 3.2% to € 185.5 million (2019/20: € 191.7 million). Earnings from rental activities improved by 9.0% to € 97.1 million in the 2020/21 financial

year (2019/20: € 89.0 million). In the year under report, there were once again no material real estate disposal gains. Real estate earnings grew by 9.1% to € 97.0 million (2019/20: € 88.9 million).

■ Key earnings figures:

Earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose from € 271.2 million to € 277.6 million in the period under report (March 1, 2020 to February 28, 2021). EBIT in the Real Estate segment increased by 8.0% to € 94.3 million (2019/20: € 87.3 million). EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) rose by 8.0% to € 113.2 million (2019/20: € 104.8 million). Due to slightly lower interest (net balance: plus € 0.3 million) and positive currency items (net balance: plus € 0.9 million), net financial expenses improved to minus € 41.0 million (2019/20: € 42.2 million). Earnings before taxes (EBT) advanced by 18.1% to € 53.3 million (2019/20: € 45.2 million).

3.2.4 Earnings performance by geographical regions

In the 2020/21 financial year, we significantly increased our profitability both in the Germany region and in the Other European Countries region. Particularly striking was the improvement in earnings in Germany on the level of operating earnings, a development which led to a more balanced distribution of earnings strength between the individual regions.

EBITDA in **Germany** grew by 22.9% to € 212.1 million (2019/2020: € 172.6 million). The domestic share of the Group's EBITDA remained at 42%. EBIT for the Germany region jumped from € 26.5 million to € 70.8 million (plus 167.2%). As a result, we improved the EBIT margin from 1.2% to 2.7%. Non-operating charges on earnings increased from € 9.0 million to € 12.1 million in the 2020/21 financial year, meaning that Germany accounted for around 60% of the group figures (2019/20: 50%). EBIT for the Germany region adjusted for non-operating earnings items grew from € 35.4 million to € 82.8 million in the 2020/21 financial year (plus 133.6%). The adjusted EBIT margin therefore rose from 1.6% to 3.1%. With 96 DIY stores and garden centers and two specialist retail stores, our largest country organization further increased its operating weight in the past financial year thanks to strong sales growth ahead of the group average. The domestic share of adjusted operating earnings climbed from 20% to 30%.

In **Other European Countries**, EBITDA rose by 21.1% to € 292.6 million in the period under report (2019/20: € 241.5 million), thus maintaining its 58% share of the group figure. We increased our EBIT outside Germany by 36.3% to € 187.9 million (2019/20: € 137.8 million). The EBIT margin for Other European Countries reached 7.6% (2019/20: 6.3%). Non-operating charges on earnings decreased slightly from € 8.9 million to € 8.1 million in the year under report. Adjusted EBIT outside Germany grew by a third to € 196.0 million (2019/20: € 146.7 million), while the adjusted EBIT margin rose from 6.7% to 8.0%. The share of adjusted consolidated operating earnings contributed by the Other European Countries fell from 80% to 70%.

3.3 Dividend proposal

The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose an increase in the dividend from € 0.68 to € 0.90 per share with dividend entitlement for approval by the virtual Annual General Meeting planned to be held on July 7, 2021. This corresponds to an increase of 32.4% and a payout ratio of 18.7%.

€ 0.90

dividend proposal for
2020/21 financial year

4. Financial Position

4.1 Principles and objectives of financial management

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

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

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

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



Notes to Consolidated Financial Statements

Note 12:

Property, plant and equipment and investment property

Financial debt of the HORNBACH Baumarkt AG Group

Type of financing € million	Liabilities broken down into remaining terms						2.28.2021	2.29.2020
	< 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⁾	3.5						3.5	3.5
Other loans ^{2) 3)}	45.5		177.7		116.8		340.0	341.4
Bonds ²⁾						247.2	247.2	246.6
Negative fair values of derivative financial instruments	0.5						0.5	0.3
Lease liabilities	139.7	139.7	143.4	146.2	150.4	549.3	1,268.7	1,283.6
Total financial debt	189.2	139.7	321.0	146.2	267.2	796.5	1,859.8	1,875.5
Cash and cash equivalents							334.6	302.2
Net financial debt							1,525.2	1,573.3

(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.

4.2 Financial debt

The HORNBACH Baumarkt AG Group had financial debt of € 1,859.8 million at the balance sheet date on February 28, 2021 (2019/20: € 1,875.5 million). Net financial debt decreased from € 1,573.3 million to € 1,525.2 million. Cash and cash equivalents rose from € 302.2 million in the previous year to € 334.6 million in the year under report.

The current financial debt (up to 1 year) of € 189.2 million (2019/20: € 189.6 million) comprises the portion of loans and bonds maturing in the short term, at € 45.5 million (2019/20: € 47.1 million), current lease liabilities of € 139.7 million (2019/20: € 138.7 million), interest deferrals of € 3.5 million (2019/20: € 3.5 million), and the measurement of derivative financial instruments, at € 0.5 million (2019/20: € 0.3 million).

HORNBACH enjoys great financing flexibility and draws where necessary on a wide range of different financing instruments. At the balance sheet date on February 28, 2021, the company had the following main financing facilities:

- the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until October 25, 2026 and an interest rate of 3.25 %
- two promissory note bonds at HORNBACH Baumarkt AG with volumes of € 126 million and € 74 million and terms until February 22, 2024 and February 23, 2026
- 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
- a short-term loan of CHF 50 million (€ 45.5 million) at HORNBACH Baumarkt (Schweiz) AG with a term until May 20, 2021.

The HORNBACH Baumarkt AG Group had no financing facilities secured by land charges at the balance sheet date (2019/20: € 0.0 million). In the year under report, no land charges were registered as security (2019/20: € 0.0 million).

4.2.1 Credit lines

At the balance sheet date on February 29, 2021, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 380.3 million (2019/20: € 379.5 million) on customary market terms. These include an as yet unused syndicated credit line of € 350 million at HORNBACH Baumarkt AG, which has a term running until December 22, 2024. To ensure the maximum possible degree of flexibility, all major group companies have the possibility, if required, of acceding to the syndicated credit line at HORNBACH Baumarkt AG.

€ 380 m
free credit lines

4.2.2 Covenants

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

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

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

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



Notes to Consolidated
Financial Statements
Note 23:
Financial debt

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

4.3 Cash and cash equivalents

Cash and cash equivalents totaled € 334.6 million at the balance sheet date (2019/20: € 302.2 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, as well as in money market investments. To increase security, maximum deposit limits per bank have been defined.

4.4 Cash flow statement and investments

The HORNBACH Baumarkt AG Group invested a total of € 139.6 million in the 2020/21 financial year (2019/20: € 97.1 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at DIY stores with garden centers under construction. The funds of € 139.6 million (2019/20: € 97.1 million) required for cash-effective investments were fully covered in the year under report by the cash flow of € 333.5 million from operating activities (2019/20: € 327.5 million). Around 56 % of total investments were channeled into new real estate, including properties under construction, while around 44 % were invested largely in replacing and expanding plant and office equipment.

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

Key financial figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.28.2021	2.29.2020
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	1,525.2	1,573.3
Debt ratio	Net financial debt / EBITDA		3.0	3.8
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		13.8	11.6

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

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

€ 140 m
Investments

The inflow of funds from operating activities showed slight year-on-year growth, rising from € 327.5 million to € 333.5 million in the 2020/21 financial year. Funds from operations increased to € 393.5 million (2019/20: € 331.8 million). This growth was due above all to strong like-for-like sales growth accompanied by proportionately lower cost growth. The outflow of funds due to the change in the net balance of other non-cash income and expenses increased from € 6.1 million to € 6.7 million. The change in working capital resulted in an outflow of funds of € 60.0 million (2019/20: minus € 4.3 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.

The outflow of funds for investing activities rose from € 94.9 million to € 136.9 million. Cash-effective investments in non-current assets increased to € 139.6 million (2019/20: € 97.1 million). The proceeds from disposals of non-current assets and of non-current assets held for sale grew to € 2.7 million (2019/20: € 2.2 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.

Cash flow statement (abridged) € million	2020/21	2019/20
Cash flow from operating activities	333.5	327.5
of which: funds from operations ¹⁾	393.5	331.8
of which change in working capital ²⁾	(60.0)	(4.3)
Cash flow from investing activities	(136.9)	(94.9)
Cash flow from financing activities	(162.7)	(174.3)
Cash-effective change in cash and cash equivalents	33.9	58.3

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

¹⁾ Consolidated earnings after taxes, plus depreciation of non-current assets and changes in provisions, minus gains/plus losses on the disposal of non-current assets, plus/minus other non-cash income/expenses

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

The outflow of funds from financing activities totaled € 162.7 million in the 2020/21 financial year (2019/20: € 174.3 million). The company did not make any scheduled repayments of non-current financial debt, neither did it take up any new long-term loans. The repayment of current and non-current lease liabilities led to an outflow of € 141.1 million (2019/20: € 139.7 million). At € 21.6 million, the dividends paid to shareholders remained at the previous year's level.

4.5 Rating

The creditworthiness of the HORNBACH Baumarkt AG Group is rated by Standard & Poor's, one of the leading international rating agencies. In its most recent publication, Standard & Poor's rated the HORNBACH Baumarkt AG Group at "BB" with a stable outlook.

BB/stable
rating of HORNBACH
Baumarkt AG Group

5. Asset Position

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

€ million	2.28.2021	2.29.2020	Change
Non-current assets	2,365.4	2,360.3	0.2 %
Current assets	1,399.8	1,203.9	16.3 %
Assets	3,765.2	3,564.3	5.6 %
Shareholders' equity	1,254.9	1,132.1	10.9 %
Non-current liabilities	1,739.6	1,764.3	(1.4) %
Current liabilities	770.6	667.9	15.4 %
Equity and liabilities	3,765.2	3,564.3	5.6 %

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

The Group's total assets grew year-on-year by € 200.9 million from € 3,564.3 million to € 3,765.2 million (plus 5.6 %). The equity of the Group as stated in the balance sheet amounted to € 1,254.9 million at the end of the financial year (2019/20: € 1,132.1 million). The equity ratio rose from 31.8 % in the previous year to 33.3 % at the end of the 2020/21 financial year.

5.1 Non-current and current assets

Non-current assets amounted to € 2,365.4 million at the balance sheet date (2019/20: € 2,360.3 million) and thus accounted for around 63 % of total assets (2019/20: 66 %). Property, plant and equipment including right-of-use assets and investment property rose by € 6.5 million from € 2,322.2 million to € 2,328.7 million. The additions of € 135.1 million to right-of-use assets for leased properties and additions of € 134.6 million to property, plant and equipment were countered by depreciation of € 242.1 million and disposals of assets of around € 11 million. Adjustments to account for exchange rate movements led to an overall decrease of € 10.2 million in property, plant and equipment and investment property.

Other non-current receivables and assets mainly involve deferrals of credit line expenses and deferred tax assets. The change in deferred tax assets was chiefly due to lease-related items and the recognition of provisions.

Current assets increased by 16.3 % from € 1,203.9 million to € 1,399.8 million, or around 37 % of total assets (2019/20: 34 %). Mainly due to the significant rise in customer demand due to the pandemic and resultant further year-on-year increase in stocking measures in the fourth quarter of 2020/21 in preparation for the 2021 spring season, inventories rose from € 814.4 million to € 944.6 million. Despite the increase in inventories, the inventory turnover rate could be increased to 4.1 (2019/20: 3.8). Cash and cash equivalents rose year-on-year by € 32.4 million from € 302.2 million to € 334.6 million in the year under report. Current receivables, contract assets, and other assets (including income tax receivables) increased by € 33.3 million to € 120.6 million. This was mainly due to the increase in other current assets. The tax refund claims included in this line item rose from € 5.9 million in the previous year to € 20.3 million in the year under report. Furthermore, recourse claims in connection with expected returns grew to € 11.6 million at the end of the financial year (2019/20: € 4.3 million).

5.2 Non-current and current liabilities

Liabilities, including provisions, amounted to € 2,510.2 million at the balance sheet date, as against € 2,432.2 million in the previous year. Non-current liabilities decreased slightly from € 1,764.3 million to € 1,739.6 million. Non-current financial debt due to banks and for corporate bonds remained almost unchanged at € 541.6 million (2019/20: € 540.9 million). Provisions for pensions fell to € 19.1 million, down from € 24.2 million in the previous year. The deferred tax liabilities included in non-current liabilities fell year-on-year from € 12.6 million to € 10.4 million.

Current liabilities increased from € 667.9 million to € 770.6 million, while current financial debt showed a slight reduction from € 50.9 million to € 49.5 million. Current lease liabilities pursuant to IFRS 16 came to € 139.7 million (2019/20: € 138.7 million). Trade payables, contract liabilities, and other liabilities amounted to € 428.4 million at the balance sheet date, as against € 361.1 million in the previous year. Primarily as a result of higher provisions for employee bonuses, other provisions and deferred liabilities rose by € 28.2 million from € 99.5 million in the previous year to € 127.8 million.

The net debt of the HORNBAACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, eased from € 1,573.3 million to € 1,525.2 million. Excluding lease liabilities, net debt fell from € 289.7 million to € 256.5 million.

Key balance sheet figures of the HORNBAACH Baumarkt AG Group

Key figure	Definition		2.28.2021	2.29.2020
Equity ratio	Equity / Total assets	%	33.3	31.8
Return on equity	Annual net income / Average equity	%	12.8	7.2
Return on total capital	NOPAT ¹⁾ / Average total capital ²⁾	%	6.6	5.3
Debt / equity ratio (gearing)	Net debt / Equity	%	121.5	139.0
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land ³⁾	€ million	274.8	1,341.2
Net working capital	Current assets ⁴⁾ less trade payables	€ million	772.1	651.1
Inventory turnover rate	Cost of goods sold / Average inventories		4.1	3.8

¹⁾ Net operating profit after tax, defined as EBIT minus unchanged standardized tax rate of 30% at the HORNBAACH 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

⁴⁾ Excluding cash and cash equivalents and assets held for sale

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

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

€ 000s	2020/21	2019/20
Sales	3,224,423	2,756,503
Other own work capitalized	531	456
Other operating income	16,109	26,270
Cost of materials	2,234,044	1,886,371
Gross profit	1,007,019	896,858
Personnel expenses	501,672	469,795
Depreciation and amortization	35,671	39,017
Other operating expenses	405,634	364,650
Operating result	64,042	23,396
Financial result	36,947	2,385
Taxes	16,346	(7,241)
Earnings after taxes	84,643	33,022
Other taxes	1,215	1,082
Annual net surplus	83,428	31,940
Allocation to revenue reserves	41,714	10,311
Net profit	41,714	21,629

(Differences due to rounding up or down)

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



Group Management Report
Business Report
Macroeconomic and
Sector-Specific Framework

6.1 Business framework

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

6.2 Development in the store network

HORNBACH did not open any new DIY stores with garden centers in Germany in the 2020/21 year under report. This means that we operated a total of 96 retail outlets across Germany as of February 28, 2021 (February 29, 2020: 96). Sales areas in Germany totaled 1,053,704 m² (2019/20: 1,052,590 m²).

6.3 Earnings position

6.3.1 Sales performance

Net sales (excluding sales tax) at HORNBACH Baumarkt AG grew by 17.0% from € 2,756.5 million to € 3,224.4 million in the 2020/21 year under report. Sales include an amount of € 506.2 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2019/20: € 447.9 million). The business performance of HORNBACH Baumarkt AG is largely determined by the development in domestic like-for-like sales, which we have explained in detail in Chapter 3.1.2 "Like-for-like sales".



Group Management Report
Business Report
Earnings Position

6.3.2 Earnings performance

The other operating income reported in the income statement fell to € 16.1 million (2019/20: € 26.3 million). This mainly relates to income from damages payments, reversals of provisions, exchange rate gains, and the retirement of liabilities. Income from damages payments had risen significantly in the 2019/20 financial year due to the insurance compensation received for a burned-out DIY store.

Cost of materials rose by 18.4% to € 2,234.0 million (2019/20: € 1,886.4 million). Gross profit totaled € 1,007.0 million, or 31.2% of net sales, as against € 896.9 million, or 32.5% in the previous year. Personnel expenses grew less rapidly than net sales, rising by 6.8% from € 469.8 million to € 501.7 million. At € 35.7 million, depreciation and amortization were 8.5% lower than the previous year's figure (€ 39.0 million). Other operating expenses rose to € 405.6 million, up from € 364.7 million in the previous year. This was mainly due to higher maintenance expenses and higher expenses for temporary staff.

At € 64.0 million, the operating result was significantly higher than the previous year's figure (€ 23.4 million). This was mainly due to significantly higher gross profit (plus € 110.2 million) and lower depreciation and amortization (minus € 3.3 million). These factors were countered by higher personnel expenses (plus € 31.9 million) and higher other operating expenses (plus € 40.9 million).

The financial result (including income from investments) rose to € 36.9 million in the year under report (2019/20: € 2.4 million). This increase was chiefly due to the income from investments rising from € 19.8 million to € 48.5 million as a result of a higher transfer of profit from HORNBAACH International GmbH. In the 2020/21 financial year, HORNBAACH Baumarkt (Schweiz) AG, Switzerland, and HORNBAACH Baumarkt CS. spol s.r.o., Czech Republic, transferred profit distributions totaling € 56.2 million to HORNBAACH International GmbH. In the previous year, profit distributions amounted to € 27.3 million.

Interest income and income from loans of financial assets increased from € 3.0 million to € 4.1 million, with this mainly due to higher group financing measures. At € 15.7 million, interest expenses in the year under report fell short of the previous year (€ 20.1 million). It should be noted that the last four months of the previous year witnessed a duplicate interest charge due to the overlapping of the old bond maturing in February 2020 and the new bond taken up in November 2019.

Given the factors outlined above and taxes on income of € 16.3 million (2019/20: minus € 7.2 million), the annual net surplus rose from € 31.9 million to € 83.4 million in the 2020/21 financial year.

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

Assets	2.28.2021 € 000s	2.29.2020 € 000s
Intangible assets	12,190	11,250
Property, plant and equipment	336,584	324,077
Financial assets	251,263	258,492
Non-current assets	600,037	593,819
Inventories	601,957	505,036
Receivables and other assets	113,956	112,596
Cash holdings, credit balances at banks, and checks	243,072	156,060
Current assets	958,985	773,692
Deferred expenses and accrued income	7,092	6,514
Deferred tax assets	10,556	11,069
Total assets	1,576,670	1,385,094
Equity and liabilities		
Shareholders' equity	667,927	606,315
Provisions	113,418	88,597
Liabilities	789,014	683,824
Deferred income and accrued expenses	6,311	6,358
Total assets	1,576,670	1,385,094

6.3.3 Asset position

At € 1,576.7 million, total assets as of February 28, 2021 were € 191.6 million, or 13.8%, higher than the previous year's figure (€ 1,385.1 million). Non-current assets stood at € 600.0 million, or 38.1 % of total assets, at the balance sheet date (2019/20: € 593.8 million / 42.9 %). Mainly due to investments of € 45.4 million accompanied by depreciation of € 31.8 million and retirements of € 1.1 million, property, plant and equipment increased to € 336.6 million (2019/20: € 324.1 million). Financial assets amounted to € 251.3 million at the balance sheet date (2019/20: € 258.5 million).

Current assets amounted to € 959.0 million at the balance sheet date (2019/20: € 773.7 million). Due to the company's expansion and seasonal preparations, inventories rose by 19.2%, or € 96.9 million, to € 602.0 million (2019/20: € 505.0 million). At 4.0, the inventory turnover rate in the 2020/21 financial year was above the previous year's figure of 3.8. Receivables from affiliated companies fell by € 11.4 million to € 43.1 million (2019/20: € 54.5 million). The reduction in receivables in the 2020/21 financial year was chiefly attributable to the year-on-year decrease in short-term financing of group companies. Cash and cash equivalents rose year-on-year by € 87.0 million from € 156.1 million to € 243.1 million. The company had deferred tax assets of € 10.6 million at the end of the financial year (2019/20: € 11.1 million).

At € 667.9 million, shareholders' equity as of February 28, 2021 was 10.2 % higher than in the previous year (2019/20: € 606.4 million). The equity ratio is reported at 42.4 % (2019/20: 43.8 %). Provisions increased from € 88.6 million to € 113.4 million at the balance sheet date. This was mainly due to higher provisions for bonuses.

Liabilities are reported at € 789.0 million at the balance sheet date, and thus € 105.2 million higher than the previous year's figure (2019/20: € 683.8 million). At € 202.9 million, liabilities to banks were at the same level as in the previous year (2019/20: € 202.9 million). Trade payables amounted to € 183.8 million (2019/20: € 151.8 million). Liabilities to affiliated companies, mainly resulting from group financing, rose from € 25.7 million to € 88.0 million in the 2020/21 financial year.

6.3.4 Financial position

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

Shareholders' equity (after the planned dividend distribution) covers around 90 % of non-current assets. In the 2020/21 financial year, HORNBACH Baumarkt AG invested a total of € 50.2 million (2019/20: € 43.4 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 19.1 million, while a further sum of € 17.9 million was channeled into replacing and expanding plant and office equipment. Of total investments, € 4.8 million (2019/20: € 3.8 million) related to intangible assets acquired in return for payment. Due to the repayment of intragroup loans, financial assets decreased by € 7.2 million from € 258.5 million to € 251.3 million.

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

Based on a positive sales performance and significantly higher gross profit accompanied by lower depreciation and amortization and a proportionately lower increase in personnel expenses, operating earnings at HORNBACH Baumarkt AG increased significantly in the 2020/21 financial year. Due not least to higher income from investments, the annual net surplus increased from € 31.9 million to € 83.4 million. Non-current assets and around 50% of current assets are financed on a long-term basis by shareholders' equity (after the planned dividend distribution) and non-current debt capital. Overall, the company's economic position is good.



Risk Report

1. Risk Management at the Group

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

2. Risk Policy Principles

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

3. Organization and Process

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

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

Company risk assessment categories in ascending order

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

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

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

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

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

4. Internal Control and Risk Management System in respect of the Group Financial Reporting Process (pursuant to § 289 (4) and § 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 HORNBAACH Baumarkt AG Group, the existing internal control (IKS) system in respect of the financial reporting process and associated risk matrix are documented on a group-wide basis. Country-specific features deviating from group processes are described by the subsidiaries and added to the documentation. The appointment of IKS managers at the country companies and parent company ensures that material process changes are documented and suitable checks implemented. In this respect, IKS managers are required to submit annual declarations of conformity. The existing IKS system is continually being developed further.

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

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

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

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

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

The risk of system breakdowns or data loss is minimized by centrally managing and monitoring all significant IT systems involved in the financial reporting process and regularly performing system backups.

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

Overview of overall risks*

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

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

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, HORNBAACH 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 ex-

ternally financed on a long-term basis in the functional currency of the respective country company (natural hedging). Open foreign currency positions arising at the Group in EUR, which mainly relate to intragroup deliveries and services invoiced in EUR and intragroup EUR loans, are not hedged.

5.2 Liquidity risks

The acquisition of land, investments in DIY stores with garden centers and procurement of large quantities of merchandise require high volumes of liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 350 million with a term running until December 22, 2024, a short-term loan of CHF 50 million (€ 45.5 million) at HORNBAACH Baumarkt (Schweiz) AG with a term running until May 20, 2021, two promissory note bonds at HORNBAACH Holding B.V. with a total volume of € 95 million and terms running until 2023 and 2025, two promissory note bonds at HORNBAACH Baumarkt AG with a total volume of € 200 million and terms running until 2024 and 2026, and the € 250 million bond issued by HORNBAACH Baumarkt AG in October 2019, whose term runs until October 25, 2026.

HORNBAACH counters the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to financing conditions on the capital markets by flexibly adjusting its investments, maintaining a substantial liquidity cushion in the form of liquid funds and free credit lines. No security in the form of assets was granted in connection with the corporate bond, the syndicated credit line at HORNBAACH 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 HORNBAACH Baumarkt AG. These require compliance with an equity ratio, adjusted to exclude IFRS 16-related items, of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBAACH Baumarkt AG Group. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries. Comparable maximum limits were agreed for the promissory note bonds at HORNBAACH Baumarkt AG and HORNBAACH Holding B.V. Apart from this, these bonds are only subject to general covenants, such as *pari passu*, negative pledge, and cross acceleration covenants. As of February 28, 2021, the adjusted equity ratio amounted to 44.0 % (2019/20: 45.7 %) and interest cover came to 13.8 (2019/20: 11.6).

Maximum limits for financing facilities secured by land charges similar to those applicable to the syndicated credit line were agreed for the corporate bond. Apart from this, the bond is only subject to general covenants, such as *pari passu*, negative pledge, and cross acceleration covenants. Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2020/21 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

The company limits the risk of any financial loss in connection with financial investments and derivative financial instruments by working exclusively with contractual partners of strong creditworthiness and selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to reduce the risk of bank deposit default. This approach was also maintained in the 2020/21 financial year. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced.

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



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

6. External Risks

6.1 Macroeconomic and sector-specific risks

The dependency of HORNBAACH 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 HORNBAACH 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 Risks due to the coronavirus pandemic

The coronavirus pandemic may impact negatively on the company's sales, earnings, and liquidity situation in the 2021/22 financial year. Over and above the factors expected from a current perspective, there is the risk that the consequences of the pandemic and of measures taken to contain the spread of infections, such as the lockdown of large parts of public life and retail, will have a significantly longer and more severe impact on the company's sales, earnings, and liquidity situation than currently foreseeable. This depends in particular on the number of stores ordered to close by the authorities and the duration of restrictions on stationary sales. To mitigate the effects of such restrictions, expenses not required for operations may be avoided. The risks resulting from location closures are nevertheless countered by opportunities due to increased demand for DIY product ranges that may lead to purchases being brought forward, caught up on, or substituted for other spending (please see comments in the Opportunity Report).

From a current perspective, no sustainable risk to the earnings, financial, and asset position is to be expected beyond the 2021/22 financial year.

7. Operating Risks

7.1 Location and turnover risks

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

7.2 Procurement risks

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

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

8. Legal Risks

8.1 Legislative and regulatory risks

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

8.2 Risks relating to legal disputes

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

9. Management and Organizational Risks

9.1 IT risks

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

9.2 Personnel risks

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

10. Overall Assessment of Risk Situation

The assessment of the overall risk situation found that there were no risks to the continued existence of the HORNBACH Baumarkt AG Group in the 2020/21 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position over several years.

Opportunity Report

The European DIY sector will continue to provide HORNBAACH 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 in order to make optimal use of potential opportunities for future growth.

1. Sector-Specific Opportunities

The growing need for modernization work plays a major role for DIY store and garden center operators, as do trends among consumers. These harbor various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens. Furthermore, 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. 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 € 255 billion in 2020 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.

- 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 the euro area. 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.
- 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. In October 2020, the EU Commission announced an investment package of € 250 billion to promote measures to enhance the energy performance of buildings.
- 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 megatrends such as connectivity, individualization, security, new work, or neo-ecology are creating opportunities for developing new business models and differentiation from competitors. By offering suitable concepts, new technologies, and innovative products, HORNBACH 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. Experts expect online sales with typical DIY store product groups in Germany to grow by around 14 % in 2021, while the market volume of all DIY and home improvement stores might show a single-digit percentage reduction following its lockdown-driven boom in 2020. 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 in further developing the stationary store network and the advice and services provided.

At the same time, the increasing use of digital technology in day-to-day life is leading 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. The number of home improvement enthusiasts has risen significantly during the coronavirus pandemic. Many consumers had more time and money available to improve their own four walls. Not only that, social distancing rules meant that tradespeople were in limited supply, meaning that consumers performed numerous renovation tasks themselves. We expect consumers' increased focus on their own surroundings to partly outlast the pandemic, not least as many people are expected to spend a greater share of their time working from home. Additional momentum could result from the growing volume of migration from cities to the country.

Not only that, our customers increasingly value products that are sustainable in both ecological and economic terms and that contribute towards saving water or energy, are durable and recyclable, and thus have a small ecological footprint over the whole of the lifecycle. According to the GfK Consumer Panel, 32% of German DIY store customers already have a consistent focus on sustainable purchases. Offering a suitable selection of products, providing product certification, transparent product information and advice, and environmentally-friendly packaging - these are important competitive factors.

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 € 51 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting, or sanitary stores),

€ 51 bn
core DIY market in 2020

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. Due to the restrictions on sales in connection with the coronavirus crisis, interconnected retail has become a significantly more important factor in the company's business performance. The e-commerce share of DIY retail can be expected to remain at a higher level on a permanent basis.

2. Strategic Opportunities

Our aim is to continually expand HORNBAACH'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. 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 HORNBAACH's format in future as well.

2.1 Focus on project customers

The corporate strategy focuses on project customers. With this approach, which is reflected in its product range, service, and pricing policies, HORNBAACH is increasingly able to differentiate itself from its competitors. One unshakable component of our uniform strategy across the Group is our reliable permanent low price policy. We guarantee our customers the best market price, and that at all times, across the whole of the product range, and both compared with stationary competitors and with other online shops. Our stationary and online prices are always identical. 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 why HORNBAACH does not offer any 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 HORNBAACH 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 maintain the competent presentation of 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.

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 HORNBAACH. 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 commercial customers. Generous opening hours, the stocking of large quantities, rapid handling of purchases at our drive-in stores and builders’ merchant centers, and uncomplicated acceptance of residual volumes no longer required make HORNBAACH an attractive alternative to traditional specialist retail or wholesale procurement sources. The fact that our retail format is increasingly attracting professional customers to HORNBAACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers. With its new “Bodenhaus” sales concept, HORNBAACH is further expanding its offering to tradespeople. This specialist store for hard floors was launched at two locations in Germany in the 2020/21 financial year. “Bodenhaus” sets itself apart from traditional specialist retailers on account of its great selection of immediately available articles and numerous services such as click & collect, supply, storage, and disposal.

In countries with less diverse and specialized sales structures than in Germany, HORNBAACH often assumes the role of specialist retailer. This situation harbors potential for us to participate in developments in the construction sector more extensively and directly. In the countries outside Germany in which it operates, HORNBAACH enjoys a strong reputation among customers as a project partner, particularly when it comes to implementing larger-scale modernization and renovation projects in their houses, apartments, and gardens.

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. HORNBAACH cooperates at all of its locations with regional trade companies that implement the projects for our customers at fixed prices and assume the warranty for these projects. This way, customers receive the full service from a single source.

2.4 Digitalization of business model

Interconnected retail

Over the past ten years, the HORNBAACH 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 HORNBAACH operates and offer all customers the option of implementing their projects across all channels.

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. 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 “click & collect” 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 commercial 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. Not only that, by working with various configurators customers can have customized products prepared for them. Since 2020, HORNBACH has also offered online video advice, a service that has been very well received given the restrictions on contact due to the pandemic.

The online shops are also accessible via the HORNBACH app, which offers additional services such as image search and self-scanning functions. Using virtual reality (VR) will also make it possible in future to present additional products on site at the store. 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.

Digital processes

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.

In its administration departments, HORNBACH already began preparing for mobile work before the onset of the pandemic and equipped most employees with mobile terminals. The flexible structuring of working hours will help employees to better combine their work and private commitments and thus enhance their performance capacity in future as well.

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

Digitalization is also driving the trend towards home automation. According to a survey conducted by Germany's digital association Bitkom, 37 % of people in Germany already had at least one smart home application in 2020 (2019: 31 %). For HORNBACH, this creates opportunities to expand its range of smart home products, installation services, and its own "Smart Home by HORNBACH" gateway solution. This is a neutral, open platform for customers and suppliers that is continually being extended to include new product ranges and functions. This way, we can combine our retail expertise in traditional DIY product ranges with digital solutions. For project customers, for example, we not only provide the technical equipment, but can also offer mechanical locks or doors that are functionally compatible.

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 to 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 24.6 % share of sales in the 2020/21 financial year. In the medium term, it is planned to raise the share of private label products to around 30 %.

3. Assessment of Opportunities from 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. Consumer behavior has since changed sustainably. People are spending far more time at home, increasingly working from home, and looking for meaningful occupations in their own four walls or gardens during the pandemic. This has led to higher demand for construction and DIY project product ranges compared with before the pandemic. Thanks to its interconnected retail (ICR), HORNBACH is able to benefit more extensively from this growth in potential demand than are most of its competitors.

It has become apparent, particularly in the fourth quarter of 2020/21, that the competitive benefits of ICR in conjunction with our DIY megastores and garden centers and our proprietary logistics infrastructure are particularly effective in times of massive restrictions on stationary sales. This is also documented by our above-average strong sales performance compared with DIY competitors in key European country markets. The overall dynamism of demand in HORNBACH's DIY retail business has continued at the beginning of the 2021/22 financial year. We believe that, once the coronavirus pandemic is over, consumer behavior will settle at a level different to that before the crisis. The importance consumers attach to their homes, often referred to with the catchwords "homing" or "cocooning", is expected to play a greater role than before Covid-19. This means that HORNBACH stands to benefit, and that to an above-average extent compared with competitors, from a higher level of DIY demand in future as well.

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

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

Outlook

1. Macroeconomic and Sector-Specific Framework

One crucial factor for the business prospects of the HORNBACH Baumarkt AG Group is the future development in consumer demand and in construction and renovation activity in the countries in which we operate. Private consumer spending is decisively influenced by developments in employment totals, inflation, and disposable incomes. 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. Furthermore, exogenous shocks and crises, such as those triggered by the coronavirus pandemic since spring 2020 and whose duration is still unforeseeable, can significantly impact both on consumer behavior and on our company's business performance.

The uncertainties surrounding the consequences of Covid-19 for society, the economy, and healthcare systems remain just as great in the 2021/22 financial year. Depending on the intensity, frequency, and duration of waves of infection, economic researchers fear differing degrees of macroeconomic impact, with downstream implications for employment and consumption that are difficult to assess.

The development in the number of Covid-19 infections still has to be viewed as critical, also in the countries in which we operate in Europe. The success of measures imposed by the authorities to contain the waves of infection has been slower than expected, with this being due to the sluggish progress made with vaccination programs in many countries and the spread of more dangerous variants of the virus. Until the infection totals improve significantly, large parts of our European business network can expect extended or renewed lockdown measures in the further course of 2021. That is very likely to impact on our retail activities as well.

1.1 Business framework in Europe

In April 2021, Germany's leading economic research institutes forecast an upturn in economic output by 4.2% in the EU 27 countries and 4.3% in the euro area. The institutes expect that the measures taken to prevent infections will gradually be lifted in the coming months and that the pandemic will slowly lose its influence on economic developments.

After several countries had previously moved towards easing pandemic-related restrictions, in March and April 2021 governments initially reacted to the further drastic rise in incidence rates across Europe triggered by more aggressive coronavirus variants by introducing stricter restrictions on contact. In the countries in which we operate outside Germany, that led in some cases to extensions in the restrictions on sales activities at stationary DIY retailers in the further course of spring 2021. Countries affected included the Netherlands, Slovakia, the Czech Republic, and, since April, the Eastern parts of Austria once again. The authorities in Romania adjusted the opening hours for DIY stores in April. In Germany, the focus was increasingly on making restrictions dependent on incidence rates, a development that confronted DIY store operators with great challenges for their daily business that varied greatly between individual regions. At the same time, however, efforts were also underway to make it possible or easier once again for private customers to access product ranges at stationary DIY stores and garden centers. Garden divisions were opened in the Czech Republic, Slovakia, and parts of Germany, for example. In Germany and the Netherlands, click & meet (shop at store after prior registration) was also introduced in March 2021. In mid-April, an improvement in the number of infections became apparent in several countries, such as Switzerland, the Czech Republic, Slovakia, and Austria. This also signaled more favorable prospects for DIY retailers being able to reopen.

The construction industry has been affected to a comparatively limited extent by the restrictions imposed to contain the coronavirus. In its forecast dated November 2020, the Euroconstruct research and consulting network

expected European construction volumes to grow by 4.1% in the 2021 calendar year, compared with minus 7.8% in the previous year.

1.2 Business framework in Germany

Germany's leading economic research institutes expect the country's gross domestic product to grow by 3.7% in the 2021 calendar year. In their forecast, the institutes expect that the current lockdown will initially be extended and that the easing of restrictions seen most recently will largely be withdrawn. Further steps to lift restrictions are only expected from the middle of the second quarter of the calendar year, with the measures only being fully lifted by the end of the third quarter. As soon as the number of infections is contained by progress with the vaccination program, the researchers expect to see a sharp upturn in economic activity and higher levels of employment. Private consumer spending is expected to rise by 2.6%. The limited opportunities for consumption during the pandemic have been accompanied by a significant rise in private household savings rates. However, this factor is not expected to trigger any notable volume of catch-up purchases once the measures to contain infections are lifted.

The economic research institutes expect to see a slight reduction in residential building investments in 2021, with this being due in particular to investments being brought forward due to the sales tax increase and the onset of winter at the beginning of the year. As the year progresses, however, high demand for living space and ongoing favorable financing conditions can be expected to impact positively on investments in residential buildings. At the beginning of the year, the German Institute for Economic Research (DIW) forecast 3.7% nominal growth in residential construction volumes for 2021 (2020: 4.9%). Growth of 3.6% was expected in the modernization market (2020: 4.7%), while new construction volumes were forecast to rise by 4.0% (2020: 5.2%).

The BHB sector association views the phenomenon of "homing", i.e. consumers focusing on their own four walls and garden, as a long-term trend. This was fueled by the coronavirus crisis and led to an exceptional boom with sales growth of 14% in 2020. According to the BHB, this is unlikely to be repeated in 2021. Due to the considerable uncertainties surrounding the pandemic, the association has foregone providing any specific sales forecast for the DIY store sector. Sector experts expect DIY store sales in 2021 to lie in a corridor between 2019 sales volumes and those in the record year of 2020. Sales are expected to show a reduction in a mid to high single-digit percentage range compared with 2020.

The BHB sees the sales potential for the DIY store sector in 2021 as particularly involving garden, outdoor, and leisure product ranges. In principle, consumers' willingness to spend on private construction and renovation projects, and thus demand for traditional home improvement product ranges, is also still high. Whether the sales can actually be generated will nevertheless depend on pandemic-related restrictions. E-commerce sales with DIY product ranges (home improvement, construction materials, and garden product ranges) are expected to benefit especially clearly from the coronavirus situation. Here, market researchers most recently forecast 14% growth for 2021.

2. Forecast Business Performance in 2021/22

Given the coronavirus crisis, no reliable assessment could be provided upon the completion of this report as to the macroeconomic disruption which the further course of the pandemic might cause on the labor, procurement, and sales markets. On the one hand, our stationary store network is subject to significant restrictions that vary from region to region in terms of their severity and length. On the other hand, the sales potential of this network is generally meeting with a higher volume of demand for construction and DIY product ranges than before the pandemic, and that across the Group. The actual course of business in the one-year 2021/22 forecast period will depend to a significant extent on the macroeconomic and epidemiological framework, as well as on the policies adopted to deal with the pandemic. Furthermore, the development in prices on global commodity markets is a factor that may influence the company's short and medium-term earnings performance and whose effects were not foreseeable upon the completion of this report.

2.1 Expansion and investments

In the one-year forecast period, the Group will continue to focus on expanding and modernizing its store network in its existing country markets. Four new openings of DIY stores and garden centers are planned in the international business in the 2021/22 financial year: in Cluj (Romania), Trollhättan (Sweden), Apeldoorn (Netherlands), and Sirnach (Switzerland). In Germany, a new store in Paderborn is set to replace an existing location. Overall, the group-wide total number of locations should rise to 167 by February 28, 2022 (February 28, 2021: 163), of which 69 outside Germany.

The volume of gross investments budgeted at the HORNBACH Baumarkt AG Group for the 2021/22 financial year should exceed the previous year's figure (€ 139.6 million). The overwhelming share of these funds is to be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure.

2.2 Sales performance

On the level of the HORNBACH Baumarkt AG Group, we expect consolidated sales, including sales at stores newly opened, closed, or significantly extended, in the 2021/22 financial year to approximately match the figure reported for the 2020/21 financial year (€ 5,117 million).

2.3 Earnings performance

In our base scenario for the 2021/22 financial year, and due not least to the budgeted investments and planned expansion, our overall expectation is that EBIT adjusted to exclude non-operating earnings items (adjusted EBIT) will fall short of the figure reported for the 2020/21 financial year (€ 278.8 million) in the one-year forecast period but nevertheless significantly exceed the figure of € 181.8 million reported for the pre-coronavirus 2019/20 financial year.

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

In the annual financial statements of HORNBACH Baumarkt AG, which will be shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, we expect that sales for the 2021/22 financial year will match the level in the 2020/21 financial year and that the annual net surplus will fall slightly short of the level in the 2020/21 financial year.

Remuneration Report

The remuneration report presents the basic features of the remuneration system for the Board of Management and Supervisory Board of HORNBAACH Baumarkt AG and the remuneration paid to individual members of the Board of Management and Supervisory Board in the 2020/21 financial year under report.

1. Remuneration of Board of Management

1.1 Basic features of remuneration system

The remuneration system for members of the Board of Management is consistent with the requirements of the German Stock Corporation Act (AktG) as formulated in the German Second Shareholder Rights Directive Implementation Act (ARUG II) dated December 12, 2019 (Federal Law Gazette, Section I 2019, No. 50 dated December 19, 2019) and accounts for the recommendations made by the German Corporate Governance Code (DCGK) in the version which took effect as of March 20, 2020. The new remuneration system, which was approved by the Annual General Meeting on July 9, 2020, has been in effect for members of the Board of Management since March 1, 2020. The remuneration of the Board of Management is regularly reviewed by the Supervisory Board.

1.1.1 Overview

The remuneration of members of the Board of Management comprises fixed and variable components. Fixed remuneration components for the members of the Board of Management are the fixed annual salary, ancillary benefits, and the company pension scheme. The variable components are one-year variable remuneration ("OVR") and multiyear variable remuneration ("MVR"). Furthermore, the remuneration system stipulates share ownership guidelines ("SOG") for members of the Board of Management.

Remuneration components and assessment base

Fixed remuneration components	
Fixed annual salary	in 12 equal monthly instalments at the end of each calendar month
Ancillary benefits	<ul style="list-style-type: none"> ■ Private use of company car ■ Accident insurance ■ Employer contribution to health and nursing care insurance ■ Contribution to voluntary pension insurance or, alternatively, to life insurance policy contributions, in both cases amounting to 50 % of the respectively valid pension insurance rate up to the contribution assessment ceiling ■ D&O insurance cover
Company pension scheme	Plan type: Defined contribution commitment Contribution: Half-yearly pension contribution amounting to 12.5 % of fixed gross annual salary

Variable remuneration components		
One-year variable remuneration (OVR)	Plan type:	Target bonus
	Cap:	200 % of target amount
	Performance criteria:	<ul style="list-style-type: none"> ■ Sales (40 %), free cash flow (30 %), and EBT (30 %) ■ Modifier (0.8-1.2)
	Assessment period:	One year (forward-looking)
	Payment date:	Month in which consolidated financial statements for respective financial year are approved, at latest month thereafter
Multiyear variable remuneration (MVR)	Plan type:	Performance cash plan
	Cap:	200 % of target amount
	Performance criteria:	<ul style="list-style-type: none"> ■ Relative TSR (25 %), ROCE premium over WACC (75 %) ■ Modifier (0.8-1.2)
	Performance period:	Four years (forward-looking)
	Payment date:	Month in which consolidated financial statements for final financial year in four-year performance period are approved, at latest month thereafter
SOG	<ul style="list-style-type: none"> ■ Obligation to use 50 % of MVR payment amount to acquire shares in HORNBAACH Baumarkt AG. ■ SOG target: 150 % of one fixed gross annual salary for Chairman; 100 % of one fixed gross annual salary for regular member of Board of Management ■ Shares to be held for duration of activity on Board of Management 	

Based on the remuneration system, the Supervisory Board stipulates specific target total remuneration for each member of the Board of Management. This should stand in an appropriate relationship to the tasks and performance of the member of the Board of Management and to the company's situation and should not, without other reason, exceed customary levels of remuneration. Target total remuneration comprises the total amount of all remuneration components relevant to total remuneration. For OVR and MVR, reference is made to the target amount upon 100 % target achievement. Fixed remuneration (fixed annual salary, ancillary benefits, contributions to company pension scheme) accounts for approximately 50 % of target total remuneration. The percentage share of target total remuneration attributable to OVR amounts to approximately 20 %, while the equivalent share for MVR amounts to approximately 30 %.

1.1.2 Fixed remuneration components

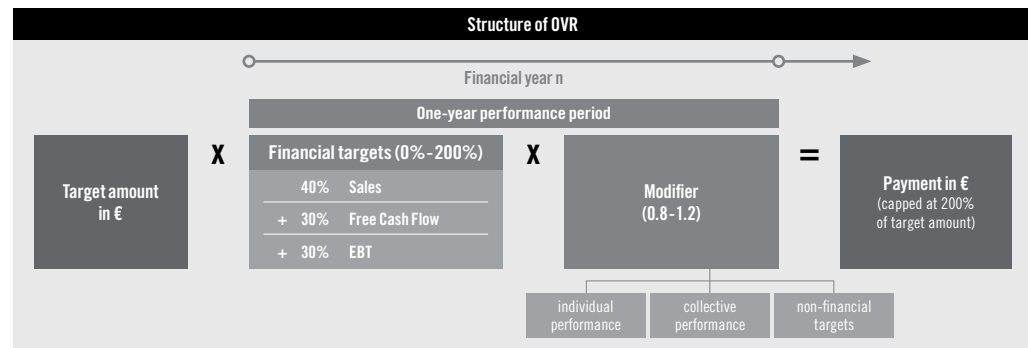
Members of the Board of Management receive a fixed annual salary in twelve monthly instalments. Ancillary benefits are also granted: HORNBAACH Baumarkt AG provides each member of the Board of Management with a company car that can also be used privately. Should a member of the Board of Management decide not to use a company car, HORNBAACH Baumarkt AG provides the respective member with settlement based on the average monthly costs of providing a company car. Furthermore, HORNBAACH Baumarkt AG provides members of the Board of Management with accident insurance (fatality and invalidity) and covers the maximum employer contribution permitted by law to health insurance and voluntary retirement insurance or alternatively contributions to a private life insurance policy. The contribution amounts to 50 % of the respectively valid retirement insurance rate up to the contribution assessment ceiling. Moreover, members of the Board of Management are covered by the D&O insurance policy taken out by HORNBAACH Baumarkt AG. In addition, HORNBAACH Baumarkt AG provides members of its Board of Management with coverage in a defined contribution company pension scheme. This commitment involves payment of half-yearly pension contributions amounting to 12.5 % of fixed gross annual salary.

1.1.3 Variable remuneration components

Performance-related variable remuneration comprises one-year variable remuneration (OVR) and multiyear variable remuneration (MVR).

One-year variable remuneration (OVR)

OVR is a performance-related bonus with a one-year assessment period. In the first step, OVR is dependent on key financial performance criteria at HORNBAACH Baumarkt AG. In the second step, the Supervisory Board may apply a modifier to account for the performance of the individual member of the Board of Management, the collective performance of the overall Board of Management, and the achievement of relevant non-financial targets.



The three financial performance criteria used to calculate the amount of OVR remuneration paid are: sales (weighted at 40 %), free cash flow, and earnings before taxes (“EBT”), both of which weighted at 30 %. This on the one hand provides an incentive for the Board of Management to focus its activities on the growth strategy pursued by the company. On the other hand, it provides an incentive for continually increasing the company’s earnings strength and internal financing potential.

The figures reported in the company’s approved and audited consolidated financial statements for the respective financial year are taken as the basis for reference.

The Supervisory Board sets targets for the individual financial performance criteria before the beginning of the respective financial year. Upon expiry of the financial year, total target achievement is calculated on the basis of target achievement in the individual financial performance criteria. To determine target achievement for the three financial performance criteria, for each criterion the Supervisory Board compares the actual value upon expiry of the financial year with the actual value for the previous year (strategic growth rate).

To supplement the financial performance criteria, the Supervisory Board stipulates criteria for the modifier, generally before the beginning of the respective financial year. By way of the modifier, the Supervisory Board can assess the performance of the individual member of the Board of Management, the performance of the overall Board of Management, and the achievement of non-financial targets, such as stakeholder and ESG (Environment, Social, Governance) targets.

The individual modifier is determined by the Supervisory Board at its due discretion. The modifier generally amounts to 1.0 and may be adjusted to a value between 0.8 and 1.2 if the financial performance criteria alone do not adequately reflect the performance of the member of the Board of Management. Pursuant to the transitional provisions for OVR in the employment contracts, for OVR in the 2020/21 financial year the company has applied the modifier with the factor 1.0.

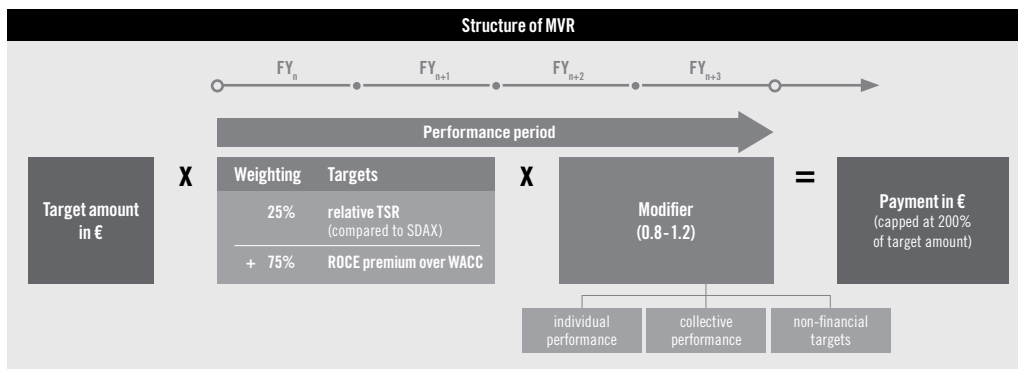
The OVR target amount is disbursed in the event of 100 % target achievement. If the employment relationship begins or ends in the current financial year, the target amount is proportionately reduced on a pro rata temporis basis as of the beginning or end of the employment relationship. The same applies by analogy to periods in which the member of the Board of Management, while still employed, has no claim to remuneration. If the employment relationship ends, the OVR is calculated for the current financial year in accordance with general provisions governing the OVR and paid at the regular date. All claims to OVR relating to a current assessment period, i.e. a current financial year, lapse without replacement or compensation in the following “bad leaver” cases: The employment contract with the member of the Board of Management ends prior to expiry of the assessment period due to extraordinary termination by the company for a compelling reason pursuant to § 626 of the German Civil Code (BGB) for which the member of the Board of Management is responsible; the appointment of the member of the Board of Management ends before expiry of the assessment period due to the appointment being revoked as a result of a gross breach of duty, or the appointment of the member of the Board of Management ends before expiry of the assessment period due to his or her resigning, without such resignation being caused by a breach of duty on the part of the company or by ill health on the part of the member of the Board of Management or of a close family member.

The annual OVR payment amount is capped at a maximum of 200 % of the target amount. The payment amount is due for payment at the latest in the month following approval of the consolidated financial statements of HORNBAACH Baumarkt AG for the financial year to which the OVR refers.

Multiyear variable remuneration (MVR)

MVR is structured as a performance cash plan that is granted annually in rolling tranches. Each tranche of the performance cash plan has a four-year term (“performance period”). Each performance period begins on March 1 of the first financial year in the performance period (“grant year”) and ends on February 28/29 of the third year following the grant year.

In the first step, MVR is dependent on key financial performance criteria at HORNBAACH Baumarkt AG. In the second step, the Supervisory Board may apply a modifier to account for the performance of the individual member of the Board of Management, the collective performance of the overall Board of Management, and achievement of relevant non-financial targets. Following expiry of the performance period, the target achievement for MVR is calculated over the four-year performance period and the payment amount for each member of the Board of Management is determined in line with the level of target achievement.



The key financial performance criteria for MVR are the relative total shareholder return (“TSR”) of HORNBAACH Baumarkt AG compared with the TSRs of companies listed in the SDAX throughout the entire performance period (except HORNBAACH Holding AG & Co. KGaA), which is weighted at 25 %, and the return premium (expressed by the return on capital employed, “ROCE”) less the weighted average cost of capital (“WACC”)

(“ROCE premium over WACC”) of the Group during the four-year performance period, which is weighted at 75 %. This on the one hand creates long-term incentives to generate an adequate return for shareholders, also by comparison with the market. On the other hand, the remuneration system for members of the Board of Management presents and promotes all aspects of sustainably profitable value creation resulting from their entrepreneurial actions.

By analogy with OVR and the principles presented in 1.1.3, the Supervisory Board may supplement the financial performance criteria with the modifier to account for the performance of the individual member of the Board of Management, the performance of the overall Board of Management, and the achievement of non-financial targets such as stakeholder and ESG targets and, at its due discretion, set the modifier at between 0.8 and 1.2 for each member of the Board of Management.

The MVR target amount is disbursed in the event of 100 % target achievement. If the employment relationship or MVR participation entitlement of the respective member of the Board of Management begins or ends during the grant year, the target amount is proportionately reduced on a pro rata temporis basis. This means that the target amount of MVR is reduced by 1/365 for each day in the grant year on which there was no employment relationship or no entitlement to participate. The same applies by analogy to periods in which the member of the Board of Management, while still employed, has no claim to remuneration. If the employment relationship ends, the MVR is calculated for the current performance periods in accordance with general provisions governing the MVR and paid at the regular date. All claims to MVR relating to a current assessment period, i.e. a current performance period, lapse without replacement or compensation in the “bad leaver” cases presented for the OVR in 1.1.3.

The MVR payment amount is capped for each tranche at a maximum of 200 % of the target amount. The payment amount is due for payment at the latest in the month following approval of the consolidated financial statements of HORNBACH Baumarkt AG for the final financial year in the four-year performance period.

Transitional provisions for MVR

The transition from the existing retrospective multiyear variable remuneration to the prospective performance cash plan outlined in this remuneration system will give rise to a three-year payment gap. For the 2020/21, 2021/22, and 2022/23 financial years, members of the Board of Management are therefore entitled to a prepayment amounting to 25 % of the target amount of the MVR tranche granted for the respective financial year. If a member of the Board of Management opts for a prepayment, the prepayment is made at the beginning of the following financial year. At the end of the respective performance period, the prepayment made is offset against the payment amount from the performance cash plan.

Share ownership guideline (SOG)

For the duration of their employment contracts, members of the Board of Management are obliged to acquire a minimum number of shares in HORNBACH Baumarkt AG and retain ownership of such (“SOG target”).

The SOG target amounts to 150 % of the fixed annual gross salary for the Chairman and 100 % of the fixed annual gross salary for regular members of the Board of Management. From the first payment of MVR through to achievement of the SOG target, the member of the Board of Management is obliged to use 50 % of the MVV payment amount (tax net amount) each financial year to acquire shares in HORNBACH Baumarkt AG. In individual cases and at its own due discretion, the Supervisory Board may approve deviations from the SOG terms following due consideration of individual circumstances.

1.2 Minimum and maximum remuneration

The minimum remuneration to be granted for a financial year, comprising fixed annual salary and the contribution to the company pension scheme, amounts to € 843,750 plus ancillary benefits for the Chairman, € 625,000 plus ancillary benefits for the Deputy Chairman, and € 562,500 plus ancillary benefits for regular members of the Board of Management.

The total remuneration to be granted for a financial year (total of all remuneration components expended for the respective financial year, including fixed annual salary, variable remuneration components, company pension scheme, and ancillary benefits) for members of the Board of Management – irrespective of whether they are paid in that financial year or at a later point in time – has a maximum cap (“maximum remuneration”). Maximum remuneration amounts to € 2,703,750 for the Chairman, € 2,015,000 for the Deputy Chairman, and € 1,822,500 for regular members of the Board of Management. If remuneration exceeds the maximum, the MVR payment amount is reduced for the respective grant year.

Irrespective of the maximum remuneration hereby stipulated, the payment amounts for individual variable remuneration components are capped at 200 % of the respective target amounts.

1.3 Remuneration upon premature termination of employment relationship

Should the activity of a member of the Board of Management be terminated prematurely, then any potential severance pay, including ancillary benefits, is capped at a maximum of two annual remuneration packages. If the remaining term of the employment contract amounts to fewer than two years, the severance pay may not exceed the contractual remuneration for the remaining term (severance pay cap). The calculation of the severance pay cap is generally based on total remuneration for the past financial year and, where appropriate, also on expected total remuneration for the current financial year.

If a retrospective prohibition on competition is agreed, then any severance pay is imputed to the remuneration agreed as compensation for such prohibition. If the employment contract is terminated by the member of the Board of Management, or due to a compelling reason for which he or she is responsible, then severance pay is precluded.

1.4 Remuneration of members of Board of Management in 2020/21 financial year

1.4.1 Remuneration of Board of Management in the 2020/21 financial year

The remuneration of the Board of Management for the 2020/21 financial year amounted to € 9,976k (2019/20: € 8,766k). Of this sum, € 3,232k (2019/20: € 2,938k) was fixed remuneration and € 6,744k (2019/20: € 1,911k) related to performance-related components. The previous year's figure included one-off payments of € 3,917k.

Total remuneration of members of Board of Management in 2020/21 financial year

Incumbent members	Non-performance-related components € 000s	Performance-related components (OVR) € 000s	Components with long-term incentive effect (MVR) € 000s	Total remuneration 2020/21 € 000s
Erich Harsch	715	750	656	2,121
Roland Pelka*	530	710	718	1,958
Karin Dohm (since 1.1.2021)	78	82	76	236
Susanne Jäger	480	500	438	1,418
Karsten Kühn	483	500	438	1,421
Ingo Leiner	477	500	438	1,415
Dr. Andreas Schobert	469	500	438	1,407
Total	3,232	3,542	3,202	9,976

* In addition to the remuneration components for the 2020/21 financial year, the remuneration of Roland Pelka also includes variable remuneration components for the 2021/22 financial year.

1.4.2 Pension commitments

Service costs totaling € 761k were expensed pursuant to IFRS for members of the Board of Management in the 2020/21 financial year (2019/20: € 685k). The following overview presents the service cost and the present value of the pension obligations attributable to individual members of the Board of Management.

Incumbent members of Board of Management	Service cost 2020/21 € 000s	Service cost 2019/2020 € 000s	Amount of pension provision February 28, 2021 * € 000s
Erich Harsch	169	22	198
Roland Pelka	125	100	6,774
Karin Dohm	19	0	22
Susanne Jäger	112	90	1,177
Karsten Kühn	112	90	656
Ingo Leiner	112	90	923
Dr. Andreas Schobert	112	90	597
Total	761	482	10,347
Former members of Board of Management	0	203	4,788
Total	761	685	15,135

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

2. Remuneration of the Supervisory Board

Supervisory Board remuneration is governed by § 15 of the Articles of Association of HORNBACH Baumarkt AG. Pursuant to § 113 (3) AktG, the remuneration system was confirmed by the Annual General Meeting on July 9, 2020.

2.1 Remuneration system

2.1.1 Contribution made by remuneration system for Supervisory Board members to promoting business strategy and long-term development

Given that its structure conforms to market norms, the Supervisory Board remuneration makes it possible to attract suitable candidates for the position of Supervisory Board member. The Supervisory Board remuneration therefore helps to ensure that the Supervisory Board as a whole is able to perform its duties of supervising and advising the Board of Management in an appropriate and competent manner and thus promotes the business strategy and long-term development of HORNBACH Baumarkt AG.

2.1.2 Remuneration components

The remuneration of Supervisory Board members comprises fixed annual basic remuneration and inclusion in a financial loss liability insurance policy maintained by HORNBACH Baumarkt AG.

The fixed annual basic remuneration amounts to € 50,000.00 for the Chairman of the Supervisory Board, € 40,000.00 for each Deputy Chairman of the Supervisory Board, and € 20,000.00 for each other member of the Supervisory Board. Furthermore, Supervisory Board members also sitting on a Supervisory Board committee receive fixed committee remuneration. Fixed committee remuneration amounts to:

- Audit Committee: € 22,500.00 for the chairman and € 9,000.00 for each other member
- Personnel Committee: € 15,000.00 for the chairman and € 6,000.00 for each other member
- Mediation Committee – if convened in the financial year – € 10,000.00 for the chairman and € 4,000.00 for each other member.

The fixed annual basic remuneration and fixed committee remuneration are granted for each financial year and are each due for payment on the day after the Annual General Meeting to which the annual financial statements for the respective financial year are presented. Remuneration is proportionately reduced on a pro rata temporis basis if a member of the Supervisory Board or a committee is not a member of such for the full financial year or does not chair the respective body for the full financial year. HORNBACH Baumarkt AG reimburses any sales tax incurred on the fixed annual basic remuneration and the fixed committee remuneration to the extent that Supervisory Board members are entitled to charge the company separately for sales tax and exercise this right. Furthermore, Supervisory Board members are included in a financial loss liability insurance policy maintained by HORNBACH Baumarkt AG at its own expense for its directors and officers.

2.1.3 Procedure for determining, implementing, and reviewing the remuneration system

At the proposal of the Board of Management and the Supervisory Board, the Annual General Meeting determines Supervisory Board remuneration in the Articles of Association or by adopting a resolution. At present, Supervisory Board remuneration is determined in the Articles of Association. The Annual General Meeting adopts a resolution on Supervisory Board remuneration at least once every four years. To prepare the resolution to be adopted by the Annual General Meeting, the Board of Management and Supervisory Board each review whether the Supervisory Board remuneration is still in the interests of HORNBACH Baumarkt AG and appropriate, particularly in respect of its amount and structure. If necessary, the Board of Management and the Supervisory Board propose a suitable adjustment for approval by the Annual General Meeting.

2.2 Remuneration of Supervisory Board members in 2020/21 financial year

The remuneration of the members of the Supervisory Board in office in the 2020/21 financial year amounted to € 515k in total. Of this, € 390k is basic remuneration and € 125k is for committee activity. We present the Supervisory Board remuneration for members of the Supervisory Board of HORNBACH Baumarkt AG in individualized form below.

Incumbent members	Financial year	Basic remuneration € 000s	Total committee remuneration € 000s	Total € 000s
Albrecht Hornbach	2020/21	50	15	65
	2019/20	50	15	65
Kay Strelow	2020/21	40	9	49
	2019/20	40	9	49
Dr. John Feldmann	2020/21	40	24	64
	2019/20	40	24	64
Mohamed Elaouch	2020/21	20	0	20
	2019/20	20	0	20
Christian Garrecht	2020/21	20	6	26
	2019/20	20	6	26
Erich Harsch	2020/21	0	0	0
	2019/20	17	8	25
Georg Hornbach	2020/21	20	9	29
	2019/20	20	1	21
Martin Hornbach	2020/21	20	15	35
	2019/20	20	15	35
Markus Lass	2020/21	20	15	35
	2019/20	20	15	35
Jörg Manns	2020/21	20	0	20
	2019/20	20	0	20
Anke Matrose	2020/21	20	0	20
	2019/20	20	0	20
Brigitte Mauer	2020/21	20	0	20
	2019/20	20	0	20
Johannes Otto	2020/21	20	0	20
	2019/20	20	0	20
Simona Scarpaleggia	2020/21	20	0	20
	2019/20	3	0	3
Vanessa Stütze	2020/21	20	9	29
	2019/20	20	9	29
Melanie Thomann-Bopp	2020/21	20	23	43
	2019/20	20	23	43
Prof. Dr.-Ing. Jens P. Wulfsberg	2020/21	20	0	20
	2019/20	20	0	20
Total	2020/21	390	125	515
	2019/20	390	125	515

(Differences due to rounding up or down to nearest € 000)

Other Disclosures

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

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

1.1 Composition of share capital

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

1.2 Direct or indirect capital shareholdings

Via HORNBAACH Holding AG & Co. KGaA, based in Le Quartier Hornbach 19, 67433 Neustadt an der Weinstrasse, Germany, HORNBAACH Management AG, based in Annweiler am Trifels, Germany, holds more than 10 % of the voting rights. Its shareholding, and thus its share of voting rights, amounted to an unchanged total of 76.4 % as of February 28, 2021.

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

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

1.4 Change of control

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

1.5 Powers of Board of Management to issue shares

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

- in order to settle residual amounts
- to the extent necessary to grant subscription rights to the holders of conversion or option rights issued or still to be issued by the company or by direct or indirect wholly-owned subsidiaries to the extent that they would be entitled to such shares having exercised their respective conversion or option rights

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

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

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

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

2. Corporate Governance Statement pursuant to § 315d HGB and § 289f HGB

The Corporate Governance Statement requiring submission pursuant to § 315d and § 289f of the German Commercial Code (HGB) is available on our website. Pursuant to § 317 (2) Sentence 6 HGB, the disclosures on corporate governance made under § 289f and § 315d HGB are an unaudited component of the Combined Management Report.



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Investor Relations >
Corporate Governance

3. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2020/21 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 Group Report

HORNBACH Baumarkt AG has drawn on the option provided for in § 289b (2) and § 315b (2) HGB of exempting itself from the obligation to extend the combined management report with a combined non-financial declaration. HORNBACH Baumarkt AG is included in the group management report of its parent company HORNBACH Holding AG & Co. KGaA. HORNBACH Holding AG & Co. KGaA has submitted a non-financial group report for the 2020/21 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/FinancialReports).



www.hornbach-group.com/FinancialReports

DISCLAIMER

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

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2020 to February 28, 2021

	Notes	2020/21 € 000s	2019/20 € 000s	Change %
Sales	1	5,116,944	4,428,038	15.6
Cost of goods sold	2	3,278,214	2,807,689	16.8
Gross profit		1,838,730	1,620,349	13.5
Selling and store expenses	3/10	1,356,223	1,244,781	9.0
Pre-opening expenses	4/10	7,130	7,692	(7.3)
General and administration expenses	5/10	232,108	226,088	2.7
Other income and expenses	6/10	15,331	22,137	(30.7)
Earnings before interest and taxes (EBIT)		258,601	163,926	57.8
Other interest and similar income		541	796	(32.0)
Other interest and similar expenses		56,118	59,819	(6.2)
Other financial result		(2,778)	867	>-100
Net financial expenses	7	(58,355)	(58,156)	0.3
Consolidated earnings before taxes		200,246	105,770	89.3
Taxes on income	8	47,108	27,085	73.9
Consolidated net income		153,138	78,685	94.6
Basic/diluted earnings per share (€)	9	4.82	2.47	95.1

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2020 to February 28, 2021

	Notes	2020/21 € 000s	2019/20 € 000s
Consolidated net income		153,138	78,685
Actuarial gains and losses on defined benefit plans	24/25	6,207	(8,675)
Measurement of equity instruments	14/32	(3,745)	3,149
Deferred taxes on other comprehensive income that will not be recycled at a later date		(982)	1,308
Other comprehensive income that will not be recycled at a later date		1,480	(4,218)
Exchange differences arising on the translation of foreign subsidiaries		(9,911)	10,482
Other comprehensive income that will possibly be recycled at a later date		(9,911)	10,482
Total comprehensive income		144,706	84,949

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 28, 2021

Assets	Notes	2.28.2021 € 000s	2.29.2020 € 000s
Non-current assets			
Intangible assets	11	16,969	15,864
Property, plant, and equipment	12	1,145,080	1,097,684
Investment property	12	7,856	6,712
Right-of-use assets	13	1,175,772	1,217,832
Financial assets	14/32	6,738	10,483
Other non-current receivables and assets	15	1,704	1,291
Deferred tax assets	16	11,286	10,442
		2,365,404	2,360,309
Current assets			
Inventories	17	944,561	814,438
Trade receivables	18	14,628	11,613
Contract assets	18	1,231	1,566
Other current assets	18	98,283	72,110
Income tax receivables	27	6,484	2,059
Cash and cash equivalents	19	334,596	302,162
		1,399,782	1,203,948
		3,765,187	3,564,257

Equity and liabilities	Notes	2.28.2021 € 000s	2.29.2020 € 000s
Shareholders' equity	21		
Share capital		95,405	95,421
Capital reserve		143,599	143,623
Revenue reserves		1,015,941	893,010
		1,254,945	1,132,054
Non-current liabilities			
Non-current financial debt	23	541,597	540,949
Non-current lease liabilities	23	675,417	681,693
Non-current lease liabilities related to affiliated companies	23	453,572	463,231
Pensions and similar obligations	24	19,095	24,234
Deferred tax liabilities	16	10,391	12,648
Other non-current liabilities	25/28	39,577	41,522
		1,739,649	1,764,277
Current liabilities			
Current financial debt	23	49,484	50,915
Current lease liabilities	23	82,207	78,549
Current lease liabilities related to affiliated companies	23	57,529	60,148
Trade payables	26	293,136	250,710
Contract liabilities	26	44,133	34,388
Other current liabilities	26	91,095	76,024
Income tax liabilities	27	25,239	17,644
Other provisions and accrued liabilities	28	127,771	99,549
		770,593	667,926
		3,765,187	3,564,257

Statement of Changes in Equity of the HORNBACH Baumarkt AG Group

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

2020/21 financial year € 000s	Notes	Share capital	Capital reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2020		95,421	143,623	47,809	845,200	1,132,054
Consolidated net income					153,138	153,138
Actuarial gains and losses on defined benefit plans, net after taxes	24/25				5,168	5,168
Measurement of equity instruments, net after taxes	14/32				(3,689)	(3,689)
Exchange differences arising on the translation of foreign subsidiaries				(9,911)		(9,911)
Total comprehensive income				(9,911)	154,617	144,706
Dividend distribution	22				(21,629)	(21,629)
Treasury stock transactions	21	(16)	(24)		(147)	(187)
Balance at February 28, 2021		95,405	143,599	37,898	978,042	1,254,945

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2020/21 € 000s	2019/20 € 000s
Consolidated net income		153,138	78,685
Depreciation and amortization of property, plant, and equipment and intangible assets	10	77,325	83,764
Depreciation of right-of-use assets	13	168,687	166,069
Change in provisions		1,060	8,436
Gains/losses on disposals of non-current assets and of non-current assets held for sale		78	831
Change in inventories, trade receivables and other assets		(164,807)	(65,268)
Change in trade payables and other liabilities		104,789	61,008
Other non-cash income/expenses		(6,743)	(6,050)
Cash flow from operating activities		333,526	327,475
Proceeds from disposal of non-current assets and of non-current assets held for sale		2,722	2,246
Payments for investments in property, plant, and equipment		(134,629)	(92,751)
Payments for investments in intangible assets		(5,018)	(4,348)
Cash flow from investing activities		(136,925)	(94,853)
Dividends paid	22	(21,629)	(21,629)
Proceeds from taking up long-term debt	23	0	248,080
Repayment of long-term debt	23	0	(259,422)
Repayment of current and non-current lease liabilities	13/23	(141,059)	(139,709)
Payments for transaction costs		0	(1,557)
Change in current financial debt		0	(71)
Cash flow from financing activities		(162,687)	(174,308)
Cash-effective change in cash and cash equivalents		33,914	58,314
Change in cash and cash equivalents due to changes in exchange rates		(1,480)	1,317
Cash and cash equivalents at March 1		302,162	242,530
Cash and cash equivalents at balance sheet date		334,596	302,162

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

The other non-cash income/expenses item mainly relates to deferred taxes, the updating of financing expenses deferred using the effective interest method, expenses for interest deferrals, non-cash income/expenses for leases, and unrecognized exchange rate differences.

The cash flow from operating activities was reduced by income tax payments of € 48,067k (2019/20: € 22,984k) and interest payments of € 56,914k (2019/20: € 58,761k) and increased by interest received of € 541k (2019/20: € 796k). Of interest payments, € 42,061k (2019/20: € 42,386k) involve interest paid on leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

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

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

Basis of preparation

In line with § 315e (1) of the German Commercial Code (HGB), HORNBACH Baumarkt AG prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. New IFRS are only applied following their endorsement by the European Union. Application has been made of all IFRS and pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) with binding effect for the 2020/21 financial year. The consolidated financial statements and group management report of HORNBACH Baumarkt AG are published in the Federal Gazette (*Bundesanzeiger*).

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

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

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

The Board of Management of HORNBACH Baumarkt AG prepared the consolidated financial statements and approved them for publication on May 18, 2021. The period in which adjusting events could be accounted for thus expired as of this date.

Changes to accounting policies due to new accounting requirements

The following policies require mandatory application from the 2020/21 financial year onwards:

- Amendment to IFRS 16 “COVID-19-Related Rent Concessions” (05.28.2020)
- Amendments to IFRS 3 “Definition of a Business”
- Amendments to IFRS 9, IAS 39, and IFRS 7 “Interest Rate Benchmark Reform Phase 1”
- Amendments to IAS 1 and IAS 8 “Definition of Material”
- Amendments to References to the Conceptual Framework in IFRS Standards

The implications of the amendment to IFRS 16 “COVID-19-Related Rent Concessions” are presented below. The other policies requiring application for the first-time in the 2020/21 financial year did not have any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

Amendment to IFRS 16 “COVID-19-Related Rent Concessions”

In the second quarter of 2020, the International Accounting Standards Board (IASB) published an amendment to IFRS 16 that permits lessees to recognize rent concessions directly related to COVID-19 through profit or loss rather than as adjustments to the right-of-use assets. To be eligible, rent adjustments must satisfy the following conditions:

- They must be directly related to COVID-19.
- The change to lease payments leads to revised consideration for the lease that is substantially the same or less than the consideration for the lease immediately prior to such change.
- The reduction in lease payments only relates to payments due on or before June 30, 2021.
- No other substantive changes are made to the terms of the lease.

The Group exercised the option to recognize rent concessions through profit or loss. This resulted in the recognition of an amount of € 911k in selling and store expenses, with a corresponding reduction to expenses, in the 2020/21 financial year.

Standards and interpretations not applied prematurely

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

The following provisions require mandatory application from the 2021/22 financial year:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 – Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 4 “Extension of the Temporary Exemption from Applying IFRS 9”

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

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

- Amendments to IAS 1 “Classification of Liabilities as Current or Non-Current”
- Amendments to IAS 1 “Disclosure of Accounting Policies”
- Amendments to IAS 8 “Definition of Changes in Estimates”
- Amendments to IAS 16 “Property, Plant and Equipment”
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”
- Amendments to IFRS 3 “Business Combinations”
- Amendment to IFRS 16 “COVID-19-Related Rent Concessions” (02.11.2021)
- IFRS 17 “Insurance Contracts” and amendments to IFRS 17
- Collective standard amending various IFRSs “Annual Improvements to IFRSs: 2018-2020 Cycle”

Apart from the amendment to IFRS 16 “COVID-19-Related Rent Concessions”, these amendments, if endorsed, are currently not expected to have any material implications for the Group's asset, financial, and earnings position.

With regard to the amendment to IFRS 16 “COVID-19-Related Rent Concessions”, the Group would continue to exercise the option of recognizing rent concessions through profit or loss if any pandemic-related rent concessions were to arise.

Consolidation principles

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

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

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

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

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBAACH Baumarkt AG is based on an assessment of control-related factors. Control over a subsidiary exists when HORNBAACH 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. HORNBAACH 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 HORNBAACH gaining control. Subsidiaries are fully consolidated in the consolidated financial statements of HORNBAACH Baumarkt AG on the date on which control is gained. Should any circumstances or facts indicate a change in the control relationship, then a reassessment is performed. Interests in companies not included in the scope of consolidation have been recognized at fair value or, where this cannot be reliably determined, at amortized cost. There were no interests in companies requiring recognition at equity at the balance sheet date.

In addition to HORNBAACH Baumarkt AG, the consolidated financial statements include 7 domestic and 30 foreign subsidiaries by way of full consolidation. As the sole shareholder in HORNBAACH International GmbH, HORNBAACH Baumarkt AG holds, either directly or indirectly, 100 % of the voting rights in the consolidated subsidiaries. As in the previous year, all direct and indirect subsidiaries of HORNBAACH Baumarkt AG have been included in the consolidated financial statements for the 2020/21 financial year.

Changes in the scope of consolidation

HORNBAACH Real Estate Rotterdam B.V., Rotterdam (Netherlands), was included in the consolidated financial statements for the first time in the 2020/21 financial year. This company was founded in the 2020/21 financial year.

The development in the scope of consolidation was as follows:

	2020/21	2019/20
March 1	37	37
Companies consolidated for the first time	1	1
Companies sold	0	1
February 28/29	38	37

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity ¹⁾ in thousands, local currency	Local currency
Germany ²⁾			
HORNBACH International GmbH, Bornheim	100	106,019	EUR
HORNBACH Beteiligungen GmbH, Bornheim	100	7,809	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	100 ⁵⁾	26	EUR
HB Reisedienst GmbH, Bornheim	100 ⁵⁾	7,281	EUR
BODENHAUS GmbH, Essingen	100 ⁵⁾	(788)	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100 ⁵⁾	636	EUR
HORNBACH Forst GmbH, Bornheim	100 ⁵⁾	(547)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100 ⁴⁾	3,983,016	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	76,756	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	15,494	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	100	2,155	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	14,996	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	152,013	CHF
HORNBACH Byggmärnad AB, Gothenburg, Sweden	100	101,008	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	192,542	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	28,780	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	100	(62)	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	100	(7)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,703	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	1,420	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	1,218	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	1,810	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	1,001	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	(14)	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(1,295)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	1,180	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	1,144	EUR
HORNBACH Real Estate Wieringen B.V., Wieringen, Netherlands	100	1,525	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	836	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,680	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,492	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	716	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(90)	EUR
HORNBACH Real Estate Rotterdam B.V., Rotterdam, Niederlande	100	20	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	27,037	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100 ³⁾	195,302	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100 ³⁾	13,766	HKD

¹⁾ Shareholders' equity corresponds to the local equity; in the case of HORNBACH Centrala SRL and HORNBACH Asia Ltd., however, equity has been determined in accordance with IFRS.

²⁾ Of which: 100% direct shareholding.

³⁾ Of which: 1.6854% direct shareholding.

⁴⁾ Of which: 0.0033% direct shareholding.

⁵⁾ Of which direct shareholding to HORNBACH Beteiligungen GmbH

Control and profit and loss transfer agreements are in place between HORNBAACH Baumarkt AG and HORNBAACH International GmbH and between HORNBAACH Baumarkt AG and HORNBAACH Beteiligungen GmbH. Furthermore, control and profit and loss transfer agreements are also in place between HORNBAACH Beteiligungen GmbH and AWW-Agentur für Werbung und Verkaufsförderung GmbH, HB Reisedienst GmbH, BODENHAUS GmbH, and HORNBAACH Forst GmbH.

Foreign currency translation

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

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

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2021	2.29.2020	2020/21	2019/20
RON Romania	4.8750	4.8130	4.85331	4.75437
SEK Sweden	10.1388	10.6738	10.41061	10.61918
CHF Switzerland	1.0986	1.0614	1.07235	1.10221
CZK Czech Republic	26.1950	25.3900	26.60207	25.57998
USD USA	1.2121	1.0977	1.16020	1.11325
HKD Hong Kong	9.4010	8.5550	8.99454	8.70980

Accounting policies

General principles

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

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

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

Goodwill

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

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

Intangible assets (except goodwill)

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

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

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

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

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”.

Leases

Leases are recognized in accordance with IFRS 16 requirements. As a result, essentially all leases not covered by a practical expedient or an exemption are recognized in the balance sheet with a right-of-use asset for the leased item and a lease liability for the (discounted) payment obligation thereby assumed.

The 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 current values stated also include terms offering extension/termination options for which such options have not yet been legally exercised. From a legal perspective, the company therefore still has the possibility to avoid the respective obligations. The amounts recognized therefore entail opportunity.

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

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

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

Impairment of non-current non-financial assets

For non-current non-financial assets (property, plant and equipment and right-of-use assets), a review is performed as of each balance sheet date to assess whether there are any indications of impairment ("triggering events"). If there are any such indications, then the asset is tested for impairment. Intangible assets with indefinite useful lives and goodwill acquired in a business combination are tested for impairment each year irrespective of whether there are any indications of impairment.

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 expected at the cash generating unit. The assessment period is limited to the rental term of the let property or the expected remaining useful life of a proprietary property. The basis for this is provided by the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future have been extrapolated on the basis of a long-term growth rate of 1.5% (2019/20: 1.0 % to 1.5%). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current developments 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 5.1% to 13.2% after taxes (2019/20: 3.5% to 11.2%) and from 3.2% to 15.7% before taxes (2019/20: 3.9% to 13.4%). 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 using 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 HORNBAACH Baumarkt AG have obligations relating to defined contribution and defined benefit pension plans.

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

Current service cost and any retrospective service cost are recognized in operating earnings. 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 in other comprehensive income 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 in operating earnings 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, HORNBAACH 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, HORNBAACH measures a financial asset at fair value plus – for financial assets not subsequently measured at fair value through profit or loss – the transaction costs directly attributable to the acquisition of the asset. One exception relates to trade receivables not including significant financing components, which are measured at their transaction prices. Transaction costs of assets measured at fair value through profit or loss are directly expensed in the consolidated income statement.

Debt instruments

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

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

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

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

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

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

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

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

For trade receivables and contract assets, application is made of the simplified approach. This model does not require changes in the credit risk to be tracked. Instead, HORNBAACH 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.

Equity instruments

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

For equity instruments not held for trading, HORNBAACH has uniformly exercised the option of recognizing 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 pre-payments for financial assets (equity instruments) are recognized at cost when insufficient new information is available to measure fair value or when a wide range of possible fair value measurements is available and cost represents the best estimate within this range.

Derecognition

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

Primary financial instruments

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

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

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

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

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

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

The cash equivalents included in cash and cash equivalents are short-term highly liquid financial investments that can at any time be turned into fixed cash amounts and are only subject to immaterial fluctuations in value. Cash equivalents in some cases include investments in money market funds. Their classification and measurement pursuant to IFRS 9 is based on the business model used by the company to manage these financial assets and contractual cash flows. Alongside payments of principal and interest on the outstanding amount, investments also include other cash flows. As a result, these investments are measured at fair value through profit or loss.

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, are used to hedge exchange rate risks. In line with the Group's risk principles, no derivative financial instruments are held for speculative purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are directly expensed.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 or IFRS 9 are measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the balance sheet date.

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

Fair value measurement

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

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

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

Sales

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

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

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

As well selling goods and services that are fulfilled at a specific point in time, the Group also offers services that are fulfilled over time. These services involve tradesmen services which HORNBAACH 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 outstanding 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 HORNBAACH with an economic incentive to exercise an extension option or not exercise a termination option are duly accounted for and assessed. In calculating the incremental borrowing rate, both the calculation of the risk-free interest rate and the determination of the risk premium are subject to discretionary decisions. More detailed information can be found in Notes 13 and 23.

Assumptions and estimates

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

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11, 12 & 13), the recognition and measurement of provisions (Notes 24, 25 & 28), the calculation of the recoverable amount to determine the amount of any impairments of non-current non-financial assets (Notes 10, 11, 12 & 13), the determination of the net realizable price for inventories (Note 17), and the ability to obtain future tax relief (Notes 8, 16 & 27). Further information can be found in the accounting policies relating to the respective topic and in the aforementioned notes.

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

Estimates and discretionary decisions due to the COVID-19 pandemic

In its discretionary decisions and estimates, the management referred to all available information on expected economic developments and country-specific state countermeasures. Given that the global consequences of the COVID-19 pandemic are still unforeseeable, however, these discretionary decisions and estimates by the management are subject to increased uncertainty. Actual amounts may deviate from the management's assessments and estimates. Any changes in these amounts may have material implications for the consolidated financial statements. This information has mainly been accounted for in the following material groups of topics:

- Impairment tests on non-financial assets (including right-of-use assets); Notes 10 and 12
- Measurement of inventories; Notes 10 and 17
- Recoverability of financial assets; Notes 10, 18, and 33
- Measurement of returned goods; Notes 10, 18, and 28

Segment Reporting

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

Segment delineation

The allocation of business fields (segments) corresponds to the internal reporting system used by the Board of Management of the HORNBACH Baumarkt AG Group for managing the company. The “Retail” segment includes the 161 (2019/20: 160) DIY megastores and garden centers grouped together in the HORNBACH Baumarkt AG Group and the online shops in the nine European countries in which we operate. The “Real Estate” segment includes the retail properties owned by the HORNBACH Baumarkt AG Group, which are let and charged to the respective DIY stores with garden centers within the Group at normal market conditions. Administration items not allocable to the two aforementioned segments and consolidation items are further subdivided into the “Central Functions” and “Consolidation” 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 “Central Functions” column. Items eliminated between segments are presented in the “Consolidation” column. Investments relate to the non-current assets allocable to the respective segment.

2020/21 in € million 2019/20 in € million	Retail	Real Estate	Central Functions	Consolidation	HORNBACH Baumarkt AG Group
Segment sales	5,114.5	282.5	0.0	(280.1)	5,116.9
	4,423.6	280.7	0.0	(276.3)	4,428.0
Sales to third parties	5,114.5	0.0	0.0	0.0	5,114.5
	4,423.6	0.0	0.0	0.0	4,423.6
Rental income from third parties	0.0	2.5	0.0	0.0	2.5
	0.0	4.4	0.0	0.0	4.5
Rental income from affiliated companies	0.0	280.1	0.0	(280.1)	0.0
	0.0	276.3	0.0	(276.3)	0.0
EBIT	185.7	94.3	(21.4)	0.0	258.6
	94.1	87.3	(17.5)	0.0	163.9
of which: depreciation and amortization/write-ups	52.5	183.3	10.2	0.0	246.0
	54.6	183.9	11.3	0.0	249.9
Segment earnings (adjusted EBIT)	187.0	113.2	(21.4)	0.0	278.8
	94.5	104.8	(17.5)	0.0	181.8
Segment assets	1,340.3	2,138.2	268.9	0.0	3,747.4
	1,230.3	2,143.9	177.6	0.0	3,551.7
of which: credit balances at banks	102.0	0.0	196.8	0.0	298.8
	142.2	0.0	118.5	0.0	260.6
Investments¹⁾	53.2	213.5	8.1	0.0	274.8
	37.7	75.2	60.8	0.0	173.8
Segment liabilities	542.4	1,630.1	302.1	0.0	2,474.6
	452.5	1,646.4	303.0	0.0	2,401.9
of which: financial debt	0.0	1,612.2	247.6	0.0	1,859.8
	0.0	1,628.5	247.0	0.0	1,875.5

¹⁾ Investments also include non-cash additions to right-of-use assets.

Reconciliation EBIT <=> adjusted EBIT in € million	2020/21	2019/20
EBIT	258.6	163.9
Impairment of assets (IAS 36) ¹⁾	18.6	18.2
Result from sale or valuation of non-operating real-estate	0.0	0.1
Other	1.6	(0.4)
Segment earnings (adjusted EBIT)	278.8	181.8

¹⁾ This line item exclusively includes impairments recognized for operating locations (cash-generating units).

Reconciliation in € million	2020/21	2019/20
Segment earnings (adjusted EBIT)	278.8	181.8
Non-operating items	(20.2)	(17.9)
Net financial expenses	(58.4)	(58.2)
Consolidated earnings before taxes	200.2	105.8
Segment assets	3,747.4	3,551.7
Deferred tax assets	11.3	10.4
Income tax receivables	6.5	2.1
Total assets	3,765.2	3,564.2
Segment liabilities	2,474.6	2,401.9
Deferred tax liabilities	10.4	12.6
Income tax liabilities	25.2	17.6
Total liabilities	2,510.2	2,432.2

Geographical information

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

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

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

2020/21 in € million 2019/20 in € million	Germany	Other European Countries	Consolidation	HORNBACH Baumarkt AG Group
Sales	3,020.8	2,463.0	(366.9)	5,116.9
	2,568.0	2,183.4	(323.4)	4,428.0
Sales to third parties	2,654.3	2,460.2	0.0	5,114.5
	2,244.9	2,178.7	0.0	4,423.6
Sales to affiliated companies	366.3	0.5	(366.8)	0.0
	323.0	0.3	(323.3)	0.0
Rental income from third parties	0.2	2.3	0.0	2.5
	0.2	4.3	0.0	4.5
EBIT	70.8	187.9	(0.1)	258.6
	26.5	137.8	(0.4)	163.9
Depreciation and amortization/write-ups	141.3	104.7	0.0	246.0
	146.1	103.7	0.0	249.8
Segment earnings (adjusted EBIT)	82.8	196.0	0.0	278.8
	35.4	146.7	(0.3)	181.8
EBITDA	212.1	292.6	(0.1)	504.6
	172.6	241.5	(0.4)	413.8
Assets	2,372.8	1,724.3	(349.7)	3,747.4
	2,180.9	1,681.2	(310.3)	3,551.7
of which: non-current assets ¹⁾	1,175.0	1,172.1	(0.2)	2,346.9
	1,160.1	1,179.0	(0.2)	2,338.9
Investments²⁾	162.2	112.6	0.0	274.8
	76.1	97.7	0.0	173.8

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

²⁾ Investments also include non-cash additions to right-of-use assets.

Notes to Consolidated Income Statement

(1) Sales

Sales mainly involve revenues from contracts with customers in the Retail segment. Furthermore, income of € 2,453k (2019/20: € 4,460k) from the letting of real estate has also been reported under sales.

Sales include revenues of € 28,607k which were recognized at the beginning of the period as contract liabilities (2019/20: € 26,390k). Furthermore, these also include retrospective sales of € 3,117k for performance obligations pursuant to IFRS 15 that were satisfied in previous years (2019/20: € 2,107k).

The following table presents the breakdown of sales by segment:

External sales 2020/21 in € million	Retail	Real Estate	Group figure
of which: Germany	2,654.3	0.2	2,654.5
of which: Other European Countries	2,460.2	2.3	2,462.5
	5,114.5	2.5	5,116.9

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

(2) Cost of goods sold

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

	2020/21 € 000s	2019/20 € 000s
Expenses for auxiliary materials and purchased goods	3,146,341	2,713,616
Expenses for services rendered	131,873	94,073
	3,278,214	2,807,689

(3) Selling and store expenses

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

(4) Pre-opening expenses

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

(5) General and administration expenses

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

(6) Other income and expenses

Other income and expenses are structured as follows:

	2020/21 € 000s	2019/20 € 000s
Other income from operating activities		
Income from damages	2,503	14,026
Income from allocations within the HORNBAACH HOLDING Group	1,992	1,952
Income from advertising allowances and other reimbursements of suppliers	1,236	1,674
Income from payment differences	861	1,171
Income from disposal of non-current assets	1,014	864
Miscellaneous other income	16,054	17,392
Other income	23,660	37,079

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

	2020/21 € 000s	2019/20 € 000s
Other expenses from operating activities		
Losses due to damages	2,708	8,766
Impairments and defaults on receivables	1,787	1,869
Losses on disposal of non-current assets	518	934
Expenses from payment differences	170	144
Miscellaneous other expenses	3,146	3,228
Other expenses	8,329	14,941
Net balance (income) of other income and expenses	15,331	22,137

(7) Net financial expenses

	2020/21 € 000s	2019/20 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	394	545
Other	147	251
	541	796
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	12,642	15,827
Interest expenses for lease liabilities measured at amortized cost	42,061	42,386
of which: to affiliated companies	17,350	17,007
Interest expenses from compounding of provisions	32	230
Other	1,383	1,376
of which: to affiliated companies	37	38
	56,118	59,819
Net interest expenses	(55,577)	(59,023)
Other financial result		
Gains/losses on derivative financial instruments	(2,957)	1,726
Gains and losses from foreign currency exchange	179	(859)
	(2,778)	867
Net financial expenses	(58,355)	(58,156)

Other interest income mainly includes interest income of € 145k on tax refund claims (2019/20: € 240k).

In line with IFRS 16 “Leases”, the interest component of the lease instalments, amounting to € 42,061k (2019/20: € 42,386k) 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 € 1,956k in the year under report (2019/20: € 2,409k) 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 % (2019/20: 2.3 %).

The gains and losses from foreign currency exchange for the 2020/21 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net income of € 1,964k (2019/20: net expenses of € 540k). Furthermore, this item also includes realized exchange rate gains of € 6,211k (2019/20: € 5,191k) and realized exchange rate losses of € 7,997k (2019/20: € 5,510k).

(8) Taxes on income

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

The German companies included in the HORNBACH Baumarkt AG Group are subject to an unchanged average trade tax rate of approximately 13.9 % of their trading income (2019/20: 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 27.2 % (2019/20: 8.5 % to 27 %).

The actual income tax charge of € 47,108k (2019/20: € 27,085k) is € 12,966k lower (2019/20: € 4,646k) than the expected tax charge of € 60,074k (2019/20: € 31,731k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Baumarkt AG (2019/20: 30 %) to the Group's pre-tax earnings of € 200,246k (2019/20: € 105,770k).

Deferred tax assets have been stated for losses carried forward amounting to € 78k (2019/20: € 18,971k). HORNBACH Baumarkt AG expects it to be possible to offset the tax losses arising and carried forward in individual countries against future earnings in full.

No deferred tax assets have been reported in the case of losses carried forward amounting to € 43,842k (2019/20: € 48,436k), as future realization of the resultant benefit is not expected. There are no time limits on the utilization of any losses carried forward. Losses carried forward amounting to € 6,940k for which no deferred taxes had been recognized were utilized (2019/20: € 61k).

Taxes on income due in future in connection with planned profit distributions at subsidiaries have been recognized as deferred tax liabilities. A budgeting horizon of one year has been assumed. The distributions for which deferred tax liabilities have been recognized at the HORNBACH Baumarkt AG Group are subject to German taxation at 5 %. No deferred tax liabilities have been recognized for retained profits of € 532,658k at subsidiaries (2019/20: € 468,065k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of tax charge:

	2020/21 € 000s	2019/20 € 000s
Current taxes on income		
Germany	16,082	4,058
Other countries	35,156	30,768
	51,238	34,826
Deferred tax expenses/income		
due to changes in temporary differences	(6,700)	(11,920)
due to changes in tax rates	(432)	101
due to losses carried forward	3,002	4,078
	(4,130)	(7,741)
Taxes on income	47,108	27,085

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

	2020/21		2019/20	
	€ 000s	%	€ 000s	%
Expected income tax charge	60,074	100.0	31,731	100.0
Difference between local tax rate and group tax rate	(15,811)	(26.3)	(11,391)	(35.9)
Tax-free income	(1,019)	(1.7)	(708)	(2.2)
Tax reductions/increases due to changes in tax rates	(432)	(0.7)	101	0.3
Tax increases attributable to expenses not deductible for tax purposes	4,783	8.0	4,818	15.2
Tax effects on losses carried forward	(1,485)	(2.5)	1,512	4.8
Non-period current and deferred taxes	998	1.7	1,022	3.2
Taxes on income	47,108	78.5	27,085	85.4
Effective tax rate in %	23.5		25.6	

The non-period current tax expenses of € 1,810k (2019/20: tax income of € 201k) chiefly result from adjustments to provisions for the external tax audit currently underway for the years 2017 and 2018 (€ 1,232k).

The non-period deferred tax income of € 812k (2019/20: tax expenses of € 1,223k) chiefly result from the recognition of deferred tax assets due to the external tax audit currently underway for the years 2017 and 2018.

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

	2020/21 € 000s	2019/20 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	6,207	(8,675)
Change in deferred taxes	(1,038)	1,355
	5,169	(7,320)
Measurement of financial assets		
Measurement of equity instruments	(3,745)	3,149
Change in deferred taxes	56	(47)
	(3,689)	3,102
Exchange differences arising on the translation of foreign subsidiaries	(9,911)	10,482
Other comprehensive income, net after taxes	(8,431)	6,264
of which: other comprehensive income before taxes	(7,449)	4,956
of which: change in deferred taxes	(982)	1,308

(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 HORNBAACH Baumarkt AG by the weighted average number of shares in circulation during the financial year. As in the previous year, there were no dilutive effects.

The number of shares issued decreased by 5,240 in the 2020/21 financial year due to the shares not called up within the employee stock program. These shares will be used for the future employee stock program.

	2020/21	2019/20
Weighted number of shares issued	31,801,760	31,807,000
Consolidated net income allocable to shareholders in HORNBAACH Baumarkt AG (in €)	153,137,842	78,685,117
Earnings per share in €	4.82	2.47

(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:

2020/21 financial year € 000s	Impairments of assets (IAS 36)	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(18,555)	0	0	0	(18,555)
Pre-opening expenses	0	0	(574)	(1,068)	(1,642)
Other income and expenses	0	0	0	0	0
	(18,555)	0	(574)	(1,068)	(20,197)

2019/20 financial year € 000s	Impairments of assets (IAS 36)	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(18,163)	0	0	1,619	(16,544)
Pre-opening expenses	0	(132)	(533)	(678)	(1,343)
Other income and expenses	0	0	0	0	0
	(18,163)	(132)	(533)	941	(17,887)

¹⁾ This line item exclusively includes impairments recognized for operating locations (cash-generating units).

Personnel expenses

The individual functional expense items include the following personnel expenses:

	2020/21 € 000s	2019/20 € 000s
Wages and salaries	718,724	657,283
Social security contributions and pension expenses	155,590	144,947
	874,314	802,230

Special items (due among other factors to COVID-19)

Impairment tests on non-financial assets (including right-of-use assets)

The routine update in the company's strategic planning in the 4th quarter of the period under report accounted for all available information concerning expected economic developments and country-specific state counter-measures relating to the COVID-19 pandemic. The WACC calculation was updated at the same time. The amended parameters included in the impairment test resulted in the identification of an impairment requirement of € 18,555k. Further information about the impairment test can be found in Note 12.

Inventories

HORNBAACH was affected by lockdown-related store closures for private customers in the first and third quarters and in particular from the 4th quarter onwards. Consistent with the principle of net realizable value, impairment losses were recognized on inventories and reviewed on a monthly basis. No material increase in the impairment rate on inventories due to COVID-19 is discernible in the period under report.

Trade receivables and other current assets

Due to the cash and carry principle, the company's risk position is mainly limited to debit and credit card companies with corresponding creditworthiness. Moreover, factoring arrangements mean that a major share of the default risk on trade receivables is outsourced. A corresponding risk allowance based on historic experience values has been stated for the assumption of any liability quotients.

Traditional trade receivables are mainly due from customers with corresponding creditworthiness. No material increase in the expected default rate due to COVID-19 is discernible in the period under report. No recoverability risks over and above the customary level are discernible for other current assets.

Sales

The Group's sales are influenced by seasonal factors and weather conditions. Alongside the aforementioned factors, the sales performance in the first half of 2020/21 was additionally influenced by the fact that not all of our locations were affected by lockdown measures. It is not possible to provide any quantitative categorization of the sales growth. In the second half of the year, and in particular in the 4th quarter, the Group was affected to a significant extent by lockdown measures. Due to the dovetailing of the stationary retail and online businesses (interconnected retail) and to unrestricted sales to commercial customers in most of the stores located in regions affected by lockdown measures, however, the company was able to maintain its operative business. Despite repeated closures of parts of its store network to private customers, HORNBAACH reported year-on-year sales growth in the second half of the year. This was due both to high demand in the stationary retail business during the periods in which stores were open and to strong growth in the online business and in demand for click and collect services. Further information can be found in the Group Management Report.

Returns

Due to the lockdown measures in force across Europe in the 4th quarter, which had a significant impact on the Group, customers had only limited options to return goods. As a result, the periods in which goods are permitted to be returned were extended. This led to a year-on-year increase in refund liabilities and merchandise retrieval rights compared with the previous year's period. At the end of the financial year, refund liabilities of € 17,623k were recognized with a corresponding reduction in sales. By analogy, merchandise input expenses were reduced by € 11,642k to account for the increase in merchandise retrieval rights.

Government grants

HORNBAACH received government grants in those countries affected by lockdown measures in the financial year under report. Grants totaling € 4,328k were recognized across the Group in the period under report. These grants were passed on to employees or offset against social security contributions. In the income statement, the portion of grants meeting IAS 20 requirements was deducted from the corresponding expenses (net statement).

Personnel expenses

To acknowledge the commitment shown by company employees during the pandemic in the year under report the management decided to pay bonuses. The expenses recognized in the period under report amount to € 13,491k. These outlays were allocated to the respective functional expenses.

Rent reductions

The Group benefited from rent reductions of € 911k for individual locations affected by lockdown measures. In the income statement, these reductions were recognized under selling and store expenses.

Other COVID-19-related income and expenses

The measures required to protect our customers and employees and to uphold stationary sales included commissioning security firms and additional temporary employees, as well as extensive disinfection and hygiene measures. The resultant expenses amounted to € 17,688k at the reporting date. These outlays were allocated to the respective functional expenses.

Furthermore, the Group received a COVID-19-related investment grant of € 240k which reduced the acquisition costs of the corresponding investments. In one region in which it operates, HORNBAACH received lockdown-related compensation of € 800k for lost sales. This income was recognized in other income and expenses.

Depreciation and amortization

	2020/21 € 000s	2019/20 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment, investment property, and right-of-use assets	226,389	231,538
Impairments of intangible assets, property, plant, and equipment, investment property, and right-of-use assets	19,623	18,295
	246,012	249,833

The impairment losses recognized in the 2020/21 financial year relate to intangible assets, land, buildings, right-of-use assets, and plant and office equipment. In the previous year, impairment losses related to intangible assets, land, buildings, right-of-use assets, 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:

2020/21 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	37	64,407	165,920	230,364
Pre-opening expenses	0	1,084	5	1,089
General and administration expenses	3,877	7,919	2,763	14,559
	3,914	73,410	168,688	246,012

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

Notes to Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2019/20 and 2020/21 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, 2019	103,581	3,271	1,040	107,892
Additions	2,801	0	1,547	4,348
Disposals	503	0	0	503
Reclassifications	117	0	(105)	12
Foreign currency translation	8	0	0	8
Balance at February 29/March 1, 2020	106,004	3,271	2,482	111,757
Additions	4,669	0	349	5,018
Disposals	18,380	0	0	18,380
Reclassifications	2,330	0	(2,327)	3
Foreign currency translation	(8)	0	0	(8)
Balance at February 28, 2021	94,615	3,271	504	98,390
Amortization				
Balance at March 1, 2019	90,498	0	0	90,498
Additions	5,885	0	0	5,885
Disposals	502	0	0	502
Reclassifications	5	0	0	5
Foreign currency translation	7	0	0	7
Balance at February 29/March 1, 2020	95,893	0	0	95,893
Additions	3,914	0	0	3,914
Disposals	18,377	0	0	18,377
Foreign currency translation	(8)	0	0	(8)
Balance at February 28, 2021	81,422	0	0	81,422
Carrying amount at February 28, 2021	13,193	3,271	504	16,969
Carrying amount at February 29, 2020	10,111	3,271	2,482	15,864

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 2020/21 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 used to determine the value in use each amounted to 8.9 % (2019/20: 8.7 % and 4.7 %). As in the previous year, the changes deemed possible in key assumptions (increase in discount rate or reduction in gross profit) would not result in any impairments at the two locations. In the previous year, impairment requirements were identified for

intangible assets in the Austria region. These were written down by € 766k to their net realizable value. 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 2019/20 and 2020/21 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, 2019	1,180,824	187,771	9,093	660,822	33,281	2,071,792
Adjustments due to IFRS 16	0	1,167,401	0	0	0	1,167,401
Balance at March 1, 2019 (adjusted)	1,180,824	1,355,172	9,093	660,822	33,281	3,239,193
Changes in scope of consolidation	0	0	0	0	(380)	(380)
Additions	33,246	76,683	0	44,968	14,537	169,434
Disposals	178	16,542	0	22,411	910	40,041
Reclassifications pursuant to IAS 40	(324)	0	324	0	0	0
Reclassifications	8,758	0	0	1,227	(9,997)	(12)
Foreign currency translation	13,433	4,077	0	2,457	850	20,817
Balance at February 29/March 1, 2020	1,235,759	1,419,390	9,417	687,063	37,381	3,389,011
Additions	54,050	135,142	1,129	50,229	29,220	269,770
Disposals	1,363	21,233	0	18,661	1,363	42,620
Reclassifications pursuant to IAS 40	(299)	0	299	0	0	0
Reclassifications	7,447	0	0	1,433	(8,884)	(4)
Foreign currency translation	(10,790)	(122)	(4)	(1,873)	(585)	(13,374)
Balance at February 28, 2021	1,284,804	1,533,177	10,841	718,191	55,769	3,602,783
Depreciation						
Balance at March 1, 2019	292,628	38,765	2,532	509,612	0	843,537
Additions	29,698	166,069	146	48,034	0	243,947
Disposals	66	3,662	0	20,771	0	24,499
Reclassifications pursuant to IAS 40	(27)	0	27	0	0	0
Reclassifications	103	0	0	(108)	0	(5)
Foreign currency translation	1,571	386	0	1,845	0	3,802
Balance at February 29/March 1, 2020	323,907	201,558	2,705	538,612	0	1,066,782
Additions	25,572	168,687	151	47,687	0	242,097
Disposals	1,069	13,036	0	17,521	0	31,626
Reclassifications pursuant to IAS 40	(130)	0	130	0	0	0
Foreign currency translation	(1,922)	196	0	(1,451)	0	(3,177)
Balance at February 28, 2021	346,358	357,405	2,985	567,327	0	1,274,076
Carrying amount at February 28, 2021	938,446	1,175,772	7,856	150,864	55,769	2,328,707
Carrying amount at February 29, 2020	911,852	1,217,832	6,712	148,451	37,381	2,322,229

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

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

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m ²)	5.00 €	7.00 €
Outside area (€/m ²)	0.50 €	0.50 €
Maintenance costs (€/m ²)	1.25 €	1.25 €
Real estate interest rate	7.1 %	7.1 %

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

Due to changes in the planning scenarios on the level of individual cash generating units, the impairment tests performed in the 2020/21 financial year resulted in the identification of impairment requirements for marketing-oriented and sales promotional plant and office equipment and for right-of-use assets at four stores, which each constitute cash generating units, in the Germany region, at two stores in Sweden, at two stores in Romania, and at one store in Austria. These items were written down by € 1,269k to their net realizable values, which were determined by reference to Level 3 input data. Furthermore, write-downs of € 17,286k to the values in use were recognized. These were calculated using the discounted cash flow method. The pre-tax discount rates used to determine the values in use ranged between 3.2 % and 12.3 %. The total recoverable amount for these locations amounts to € 131,165k.

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

Moreover, a write-down of € 1,068k to net realizable value was recognized for a location still in development in the 2020/21 financial year.

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

€ 000s	2020/21	2019/20
Retail segment		
Other equipment, plant, and office equipment	1,269	1,583
	1,269	1,583
Real Estate segment		
Intangible assets	0	766
Land	1,068	756
Buildings	0	3,427
Right-of-use assets	17,286	11,763
	18,354	16,712
Total	19,623	18,295

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

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

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

Investment property mainly relates to retail properties at various locations in Germany. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to around € 11.2 million (2019/20: € 10.1 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 € 472k was generated on properties let to third parties in the year under report (2019/20: € 487k). Expenses of € 359k were incurred for the maintenance of the properties let to third parties (2019/20: € 330k). Expenses of € 60k were incurred for all other items of investment property (2019/20: € 36k).

As in the previous year, the HORNBACH Baumarkt AG Group had not provided any land charges as security for liabilities to banks as of February 28, 2021.

(13) Leases

The leases for which the right-of-use assets are recognized (see Note 12) developed as follows in the 2020/21 financial year:

2020/21 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, 2019	149,006	0	149,006
Adjustments due to IFRS 16	1,158,672	8,728	1,167,401
Carrying amount at March 1, 2019 (adjusted)	1,307,679	8,728	1,316,407
Additions	68,962	7,721	76,683
Depreciation	157,367	8,702	166,069
Disposals	10,805	2,075	12,880
Foreign currency translation	3,692	(1)	3,691
Carrying amount at February 29, 2020	1,212,161	5,671	1,217,832
Carrying amount at March 1, 2020	1,212,161	5,671	1,217,832
Additions	127,320	7,822	135,142
Depreciation	161,631	7,056	168,687
Disposals	7,799	398	8,197
Foreign currency translation	(320)	2	(318)
Carrying amount at February 28, 2021	1,169,730	6,042	1,175,772

In terms 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 28, 2021, the contract portfolio comprises 198 property lease agreements (2019/20: 184). The weighted remaining term of this portfolio amounts to 9.4 years (2019/20: 9.6 years). The weighted remaining term of leases for plant and office equipment amounts to 2.0 years (2019/20: 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 € 112,372k (2019/20: € 138,549k).

The following amounts were recognized in the income statement and the cash flow statement in the 2020/21 financial year:

	2020/21 € 000s	2019/20 € 000s
Sales / other income		
Income from operating lease contracts	3,396	5,230
Income from sublease contracts	3,078	3,396
Other income from real estate lease contracts (service charge)	1,253	1,488
Selling and store expenses / pre-opening expenses / general and administration expenses		
Expenses for short-term lease contracts	4,175	3,700
Expenses for leases involving low-value assets	1,361	1,411
Other expenses for real estate lease contracts (service charge)	7,662	6,943
Depreciation and amortization		
Depreciation of right-of-use assets	151,402	154,306
of which: for lease contracts with affiliated companies	63,994	66,022
Impairment of right-of-use assets	17,286	11,763
of which: for lease contracts with affiliated companies	2,770	3,574
Net financial expenses		
Interest expenses for lease liabilities	42,061	42,386
of which: for lease contracts with affiliated companies	17,350	17,007
Outflow of cash in connection with leases	203,948	199,866

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

Lease liabilities have the following maturities:

€ 000s	2020/21		2019/20	
	Nominal value	Present value	Nominal value	Present value
Maturity < 1 year	182,085	139,735	178,376	138,697
Maturity 2 - 5 years	697,985	579,692	683,545	569,564
Maturity > 5 years	623,547	549,298	650,668	575,360
	1,503,617	1,268,724	1,512,588	1,283,621

The receivables of € 7,893k from operating lease contracts (2019/20: € 10,064k) 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 28, 2021	3,709	1,853	1,388	499	183	261	7,893
February 29, 2020	4,704	1,971	1,570	1,203	362	254	10,064

(14) Financial assets

The development in financial assets in the 2019/20 and 2020/21 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2019	7,334	7,334
Measurement of financial assets (FVtOCI)	3,149	3,149
Balance at February 29/March 1, 2021	10,483	10,483
Measurement of financial assets (FVtOCI)	(3,745)	(3,745)
Balance at February 28, 2021	6,738	6,738
Carrying amount at February 28, 2021	6,738	6,738
Carrying amount at February 29, 2020	10,483	10,483

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

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

(15) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of accruals of € 1,246k with a remaining term of more than one year (2019/20: € 790k).

(16) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2021		2.29.2020	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	757	29,010	692	28,466
Leases	22,543	383	15,705	0
Inventories	534	4,614	781	4,574
Other provisions	10,904	19	12,433	13
Liabilities	1,228	604	1,212	573
Other assets and liabilities	1,379	1,839	413	2,838
Losses carried forward	19	0	3,022	0
	37,364	36,469	34,258	36,464
Set-off	(26,078)	(26,078)	(23,816)	(23,816)
Total	11,286	10,391	10,442	12,648

(17) Inventories

	2.28.2021	2.29.2020
	€ 000s	€ 000s
Auxiliary materials and supplies	2,378	2,212
Finished products and merchandise	956,914	822,546
Inventories (gross)	959,292	824,758
less valuation allowances	14,731	10,319
Inventories (net)	944,561	814,438
Carrying amount of inventories measured at net realizable value	46,078	35,587

Expenses of € 3,131,918k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2020/21 financial year (2019/20: € 2,703,390k).

(18) Trade receivables and other current assets

These comprise the following items:

	2.28.2021	2.29.2020
	€ 000s	€ 000s
Trade receivables	13,367	10,691
Receivables from affiliated companies	1,262	922
Contract assets	1,231	1,566
Positive fair values of derivative financial instruments	666	339
Other receivables and assets	97,616	71,771
	114,142	85,289

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 € 2,390k (2019/20: € 1,765k) assigned within factoring agreements that have not been derecognized as all of the credit risk remains at the HORNBAACH Baumarkt AG Group. A corresponding liability has been recognized in the same amount. For these receivables, the business model involves selling these assets; in view of this, these receivables are measured at fair value. Given the short-term nature of the relevant receivables and the corresponding liability, their fair values are basically equivalent to their carrying amounts.

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBAACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBAACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 41k (2019/20: € 38k) 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 € 2,373k as of February 28, 2021 (2019/20: € 2,392k) 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

2020/21 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 409k (2019/20: € 371k).

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

Other receivables and assets mainly consist of receivables in connection with pledged funds, receivables from credit card companies, deferred charges and prepaid expenses, credit notes for goods, bonus agreements, and tax refund claims. This item also includes recourse claims of for expected returns, which due to the lockdown measures in the 4th quarter rose to € 11,642k at the end of the financial year (2019/20: € 4,270k). 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	
	2020/21	2019/20	2020/21	2019/20
Allowances at March 1	1,864	1,409	589	822
Utilization	761	251	248	124
Reversals	529	533	142	267
Additions	938	1,235	150	154
Foreign currency translation	(6)	4	0	4
Allowances at February 29/28	1,506	1,864	349	589

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 € 900k depending on the term and in the range 0.47 % - 1.69 % (2019/20: € 660k in the range: 0.23 % - 2.38 %) and individual allowances of € 605k recognized due to objective indications or payment difficulties (2019/20: € 1,204k).

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 € 217k due to objective indications (2019/20: € 391k) and further individual allowances of € 60k depending on the extent to which the receivables are overdue (2019/20: € 91k). The risk provision for contract assets is based on the simplified allowance model and, at the end of the financial year, amounted to € 71k (2019/20: € 107k).

The complete derecognition of receivables resulted in expenses of € 699k (2019/20: € 501k). The receipt of receivables already derecognized resulted in income of € 13k (2019/20: € 36k).

In the 2020/21 financial year, there were no material balances of derecognized receivables subject to execution proceedings.

(19) Cash and cash equivalents

	2.28.2021	2.29.2020
	€ 000s	€ 000s
Cash balances at banks	298,835	260,644
Checks and cash on hand	35,762	41,518
	334,596	302,162

(20) Non-current assets held for sale

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

As in the previous year, no assets were reclassified out of non-current assets in the 2020/21 financial year.

(21) Shareholders' equity

The development in the shareholders' equity of the HORNBACH Baumarkt AG Group is shown in the statement of changes in group equity for the 2019/20 and 2020/21 financial years.

Share capital

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

- The Board of Management is authorized until July 7, 2021, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 15,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash contributions (Authorized Capital I). Shareholders' subscription rights may be excluded in specified circumstances.
- The Board of Management is authorized until July 7, 2021, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 30,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash or non-cash contributions (Authorized Capital II). Shareholders' subscription rights may be excluded in specified circumstances.

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

On the basis of a resolution adopted by the Board of Management on September 7, 2020, the employees of HORNBACH Baumarkt AG and its foreign subsidiaries were offered employee shares. A total of 50,120 shares were acquired via the stock exchange. Employees were assigned 44,880 shares. The company held the remaining 5,240 shares as treasury stock as of the balance sheet date; these are to be used for the subsequent employee share program. The 44,880 shares ceded to employees were acquired at an average price of € 34.78 and subsequently assigned at a price of € 25.00. An amount of € -14k was recognized in equity to account for the difference between the acquisition price and the stock market price upon the date on which the shares were assigned to employees. The difference between the stock market price upon assignment and the price at which the shares were ceded to employees was recognized through profit or loss. A total of 36,290 shares were assigned to employees of HORNBACH Baumarkt AG, while 8,590 shares were assigned to employees of subsidiaries.

WpHG voting right notifications

§ 33 (1) of the German Securities Trading Act (WpHG) requires shareholders to disclose the fact that their share of voting rights has reached, exceeded, or fallen short of specific disclosure thresholds within four trading days. These thresholds amount to 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 %, and 75 %. Similar disclosure obligations are set out in § 38 and § 39 WpHG for the bearers of financial instruments once they reach, exceed, or fall short of the aforementioned disclosure thresholds with the exception of the 3 % threshold.

Pursuant to § 40 WpHG, HORNBACH Baumarkt AG is obliged to publish such notifications immediately, and no later than three trading days after receipt. We did not receive or publish any such notifications in the reporting period from March 1, 2020 to February 28, 2021. When applicable, these notifications can be found in the “NEWS” section of the company website at www.hornbach-group.com (filtered by catchword “voting right notification”).

Capital reserve

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

Revenue reserves

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

Disclosures concerning capital management

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

The company has entered into covenants towards some providers of debt capital which, among other conditions, require it to maintain an equity ratio of at least 25 %. The equity ratio, interest cover, debt/equity ratio and company liquidity (cash and cash equivalents plus available committed credit lines) are monitored monthly as part of the company’s internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2020/21 financial year. The equity ratio amounted to 33.3 % as of February 28, 2021 (2019/20: 31.8 %).

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

(22) Distributable earnings and dividends

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

HORNBACH Baumarkt AG concluded the 2020/21 financial year with an annual net surplus of € 83,427,717.90.

Following the allocation of € 41,713,858.95 to other revenue reserves, the unappropriated net profit amounts to € 41,713,858.95.

The Board of Management and the Supervisory Board of HORNBACH Baumarkt AG will propose to the Annual General Meeting that the unappropriated net profit of HORNBACH Baumarkt AG reported as of February 28, 2021 be appropriated as follows:

	€
Dividend of € 0.90 on 31,807,000 shares	28,621,584.00
Additional allocation to revenue reserves	13,087,558.95
Balance to be carried forward	4,716.00
	41,713,858.95

By resolution of the Annual General Meeting held on July 9, 2020, a dividend of € 0.68 (2019/20: € 0.68) per share was distributed on a total of 31,807,000 (2019/20: 31,807,000) individual shares in the 2020/21 financial year. The total amount distributed thus amounted to € 21,629k (2019/20: € 21,629k).

(23) Financial debt

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

€ 000s	Maturities			Carrying amount 2.28.2021 Total
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	
Bonds			247,154	247,154
Liabilities to banks	48,990	294,443		343,433
Lease liabilities	139,735	579,692	549,298	1,268,724
Negative fair values of derivative financial instruments	495			495
Total	189,220	874,135	796,452	1,859,806

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

The HORNBACH Baumarkt AG Group had current financial debt amounting to € 189.2 million at the balance sheet date on February 28, 2021 (2019/20: € 189.6 million). This consists of the portion of loans and bonds maturing in the short term, amounting to € 45.5 million (2019/20: € 47.1 million), finances lease liabilities of € 139.7 million (2019/20: € 138.7 million), liabilities of € 0.5 million relating to the measurement of derivative financial instruments (2019/20: € 0.3 million), and interest deferrals of € 3.5 million (2019/20: € 3.5 million). The interest of € 2,827.1k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2019/20: € 2,841.5k).

The Group has the following material financing facilities:

Borrower	Instrument	Amount		Start of term	Maturity	Interest
HORNBACH Holding B.V.	Promissory note bond	52 million	EUR	9.13.2018	9.13.2023	Fixed*
HORNBACH Holding B.V.	Promissory note bond	43 million	EUR	9.13.2018	9.15.2025	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	126 million	EUR	2.22.2019	2.22.2024	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	74 million	EUR	2.22.2019	2.23.2026	Fixed*
HORNBACH Baumarkt AG	Corporate bond	250 million	EUR	10.25.2019	10.26.2026	Fixed****
HORNBACH Baumarkt (Schweiz) AG	Bilateral loan	50 million	CHF	05.22.2020***	05.20.2021	Variable **

* The costs relating to the issue have been spread over the term.

** 3-month CHF LIBOR + margin

*** The existing loan was extended by 364 days on May 20, 2020

**** Based on an issue price of 99.232 % the effective yield amounts to 3.48 %. The costs of € 1,627k and disagio of € 1,902k have been spread over the term using the effective interest method.

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

2020/21 financial year	Currency	Interest agreement in %	Maturity	Amount 2.28.2021 € 000s
Loans*	EUR	1.13 to 2.00	2023 to 2026	294,443
				294,443

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

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

As of February 28, 2021, the HORNBACH Baumarkt AG Group had total credit lines of € 387.9 million (2019/20: € 385.8 million) on customary market terms. Unutilized credit lines amounted to € 380.3 million (2019/20: € 379.5 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits.

The credit lines at the HORNBACH Baumarkt AG Group include a syndicated credit line of € 350 million at HORNBACH Baumarkt AG that was agreed on December 22, 2017 and has a term until December 22, 2024. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 70 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent Ibor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBACH Baumarkt AG by an internationally recognized rating agency. Margin premiums apply should the level of utilization exceed specified threshold values. A provision fee dependent on the respective interest margin is charged for the unutilized portion of the credit line.

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

As of February 28, 2021, the HORNBACH Baumarkt AG Group had not provided any land charges as security for liabilities to banks.

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

Reconciliation pursuant to IAS 7 in € 000s	3.1.2020	Cash- effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.28.2021
				Foreign currency translation	Changes in fair values	Other changes	
Bonds	246,647	(8,125)	8,125	0	0	507	247,154
Liabilities to banks	344,892	(4,730)	4,730	(1,595)	0	136	343,433
Liabilities in connection with finance leases	1,283,621	(183,142)	42,083	(732)	0	126,895	1,268,724
Financial and similar liabilities	1,875,159	(195,997)	54,938	(2,327)	0	127,538	1,859,310

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

(24) Pensions and similar obligations

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

Defined contribution plans

Apart from payment of contributions, the defined contribution plans do not involve any further obligations on the part of the HORNBACH Baumarkt AG Group. The total of all defined contribution pension expenses amounted to € 63,318k in the 2020/21 financial year (2019/20: € 60,152k). Of this total, an amount of € 33,657k involved the employer's share of contributions to the state pension scheme in Germany (2019/20: € 31,810k).

Multiemployer defined benefit pension plans

Joint pension plans are in place for staff employed in the Netherlands. As the pension providers for these plans do not provide the necessary information in the form required for recognition as defined benefit plans, these plans are recognized as defined contribution plans. Consistent with the requirements of this plan, HORNBACH Baumarkt AG has no obligation to assume liability for the contributions of other employers participating in the plan. No probable material risks have been identified in connection with the multiemployer defined benefit pension plan. The company expects to pay contributions of € 7,097k in the 2021/22 financial year.

Defined benefit plans

■ Switzerland

The HORNBACH Baumarkt AG Group has one fund-financed pension plan financed via an external pension provider. This pension plan exists due to legal requirements in Switzerland (Swiss Occupational Pensions Act - BVG) and grants old-age, invalidity and fatality pensions and payments for 928 beneficiaries.

The pension plan offers benefits that exceed the statutory minimum requirements under the BVG legislation. The employee covers around 35 % of the premiums to be paid for the savings balances, as well as further clearly defined costs. The remaining expenses are covered by the employer. Retirement pension contributions are age-dependent and rise with increasing age. Risk and cost premiums are calculated by the insurance company on an individual basis and reassessed each year. The actuarial risk in connection with this plan is borne by HORNBACH Baumarkt AG. The pension plan must be fully covered on the basis of a statistical evaluation performed in accordance with BVG provisions. In the event of a shortfall, the pension authority is required to take measures such as setting additional employer and employee contributions or payments.

The pension provider constitutes a separate legal entity. This is responsible for managing the pension plan and has issued investment regulations defining the respective investment strategy. The highest decision-making body for the pension provider is the Board of Trustees. This consists of an equal number of employer and employee representatives from the companies participating in the plan.

■ Germany

Since the 2011/12 financial year, HORNBACH Baumarkt AG has undertaken to provide members of its Board of Management with a fund-financed pension plan. This model offers the opportunity of increasing pension claims, while the company simultaneously guarantees a minimum return of 2 % p.a. for members of its Board of Management. The assets contributed by the company or additionally paid in by members of the Board of Management are held in a fiduciary capacity and invested in diversified funds by Allianz Treuhand GmbH, Frankfurt am Main. The funds are invested in line with a capital investment concept jointly defined by HORNBACH Baumarkt AG and Allianz Treuhand GmbH. Provided that amendments to the capital investment concept do not contravene the fiduciary objective, HORNBACH Baumarkt AG is itself entitled to have such

amendments made. The risk that the trust assets do not generate the minimum return of 2% p.a. is borne by HORNBAACH Baumarkt AG.

The scope of obligation towards plan beneficiaries has been set in each case at a maximum of the fund assets and the present value of contributions paid, including the guaranteed return. To this end, the contributions paid by the employer and by the Board of Management are compared with the associated fund assets.

Furthermore, company employees also have the possibility of participating in a “working time account model”. Salary claims can be converted into so-called value credits in line with individual employees' requirements. Directly before the termination of the employment relationship for age-related reasons, these credits can then be used to enable the employee to retire early. Non-disbursed salary claims can be invested in various investment funds in line with the individual employee's risk preference. HORNBAACH Baumarkt AG guarantees the value retention of amounts contributed to value credits and thus bears the investment risk. Salary components contributed by the company or employees are managed within a so-called double fiduciary model by Allianz Treuhand GmbH, Frankfurt am Main. Provisions for obligations in connection with working time accounts have been offset as of the balance sheet date against the corresponding cover assets in the form of fund shares. Due to their pension-like character, these “other long-term benefits” have been recognized under pensions and similar obligations.

Pensions and similar obligations are structured as follows:

	2020/21 € 000s	2019/20 € 000s
Present value of pension obligation	91,135	94,404
less fair value of plan assets	(72,040)	(70,170)
Pension commitments as reported in balance sheet	19,095	24,234
of which: pension provisions	19,095	24,234

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

	2.28.2021 %	2.29.2020 %
Debt securities	59.1	77.1
Shares	8.9	6.4
Real estate	14.7	12.9
Other	17.3	3.6
	100.0	100.0

Change in pension obligation

	2020/21	2019/20
	€ 000s	€ 000s
Present value of pension obligation at the beginning of the period	94,404	76,945
Current service cost of employer	5,859	4,775
Past service cost	(269)	(402)
Employee contributions	3,561	3,680
Payments from the plan	(1,923)	(3,312)
Interest cost	(76)	920
Actuarial gains/losses due to:		
Changes in demographic assumptions	(5,280)	(4,979)
Changes in financial assumptions	(2,588)	13,961
Experience adjustments	1,793	(179)
Insurance premiums	(1,664)	(1,359)
Foreign currency translation	(2,681)	4,354
Present value of pension obligation at the end of the period	91,135	94,404

Change in plan assets

	2020/21	2019/20
	€ 000s	€ 000s
Plan assets at beginning of period	70,170	62,719
Employer contributions	4,471	3,843
Employee contributions	3,561	3,680
Payments from the plan	(1,923)	(3,312)
Interest income	(60)	801
Return on plan assets (excluding income recognized in net interest expenses)	(718)	496
Insurance premiums	(1,664)	(1,359)
Foreign currency translation	(1,797)	3,303
Plan assets at the end of the period	72,040	70,170

Responsibility for the plan asset investment strategy has been assigned to Allianz Treuhand GmbH for the German plans and to the top management body (Board of Trustees) at the BVG-Sammelstiftung Swiss Life for the Swiss plans. These external asset managers perform portfolio risk management and synchronize the development in plan assets and pension obligations in line with the conceptual and legal structure of the defined benefit plans.

HORNBACH Baumarkt AG analyses the portfolio structure and performance at regular intervals in order to identify any need for action.

The expenses for defined benefit plans are presented below. As well as expenses and income recognized through profit or loss under personnel expenses and net financial expenses, these also include plan-related amounts recognized in other comprehensive income within equity.

	2020/21 € 000s	2019/20 € 000s
Current service cost of employer	5,859	4,775
Past service cost	(269)	(402)
Interest cost	(76)	920
Interest income	60	(801)
Effects recognized in P&L	5,574	4,492
Actuarial gains/losses due to:		
Changes in demographic assumptions	5,280	4,979
Changes in financial assumptions	2,588	(13,961)
Experience adjustments	(1,793)	179
Return on plan assets (excluding income recognized in net interest expenses)	(718)	496
Effects recognized in OCI	5,358	(8,307)
Costs for defined benefit plans	216	12,799

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:

	2020/21 € 000s	2019/20 € 000s
Selling and store expenses	4,105	3,188
Pre-opening expenses	14	0
General and administration expenses	1,472	1,185
Net interest expenses	(16)	119
	5,574	4,492

Actuarial assumptions

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

	2.28.2021		2.29.2020	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.1 %	(0.1 %) to 0.1 %	0.0 %	(0.1 %) to 0.3 %
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	2.28.2021		2.29.2020	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,825)	3,054	(3,452)	3,738
Rate of pension increase (0.10 basis points change)	671	n/a	803	n/a
Mortality (+ 1 year)	1,347	n/a	1,532	n/a

Future cash flows

Payments of contributions amounting to € 4,419k are expected for the 2021/22 financial year.

Expected payments	2.28.2021 € 000s
2021/2022	9,893
2022/2023	6,412
2023/2024	2,559
2024/2025	2,430
2025/2026	2,530
2026 to 2030	15,790

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

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 38,252k (2019/20: € 38,801k). These mainly include provisions of € 17,017k (2019/20: € 16,721k) for contractually assumed structural maintenance obligations and personnel provisions of € 18,774k (2019/20: € 19,904k). 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 € 102k (2019/20: € 117k).

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 HORNBAACH Baumarkt AG Group.

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

Change in pension obligation and costs of plan

	2020/21 € 000s	2019/20 € 000s
Present value of pension obligation at the beginning of the period	6,733	6,534
Current service cost of employer	320	328
Payments from the plan	(354)	(544)
Interest cost	30	96
Actuarial gains/losses due to:		
Changes in financial assumptions	(838)	740
Experience adjustments	(11)	(422)
Present value of pension obligation at the end of the period	5,880	6,733

	2020/21 € 000s	2019/20 € 000s
Current service cost of employer	320	328
Interest cost	30	96
Effects recognized in P&L	350	425
Actuarial gains/losses due to:		
Changes in financial assumptions	838	(740)
Experience adjustments	11	422
Effects recognized in OCI	849	(318)
Total costs for the plan	(499)	742

The average remaining term of the obligation amounts to 13.0 years (2019/20: 14.2 years).

Actuarial assumptions and sensitivity analysis

	2.28.2021	2.29.2020
Discount interest rate	0.3 %	0.5 %
Future salary increases	1.8 %	3.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The biometric calculation has been based on "AVÖ 2018 P – Rechnungsgrundlage für die Pensionsversicherungen". The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in the present value of the pension obligation

€ 000s	2.28.2021		2.29.2020	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(366)	402	(453)	501
Future rate of salary increase (0.25 basis points change)	558	(184)	236	(227)

(26) Trade payables and other current liabilities

	2.28.2021 € 000s	2.29.2020 € 000s
Trade payables	293,089	250,084
Liabilities to affiliated companies	48	626
Contract liabilities	44,133	34,388
Other liabilities	91,094	76,023
of which: other taxation	22,574	25,795
of which: social security contributions	6,341	5,515
	428,364	361,121

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 € 18,344k (2019/20: € 7,248k), which mainly relate to expected 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. Of the tax liabilities of € 25,239k for current income taxes, an amount of € 5,455k relates to Germany and € 19,784k to other countries.

The income tax receivables of € 6.5 million (2019/20: € 2.0 million) mainly relate to prepayments of trade tax and to deductions for capital gains taxes.

Reference is made to the information about deferred taxes included in Note 16 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(28) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2020/21 financial year:

€ 000s	Opening balance at 3.1.2020	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2021	of which: non-current
Other provisions								
Personnel	19,904	2,869	0	1,924	(172)	(13)	18,774	18,774
Miscellaneous	20,578	1,539	892	2,755	17	(62)	20,857	19,478
	40,482	4,408	892	4,679	(155)	(75)	39,631	38,253
Accrued liabilities								
Other taxes	1,107	521	22	821	0	32	1,417	0
Personnel	74,118	68,275	2,155	91,217	0	(21)	94,884	0
Miscellaneous	22,643	18,245	2,540	28,301	0	(67)	30,092	0
	97,868	87,042	4,718	120,339	0	(56)	126,393	0
	138,350	91,450	5,610	125,018	(155)	(131)	166,023	38,253

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

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

Miscellaneous accrued liabilities relate in particular to utility expenses (gas, water, electricity), property duties, advertising expenses, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(29) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2021.

(30) Other financial obligations

€ million	Maturities			2.28.2021 Total
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	
Purchase obligations for investments	120.3	0.0	0.0	120.3
Software rental / licenses	13.7	11.3	0.0	25.0
Other financial obligations	2.6	0.2	0.0	2.8
	136.6	11.5	0.0	148.1

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

The other financial obligations mainly comprise maintenance and service charges.

(31) Legal disputes

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

(32) Supplementary disclosures on financial instruments

The following tables show the carrying amounts and the fair values of individual financial assets and liabilities pursuant to IFRS 9 as of February 28, 2021:

€ 000s	Category	Carrying amount 2.28.2021	Fair value 2.28.2021	Carrying amount 2.29.2020	Fair value 2.29.2020
Assets					
Financial assets	FVtOCI	6,738	6,738	10,483	10,483
Trade receivables	AC	12,238	12,238	9,848	9,848
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	2,390	2,390	1,765	1,765
Contract assets	AC	1,231	1,231	1,566	1,566
Other current and non-current assets					
Derivatives without hedge relationship	FVtPL	666	666	339	339
Other assets	AC	66,816	66,816	52,899	52,899
Cash and cash equivalents	AC	334,596	334,596	302,162	302,162
Equity and liabilities					
Financial debt					
Bonds	AC	247,154	268,038	246,646	261,213
Liabilities to banks	AC	343,433	353,700	344,892	339,143
Lease liabilities	n/a	1,268,724	n/a	1,283,621	n/a
Derivatives without hedge relationship	FVtPL	495	495	325	325
Trade payables	AC	293,136	293,136	250,710	250,710
Contract liabilities	AC	44,133	44,133	34,388	34,388
Other current and non-current liabilities	AC	28,416	28,416	21,114	21,114
Accrued liabilities	AC	30,091	30,091	22,643	22,643

The interest of € 2,846k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2019/20: € 2,842k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 32,505k (2019/20: € 20,163k), other current and non-current liabilities of € 102,256k (2019/20: € 96,432k), and accrued liabilities of € 96,301k (2019/20: € 75,126k).

Aggregate totals by measurement category € 000s	Carrying amount 2.28.2021	Carrying amount 2.29.2020
Amortized cost (AC) financial assets	414,881	366,475
FVtOCI	6,738	10,483
FVtPL	3,056	2,104
Amortized cost (AC) financial liabilities	986,363	920,393
FVtPL	495	325

Cash and cash equivalents, trade receivables, other assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date.

Financial assets in the "FVtOCI" category mainly include a ten-percent company shareholding in HORNBAACH Immobilien H.K. s.r.o., Czech Republic. This company lets out several DIY store properties and is not publicly listed. Its fair value has largely been determined by reference to Level 3 input data. To calculate the fair value,

application was made of the discounted cash flow method. To this end, the cash flows resulting from company-specific planning were discounted by a risk-adjusted interest rate (WACC). In the 2020/21 financial year, the discount rate amounted to 6.7 % after taxes (2019/20: 4.8 %). Furthermore, account was taken of a growth factor of 1.0 %. The cash flows derived from company-specific planning mainly result from rental income in long-term letting arrangements and cash flows relating to the company's operations.

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

Changes in financial assets in Level 3 € 000s	2020/21	2019/20
As of March 1	10,481	7,332
Change in valuation (OCI)	(3,745)	3,149
Balance at February 28/29	6,736	10,481

The reduction in the amount recognized for the investment is chiefly due to the higher discount rate after taxes.

The changes in fair value resulting from changes in the most important input factors at the respective reporting date are presented in the following sensitivity analysis.

€ 000s	2.28.2021		2.29.2020	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	712	(712)	1,123	(1,123)
Discount rate (50 basis point change)	(707)	841	(1,608)	2,102

Derivative financial instruments include foreign currency items for outstanding orders and measurement items for outstanding forward exchange transactions. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of lease contracts have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk premiums available on the market.

The fair value of the publicly listed corporate bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

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

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet or the notes:

€ 000s	Category	2.28.2021	2.29.2020
Assets			
Valuation based on Level 2 input data			
Derivatives without hedge relationship	FVtPL	666	339
Valuation based on Level 3 input data			
Financial assets	FVtOCI	6,736	10,481
Liabilities			
Valuation based on Level 1 input data			
Bonds	AC	268,038	261,213
Valuation based on Level 2 input data			
Liabilities to banks	AC	353,700	339,143
Derivatives without hedge relationship	FVtPL	495	325

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

Net result by measurement category	2020/21 € 000s	2019/20 € 000s
Amortized cost (AC) financial assets	(2,287)	(498)
FVtPL	(2,957)	1,726
Amortized cost (AC) financial liabilities	2,940	428

The net results of the “FVtPL” measurement category are attributable to derivative financial instruments. The net results of the “Amortized cost (AC)” measurement categories for financial assets and financial liabilities involve foreign currency translation items, the results of disposals and write-downs. Furthermore, in the 2020/21 financial year measurement changes of € -3,745k relating to “FVtOCI” instruments were recognized directly in equity (2019/20: € 3,149k).

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions.

As of February 28, 2021, the Group had forward exchange transactions of € 85k that were eligible for netting (2019/20: € 0k).

2.28.2021 € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	666	0	666	(85)	0	581
Equity and liabilities						
Derivatives without hedge relationship	495	0	495	85	0	409

(33) Risk management and financial derivatives

Risk management principles

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

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

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

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

Market risks

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

Foreign currency risks

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

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

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

000s	2.28.2021	2.29.2020
EUR	(74,063)	(58,340)
USD	(19,695)	2,157
CZK	(966)	(852)

The above EUR currency position results from the following currency pairs: RON/EUR € -42,282k (2019/20: € -17,558k), SEK/EUR € -26,010k (2019/20: € -22,022k), CZK/EUR € -4,865k (2019/20: € -1,776k), and CHF/EUR € -905k (2019/20: € -16,985k).

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 € 4,676k lower (2019/20: € 5,915k). 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 € 4,676k higher (2019/20: € 5,915k). The hypothetical impact on earnings of € 4,676k (2019/20: € 5,915k) is the result of the following sensitivities: EUR/RON € 4,112k (2019/20: € 1,778k), EUR/SEK € 2,532k (2019/20: € 2,205k), EUR/CHF € 94k (2019/20: € 1,635k), EUR/CZK € -56k (2019/20: € 91k), and EUR/USD € -2,006k (2019/20: € 206k).

Interest rate risks

At the end of the year, as in the previous year, the Group was principally financed by a euro bond with a nominal total of € 250,000k, two promissory note bonds amounting to € 95,000k at HORNBACH Holding B.V., and two promissory note bonds amounting to € 200,000k at HORNBACH Baumarkt AG. Furthermore, the Group also had a CHF loan amounting to € 45,512k (2019/20: € 47,108k).

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 € 2,439k higher (2019/20: € 1,968k). 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 € 244k lower (2019/20: € 197k).

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 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, HORNBAACH 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 29, 2020 / March 1, 2020 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.

To account for the implications of the coronavirus pandemic, the expected default rates applicable in the simplified allowance model for trade receivables are regularly analyzed and adjusted.

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

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

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

Other financial assets measured at amortized cost

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

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

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

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

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

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

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

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

Liquidity risk

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

€ 000s	Carrying amount 2.28.2021	Cash outflows		
		< 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,154	8,125	32,500	258,125
Liabilities to banks	343,433	50,163	308,513	0
Lease liabilities	1,268,724	182,085	697,985	623,547
Trade payables	293,136	293,136	0	0
Contract liabilities	44,133	44,133	0	0
Other current and non-current liabilities	28,416	27,193	1,223	0
Accrued liabilities	30,091	30,091	0	0
	2,255,087	634,926	1,040,220	881,672
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	495	25,912	0	0
	495	25,912	0	0
Derivative financial assets				
Foreign currency derivatives without hedge relationship	666	12,281	0	0
	666	12,281	0	0
		673,119	1,040,220	881,672

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

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 € 2,846k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2019/20: € 2,842k). The corresponding outflows of cash have been recognized in the bond line item.

With regard to the management of liquidity risk, reference is made to Note 23 and to the disclosures on the financial situation in the management report.

Hedging measures

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

Cash flow hedges – interest rate risk

No interest swaps were held at the end of the 2020/21 financial year.

Other hedging measures – foreign currency risks

The HORNBACH Baumarkt AG Group also deploys hedging measures which do not meet the hedge accounting requirements set out in IAS 39, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line with its risk management principles. For example, the HORNBACH Baumarkt AG Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by concluding forward exchange transactions or making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including embedded forward exchange transactions, amounts to € 172k (2019/20: € 14k). Of this total, € 666k has been recognized under other assets (2019/20: € 339k) and € -495k under financial debt (2019/20: € -325k).

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

Derivatives

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

2.28.2021	Foreign exchange contracts	Embedded forward exchange transactions	Total
Nominal value in € 000s	45,000	46,547	91,547
Fair value in € 000s (before deferred taxes)	(262)	434	172

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

(34) Sundry disclosures**Employees**

The average number of employees was as follows:

	2020/21	2019/20
Salaried employees	19,617	18,527
Trainees	941	930
	20,558	19,457
of which: part-time employees	6,475	5,970

In terms of geographical regions, 10,835 of the average workforce were employed in Germany during the 2020/21 financial year (2019/20: 10,452) and 9,723 in Other European Countries (2019/20: 9,005).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBAACH Baumarkt AG, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, for the year under report were as follows:

	2020/21 € 000s	2019/20 € 000s
Audit services ¹⁾	610	497
Other confirmation services ²⁾	11	46
	621	543

The fees comprise the following elements:

¹⁾ Half-year, annual, and consolidated financial statements, dependent company report, annual financial statements of subsidiaries

²⁾ Agreed investigation activities in respect of sales and Board of Management bonuses and, in the previous year, issuance of a comfort letter

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

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBAACH Baumarkt AG in December 2020 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, HORNBAACH Baumarkt AG has direct or indirect relationships with associated companies in the course of its customary business activities. These include the parent company HORNBAACH Holding AG & Co. KGaA and its direct and indirect subsidiaries.

Parent companies

HORNBAACH-Familien-Treuhandgesellschaft mbH (ultimate controlling party)

HORNBAACH Management AG

HORNBAACH Holding AG & Co. KGaA

Associates

HORNBACH Immobilien AG
 HORNBACH Baustoff Union GmbH

Subsidiaries and second-tier subsidiaries

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

The following principal transactions were performed with associates:

	2020/21 € 000s	2019/20 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	78,122	78,125
Interest paid for group financing	37	38
Allocations paid for administration expenses	819	925
Allocations received for administration expenses	2,499	2,675
Supplies and deliveries to HORNBACH Management AG and its subsidiaries	330	135
Supplies and deliveries by HORNBACH Holding AG & Co. KGaA and its subsidiaries	190	147

At February 29, 2021, there were receivables of € 1,262k (2019/20: € 922k) and liabilities of € 48k (2019/20: € 626k) due to HORNBACH Holding AG & Co. KGaA and its subsidiaries. All transactions are undertaken at normal market prices and with customary delivery conditions.

HORNBACH Holding AG & Co. KGaA has provided guarantee declarations for liabilities at the HORNBACH Baumarkt AG Group amounting to € 8,130k (2019/20: € 8,130k). Guarantee fees of € 37k (2019/20: € 38k) were recognized as expenses at the HORNBACH Baumarkt AG Group in this respect during the year under report.

Some of the companies included in the consolidated financial statements of HORNBAACH Baumarkt AG make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler am Trifels, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 0k were performed by the seminar hotel in the 2020/21 financial year (2019/20: € 12k). These services are invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 28, 2021.

Related parties also include members of the Board of Management and the Supervisory Board. The members of the Board of Management and the Supervisory Board 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 HORNBAACH Baumarkt AG and the HORNBAACH Baumarkt AG Group occurred between the balance sheet date on February 28, 2021 and the date on which these financial statements were prepared.

Impact of the coronavirus pandemic on the DIY retail business at the Group

With regard to the coronavirus pandemic, no fundamental improvement was yet in sight after the balance sheet date. Politicians responded to a renewed drastic rise in incidence rates across Europe in March and April 2021, which was triggered by rising numbers of infections with more infectious variants of the virus, by extending or tightening up the pandemic-related restrictions in some of the countries in which operate.

Upon the editorial deadline for this report, stationary operations were restricted at a majority of our group-wide total of 163 locations. The only countries in which there were no significant restrictions on sales were Luxembourg (1 store), Romania (7), Sweden (7), and Switzerland (7). In the other countries in which we operate, stationary sales to private customers were not permitted or limited to specific product ranges, such as our garden centers, or only possible, albeit then at the whole store, following prior arrangement of an appointment (click & meet). In terms of potential retail activities, all the rules in the various countries and states basically permitted sales to commercial customers, click & collect for all customers, and online retail, which was consistently possible in all countries in which we operate.

This situation, in which stationary operations in the DIY sector were highly restricted, with regional variations in the rules applicable, was countered by persistently high demand from customers across all potential distribution channels. Due to the restrictions on contact, consumers still had to spend significantly more time at home than usual. Where possible, many employees also worked from home. Given that alternative leisure options, such as vacations, cultural events, restaurants, and sports events, were largely restricted until further notice, consumers generally remained willing to spend substantial sums on home improvement and renovation projects, as well as on repair work.

This pleasing DIY trend was significantly influenced by changeable weather conditions. In Europe, the spring months of March and April 2021 offered a program of sharp contrasts. While March proved mild, with low volumes of precipitation and a great deal of sunshine in many areas, April was significantly too cold over large stretches of the month. This contrast in weather conditions had a corresponding impact on our sales performance in spring 2021.

Against this backdrop, in March 2021 consolidated sales rose by 29 % on a like-for-like basis and net of currency items. The arctic air in April 2021 placed a significant chill on our garden business. In the second month of the financial year, the Group witnessed a slight reduction in its like-for-like sales net of currency items. For the two-month period of March to April 2021, net sales rose by 10 % on a like-for-like basis and net

of currency items. Due account should also be taken of significant base effects due to the first lockdown in spring 2020 (see comments on Summary of 2020/21 Business Performance in Business Report).

Germany

At the beginning of March 2021, all indications pointed to restrictions being eased at our DIY stores and garden centers in many areas. In parts of Germany, only the garden division was freely accessible at first. Click & collect was possible for other ranges. From March 7, 2021, click & meet was also possible. Increasing numbers of federal states permitted the regular opening of DIY stores and garden centers to private customers as suppliers of basic needs or depending on specified incidence rates. Since the second half of March, the coronavirus situation deteriorated significantly due to exponentially rising new infections and incidence rates. After Easter, several federal states made the opening of DIY stores to end consumers dependent on the development in the seven-day incidence rate on district and city level. In some cases, consumers were required to present evidence of a negative test to be permitted to shop at stationary stores. From April 12, 2021, DIY stores in Bavaria were no longer permitted to open on an unrestricted basis as suppliers of basic needs and had to convert to click & meet, in some cases with a requirement for customers to present evidence of a negative coronavirus test.

On April 13, the Federal Cabinet approved the draft legislation for a uniform nationwide “emergency brake”. Germany's new Protection against Infection Act, which took effect on April 23, 2021, provides for far-reaching restrictions, also for DIY retailers, as soon as the seven-day incidence rate reaches 100.

When the “emergency brake” takes effect, and provided that individual federal states do not introduce stricter measures, at incidence rates of between 100 and 150 private customers are permitted to shop at DIY stores following prior arrangement of an appointment (click & meet) and with a negative coronavirus test result. Above an incidence rate of 150, end consumers are only permitted to collect ordered goods (click & collect). The federal emergency brake excluded segments including garden centers and wholesalers from the restrictions. Based on our understanding, this means that DIY store garden centers are permitted to remain open and commercial customers can shop at DIY stores and garden centers. Regardless of the incidence rate, click & collect and online sales are possible for all customers without restriction.

Thanks to the pleasing performance at the partially open HORNBACH stores and the e-commerce business (click & collect, online retail), the loss of sales due to closure measures was more than offset in the two-month period of March to April 2021. Cumulative like-for-like sales in the Germany region were 5 % up on the previous year's figure. Due to the “emergency brake”, however, further developments in the first quarter of 2021/22 are expected to be less favorable compared with the previous year's period.

Other European Countries

In the countries in which we operate outside Germany, the coronavirus-related restrictions applicable to stationary DIY retail at the end of February were extended into spring 2021.

In the **Netherlands** (15 HORNBACH DIY stores with garden centers), private customers were permitted from mid-March 2021 to shop at the entire stationary store following prior arrangement of an appointment (click & meet). The maximum number of customers was nevertheless strictly limited. Alongside this option, click & collect and direct mailing via our online shop were possible without restriction. As the stores in the Netherlands were open as usual in spring 2020, our stores had to contend with a very high basis for comparison in March and April 2021. The restrictions on sales at DIY stores in the Netherlands were lifted once again on April 28, 2021.

In **Austria**, the easing of restrictions in the fourth quarter was followed by the closure to end consumers of six of the 14 stores in the period from Easter to May 2, 2021. The temporary measures at these stores meant that only commercial customers were allowed to visit, while private customers could only shop with click & collect. All stores were open as usual again from May 3, 2021.

In the **Czech Republic**, our ten DIY stores with garden centers were also open to private customers from the end of March through to the completion of this report. However, the stores were not permitted to sell the full range of DIY products. The opening of combined garden centers to private customers brought a significant improvement for this seasonal business. On April 29, 2021, the Czech government decided to reopen all retail stores from May 10, 2021. This meant that DIY stores were once again permitted to sell their full product range.

In **Slovakia**, which was hit particularly hard by the pandemic, our four locations were permitted after many weeks of restrictions on sales to fully reopen their private customer businesses on April 19, 2021. Previously, private customer sales were only permitted at the adjacent garden centers. This easing of restrictions was combined with an obligation on the part of customers to show evidence of a negative coronavirus test.

In **Romania**, our seven stores witnessed an overall deterioration in the coronavirus situation in the course of April 2021. Opening hours had to be adjusted, while different regions had different rules. Some of our stores were subject to weekend closures. Apart from this, there were no material restrictions on stationary sales in the private customer business.

Individual countries in which we operate, such as Switzerland, the Czech Republic, and Slovakia, witnessed an improvement in the pandemic situation in the second half of April 2021.

Overall, despite all the pandemic-related restrictions the Other European Countries region reported a solid sales performance in the first two months of the 2021/22 financial year. Cumulative like-for-like sales net of currency items increased by 17 % in the period from March to April 2021.

Other events after the balance sheet date

After nearly 25 years of responsibility on the Board of Management, CFO **Roland Pelka** retired at the end of March and, with the approval of the Supervisory Board, stood down from his positions as of March 31, 2021. **Karin Dohm** assumed the role of CFO at HORNBACH Baumarkt AG as of April 1, 2021 and has since been responsible for Finance, Accounting, Tax, Controlling, Risk Management, Internal Audit, Legal, Compliance, and Investor Relations. Furthermore, she simultaneously succeeded Roland Pelka as CFO at HORNBACH Management AG.

The consolidated financial statements of HORNBACH Baumarkt AG for the 2020/21 financial year were approved for publication by the Board of Management on May 18, 2021.

(37) Supervisory Board and Board of Management**Members of the Board of Management:****Erich Harsch**

Strategic Development, Operative Sales and Services, Expansion; since April 1, 2021 CSR

Chairman (CEO)

First appointed: January 1, 2020
Appointed until: December 31, 2024

Roland Pelka

Finance, Accounting, Tax, Controlling, Risk Management, Internal Audit, Legal, Compliance, Investor Relations

until March 31, 2021

Deputy Chairman**Karin Dohm**

since April 1, 2021 responsible for Finance, Accounting, Tax, Controlling, Risk Management, Internal Audit, Legal, Compliance, Investor Relations

First appointed: January 1, 2021:
Appointed until: December 31, 2023

Susanne Jäger

Product Range, Product-Related Services, Private Labels, Procurement, Quality Assurance, Store Development

First appointed: December 1, 2006
Appointed until: November 30, 2026

Karsten Kühn

Marketing, Public Relations, Organizational Development, Chief People Officer and Labor Director

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

Ingo Leiner

Logistics, Construction, Technical Procurement

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

Dr. Andreas Schobert

Technology

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

Remuneration of the Board of Management for the 2020/21 financial year totals € 9,976k (2019/20: € 8,766k). Of short-term benefits, € 3,232k (2019/20: € 2,938k) relates to fixed remuneration, € 3,542k (2019/20: € 1,911k) to performance-related components, and € 3,202k to remuneration of a long-term incentive nature. The previous year's figure included one-off payments of € 3,917k. Post-employment benefits (pension provision endowment) of € 761k were incurred for active Board members in the 2020/21 financial year (2019/20: € 685k).

Pension provisions for former members of the Board of Management totaled € 4,788k in the 2020/21 financial year (2019/20: € 2,541k).

Further individualized disclosures and explanatory comments can be found in the Remuneration Report (please see "Combined Management Report").

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach

CEO
HORNBACH Management AG

Chairman

Member since: April 25, 2002
Chairman since: March 1, 2009
Appointed until: end of 2023 AGM

Dr. John Feldmann

Former Executive Board member at BASF SE

Further Deputy Chairman

Member since: July 4, 2013
Deputy Chairman since: July 5, 2018
Appointed until: end of 2023 AGM

Georg Hornbach

Head of Controlling Department and Head of Finance
and Procurement Department, Universitätskliniken Köln

Member since: July 9, 2015
Appointed until: end of 2023 AGM

Martin Hornbach

Managing Partner
Corivus Gruppe GmbH

Member since: July 13, 2006
Appointed until: end of 2023 AGM

Simona Scarpaleggia

Director of Global Initiative "Future of Work"
at Ingka Group (IKEA) (until August 2020)
Global CEO of EDGE Strategy AG (since September 2020)

Member since: January 1, 2020
Appointed until: end of 2023 AGM

Vanessa Stütze

Managing Director of E-Commerce/Omni-Channel
Parfümerie Douglas (until May 10, 2020)
Chief Digital Officer and Member of Management at
Douglas Group (since May 11, 2020)

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

Melanie Thomann-Bopp

Chief Financial Officer (CFO) at Sonova Retail
Deutschland GmbH (until April 14, 2021)
Commercial Director at Nolte Küchen GmbH & Co. KG and Ex-
press Küchen GmbH & Co. KG
(since April 15, 2021)

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

Prof. Dr.-Ing. Jens P. Wulfsberg

Professor of Production Technology
Helmut-Schmidt-Universität/Universität der Bundeswehr
Hamburg

Member since: September 1, 2005
Appointed until: end of 2023 AGM

As representatives of the employees

Kay Strelow

Section Manager,
Berlin-Marzahn Store

Mohamed Elaouch

Section Manager, Mainz Store

Christian Garrecht

Operative Head of Workplace Safety
and Fire Protection

Markus Lass

District Director

Jörg Manns

Sales Employee, Wiesbaden Store

Anke Matrose

Checkout Assistant, Bremen Store

Brigitte Mauer

Section Manager, Tübingen Store

Johannes Otto

Assistant Store Director, Schwetzingen Store

**Deputy Chairman
for trade unions**

Member since: July 10, 2008
Appointed until: end of 2023 AGM

for salaried employees

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

for salaried employees

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

for senior employees

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

for salaried employees

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

for trade unions

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

for salaried employees

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

for salaried employees

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

The total remuneration of the Supervisory Board for the 2020/21 financial year amounted to € 515k (2019/20: € 515k). Of short-term benefits, € 390k (2019/20: € 390k) related to basic remuneration and € 125k (2019/20: € 125k) to committee activities.

The total remuneration of the Board of Management and Supervisory Board amounted to € 10,491k (2019/20: € 9,281k).

Mandates in supervisory boards and other control bodies
(Disclosures pursuant to § 285 Number 10 HGB)**Members of the Supervisory Board**

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

Albrecht Hornbach

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

Dr. John Feldmann

- a) HORNBACH Holding AG & Co. KGaA (Chairman)
HORNBACH Management AG (Deputy Chairman)

Georg Hornbach

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

Martin Hornbach

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

Simona Scarpaleggia (since January 1, 2020)

- a) EDGE Certified Foundation
HORNBACH Holding AG & Co. KGaA (member since March 24, 2020)
IKEA Foundation (member until September 15, 2020)
- b) ZHdK - Zurich University of the Arts (Advisory Board member)
Economics Faculty of Zurich University (Advisory Board member)
Faculty of International Management at St. Gallen University (Advisory Board member)
Digital Switzerland (Advisory Board member)

Melanie Thomann-Bopp

- a) HORNBACH Holding AG & Co. KGaA
- b) Peek & Cloppenburg KG Hamburg (member of Advisory Board since July 22, 2020)

Prof. Dr.-Ing. Jens P. Wulfsberg

- a) HORNBACH Management AG

Members of the Board of Management

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

Erich Harsch (since January 1, 2020)

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

Karin Dohm (since January 1, 2021)

- a) CECONOMY AG
- Deutsche EuroShop AG (Deputy Chairman)
- HORNBACH Immobilien AG (since April 1, 2021)

Roland Pelka (until March 31, 2021)

- a) HORNBACH Immobilien AG (Deputy Chairman; until March 31, 2021)
- WASGAU Produktions & Handels AG
- b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Susanne Jäger

- a) VR Bank Südliche Weinstraße-Wasgau eG

Bornheim bei Landau/Pfalz, May 18, 2021

HORNBACH Baumarkt AG
The Board of Management

Erich Harsch

Karin Dohm

Susanne Jäger

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

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

Bornheim bei Landau/Pfalz, May 18, 2021

HORNBACH Baumarkt AG
The Board of Management

Erich Harsch

Karin Dohm

Susanne Jäger

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

INDEPENDENT AUDITOR'S REPORT

To HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany

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

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 28 February 2021, 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 2020 to 28 February 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany, for the financial year from 1 March 2020 to 28 February 2021. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Sections 289f, 315d German Commercial Code (HGB) referred to in the combined management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 28 February 2021 and of its financial performance for the financial year from 1 March 2020 to 28 February 2021, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the corporate governance statement pursuant to Sections 289f, 315d HGB referred to above.

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

Basis for the Audit Opinions

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

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 March 2020 to 28 February 2021. 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. Application of IFRS 16

Our presentation of these key audit matters has been structured as follows:

- a) description (including reference to corresponding information in the consolidated financial statements)
- b) auditor's response

1. Recoverability of real estate at individual locations and rights of use of real estate at individual locations

- a) The consolidated financial statements of HORNBACH Baumarkt AG as at 28 February 2021 state "land, land rights and buildings including buildings on third-party land" (so-called real estate at individual locations) of mEUR 938.4 and rights of use of "land, land rights and buildings including buildings on third-party land" (so-called "rights of use of real estate at individual locations") of mEUR 1,169.7, which, in the aggregate, account for 56.0 % of total assets. As at 28 February 2021, total impairments of mEUR 18.4 on these assets were recognised as an expense.

The recoverability of the real estate at individual locations and of the rights of use of real estate at individual locations is determined at the level of the individual DIY stores, each of which constitute a cash-generating unit. If there are events that indicate an impairment and any related requirement for a writedown 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 estates 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, rights of use and investment property" and note "(13) Leases" in the notes to the consolidated financial statements.

- b) During our audit, we obtained an understanding of the corporate planning process and the process applied to design the impairment tests. In addition, we obtained, in particular, an understanding of and assessed the method applied in the impairment test. For the purpose of our risk assessment, we gathered information on and considered the correlation of actual results with budget over the past years.

We compared the expected future cash flows to be considered in the measurement with the corresponding detailed planning and group planning approved by the supervisory board. In view of the assessment of the appropriateness of the assumptions and propositions, processes and measurement methods, we consulted internal experts of our Valuation Services function, who also helped us to assess the method applied in the impairment tests and the parameters used to determine the discount factors including the weighted average cost of capital and calculation schemes. For evaluating the appropriateness of the budgeting, we compared general and industry-specific market expectations and considered comprehensive explanations of the executive directors regarding the impairment tests. As only slight changes in the discount rate may have significant effects on the value in use, we evaluated the underlying parameters for plausibility based on information provided by the executive directors and own market research and checked the calculation of the value in use for accuracy.

In addition, we evaluated the competence, capabilities and objectivity of the independent experts consulted by the Group to determine the net realisable values of the real estate at individual locations and assessed their results with the help of our own real estate valuation experts.

2. Measurement of inventories

- a) The inventories recognised in the consolidated financial statements of HORNBAACH Baumarkt AG as at 28 February 2021 amount to mEUR 944.6. This makes up 25.1 % of total assets. As at 28 February 2021, writedowns of the inventories amounted to mEUR 14.7.

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 writedowns 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 writedowns 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 writedowns thus determined were recorded accurately.

3. Application of IFRS 16

- a) The rights of use to leased objects in the balance sheet as at 28 February 2021 amount to mEUR 1,175.8 and are recognised as assets in the consolidated balance sheet. They account for 49.7 % of non-current assets and 31.2 % of total assets. In addition, lease liabilities recognised liabilities in the balance sheet amount to mEUR 1,268.7.

For computing the recognised values of the rights of use and lease liabilities, the Company uses the existing ERP system.

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 affect the term of the lease, possibly 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 requirements of the standard, 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 accounting of leases is provided by the executive directors in the section "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 and leases. 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 Baumarkt AG 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 report of the supervisory board,
- the corporate governance statement pursuant to Sections 289f, 315d HGB referred to in the combined management report,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB), respectively, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the combined management report and not our auditor's report thereon.

The supervisory board is responsible for the report of the supervisory board. The executive directors and supervisory board are responsible for the declaration related to the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Act (AktG), which is part of the corporate governance statement. In addition, the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the content of the audited information in 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

Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Combined Management Report prepared for Publication pursuant to Section 317 (3b) HGB

Audit opinion

In accordance with Section 317 (3b) HGB, we have assessed with reasonable assurance whether the electronic files of the consolidated financial statements and of the combined management report (hereafter referred to as "ESEF files") prepared for publication, contained in the accompanying file, which has the SHA-256 value 6EF15C645A4FED9EF26B223C8513607CFF28F5D18106D3344925181489AE93F8, meet, in all material respects, the requirements concerning the electronic reporting format ("ESEF format") pursuant to Section 328 (1) HGB. In accordance with the German legal requirements, this audit only covers the transfer of the consolidated financial statements' and the combined management report's information into the ESEF format, and therefore covers neither the information contained in these electronic files nor any other information contained in the file stated above.

In our opinion, the electronic files of the consolidated financial statements and of the combined management report prepared for publication contained in the accompanying file stated above meet, in all material respects, the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from 1 March 2020 to 28 February 2021 contained in the above "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report", we do not express any audit opinion on the information contained in these electronic files and on any other information contained in the file stated above.

Basis for the Audit Opinion

We conducted our audit of the electronic files of the consolidated financial statements and of the combined management report contained in the accompanying file stated above in accordance with Section 317 (3b) HGB and on the basis of the IDW Draft Auditing Standard: Audit of the Electronic Files of the Annual Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB (IDW Draft AuS 410). Our responsibilities in this context are further described in the section "Auditor's Responsibilities for the Audit of the ESEF Files". Our audit firm has applied the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Files

The executive directors of the parent are responsible for the preparation of the ESEF files based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal control as they have determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The executive directors of the parent are also responsible for the submission of the ESEF files together with the auditor's report and the accompanying audited consolidated financial statements and the audited combined management report as well as other documents to be filed with the publisher of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF files as part of the financial reporting process.

Auditor's Responsibilities for the Audit of the ESEF Files

Our objectives are to obtain reasonable assurance about whether the ESEF files are free from material violations, whether due to fraud or error, against the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, 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 opinion.
- obtain an understanding of internal control relevant to the audit of the ESEF files 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 controls.

- assess the technical validity of the ESEF files, i.e. whether the file containing the ESEF files meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the balance sheet date as to the technical specification of this file.
- evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited combined management report whose content is identical with these documents.
- evaluate whether the ESEF files have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the general meeting on 9 July 2020. We were engaged by the supervisory board on 4 July 2019. We have been the group auditor of HORNBACH Baumarkt AG, Bornheim (Pfalz)/Germany, since the financial year 2019/2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the Engagement

The German Public Auditor responsible for the engagement is Steffen Schmidt.

Mannheim/Germany, 18 May 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Steffen Schmidt
Wirtschaftsprüfer(in)
(German Public Auditor)

Signed: Patrick Wendlandt
Wirtschaftsprüfer(in)
(German Public Auditor)

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¹ Newly opened in 2020/21 financial year

IMPRINT

Published by
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www.adrian-schroeder.de

Production
Kunst- und Werbedruck, Bad Oeynhausen



**LONG-TERM RELATIONSHIP:
ONE PARTNER, MANY PROJECTS**

