HORNBACH Baumarkt AG Group

Annual Report 2021/22

as of February, 2022

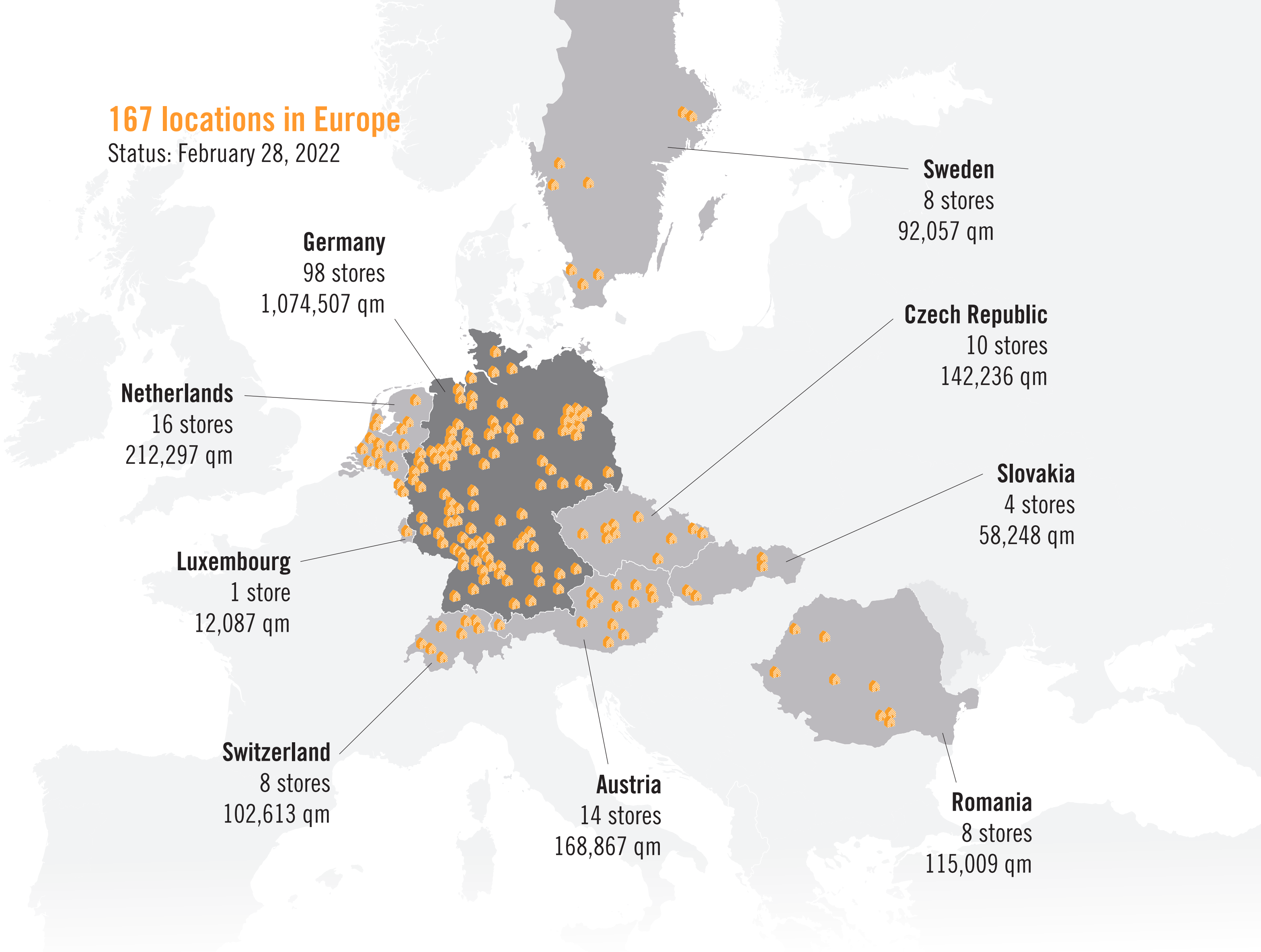
Es gibt immer was zu tun.

Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2021/22 on previous year	IFRS									
		2021/22	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
Sales and earnings figures											
Net sales	7.4%	5,496	5,117	4,428	4,096	3,891	3,710	3,535	3,357	3,152	3,020
of which in other European countries	10.3%	2,716	2,463	2,183	1,977	1,820	1,670	1,524	1,390	1,325	1,279
Sales growth as % of net sales		7.4	15.6	8.1	5.3	4.9	5.0	5.3	6.5	4.4	0.6
EBITDA	9.3%	551	505	414	159	183	174	162	167	161	156
as % of net sales		10.0	9.9	9.3	3.9	4.7	4.7	4.6	5.0	5.1	5.2
EBIT	11.9%	289	259	164	67	102	98	90	110	105	99
as % of net sales		5.3	5.1	3.7	1.6	2.6	2.6	2.6	3.3	3.3	3.3
Adjusted EBIT [1]	12.9%	315	279	182	82	110	103	99	115	111	101
as % of net sales		5.7	5.5	4.1	2.0	2.8	2.8	2.8	3.4	3.5	3.3
Earnings before taxes	18.1%	237	200	106	52	81	79	78	95	87	74
as % of net sales		4.3	3.9	2.4	1.3	2.1	2.1	2.2	2.8	2.8	2.5
Net income for the year	23.4%	189	153	79	41	59	53	72	70	56	52
as % of net sales		3.4	3.0	1.8	1.0	1.5	1.4	2.0	2.1	1.8	1.7
Gross margin as % of net sales		35.7	35.9	36.6	36.7	37.3	37.2	37.7	38.0	37.4	37.3
Store expenses as % of net sales		26.0	26.5	28.1	29.9	29.6	29.8	30.2	29.8	29.4	29.7
Costs of central administration as % of net sales		4.5	4.5	5.1	5.4	5.3	5.0	5.0	4.7	4.5	4.7
Pre-opening expenses as % of net sales		0.3	0.1	0.2	0.2	0.1	0.2	0.3	0.4	0.3	0.3
Cash flow figures											
Cash flow from operating activities	3.4%	345	334	327	4	134	115	107	107	144	95
Investments [2]	20.3%	168	140	97	184	129	157	139	100	72	117
Proceeds from divestments		4	3	2	4	2	2	2	1	5	3
Earnings potential [3]	6.3%	362	341	335	10	139	121	117	122	155	105
as % of net sales		6.6	6.7	7.6	0.2	3.6	3.3	3.3	3.6	4.9	3.5
Dividend distribution	32.3%	28.6	21.6	21.6	21.6	21.6	21.6	19.1	19.1	15.9	15.9
Balance sheet and financial figures											
Total assets	8.5%	4,084	3,765	3,564	2,338	1,998	1,960	1,986	1,731	1,670	1,597
Non-current assets	5.8%	2,489	2,352	2,349	1,253	1,165	1,124	1,023	786	729	722
Inventories	23.8%	1,169	945	814	756	658	626	588	533	505	482
Cash and cash equivalents	(13.2)%	290	335	302	243	102	113	283	335	371	317
Shareholders' equity	14.5%	1,437	1,255	1,132	1,069	1,049	1,011	973	922	862	823
Shareholders' equity as % of total assets		35.2	33.3	31.8	45.7	52.5	51.6	49.0	53.3	51.6	51.5
Return on shareholders' equity based on net income - in %		14.0	12.8	7.2	3.9	5.7	5.5	7.6	7.8	6.7	6.5
Net working capital	8.8%	840	772	651	607	469	471	408	382	345	349
Additions to non-current assets	40.3%	386	275	1,341	184	129	176	312	100	72	117
Inventory turnover rate per year		3.6	4.1	3.8	3.9	3.8	3.9	4.0	4.1	4.0	4.0
Retail store data											
Number of stores		167	163	160	158	156	155	153	146	141	138
of which in Germany [4]		98	98	96	97	98	98	99	97	92	92
of which in other European countries		69	65	64	61	58	57	54	49	49	46
Like-for-like sales growth in %		5.4	14.7	7.7	4.2	3.6	3.0	2.6	4.4	2.7	(1.4)
Sales area in m² (based on BHB)	3.1%	1,977,921	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
Weighted average net sales per m² in €	5.6%	2,848	2,698	2,386	2,218	2,135	2,068	2,023	1,985	1,940	1,912
Average store size in m²	0.6%	11,844	11,769	11,803	11,728	11,678	11,650	11,578	11,673	11,679	11,579
Weighted average sales per store		33.7	31.8	28.2	26.0	24.9	24.1	23.4	23.2	22.7	22.1
Other information											
Employees - annual average - converted into full-time equivalents	6.8%	18,971	17,766	17,039	16,229	15,431	15,016	14,570	13,967	13,390	12,674
Sales per employee in € 000s	0.6%	290	288	260	252	252	247	243	240	239	238
Number of shares [5]		31,806,810	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
Earnings per share in € [5]		5.94	4.82	2.47	1.29	1.84	1.66	2.28	2.19	1.77	1.64

[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 2020/21 financial year: including BODENHAUS outlets
[5] Excess shares from the share buyback for the employee share program are held as treasury stock as of Feb 28/29

CONTENTS



Company Profile

HORNBACH is one of the leading DIY retail groups in Germany and Europe, with 165 DIY stores and garden centers, 2 specialist stores and online shops in nine European countries. HORNBACH's megastores and online shops offer DIY enthusiasts and professionals a broad product range of around 2500,000 high-quality articles at permanently low prices. HORNBACH supplements its products with a wide range of project-based advice and services.

1968

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

€ 5.5 billion

Consolidated sales rose by 7.4 % in the 2021/22 financial year.

€ 2,848

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

17%

In the 2021/22 financial year, HORNBACH Baumarkt AG generated 17% of its sales via online channels (including Click & Collect).

No. 1

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

60%

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

TO OUR SHAREHOLDERS

Letter from the CEO

Erich Harsch, CEO of HORNBACH Baumarkt AG

Dear Ladies and Gentlemen, dear Colleagues,

the 2021/22 financial year once again presented us with numerous challenges. We overcame these together by making tremendous efforts and acting with great flexibility. Repeated lockdowns due to the ongoing coronavirus pandemic prevented our customers from visiting our stores at times. The backlog of containers at Chinese ports and shortage of truck drivers in Europe further intensified supply shortages, only to be overshadowed at the end of February 2022 by an event previously not thought possible – the war in Ukraine.

HORNBACH does not operate any stores in Russia or Ukraine. We also do not have any direct business relationships in either country. However, our stores in Slovakia and Romania, two countries directly bordering Ukraine, mean that the consequences of the war are directly felt on location, particularly by our employees. With our country companies, we are offering assistance – basic necessities and financial support – wherever we can.

Despite these unforeseen challenges, with its 167 stores in Europe and nine online shops HORNBACH Baumarkt AG not only matched its previous sales record of € 5.1 billion, but significantly exceeded this with sales of almost € 5.5 billion in the 2021/22 financial year. This year-on-year growth of 7.4 % is all the more impressive when compared with developments in the DIY store sector as a whole. Of the six DIY store chain operators with the highest sales in Germany, HORNBACH was the only one to generate further sales growth in the 2021 calendar year after the pandemic-driven boom in 2000. This success was again driven not least by our company's focus on the specific needs of professional customers. Commercial customers, and tradespeople in particular, really appreciate our DIY stores as competent partners and procurement sources.

At the same time, no other stationary competitor generates more sales via its online channels than we do. With disproportionate sales growth of 10.5 %, our online sales reached a 17.2 % share of our total sales in the 2021/22 financial year. Our interconnected retail strategy and the combination of our own logistics network and our generously proportioned stores, which simultaneously serve as warehouses and enable us to stock large quantities, once again proved to be major competitive advantages.

Technology is one of the key success factors at HORNBACH Baumarkt AG: Taking due account of the importance of the online business, we are consistently pursuing the target of technology leadership in our sector. We are consistently investing in this, have our own highly qualified development team and now employ more than 80 people solely to work on our web shop, our app, and the relevant interfaces. Our customers are aware of the expertise we have pooled. They appreciate the click & collect function, and the resultant option of ordering online and picking up the goods on location at the store, as well as the digital information on the availability of articles and their location within the store. Customers are just as willing to use online configuration for customized articles as they are to self-scan their shopping cart with their own smartphones to speed up checkout at the store. Moving our online shops to our new e-commerce platform will enable us to react even more flexibly in future to dynamic events in the market and to scale our services even more effectively.

We are maintaining our expansion course in our stationary business as well. In March 2022, we opened new DIY stores with garden centers in Nitra (Slovakia) and Enschede (Netherlands). The third store in this financial year is set to follow in the fall in Constanta (Romania). In Germany, a further HORNBACH location will open its doors, most likely in spring 2023, in Leipzig.

None of this impressive success in the 2021/22 financial year would have been possible without the enormous efforts made by everyone at the company. I would like to take this opportunity to express my appreciation and respect for what our workforce, now numbering almost 25,000 employees, achieved. Once again, it was their commitment, passion, and determination that enabled us to master all the major and minor hurdles presented by the pandemic and procurement shortages, and to do so with flying colors and great presence of mind in tackling the situation in hand.

Many of the challenges that accompanied us in the past two years – inflation, unstable supply chains, rising commodity prices and transport costs – can be expected to continue this year as well. It remains to be seen whether the economic recovery forecast in the wake of the coronavirus crisis will be strong enough to defy the setbacks resulting from the war in Ukraine. From a current perspective, it is therefore hardly possible to make any reliable statements about the impact on our business. For our part, we will continue do absolutely everything to maintain the supply of goods to our customers as well as possible in future. We are therefore cautiously optimistic that our consolidated sales in the current 2022/23 financial year will further slightly exceed the level reported for the past 2021/22 financial year. Given price increases for products and services, adjusted EBIT is expected to fall slightly short of the strong figure reported for the 2021/22 financial year (€ 315 million).

Demand remains high and we expect the trend of consumers improving their own four walls to continue in the medium term as well, not least as ever more people are working from home even now that the coronavirus restrictions have been lifted. Not only that: Given rising energy prices and the need to reduce CO2 emissions, energy-efficiency renovation is becoming even more urgent. In that respect, we can look to the future with confidence: Our people at HORNBACH have amply demonstrated their ability to master even major challenges to the benefit of our customers.

Yours faithfully,

Erich Harsch
Chief Executive Officer of HORNBACH Baumarkt AG

Report of the Supervisory Board

Albrecht Hornbach,
Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

The 2021/22 financial year was again marked by difficult discussions within society, and to a greater extent than expected, as to the best way to respond to the pandemic and mutations in the underlying virus. Large numbers of measures, varying widely from region to region, were intensified and eased on an alternating basis and provided the approval framework to which we were all obliged to adapt.

The distinct trend among consumers in the first year of the pandemic, namely to compensate for restrictions on social life by focusing on optimizing and enhancing their private environments, remained intact in the second year as well. Demand for do-it-yourself products and services was still significantly higher than in the years before the pandemic but did not match the dynamic growth seen in 2020/21. In all regions in which we operate, we continue to see a trend towards changing consumer behavior: Our customers, particularly those shopping online, tend to purchase goods slightly less frequently but in larger quantities overall and for consolidated projects. To account for this, HORNBACH will focus in future as well on further developing our diverse range of sales models in order to meet customers' needs as closely as possible. Increased costs due to the pandemic, shortages in the availability of goods, and bottlenecks in logistics: These factors made it absolutely necessary for us to adjust our own prices.

Despite the aforementioned challenges, by dovetailing stationary DIY store retail with the internet business the team at HORNBACH Baumarkt AG achieved fantastic results in the year under report. By focusing on the needs of customers in individual regions, boosting the advice and services provided, particularly in the project business, ensuring forward-looking stocking policies, and implementing measures to optimize and safeguard logistics, the company was able to significantly outperform the market in nearly all countries. HORNBACH further expanded its market share once again in 2021/22 while at the same time generating profitable growth.

In liaison with HORNBACH HOLDING AG & Co. KGaA, in the 2021/22 financial year HORNBACH Baumarkt AG decided to have its shares delisted. The Supervisory Board supported this project, which will significantly contribute to simplifying the Group's structure, is consistent with the overall market trend towards simplifying stock market listing structures, will sustainably boost the capital market profile of the HORNBACH Group as a united listing with a clear equity story, and will impact positively on the share's liquidity and valuation.

In connection with the delisting project, HORNBACH HOLDING AG & Co KGaA submitted an offer to the independent shareholders in HORNBACH Baumarkt AG to take over their shares. It now owns 90.86 % of the shares in this company, whose stock market listing, following the submission of a corresponding delisting application by the company, expired at the end of February. With the HORNBACH HOLDING AG & Co KGaA share, the HORNBACH Group now offers a focused investment in a growth-driven, profitable Group with a well-balanced long-term and stable financing structure.

Meetings of the Supervisory Board

The Supervisory Board held a total of five meetings in the 2021/22 financial year.

At our meetings in the 2021/22 financial year, 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 2021 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 2022. 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.

At the meeting held directly before the virtual Annual General Meeting in July 2021, the Board of Management reported on the current situation of the Group and the dates of scheduled meetings up to and including the 2022/23 financial year were also agreed.

In December 2021, the Group's current business situation, risk report, and compliance report were discussed. 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 Compliance with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). At this meeting, the Supervisory Board also dealt in great detail with the delisting of HORNBACH Baumarkt AG.

At an extraordinary meeting held in January 2022, the Supervisory Board adopted the resolutions required in connection with the delisting project.

At its final meeting in the past 2021/22 financial year, held in February 2022, the Supervisory Board discussed the Group's current business situation as well as the budget for the financial years 2022/23 to 2026/27. Based on a recommendation submitted by the Personnel Committee, the Supervisory Board also specified the targets for the variable remuneration of the Board of Management in the coming financial year.

Committees and committee meetings

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

In May 2021, 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 be proposed for election as auditor. At the June meeting the statement for the first quarter was discussed and in September 2021 the half-year financial report was addressed in the presence of the auditors and key audit focuses were specified for the audit of the consolidated financial statements.

In December 2021, 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 2022, the budget for the financial years 2022/23 to 2026/27 was addressed in detail, as was the internal audit plan for the 2022/23 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 two meetings in the year under report.

The Nomination Committee held one meeting in the year under report, namely in May 2021.

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 the 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 of HORNBACH Management AG decided to appoint Karin Dohm as a new member of the Board of Management as of January 1, 2021. She succeeded Roland Pelka, the former CFO of HORNBACH Management AG and HORNBACH Baumarkt AG as of April 1, 2021. 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 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 are also pleased to report the extension in the contracts with two members of the Board of Management, Ingo Leiner and Dr. Andreas Schobert, in the past financial year. We thus created a basis for them to continue their successful activities. At its meeting in May 2021, the Supervisory Board of HORNBACH Baumarkt AG extended the contract with Ingo Leiner for a further five-year period beyond February 28, 2022, and thus until February 28, 2027. Furthermore, at its meeting in February 2022 the Supervisory Board extended the contract with Dr. Andreas Schobert for five years from December 31, 2022, and thus through to December 31, 2027.

Composition of Supervisory Board

In connection with the Annual General Meeting in July 2021, Prof. Dr.-Ing. Jens P. Wulfsberg announced his intention to stand down from his position as of December 31, 2021. Steffen Hornbach joined the Supervisory Board to succeed him as of January 1, 2022.

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, 2022, as well as the combined management report and group management report of HORNBACH Baumarkt AG for the 2021/22 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.

Key audit focuses in the 2021/22 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 11, 2022 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 2022/23 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, 2022; 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.

With Russia's invasion of Ukraine, war has become a reality in Europe again after several decades of peace. HORNBACH is supporting the people affected in Ukraine and refugees with numerous initiatives. At the same time, the company is taking the measures necessary to uphold supplies to its customers as well as possible. From a current perspective, it is hardly possible to make any reliable statements concerning the impact on our business. HORNBACH's team has proven that, by building on a solid strategic basis and acting with courage, competence, and commitment, it is able to remain the preferred partner of its suppliers and customers and to safeguard its profitable growth in future as well.

The Supervisory Board has every confidence in the team's ability to master the new set of challenges as well and would like to thank all of the company's managers and staff for the contributions they made to a very successful 2021/22 financial year.

Bornheim, May 2022

The Supervisory Board

Albrecht Hornbach
Chairman

COMBINED MANAGEMENT REPORT

Group Fundamentals

1. The Group at a Glance

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

167
locations across Europe

At the balance sheet date on February 28, 2022, the HORNBACH Baumarkt AG subgroup operated 165 DIY megastores with garden centers and HORNBACH online shops in nine European countries. Of these, 96 locations are in Germany. A further 69 stores are located in the following other European countries: Austria (14), the Netherlands (16), Luxembourg (1), the Czech Republic (10), Switzerland (8), Sweden (8), Slovakia (4), and Romania (8). Furthermore, HORNBACH operates two specialist hard floor stores under the management of BODENHAUS GmbH and a BODENHAUS online shop in Germany.

€ 5.5 bn
consolidated sales

In the 2021/22 financial year (March 1, 2021 to February 28, 2022), the HORNBACH Baumarkt AG Group generated net sales of around € 5.5 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, 2022, the HORNBACH Baumarkt AG Group had a total of 23,114 employees across Europe (including passive employment relationships), of which 12,253 in Germany.

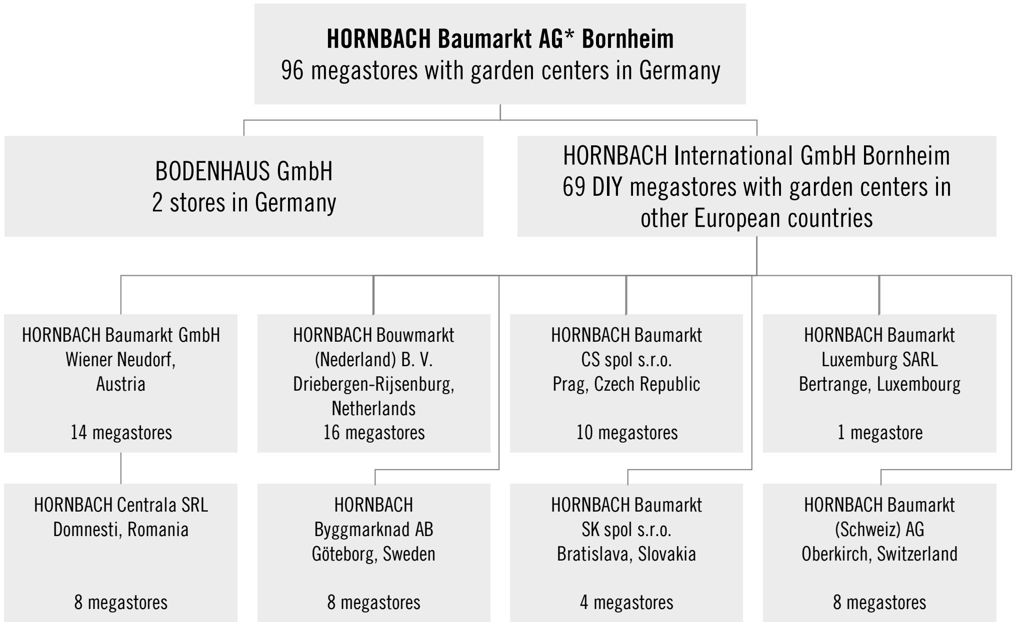
The diagram on the following page presents the current group structure and provides an overview of the most important shareholdings of HORNBACH Baumarkt AG. Full details about the scope of consolidation and consolidated shareholdings are provided in the notes to the consolidated financial statements.

In the 2021/22 financial year, HORNBACH Holding AG & Co. KGaA increased its shareholding in HORNBACH Baumarkt AG from 76.36 % to 90.86 % by way of a delisting purchase offer addressed to the shareholders of HORNBACH Baumarkt AG. During the acceptance period, which ran from January 14, 2022 to February 22, 2022, a total of 4,011,904 HORNBACH Baumarkt shares, corresponding to around 12.61 % of the outstanding HORNBACH Baumarkt shares, were offered for purchase at a price of € 47.50. In parallel to the delisting purchase offer, HORNBACH Holding AG & Co. KGaA acquired additional shares via the stock exchange. The listing of HORNBACH Baumarkt AG on the Regulated Market of the Frankfurt Stock Exchange expired at the end of February 28, 2022.

2. Group Business Model

2.1 Retail activities

HORNBACH operates DIY megastores with garden centers – mostly with sales areas in excess of 10,000 m² – in major regional catchment areas. The homogenous portfolio of locations resulting from organic growth in Germany and abroad enables HORNBACH to benefit from economies of scales in its operations and conceptual store enhancement measures, as well as in group logistics. With total sales areas of 1,977,921 m² (BHB) as of February 28, 2022, the average size of a HORNBACH DIY store with a garden center amounts to more than 11,800 m². In all the countries in which it operates, HORNBACH combines its stationary retail business with online shops (e-commerce) to act as a multichannel DIY retailer, an approach we also refer to as interconnected retail. The extensive virtual offering enables all customers to select and buy products and to obtain advice around the clock. Thanks to the seamless dovetailing of online services with stationary retail, customers can move smoothly between channels. This way, every customer can enjoy an ideal individual shopping experience.



* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 28, 2022

Key focus on project customers

HORNBACH has an absolute focus on project customers. On the one hand, these are home improvement enthusiasts 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 are commercial customers and tradespeople who see to all aspects of implementing projects, including all services, as high-performance partners for their customers (do-it-for-me). All of the company's stationary and online activities are tailored to these target groups. In particular, HORNBACH offers its customers a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, reliable and transparent permanently low prices, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in consumer surveys.

HORNBACH's product range encompasses an average of around 50,000 articles in stock at its stationary stores and up to around 250,000 articles available online. Products are available in five divisions:

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

With a very broad selection of tiles, parquets, laminates, vinyl, and decking, the 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 HORNBACH Baumarkt AG Group has a substantial real estate portfolio. This predominantly relates to retail properties used by the company itself. At the balance sheet date on February 28, 2022, 34 % of sales areas were owned by the Group. HORNBACH Immobilien AG and its subsidiaries owned a further 26 % of the Group's DIY sales areas. The overriding strategy is for the overall HORNBACH Holding AG & Co. KGaA Group to retain ownership of at least half of the real estate, measured in terms of sales areas, used for operating purposes.

2.3 Reporting segments

The delineation of business segments is consistent with the internal reporting structures used by the Board of Management of the HORNBACH Baumarkt AG Group to manage the company. The "Retail" segment comprises the 165 DIY megastores with garden centers pooled at the HORNBACH Baumarkt AG Group (2020/21: 161), the two Bodenhaus specialist stores, and the online shops in all the countries in which HORNBACH operates. Sales at the HORNBACH Baumarkt AG Group are primarily generated in the Retail segment, i.e. in the operating retail business. The "Real Estate" segment comprises the retail properties and logistics center owned and rented by the HORNBACH Baumarkt AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are shown in the columns "Central Functions" and "Consolidation".

3. Management System

HORNBACH prepares its financial reporting in accordance with International Financial Reporting Standards (IFRS). As well as the financial key figures pursuant to IFRS, in our management of the company and our external communications and reporting we also refer to alternative key performance indicators that are not defined in IFRS. The key figures used in the 2021/22 financial year have not changed compared with the previous year.

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

3.1 Key management figures relevant for financial guidance

Sales	**Sales** are the central management figure for the operating business and a key indicator of our success with customers. The sales performance is reported in euros as net sales (excluding sales tax). Sales generated in countries outside the euro area in the period under report are translated using the relevant average exchange rate. Sales are a major key figure referred to when calculating the one-year variable remuneration for members of the Board of Management.
Adjusted EBIT	**Adjusted EBIT** (adjusted earnings before interest and taxes) is the Group's most important earnings figure. This corresponds to earnings before interest and taxes (EBIT) adjusted to exclude non-operating earnings items. 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 Further key performance indicators

3.2.1 Key performance indicators for earnings position

Like-for-like sales net of currency items (change in %)	The **rate of change in like-for-like sales net of currency items** serves to indicate the organic growth in 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). 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.
Gross margin	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. The gross margin is chiefly influenced by developments in procurement and retail prices, changes in the product mix, and currency items resulting from international procurement.
Cost ratios	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.
EBITDA	**EBITDA** stands for earnings before interest, taxes, depreciation, amortization and write-ups. EBITDA is calculated on the basis of EBIT and by adding depreciation and amortization recognized through profit and loss on property, plant and equipment, right-of-use assets, and intangible assets and subtracting any write-ups recognized through profit on loss on these items. This neutralizes any distortive effects resulting from different methods of depreciation and amortization and from discretionary valuation scope.
EBIT	**EBIT,** which stands for earnings before interest and taxes, is calculated on the basis of gross profit in euros and by subtracting expenses (store, pre-opening, and administration expenses) and adding other income/expenses. Due to its independence from different forms of financing and tax systems, EBIT is referred to when comparing earnings with those at other companies.

EBT	**EBT** refer to earnings before taxes in the period under report. This key figure is independent of different management systems but also includes interest items. EBT is a major key figure referred to when calculating the one-year variable remuneration for members of the Board of Management.
Value spread	HORNBACH 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 group) 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 value spread is a major key figure referred to when calculating the multiyear variable remuneration for members of the Board of Management.

3.2.2 Key performance indicators for financial and asset position

Equity ratio	The **equity ratio** is calculated by dividing shareholders' equity as posted in the balance sheet by total capital (total assets). To safeguard its financial stability and independence, HORNBACH basically aims to maintain an equity ratio that is permanently stable and high by sector standards. HORNBACH has entered into covenants towards certain debt providers that require the company to maintain an equity ratio of at least 25 %.
Net financial debt	**Net financial debt** is calculated as total current and non-current financial debt (including lease liabilities) less cash and cash equivalents and – where applicable – less current financial assets (financial investments).
Investments and free cash flow	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. The FCF is calculated as the cash flow from operations plus proceeds from disposals of non-current assets and less investments and dividends paid. The calculation of the FCF has been changed compared with the previous year (previously: excluding deduction of dividend) and now corresponds to the FCF figure referred to when calculating the one-year variable remuneration for members of the Board of Management.
Inventory turnover rate	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.

Business Report

1. Macroeconomic and Sector-Specific Framework

Table
GDP growth rates

Based on figures released by the European Union statistics authority (Eurostat), the European economy (EU 27) grew by 5.3 % in the 2021 calendar year (2020: minus 5.9 %). All nine European countries in which HORNBACH operates reported positive developments following the pandemic-induced downturn in economic output in the previous year. Private consumer spending in the EU 27 countries grew by 3.8 % (2020: minus 7.3 %).

According to estimates compiled by Eurostat, output in the construction sector rose by 4.8 % in 2021 (2020: minus 5.0 %), with highly disparate developments in the countries in which HORNBACH operates. While the construction sector reported a slight contraction in Germany, Romania, and Slovakia, growth rates were positive in all other countries.

Non-food retail volumes (excluding motor fuels) grew by 8.3 % in the EU 27 in 2021 (2020: minus 1.2 %), with the non-food retail sector reporting significant growth in all countries in which HORNBACH operates apart from Slovakia. According to figures released by the GfK consumer research association for the 2021 calendar year, gross sales in the do-it-yourself (DIY) retail sector fell by 8.2 % in Germany (2020: plus 13.8 %) and by 16.6 % in the Netherlands (2020: plus 22.1 %). Both countries were affected more severely than in the previous year by coronavirus-related restrictions on retail sales. Gross DIY sales rose by 2.5 % in Austria (2020: plus 10.9 %), by 11.1 % in the Czech Republic (2020: minus 0.8 %), and by 5.8 % in Switzerland (2020: plus 10.2 %). No data is available for the other countries in which HORNBACH operates.

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

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1st Quarter 2021	2nd Quarter 2021	3rd Quarter 2021	4th Quarter 2021	Calendar year 2021 vs. 2020
Germany	(1.7)	2.2	1.7	(0.3)	2.9
Austria	(0.4)	4.1	3.4	(1.5)	4.5
Czech Republic	(0.3)	1.4	1.6	0.9	3.3
Luxembourg	3.8	0.0	0.5	0.5	6.9
Netherlands	(0.8)	3.8	2.1	0.9	4.8
Romania	2.0	1.5	0.4	(0.1)	5.9
Slovakia	(1.4)	1.9	0.4	0.3	3.0
Sweden	1.3	0.8	1.9	1.1	4.8
Switzerland	(0.1)	1.8	1.9	0.3	3.7
EU 27	0.1	2.1	2.2	0.4	5.3

1.1 Business framework in Germany

1.1.1 Macroeconomic climate

According to the Federal Statistical Office (Destatis), the German economy generated GDP growth of 2.9 % in 2021, having contracted by 4.9 % in the previous year. Due to pandemic-related lockdown measures, private consumer spending fell sharply in the first quarter of the calendar year but showed price-adjusted growth of 0.1 % in 2021 as a whole (2020: minus 6,1 %).

1.1.2 Construction activity and construction trade

According to calculations compiled by the German Institute for Economic Research (DIW), housing construction volumes rose by 11.4 % in nominal terms in 2021 (2020: 4.9 %), with disproportionate growth of 11.8 % in the market for refurbishment, renovation, and modernization measures at existing buildings, which is relevant for the DIY store sector (2020: 4.6 %). However, this growth is mostly attributable to price increases. According to Destatis, prices for the construction of new residential buildings showed annual average growth of 9.1 % in 2021.

Based on figures released by Destatis, sales in the finishing trade fell year-on-year by 3.2 % in real terms (price-adjusted) in 2021. Due to the significant rise in construction prices, however, nominal sales grew by 3.7 %.

1.1.3 Retail and DIY

Based on figures released by the Association of German Retailers (HDE), net aggregate sales in the German retail sector showed nominal growth of 1.8 % to € 587.8 billion in 2021 (2020: € 577.4 billion). Online retail (e-commerce) grew by 19.2 % to € 86.7 billion (2020: € 72.8 billion). Online sales thus accounted for a 14.7 % share of total retail sales in 2021 (2020: 12.6 %).

The BHB sector association and the GfK reported a nominal reduction in gross sales at large-scale DIY stores with sales areas of more than 1,000 m² of 8.2 % to € 20.33 billion in the 2021 calendar year (2020: € 22.14 billion). On a like-for-like basis, i.e. excluding stores newly opened, closed or subject to substantial conversion measures, the sector reported a downturn of 9.1%. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) fell by 3.7 % to € 3.95 billion (2020: € 4.10 billion). The market volume of all DIY and home improvement stores therefore decreased by 7.5 % to € 24.28 billion in the 2021 calendar year.

+15.7 %
DIY e-commerce sales in 2021 calendar year

According to figures compiled by market researchers at Teipel Research & Consulting, e-commerce sales with home improvement, construction materials, and garden product ranges via the online shops of stationary retailers, mail order companies, and pure online retailers (“pure players”) in Germany grew by 15.7% to a gross total of € 5.94 billion in the 2021 calendar year (2020: € 5.13 billion). DIY store chains with stationary operations increased their online sales to € 1.46 billion and raised their share of e-commerce sales from 23.6 % in the previous year to 24.6 %.

1.2 Russia/Ukraine conflict

The escalation in the Ukraine conflict triggered by the invasion of Russian troops on February 24, 2022 has fundamentally changed the macroeconomic framework in Germany and Europe. In addition to a sharp rise in prices largely attributable to energy prices and increased uncertainty due to the threat of shortages in the gas supply, the war has also impacted negatively on supply chains, which were already very tense due to the pandemic, as well as on merchandise availability.

2. Summary of 2021/22 Business Performance

2.1 Overall assessment of the Group's economic position

2.1.1 Coronavirus pandemic

As in the previous year, HORNBACH's business activities in the 2021/22 financial year (March 1, 2021 to February 28, 2022) were significantly affected by restrictions on sales. This factor was exacerbated by disruptions in international supply chains and price rises, some of which significant, for commodities such as timber, metals, and plastics.

Overview of coronavirus-related restrictions on sales (DIY) in 2021/22 financial year

Country	Periods of closures / restrictions for private customers	No. of stores / new store openings
Germany	3.1.2021 to 6.6.2021: incidence-based closures for private customers affecting an average of 50 % of stores; garden division open 11.22.2021 to 2.18.2022: proof of vaccination required in several federal states	**98**
Other European countries		**69**
Austria	3.31.2021 to 5.2.2021: incidence-based closures for private customers (6 out of 14 stores) 11.22.2021 to 12.12.2021: closed for private customers 11.15.2021 to 2.11.2022: proof of vaccination required	14
Czech Republic	3.1.2021 to 5.9.2021: closed for private customers, garden division open	10
Luxembourg	No material sales restrictions	1
Netherlands	3.1.2021 to 4.27.2021: closed for private customers 12.19.2021 to 1.14.2022: closed for private customers	15+1 (10.13.2021)
Romania	10.25.2021 to 2.28.2022: proof of vaccination required	7+1 (7.14.2021)
Slovakia	3.1.2021 to 4.18.2021: closed for private customers, garden division open 11.25.2021 to 12.9.2021: closed for private customers, garden division open 12.10.2021 to 2.25.2022: proof of vaccination required	4
Sweden	No material sales restrictions	7+1 (6.29.2021)
Switzerland	No material sales restrictions	7+1 (11.4.2021)
Group		**167**

The first months of the 2021/22 financial year were affected by restrictions on sales activities which varied between individual regions and were more severe overall than in the previous year. Luxembourg, Romania, Sweden, and Switzerland were the only countries with no significant restrictions in place. In the other countries in which we operate, stationary sales to private customers were at times not permitted, or restricted to specified product ranges, such as those at our garden centers, or only possible throughout the store by booking an appointment in advance (click & meet). Our largest country markets of Germany and the Netherlands were affected by stricter spring lockdowns than in the previous year. By contrast, Switzerland, Austria, and Slovakia benefited from positive base effects due to restrictions on sales being less strict than in the previous year, or due to the absence of such restrictions. It took until June 7, 2021 for all HORNBACH stores in Germany to be able to reopen without restrictions. In other European countries, all stores were operating normally by May 10, 2021.

In the second half of the year, some of the countries in which HORNBACH operates responded to the sharp rise in the number of infections in Europe by re-imposing restrictions on sales from the end of October. In some regions, customers were required to provide proof of vaccination or official recovered status to enter the stores (Austria, Romania, Germany: North Rhine-Westphalia, Rhineland-Palatinate, Saxony). At times stores were only open to commercial customers (Netherlands, Austria, Slovakia). Click & collect purchases were permitted for all customers in all countries.

Despite price rises in some areas of the product range, customers remained very willing overall to invest in home improvement and renovation projects, as well as in repair work. During periods of lockdown, this demand increasingly shifted to the online shops and to click & collect purchases. By taking targeted steps to list new suppliers, selecting alternative transport routes, stocking extensive quantities of goods at an early stage, and making use of all existing and new storage capacities, the company was mostly able to secure the supply of merchandise. Where necessary, the capacities for supplying end customers were flexibly extended by drawing on additional, company-internal mail dispatch centers.

2.1.2 Impact of Russia-Ukraine conflict

HORNBACH Baumarkt AG does not have any locations in Russia, Belarus, or Ukraine. Furthermore, we also do not have any direct suppliers in any of these three countries. Some of our suppliers nevertheless procure upstream products, components, or commodities, such as cereals for use in pet food production, from these regions.

Restrictions on transport routes due to military action, such as on rail cargo via the Trans-Siberian Railway or on inland shipping on the Black Sea, raise the degree of logistical complexity. This means that many challenges we have confronted since the beginning of the coronavirus pandemic, particularly in procuring and transporting merchandise, will continue for the time being and may intensify further due to the war. In upholding the availability of merchandise for our customers, we are assisted by our multi-supplier strategy, the additional storage capacity built up since the start of the pandemic, highly circumspect procurement and stocking policies, and the flexible deployment of a variety of transport solutions.

Increased prices for commodities, procurement, transport, and energy also obliged us to adjust our retail prices to market circumstances in several areas of our product range. In light of the permanent low price guarantee we offer to our customers, pricing policies are a complex management task in the current environment of higher inflation.

2.1.3 Seasonal and calendar-related factors and other underlying conditions

The 2021/22 year under report had an average of 3.0 business days more than the previous year. 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. The resultant calendar effect was distributed among the quarters as follows:

- 1st Quarter (Q1): plus 0.6 business days
- 2nd Quarter (Q2): plus 1.0 business days
- 3rd Quarter (Q3): plus 0.3 business days
- 4th Quarter (Q4): plus 1.0 business days

In large parts of the countries in which HORNBACH operates, the spring and summer months brought low temperatures, little sunshine, and a great deal of precipitation. Overall, weather conditions were therefore less favorable for implementing projects in houses and gardens than in the previous year. In July, severe rain in specific regions led to catastrophic flooding in parts of Germany, the Netherlands, Austria, and Luxembourg. HORNBACH locations were not directly affected, but the company offered assistance in the regions affected by flooding by offering price discounts to those affected and donating cash and materials. By contrast, the fall was mostly sunny and dry and the winter was very mild. Weather conditions in these seasons therefore impacted positively on demand for DIY product ranges.

2.1.4 Development in HORNBACH's stationary store network and interconnected retail (ICR)

HORNBACH opened four new DIY stores and garden centers in the 2021/22 financial year: these are located in Trollhättan (Sweden), Cluj (Romania), Apeldoorn (Netherlands), and Sirnach (Switzerland). In Paderborn (Germany), one older store was replaced by a larger newly built store. The DIY store and garden center in Kerkrade (Netherlands) was extended with a new specialist flooring store ("HORNBACH Vloeren") at the same location. Furthermore, within its customary modernization program HORNBACH also invested in its existing stores, for example by extending drive-in facilities or adding building material collection warehouses. Thanks to solar collectors on their roofs and heat pumps, the new stores in Apeldoorn and Paderborn can be operated on a largely energy-neutral basis.

HORNBACH is continually working to expand its ICR architecture in order to further improve customers' shopping experience, be able to react flexibly to increased demand, and ensure the same high degree of scalability and security. In the 2021/22 financial year, the company pressed further ahead with migrating its online shops to a new webshop platform, further reinforced its IT security, and implemented projects to promote its digitalization and automation. Among other steps, we equipped the mobile terminals used by our store employees with further apps and functions, expanded HORNBACH's online advice, and extended hybrid work options. The customer app has also been extended with new functions, such as a tool to measure surfaces with augmented reality, a rebuying function, and a self-learning search function. Furthermore, collection stations for online purchases were installed at further stores.

2.1.5 Asset, financial, and earnings position

The HORNBACH Baumarkt AG Group generated strong sales growth despite the restrictions applicable at times to sales to private customers. This growth was driven by ongoing high demand for home improvement products, as well as by the rise in inflation, which impacted both on procurement and on retail prices. Net sales, which already grew by 15.6 % in the previous year, rose by a further 7.4 % to € 5,496 million. Online retail (including click & collect) showed further disproportionate growth of 10.5 % and reached a 17.2 % share of total sales (2020/21: 16.7 %).

With net sales growth of 4.8 % (like-for-like: 3.7 %) in the Germany region in the 2021/22 financial year, HORNBACH significantly outperformed the German DIY store sector, which posted a downturn (gross sales) of 8.2 % in the 2021 calendar year. The market share of HORNBACH Baumarkt (GfK) increased from 14.0 % to 15.1 % in the 2021 calendar year.

In the eight countries outside Germany (Other European Countries region), HORNBACH Baumarkt AG Group generated net sales growth, including online retail of 10.3 % (like-for-like and net of currency items: 7.3 %). Overall, HORNBACH also gained further market share in key country markets outside Germany.

A number of international consumer surveys, such as Kundenmonitor (Germany, Austria, Switzerland), the selection as Retailer of the Year (Netherlands), and the Swedish Brand Award, document the high level of customer satisfaction with the HORNBACH brand once again in the 2021/22 financial year. Customers awarded us the best grades in individual criteria including "value for money", "product selection and variety", and "product quality".

Our DIY stores and garden centers also further improved their productivity in the 2021/22 financial year. Average annual sales at HORNBACH's DIY stores and garden centers increased from € 31.8 million to

€ 34.6 million in the year under report. Surface productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,698 to € 2,848 per m² (plus 5.6 %).

Thanks to its strong sales growth, HORNBACH significantly boosted its operating earnings strength compared with the previous year. EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) grew disproportionately compared with sales, rising by 12.9 % to € 314.7 million (2020/21: € 278.8 million). The adjusted EBIT margin rose from 5.5 % to 5.7 %.

Cash-effective investments rose to € 168.0 million in the 2021/22 year under report (2020/21: € 139.6 million). Of investments, 53.3 % related to land and buildings, while the remainder was mainly channeled into plant and office equipment new and existing stores, as well as software.

The operating cash flow grew from € 333.5 million to € 344.7 million. This increase was mainly driven by the higher level of consolidated net income, which more than offset the opposing development in working capital from minus € 60.0 million to minus € 89.3 million. The free cash flow amounted to € 151.6 million (2020/21: € 175.0 million).

Total assets of the HORNBACH Baumarkt AG Group grew to € 4,084.4 million as of February 28, 2022 (balance sheet date on February 28, 2021: € 3,765.2 million). At 35.2 %, the equity ratio remained at a satisfactory level (February 28, 2021: 33.3 %). Net financial debt rose slightly from € 1,525.2 million to € 1,595.3 million. The net debt ratio (net debt / EBITDA) eased from 3.0 to 2.9.

Based on the pleasing business performance and improved key lending figures, on October 13, 2021 S&P Global Ratings raised the long-term issuer rating and the rating for the senior unsecured liabilities for HORNBACH Baumarkt AG from "BB" to "BB+". The outlook remained stable.

2.1.6 Delisting

The listing of HORNBACH Baumarkt AG on the Regulated Market of the Frankfurt Stock Exchange ended upon the conclusion of February 28, 2022. The delisting will among others lead to the discontinuation of the direct costs involved in the stock market listing and the post-admission obligations stipulated by the stock exchange regulations. The delisting will not have any material implications for the business activities of the HORNBACH Baumarkt AG Group.

2.2 Target achievement in 2021/22

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

2.2.1 Targets and results of the HORNBACH Baumarkt AG Group in the 2021/22 financial year

	Targets for 2021/22	Results in 2021/22
Expansion	**DIY stores and garden centers** (4 new store openings): Cluj (Romania), Trollhättan (Sweden), Apeldoorn (Netherlands), Sirnach (Switzerland), 1 replacement location: Paderborn (Germany)	**All planned DIY stores and garden centers opened**
Investments	Original forecast: above previous year's level (€ 139.6 million) Adjustment during financial year: € ~200 million	€ 168.0 million
Sales performance		
Consolidated sales	■ Original forecast: at previous year's level ■ Forecast adjusted on 6.25.2021: growth of 1 % - 5 % ■ Forecast adjusted on 9.30.2021: growth of 1 % - 5 % (upper third of range) ■ Forecast adjusted on 12.7.2021 (ad-hoc): growth of 2 % - 7 %	Plus 7.4 % to € 5.5 billion
Earnings performance		
Adjusted EBIT	■ Original forecast: below level for 2020/21 financial year (€ 278.8 million), but above figure for pre-pandemic 2019/20 financial year (€ 181.8 million) ■ Forecast adjusted on 6.25.2021: range of € 240 million to € 278 million ■ Forecast adjusted on 9.30.2021: range of € 240 million to € 278 million (upper third) ■ Forecast adjusted on 12.7.2021 (ad-hoc): € 280 million to € 330 million	**Plus 12.9 % to € 314.7 million**

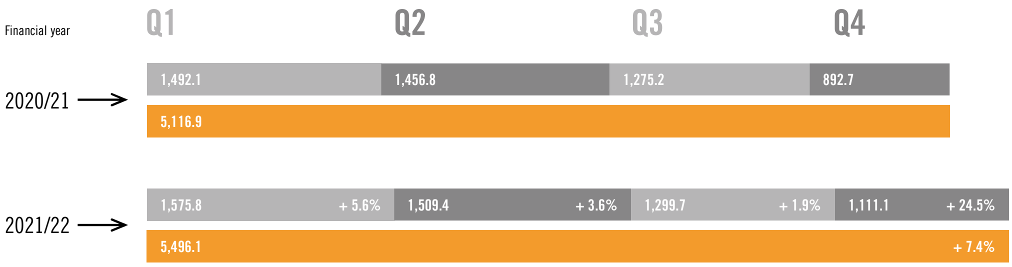
Note: For **sales** "at previous year's level" refers to changes of -1 % to +1 %, while "slight" changes involve changes of 2 % to 5 %. To enhance the distinctions within the "slight" category, we use the phrase "in a low single-digit percentage range" to refer to changes of 2 % to 3 % and the phrase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

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

In the annual financial statements of HORNBACH Baumarkt AG, whose development is shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, our sales and earnings forecast for the 2021/22 financial year stated that sales would match the level reported for the 2020/21 financial year and that the annual net surplus would fall slightly short of the level reported for the 2020/21 financial year. In actual fact, we increased our sales by 5.6 % to € 3,406.1 million, while the annual net surplus grew to € 179.3 million (2020/21: € 83.4 million).

3. Earnings Position

Sales and growth by quarter
(€ million / %)



3.1 Sales performance

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

3.1.1 Net sales

The HORNBACH Baumarkt AG Group increased its net sales by 7.4 % to € 5,496 million in the 2021/22 financial year (2020/21: € 5,117 million). Net sales in the Germany region grew by 4.8 % to € 2,780 million in the period under report (2020/21: € 2,654 million). Outside Germany and including four newly opened DIY megastores, we reported sales growth of 10.3 % to € 2,716 million (2020/21: € 2,463 million). The share of consolidated sales contributed by the international stores rose from 48.1 % to 49.4 %.

Customer frequency and average purchase

Group-wide customer frequency rose year-on-year by 0.8 % in the 2021/22 financial year. Customer frequency decreased by 3.1 % in Germany, while increasing by 5.2 % in other European countries. At the same time, the average purchase showed significant growth of 5.6 %. The increase in the average purchase volume came to 7.1 % in Germany and to 3.9 % in other European countries. The recurrent restrictions on sales led to fluctuations, in some cases substantial, in customer frequency. Overall, we have observed a continuing trend towards more highly focused project purchases with further growth in purchase volumes. Alongside rising volumes per sale, the average purchase volume was also influenced by a higher level of retail prices due to price rises, some of which substantial, in our procurement activities.

Sales by product division

The sales growth in the past financial year was generated across the whole of HORNBACH's product range. Four of the five product divisions reported sales growth, in some cases significant.

The Construction Materials/Timber/Prefabricated Components division, which has to date accounted for the largest share of sales, further expanded its share of sales in the past financial year. By contrast, the decline in demand for products in the Paint/Wallpaper/Flooring division led to a reduction in its share of sales on roughly the same scale. All other product divisions reported a stable share of sales compared with the previous financial year.

On product level, there was particularly great demand in the 2021/22 financial year for the categories of cables/pipes/ducts, drywall construction, insulation, and installation plates. As in the previous year, articles in the timber (planed and rough goods) segment also showed significant sales growth. Alongside the aforementioned decrease for articles in the Paint/Wallpaper/Flooring division, there was also significantly lower demand for weather-dependent articles (garden irrigation, air-conditioning, and insect protection) in the relatively rainy spring of 2021.

3.1.2 Like-for-like sales

The following comments refer to the development in currency-adjusted like-for-like sales at the HORNBACH Baumarkt AG Group, which take no account of stores newly opened or closed in the past twelve months. We most recently generated around 17 % (2020/21: around 17 %) 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)

2021/22 financial year 2020/21 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**4.3**	**2.5**	**(0.1)**	**20.0**	**5.4**
	17.5	21.4	19.7	(3.5)	14.7
Germany	**(0.1)**	**1.7**	**(4.3)**	**26.5**	**3.7**
	24.4	24.1	25.5	(4.9)	18.6
Other European countries	**9.5**	**3.4**	**4.5**	**13.8**	**7.3**
	10.3	18.6	14.0	(2.2)	10.8

* Excluding currency items

Net of currency items, the Group's like-for-like sales rose by 5.4 % in the **2021/22 financial year** (including currency items: 5.8 %). Here, operating regions were affected by restrictions on sales activities which varied over time in terms of their severity.

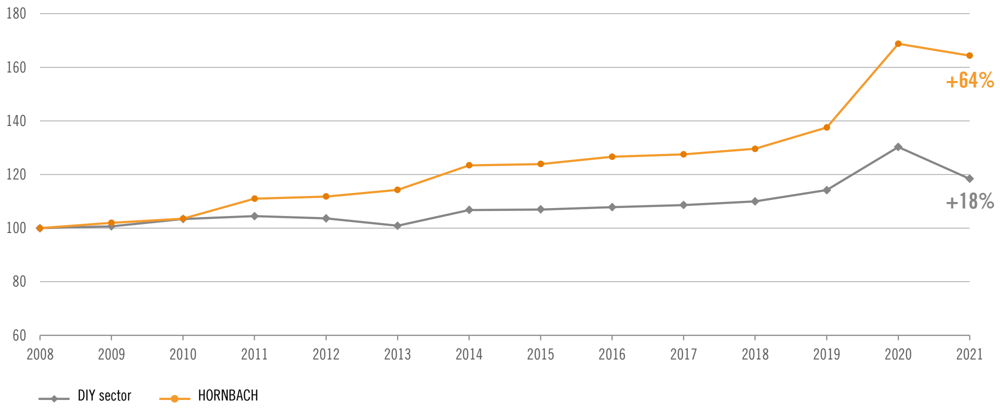
- **Germany**

  The HORNBACH DIY stores and garden centers in the Germany region increased their like-for-like sales by 3.7 % in the 2021/22 financial year. The Germany region in particular was affected by restrictions on sales activities during the important spring season.

  HORNBACH significantly outperformed the average for the DIY sector in Germany in 2021. 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 fell by an average of 9.1 % in the period from January to December 2021. Over the same period, HORNBACH reported a decrease of just 2.6 % in its like-for-like sales. Since 2008, HORNBACH's like-for-like sales in Germany have grown by around 64 %, while the German DIY sector as a whole generated growth of only 18 % over the same period.

3.7 %
like-for-like sales growth at HORNBACH DIY stores and garden centers in Germany

Like-for-like sales performance in Germany
(Index: 2008 = 100%, calendar year)



Particularly during the periods in which restrictions were imposed on sales due to high incidence rates (above all in March and April 2021), HORNBACH benefited from the consistent way it has dovetailed its stationary DIY retail with its online business to provide interconnected retail (ICR). This is because the collection of click & collect goods was generally permitted, as were sales to commercial customers. In Germany, HORNBACH increased its ICR sales (direct mail order and click & collect) by around 10 % in the 2021/22 financial year. ICR sales accounted for more than 20 % of sales.

We further strengthened our position in terms of the aggregate gross sales of the DIY store sector in Germany (including online sales at stationary DIY competitors) in the 2021 calendar year. In the segment of German DIY stores and garden centers with sales areas of more than 1,000 m² (2021: € 20.3 billion), we now have a market share of 15.1 % (2020: 14.0 %).

7.3 %

like-for-like sales growth at HORNBACH DIY stores and garden centers outside Germany

- **Other European countries**

In a business framework affected by the pandemic, our stores in other European countries generated like-for-like sales growth net of currency items of 7.3 % in the 2021/22 financial year. Including currency items, like-for-like sales grew by 8.0 % (2020/21: 10.8 %). The performance in individual countries ranged from 3.7 % in Sweden to 24.7 % in Slovakia. This positive overall performance was driven in particular by strong growth in the fourth quarter (year-on-year plus 13.8 %). Above all, the Netherlands, the Czech Republic, and Slovakia had been affected by restrictions on sales activities in the previous year's period and thus posted high double-digit sales growth in the fourth quarter of the year under report.

Overall, HORNBACH 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), our market share (GfK) in the 2021 calendar year grew from 21.1 % to 23.9 % in the Netherlands, from 17.5 % to 17.9 % in Austria, and from 12.3 % to 12.7 % in Switzerland. The Czech Republic was the only country in which our market share showed a slight decline, in this case from 34.0 % to 33.3 %.

Our interconnected retail activities are having an ever greater impact on our sales performance in our international business as well. The trend towards online purchases and reservation was clearly accelerated by changes in consumer behavior during the pandemic.

Key earnings figures of the HORNBACH Baumarkt AG Group

Key figure (€ million, unless otherwise stated)	2021/22	2020/21	Change
Net sales	5,496	5,117	7.4 %
EBITDA	551.4	504.6	9.3 %
EBIT	289.3	258.6	11.9 %
Adjusted EBIT	314.7	278.8	12.9 %
Consolidated earnings before taxes	236.6	200.2	18.1 %
Consolidated net income	188.9	153.1	23.4 %
EBITDA margin	10.0 %	9.9 %	
EBIT margin	5.3 %	5.1 %	
Adjusted EBIT-Margin	5.7 %	5.4 %	
Tax rate	20.1 %	23.5 %	

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

3.2 Earnings performance

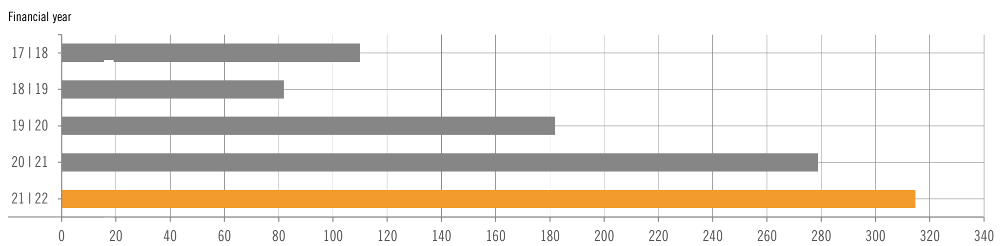
The key operating earnings figures of the HORNBACH Baumarkt AG Group for the 2021/22 financial year were significantly ahead of the comparative figures for the previous year. This was driven above all by strong like-for-like sales growth and a proportionately lower rise in costs.

3.2.1 Earnings performance of the HORNBACH Baumarkt AG Group

Earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose by 9.3 % to € 551.4 million (2020/21: € 504.6 million). The EBITDA margin (as a percentage of net sales) increased from 9.9 % to 10.0 %.

Adjusted EBIT, i.e. operating earnings before non-operating one-off items, grew by 12.9 % to € 314.7 million (2020/21: € 278.8 million). The adjusted EBIT margin rose to 5.7 % (2020/21: 5.4 %), its highest value since the conversion to IFRS accounting in the 2001/02 financial year.

Adjusted EBIT
(€ million)



Non-operating charges on earnings, which chiefly relate to IAS 36 impairments, rose from € 20.2 million to € 25.5 million in the 2021/22 year under report. One major reason for this was the rise in the WACC due to changes in the factors used to calculate this key figure, namely the risk-free interest rate, the average beta for the peer group, and the credit spread. The amendment in these parameters led to higher impairment requirements on the level of the cash generating units (CGUs), i.e. on store level.

Consolidated operating earnings before interest and taxes (**EBIT**) including one-off non-operating earnings items showed a significant increase of 11.9 % to € 289.3 million (2020/21: € 258.6 million). The EBIT margin climbed from 5.1 % to 5.3 %.

Net financial expenses are reported at minus € 52.7 million for the 2021/22 financial year (2020/21: minus € 58.4 million). This change is mainly due to positive currency items, including income from forward exchange transactions, of € 3.8 million (2020/21: negative currency items of € 2.8 million). The interest result rose slightly from € 55.6 million to € 56.7 million.

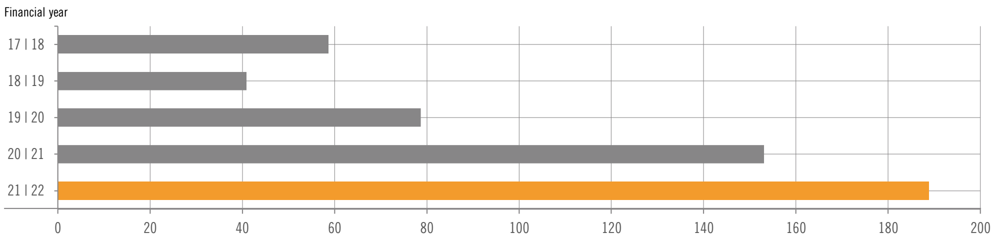
Reconciliation of consolidated operating earnings (EBIT) with adjusted EBIT by segment

2021/22 in € million 2020/21 in € million	Retail segment	Real estate segment	Central functions	Consolidation adjustments	HORNBACH Baumarkt AG Group
Earnings before interest and taxes (EBIT)	**220.8**	**90.6**	**(21.8)**	**(0.3)**	**289.3**
	185.7	94.3	(21.4)		258.6
Non-operating earnings items	**1.7**	**23.8**	**0.0**	**0.0**	**25.5**
	1.3	18.9	0.0		20.2
Adjusted EBIT	**222.4**	**114.4**	**(21.8)**	**(0.3)**	**314.7**
	186.9	113.2	(21.4)		278.8

(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** grew by 18.1 % to € 236.6 million (2020/21: € 200.2 million). **Consolidated net income** rose by 23.4 % to € 188.9 million (2020/21: € 153.1 million). Taxes on income amounted to € 47.6 million (2020/21: € 47.1 million). Mainly due to the statement of non-period tax income resulting from the recognition of tax loss carryovers in Sweden, the effective tax rate on Group level eased from 23.5 % to 20.1 %. The Group-wide return on sales rose from 3.0 % to 3.4 %. Earnings per Baumarkt share are reported at € 5.94 (2020/21: € 4.82).

Net income for the year
(€ million)



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, 2022, we operated a total of 167 DIY retail outlets across Europe (2020/21: 163) 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)	2021/22	2020/21	Change
Net sales	5,495	5,114	7.4 %
of which: in Germany	2,781	2,654	4.8 %
of which in other European countries	2,714	2,460	10.3 %
Like-for-like sales growth	5.4 %	14.7 %	
EBITDA	278.4	238.2	16.9 %
EBIT	220.8	185.7	18.9 %
Adjusted EBIT	222.4	187.0	19.0 %
EBIT margin	4.0 %	3.6 %	
Adjusted EBIT-Margin	4.0 %	3.7 %	
Gross margin	35.7 %	35.9 %	
Store expenses as % of net sales	27.7 %	28.4 %	
Pre-opening expenses as % of net sales	0.3 %	0.1 %	
General and administration expenses as % of net sales	4.1 %	4.1 %	

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

- Sales performance:
  Net sales in the Retail segment increased by 7.4 % to € 5,495 million in the 2021/22 financial year (2020/21: € 5,114 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 6.9 % to € 1,962.7 million in the 2021/22 financial year (2020/21: € 1,836.0 million). Despite the challenging market climate, the gross margin eased only slightly from 35.9 % to 35.7 %. Alongside changes in the product mix, the development in the gross margin was also influenced by challenging developments on the procurement market and in logistics.

- **Selling and store, pre-opening and administration expenses:**
  Selling and store expenses in the Retail segment grew less rapidly than sales, rising by 4.7 % to € 1,518.8 million (2020/21: € 1,450.7 million). The largest increase in absolute terms was reported for personnel expenses, with this largely being due to the strong expansion with new stores. Furthermore, to acknowledge the personal commitment shown by our employees in extreme work conditions due to the pandemic, group-wide coronavirus bonuses of € 4.8 million were paid to employees once again in the 2021/22 financial year, with the greater share of this total being allocated to store personnel expenses. The store expense ratio (store expenses as a percentage of sales) fell by more than 80 basis points from 28.4 % to 27.7 %.

  Given the pleasing earnings performance throughout the 2021/22 financial year, more funds were made available for necessary conversion and maintenance measures and for revising store product ranges to sustainably enhance the attractiveness of the store network for customers. The transparency and prioritization of these measures was safeguarded with a centrally managed cost management system. Due to the company's strong expansion in recent years, the charges resulting from depreciation and amortization in the same period rose year-on-year by 9.9 % to € 57.7 million.

Advertising expenses grew year-on-year by 22.3 % in the year under report, with this growth being due in particular to the unusually low figure for the previous year (2020/21), in which these expenses had been scaled back in connection with the pandemic.

Due to new store openings in the 2021/22 financial year, **pre-opening expenses** increased to € 15.6 million (2020/21: € 4.5 million). As a result, the pre-opening expense ratio rose from 0.1 % to 0.3 %.

Administration expenses rose year-on-year by 6.5 % to € 223.6 million (2020/21: € 210.0 million) and thus grew less rapidly than sales. As a result, the administration expense ratio remained unchanged at 4.1 %. As an annual average and converted into full-time equivalents, the number of administration employees was expanded by 3 % to account for the company's growth.

- **Key earnings figures:**
  Driven in particular by like-for-like sales growth, key operating earnings figures in the Retail segment rose further. EBITDA increased by 16.9 % to € 278.4 million in the 2021/22 financial year (2020/21: € 238.2 million). This corresponds to an EBITDA margin of 5.1 % (2020/21: 4.7 %). Segment EBIT adjusted to exclude non-operating earnings items (adjusted EBIT) rose to € 222.4 million (2020/21: € 187.0 million), corresponding to an increase of 19.0 %. The adjusted EBIT margin amounted to 4.0 % (2020/21: 3.7 %). Operating earnings (EBIT) including non-operating one-off items advanced from € 185.7 million to € 220.8 million. This resulted in an EBIT margin of 4.0 % (2020/21: 3.6 %).

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). Since the application of IFRS 16 from the 2019/20 financial year, rental income also includes the imputed rents for stores let from third parties, for which the rental expenses were previously charge directly to the Retail segment.

Key earnings figures of the Real Estate segment

Key figure (€ million, unless otherwise stated)	2021/22	2020/21	Change
Rental income	294.8	282.5	4.4 %
Real estate expenses	204.3	185.5	10.2 %
Net rental income	90.4	97.1	(6.9)%
Disposal gains/losses	0.9	0.0	-
Net real estate income	91.4	97.0	(5.8)%
EBITDA	285.8	277.6	3.0 %
EBIT	90.6	94.3	(3.9)%
Adjusted EBIT	114.4	113.2	1.0 %
EBT	46.8	53.3	(12.2)%

(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, 99.5 % of which comprises internal rental income (2020/21: 99.1 %), increased slightly by 4.4 % to € 294.8 million in the year under report (2020/21: € 282.5 million).

General operating expenses for the real estate showed a marked increase of € 4.6 million (growth of 163.4 %) to € 7.4 million in the financial year under report. Depreciation and amortization rose by 7.5 % to € 195.3 million over the same period (2020/21: € 183.3 million). Depreciation and amortization include non-operating earnings items of € 25.1 million (2020/21: € 18.9 million). These mostly relate to impairment losses on right-of-use assets for DIY store properties let from third parties (IAS 36 impairments). Real estate expenses thus rose by 10.2 % to € 204.3 million (2020/21: € 185.5 million). Earnings from rental activities decreased by 6.9 % to € 90.4 million in the 2021/22 financial year (2020/21: € 97.1 million). In the year under report, disposal gains of € 0.9 million were generated from the sale of real estate. Real estate earnings therefore fell by 5.8 % to € 91.4 million (2020/21: € 97.0 million).

- **Key earnings figures:**
  Earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose from € 277.6 million to € 285.8 million in the period under report (March 1, 2021 to February 28, 2022). EBIT in the Real Estate segment decreased by 3.9 % to € 90.6 million (2020/21: € 94.3 million). At € 114.4 million, EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) was 1.0 % higher than the previous year's figure of € 113.2 million. Due to higher interest expenses resulting from the investments made (net balance: plus € 1.7 million) and negative currency items (net balance: plus € 1.1 million), net financial expenses deteriorated to minus € 43.7 million (2020/21: € 41.0 million). At € 46.8 million, earnings before taxes (EBT) fell 12.2 % short of the previous year's figure (€ 53.3 million).

3.2.4 Earnings performance by geographical regions

In the 2021/22 financial year, we further increased our profitability both in the Germany region and in the Other European Countries region.

EBITDA in **Germany** grew by 6.5 % to € 225.9 million (2020/21: € 212.1 million). The domestic share of the Group's EBITDA amounted to 41 %. EBIT for the Germany region climbed from € 70.8 million to € 74.1 million (plus 4.7 %). As in the previous year, the EBIT margin stood at 2.7 %. Non-operating charges on earnings increased from € 12.1 million to € 18.1 million in the 2021/22 financial year. EBIT for the Germany region adjusted for non-operating earnings items grew from € 82.8 million to € 92.2 million in the 2021/22 financial year (plus 11.4 %). The adjusted EBIT margin therefore rose from 3.1 % to 3.3 %. The Germany region accounted for a 29 % share of adjusted consolidated operating earnings.

In **Other European Countries,** EBITDA rose by 11.3 % to € 325.8 million in the period under report (2020/21: € 292.6 million). The regions outside Germany thus accounted for a 59 % share of the Group's EBITDA. We increased our EBIT outside Germany by 14.7 % to € 215.5 million (2020/21: € 187.9 million). The EBIT margin for Other European Countries reached 7.9 % (2020/21: 7.6 %). Non-operating charges on earnings decreased slightly from € 8.1 million to € 7.4 million in the year under report. Adjusted EBIT outside Germany grew by 13.7 % to € 222.8 million (2020/21: € 196.0 million), while the adjusted EBIT margin rose from 8.0 % to 8.2 %. The Other European Countries region accounted for almost 71 % of adjusted consolidated operating earnings (2020/21: 70 %).

3.3 Dividend proposal

The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose a dividend of € 0.90 per share with dividend entitlement (2020/21: € 0.90) for approval by the Annual General Meeting planned to be held on July 7, 2022.

€ 0.90
dividend proposal for 2021/22 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.

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

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

4.2 Financial debt

The HORNBACH Baumarkt AG Group had financial debt of € 1,885.6 million at the balance sheet date on February 28, 2022 (2020/21: € 1,859.8 million). Net financial debt increased from € 1,525.2 million to € 1,595.3 million. Cash and cash equivalents fell from € 334.6 million in the previous year to € 290.3 million in the year under report.

The current financial debt (up to 1 year) of € 157.9 million (2020/21: € 189.2 million) comprises the portion of loans maturing in the short term, at € 0.0 million (2020/21: € 45.5 million), current lease liabilities of € 152.1 million (2020/21: € 139.7 million), interest deferrals of € 3.5 million (2020/21: € 3.5 million), and the measurement of derivative financial instruments, at € 2.3 million (2020/21: € 0.5 million).

The table below presents a detailed breakdown of financial debt with the respective maturity profile.

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, 2022, 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

Financial debt of the HORNBACH Baumarkt AG Group

Type of financing € million	Liabilities broken down into remaining terms < 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	2.28.2022 Total	2.28.2021 Total
Short-term bank debt[1]	3.5						3.5	3.5
Other loans[2] [3]	0.0	177.7		116.8			294.6	340.0
Bonds[2]					247.7		247.7	247.2
Negative fair values of derivative financial instruments	2.3						2.3	0.5
Lease liabilities	152.1	151.0	153.5	158.4	159.8	562.8	1,337.6	1,268.7
Total financial debt	**157.9**	**328.7**	**153.5**	**275.2**	**407.5**	**562.8**	**1,885.6**	**1,859.8**
Cash and cash equivalents							290.3	334.6
Net financial debt							**1,595.3**	**1,525.2**

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

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

The HORNBACH Baumarkt AG Group had no financing facilities secured by land charges at the balance sheet date (2020/21: € 0.0 million). In the year under report, no land charges were registered as security (2020/21: € 0.0 million).

4.2.1 Credit lines

At the balance sheet date on February 28, 2022, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 383.0 million (2020/21: € 380.3 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 of HORNBACH Baumarkt AG have the possibility, if required, of acceding to the syndicated credit line.

€ 383 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 are not 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.

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 Liquidity management

Cash and cash equivalents totaled € 290.3 million at the balance sheet date (2020/21: € 334.6 million). In the past financial year, liquidity was managed in the following liquidity classes:

- Operating liquidity in the form of overnight, fixed, and notice deposits with a maximum investment horizon or notice period of three months and short-term money market investments.
- Liquidity available in the medium term held in the form of fixed and notice deposits with investment horizons of between four and eleven months, as well as short-term bond funds.
- Strategic liquidity in which, alongside investments in medium-term bond funds, the addition of other liquidity classes, such as equity components, is possible. To date, no funds have been invested in strategic liquidity.

4.4 Cash flow statement and investments

€ 168 m
Investments

The HORNBACH Baumarkt AG Group invested a total of € 168.0 million in the 2021/22 financial year (2020/21: € 139.6 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at DIY stores with garden centers under construction. The funds of € 168.0 million (2020/21: € 139.6 million) required for cash-effective investments were fully covered in the year under report by the cash flow of € 344.7 million from operating activities (2020/21: € 333.5 million). Around 53 % of total investments were channeled into new real estate, including properties under construction, while around 47 % 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		2.28.2022	2.28.2021
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	1,595.3	1,525.2
Leverage	Net financial debt / EBITDA		2.9	3.0
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		14.1	13.8
Free cash flow	Cash flow from operating activities less cash flow from investing activities less dividends paid	€ million	151.6	175.0

(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.

The inflow of funds from operating activities showed slight year-on-year growth, rising from € 333.5 million to € 344.7 million in the 2021/22 financial year. Funds from operations increased to € 434.0 million (2020/21: € 393.5 million). This was due above all to strong like-for-like sales growth accompanied by proportionately lower cost growth. Other non-cash income and expenses rose from € 6.7 million to € 15.4 million. The change in working capital resulted in an outflow of funds of € 89.3 million (2020/21: minus € 60.0 million). This was mainly due to the targeted increase of 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 € 136.9 million to € 164.5 million. Due to greater expansion activity, cash-effective investments in non-current assets increased to € 168.0 million (2020/21: € 139.6 million). The proceeds from disposals of non-current assets and of non-current assets held for sale grew to € 3.5 million (2020/21: € 2.7 million). As in the previous year, short-term finance planning did not give rise to any movements in financial fund investments in the period under report.

The outflow of funds from financing activities totaled € 227.2 million in the 2021/22 financial year (2020/21: € 162.7 million). Here, scheduled loan repayments of € 98.4 million (2020/21: € 0.0 million) were countered by new loans of € 50.0 million (2020/21: € 0.0 million). Repayments of lease liabilities led to outflows of € 150.2 million (2020/21: € 141.1 million). The dividends paid to shareholders increased to € 28.6 million (2020/21: € 21.6 million).

Cash flow statement (abridged) € million	2021/22	2020/21
Cash flow from operating activities	344.7	333.5
of which: funds from operations[1]	434.0	393.5
of which change in working capital[2]	(89.3)	(60.0)
Cash flow from investing activities	(164.5)	(136.9)
Cash flow from financing activities	(227.2)	(162.7)
Cash-effective change in cash and cash equivalents	**(47.0)**	**33.9**

(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"

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 upgraded the HORNBACH Baumarkt AG Group to "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	2.28.2022	2.28.2021	Change
Non-current assets	2,517.1	2,365.4	6.4 %
Current assets	1,567.3	1,399.8	12.0 %
Assets	**4,084.4**	**3,765.2**	**8.5 %**
Shareholders' equity	1,437.0	1,254.9	14.5 %
Non-current liabilities	1,797.5	1,739.6	3.3 %
Current liabilities	849.8	770.6	10.3 %
Equity and liabilities	**4,084.4**	**3,765.2**	**8.5 %**

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

The Group's total assets grew year-on-year by € 319.2 million from € 3,765.2 million to € 4,084.4 million (plus 8.5 %). The equity of the Group as stated in the balance sheet amounted to € 1,437.0 million at the end of the financial year (2020/21: € 1,254.9 million). The equity ratio rose from 33.3 % in the previous year to 35.2 % at the end of the 2021/22 financial year.

Disclosures on treasury stock can be found in Note (21) "Shareholders' equity" in the notes to the consolidated financial statements.

5.1 Non-current and current assets

Non-current assets amounted to € 2,517.1 million at the balance sheet date (2020/21: € 2,365.4 million) and thus accounted for around 62 % of total assets (2020/21: 63 %). Property, plant and equipment including right-of-use assets and investment property rose by € 131.5 million from € 2,328.7 million to € 2,460.2 million. The additions, including reclassifications, of € 219.7 million to right-of-use assets for leased properties (2020/21: € 135.1 million) and additions, including reclassifications, of € 157.5 million to property, plant and equipment (2020/21: € 134.6 million) were countered by depreciation of € 258.6 million (2020/21: € 242.1 million) and disposals of assets of € 5.3 million (2020/21: € 11 million). Adjustments to account for exchange rate movements led to an increase of € 17.7 million in property, plant and equipment and investment property (2020/21: € -10.2 million).

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

Current assets increased by 12.0 % from € 1,399.8 million to € 1,567.3 million, or around 38 % of total assets (2020/21: 37 %). Inventories rose from € 944.6 million to € 1,169.3 million, while cash and cash equivalents fell year-on-year by € 44.3 million from € 334.6 million in the previous year to € 290.3 million in the year under report. Due to the increase in inventories, the inventory turnover rate decreased to 3.6 (2020/21: 4.1). Current receivables, contract assets, and other assets (including income tax receivables) fell by € 14.3 million to € 106.3 million. This was mainly due to the reduction in other current assets. The tax refund claims included in this line item fell from € 20.3 million in the previous year to € 8.6 million in the year under report. Furthermore, this line item also includes recourse claims in connection with expected returns, which decreased to € 4.9 million at the end of the financial year (2020/21: € 11.6 million).

5.2 Non-current and current liabilities

Liabilities, including provisions, amounted to € 2,647.3 million at the balance sheet date, as against € 2,510.2 million in the previous year. Non-current liabilities increased slightly from € 1,739.6 million to € 1,797.5 million. Non-current financial debt due to banks and for corporate bonds remained almost unchanged at € 542.2 million (2020/21: € 541.6 million). Provisions for pensions fell to € 12.7 million, down from € 19.1 million in the previous year. The deferred tax liabilities included in non-current liabilities fell year-on-year from € 10.4 million to € 9.2 million.

Current liabilities rose from € 770.6 million to € 849.8 million, while current financial debt fell from € 49.5 million to € 5.8 million. Current lease liabilities pursuant to IFRS 16 came to € 152.1 million (2020/21: € 139.7 million). Trade payables, contract liabilities, and other liabilities amounted to € 535.0 million at the balance sheet date, as against € 428.4 million in the previous year. Other provisions and deferred liabilities decreased from € 127.8 million in the previous year to € 120.5 million. The net debt of the HORNBACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, grew from € 1,525.2 million to € 1,595.3 million. Excluding lease liabilities, the net debt of € 257.7 million was almost at the same level as in the previous year (€ 256.5 million).

Key balance sheet figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.28.2022	2.28.2021
Equity ratio	Equity / Total assets	%	35.2	33.3
Return on equity	Annual net income / Average equity	%	14.0	12.8
Return on total capital	NOPAT[1)]/ Average total capital[2)]	%	7.0	6.6
Debt / equity ratio (gearing)	Net debt / Equity	%	111.0	121.5
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land [3)]	€ million	385.5	274.8
Net working capital	Current assets [4)] less trade payables	€ million	839.9	772.1
Inventory turnover rate	Cost of goods sold / Average inventories		3.6	4.1

1) Net operating profit after tax, defined as EBIT minus unchanged standardized tax rate of 30 % at the HORNBACH Group
2) Average total capital, defined as average equity plus average net debt
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	2021/22	2020/21
Sales	3,406,055	3,224,423
Other own work capitalized	489	531
Other operating income	18,932	16,109
Cost of materials	2,376,124	2,234,044
Gross profit	**1,049,352**	**1,007,019**
Personnel expenses	520,151	501,672
Depreciation and amortization	34,263	35,671
Other operating expenses	408,032	405,634
Operating result	**86,906**	**64,042**
Financial result	119,349	36,947
Taxes	25,778	16,346
Earnings after taxes	**180,477**	**84,643**
Other taxes	1,220	1,215
Annual net surplus	**179,257**	**83,428**
Profit carried forward from previous year	**5**	**0**
Allocation to revenue reserves	0	41,714
Net profit	**179,262**	**41,714**

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

In Germany, HORNBACH replaced an existing DIY store with a garden center in Paderborn with a newly built store in the 2021/22 year under report. This means that, including the two BODENHAUS specialist retail stores, we operated a total of 98 retail outlets across Germany as of February 28, 2022 (February 28, 2021: 98). Sales areas in Germany totaled 1,074,507 m² (2020/21: 1,066,515 m²).

Group Management Report
Business Report
Earnings Performance

6.3 Earnings performance

6.3.1 Sales performance

Net sales (excluding sales tax) at HORNBACH Baumarkt AG grew by 5.6 % from € 3,224.4 million to € 3,406.1 million in the 2021/22 year under report. Sales include an amount of € 563 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2020/21: € 506 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".

6.3.2 Earnings performance

The other operating income reported in the income statement rose to € 18.9 million (2020/21: € 16.1 million). This mainly relates to income from damages payments, reversals of provisions, exchange rate gains, and the retirement of liabilities.

Due to higher prices and logistics expenses, cost of materials rose by 6.4 % to € 2,376.1 million (2020/21: € 2,234.0 million). Gross profit totaled € 1,049.4 million, or 30.8 % of net sales, as against € 1,007.0 million, or 31.2 % in the previous year. Due to the higher number of employees, personnel expenses increased by 3.7 % from € 501.7 million to € 520.2 million, but nevertheless rose less rapidly than net sales. At € 34.3 million, depreciation and amortization were 3.9 % lower than the previous year's figure (€ 35.7 million). Other operating expenses rose slightly to € 408.0 million, up from € 405.6 million in the previous year.

At € 86.9 million, the operating result was significantly higher than the previous year's figure (€ 64.0 million). This was mainly due to significantly higher gross profit (plus € 42.3 million) and lower depreciation and amortization (minus € 1.4 million). These factors were countered by higher personnel expenses (plus € 18.5 million) and higher other operating expenses (plus € 2.4 million).

The financial result (including income from investments) rose to € 119.3 million in the year under report (2020/21: € 36.9 million). This increase was chiefly due to the income from investments rising from € 48.5 million to € 129.6 million as a result of a higher transfer of profit from HORNBACH International GmbH.

Interest income and income from loans of financial assets increased from € 4.1 million to € 5.1 million. At € 15.3 million, interest expenses in the year under report fell short of the previous year (€ 15.7 million).

Given the factors outlined above and taxes on income of € 25.8 million (2020/21: € 16.3 million), the annual net surplus rose from € 83.4 million to € 179.3 million in the 2021/22 financial year.

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

Assets	2.28.2022 € 000s	2.28.2021 € 000s
Intangible assets	14,951	12,190
Property, plant and equipment	351,886	336,584
Financial assets	253,376	251,263
Non-current assets	**620,213**	**600,037**
Inventories	738,733	601,957
Receivables and other assets	196,105	113,956
Cash holdings, credit balances at banks, and checks	209,941	243,072
Current assets	**1,144,779**	**958,985**
Deferred expenses and accrued income	9,425	7,092
Deferred tax assets	10,934	10,556
Total assets	**1,785,351**	**1,576,670**
Equity and liabilities		
Shareholders' equity	818,923	667,927
Provisions	121,384	113,418
Liabilities	839,141	789,014
Deferred income and accrued expenses	5,903	6,311
Total assets	**1,785,351**	**1,576,670**

6.3.3 Asset position

At € 1,785.4 million, total assets as of February 28, 2022 were € 208.7 million, or 13.2 %, higher than the previous year's figure (€ 1,576.7 million). Non-current assets stood at € 620.2 million, or 38.1 % of total assets, at the balance sheet date (2020/21: € 600.0 million / 38.1 %). Mainly due to investments of € 48.6 million accompanied by depreciation of € 30.1 million and retirements of € 3.2 million, property, plant and equipment increased to € 351.9 million (2020/21: € 336.6 million). Financial assets amounted to € 253.4 million at the balance sheet date (2020/21: € 251.3 million).

Current assets amounted to € 1,144.8 million at the balance sheet date (2020/21: € 959.0 million). Due to the company's expansion and seasonal preparations, inventories rose by 22.7 %, or € 136.8 million, to € 738.7 million (2020/21: € 602.0 million). At 3.6, the inventory turnover rate in the 2021/22 financial year was lower than the previous year's figure of 4.0. Receivables from affiliated companies rose by € 90.9 million to € 134.1 million (2020/21: € 43.1 million). The rise in receivables in the 2021/22 financial year was chiefly attributable to the year-on-year increase in short-term financing of group companies. Cash and cash equivalents fell year-on-year by € 33.1 million from € 243.1 million to € 209.9 million. The company had deferred tax assets of € 10.9 million at the end of the financial year (2020/21: € 10.6 million).

At € 818.9 million, shareholders' equity as of February 28, 2022 was 22.6 % higher than in the previous year (2020/21: € 667.9 million). The equity ratio is reported at 45.9 % (2020/21: 42.4 %). Provisions increased from € 113.4 million to € 121.4 million at the balance sheet date. This was mainly due to higher provisions for taxes.

Liabilities are reported at € 839.1 million at the balance sheet date, and thus € 50.1 million higher than the previous year's figure (2020/21: € 789.0 million). At € 202.9 million, liabilities to banks were at the same level as in the previous year (2020/21: € 202.9 million). Due to increased stocking measures, trade payables rose to € 245.3 million (2020/21: € 183.8 million). Liabilities to affiliated companies, mainly resulting from group financing, decreased from € 88.0 million to € 68.9 million in the 2021/22 financial year.

6.3.4 Financial position

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

Group Management Report
Business Report
Financial Position

Non-current assets are fully covered by shareholders' equity (after the planned dividend distribution). In the 2021/22 financial year, HORNBACH Baumarkt AG invested a total of € 55.5 million (2020/21: € 50.2 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 18.1 million (2020/21: € 19.1 million), while a further sum of € 22.6 million was channeled into replacing and expanding plant and office equipment (2020/21: € 17.9 million). Of total investments, € 6.9 million (2020/21: € 4.8 million) related to intangible assets acquired in return for payment. Due to higher intragroup loans, financial assets rose by € 2.1 million from € 251.3 million to € 253.4 million.

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

Based on a positive sales performance and 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 2021/22 financial year. Due not least to higher income from investments, the annual net surplus increased from € 83.4 million to € 179.3 million. Non-current assets and around 49% of current assets are financed on a long-term basis by shareholders' equity (after the planned dividend distribution) and non-current debt capital. Overall, the company's economic position is good.

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

In the annual financial statements of HORNBACH Baumarkt AG, which will be shaped by the business performance of the HORNBACH DIY stores with garden centers in Germany, we expect that sales for the 2022/23 financial year to slightly exceed the figure reported for the 2021/22 financial year (3.406 Mio. €) and that the annual net surplus will fall slightly short of the level in the 2020/21 financial year. (179,3 Mio. €).

Risk Report

1. Risk Management at the Group

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

2. Risk Policy Principles

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

3. Organization and Process

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

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

Company risk assessment categories in ascending order

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

Earnings risks are analyzed with the assistance of a risk matrix. This records both the probability of occurrence and the potential level of damages of the relevant risks. This way, we can assess the existence and extent of any need for action. 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 regular 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.

In its activities, the Group Internal Audit Department regularly audits the functionality of the existing risk management system.

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

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

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

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

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

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

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

5. Overview of Overall Risks*

	Probability of occurrence	Potential implications
Financial risks		
Liquidity risks	Rare	severe
External risks		
Macroeconomic and sector-specific risks	Possible	noticeable
Natural hazards	Rare	marginal
War / pandemic	Possible	noticeable
Operating risks		
Location and turnover risks	Possible	noticeable
Procurement risks	Possible	noticeable
Legal risks		
Legislative and regulatory risks	Occasional	noticeable
Management and organizational risks		
IT risks	Improbable	critical
Reputational risks	Occasional	noticeable
Personnel risks	Rare	marginal

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

5.1 Changes in overview of overall risks compared with previous year

The following risks have been removed since the previous year:

- Based on new internal assessments, exchange rate risks, credit risks, and risks relating to legal disputes have been removed.
- Due to its inclusion in the new aggregate risk of war / pandemic, the individual coronavirus pandemic risk has been eliminated.

The following risks have been newly included since the previous year:

- Various external risks have been newly aggregated in the newly included risk of war / pandemic.
- Reputational risk has been reassessed and newly included.

The probability of occurrence has changed for the following risks:

- The probability of occurrence for macroeconomic and sector-specific risks (especially the entry of new market players) has been lowered.
- The probability of occurrence for the natural hazards risk (especially extreme weather events, earthquakes, landslides, and subsidence) has been raised.
- The probability of occurrence for personnel risks has been lowered.

The potential implications have changed for the following risks:

- The implications for liquidity risk (due to bankruptcy) have been lowered.
- The implications for the natural hazards risk (especially extreme weather events, earthquakes, landslides, and subsidence) have been lowered.

- The implications for procurement risks (especially due to commodities shortages and supply bottlenecks) have been raised.
- The implications for legal and regulatory risks have been lowered.

6. Financial Risks

The Group's financial risks mainly comprise liquidity risks. Responsibility for managing these risks lies with the Treasury department.

6.1 Liquidity risks

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

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

Alongside general covenants, such as pari passu, negative pledge, and cross default covenants, specific financial covenants were also agreed for the syndicated credit line at HORNBACH Baumarkt AG. These require compliance with an equity ratio, 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 HORNBACH Baumarkt AG Group. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries of HORNBACH Baumarkt AG. Comparable maximum limits were agreed for the promissory note bonds at HORNBACH Baumarkt AG and HORNBACH Holding B.V. Apart from this, these bonds are only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. As of February 28, 2022, the adjusted equity ratio at the HORNBACH Baumarkt AG Group amounted to 44.6 % (2020/21: 44.0 %) and interest cover came to 14.1 (2020/21: 13.8).

Maximum limits for financial facilities secured by land charges similar to those applicable to the syndicated credit line were agreed for the corporate bond at HORNBACH Baumarkt AG. Apart from this, the bond is only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. These covenants are monitored on an ongoing basis. All covenants were complied with at all times during the 2021/22 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.

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

7. External Risks

7.1 Macroeconomic and sector-specific risks

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

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

Changing consumer behavior, particularly with regard to advancing 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.

7.2 Natural hazards

In addition to potential natural catastrophes (e.g. gales, flooding), the Group is also exposed to risks resulting from fire and explosions. The principal insurable natural hazards and any potential interruption to operations thereby arising are covered by group-wide insurance policies.

7.3 War / pandemic

Over and above the factors expected from a current perspective, there is the risk that wars and pandemics will have a sustained impact on parts of public life and the retail sector, and that for significantly longer and more severely than currently foreseeable, and thus adversely affect our sales, earnings, and liquidity situation. Upon the preparation of this report, the risks relating to the ongoing coronavirus pandemic were viewed as still applicable and unchanged. Alongside potential measures to contain the spread of infections, such as lockdowns, and the risk of operations being interrupted due to actual infections, the pandemic also harbors risks in the form of additional burdens on supply chains and merchandise availability due to the zero-Covid strategy adopted by China.

Furthermore, the Russia-Ukraine conflict may also impact negatively on our business. The effects here may include merchandise availability, procurement prices, and energy and commodities prices. In general, these risks are countered by potential opportunities resulting from increased demand for DIY product ranges, which may lead consumers to bring purchases forward, catch up on purchases previously missed, or substitute spending on DIY for other activities. To counter the potentially negative impacts, we have established a Ukraine crisis team which is currently monitoring these risks particularly closely and with increased frequency.

8. Operating Risks

8.1 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 based on 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, expanding customer services, and new concepts in order to maintain the company's competitiveness, especially in countries with low market growth and intense competition.

8.2 Procurement risks

As a retailer, HORNBACH depends on external suppliers and manufacturers. We exercise the utmost caution when selecting our suppliers. Particularly when selecting private label suppliers, we pay attention to their reliability in terms of high product quality and their consistent compliance with safety and social standards at the respective companies. To avoid the loss of major suppliers, the Group has developed an efficient early warning system that monitors suppliers continuously on the basis of various quantitative and qualitative criteria. The impact of any potential supplier loss is 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 with high shares of crude oil, copper or steel due to 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.

9. Legal Risks

9.1 Legislative and regulatory risks

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

10. Management and Organizational Risks

10.1 IT risks

The management of the Group is crucially 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, the misuse or loss of data, and external attacks 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.

10.2 Reputational risks

The HORNBACH brand is exposed to reputational risks in terms of potential image damage. These risks may result from negative brand signals that harm the good reputation and standing of the brand. The reputation of HORNBACH's brand among customers, investors, and the general public therefore always has implications for the level of trust they place in the brand and their resultant loyalty to HORNBACH.

Causes of reputational risk include management, communications, and marketing errors towards customers, deficient advice, inadequate services, defective products, accidents, and environmental scandals.

Reputational risks may impact on the company in a variety of ways. In our retail business, they may lead to a temporary or permanent decline in demand and include the loss of customers.

10.3 Personnel risks

The deployment of highly motivated and qualified employees is 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.

11. Overall Assessment of Risk Situation

There were no risks to the continued existence of the HORNBACH Baumarkt AG Group in the 2021/22 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 market will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the Risk Report and the evaluation of the future macroeconomic framework provided in the Outlook.

1. Construction: Great Need for Maintenance and Modernization

Construction work on existing buildings (refurbishment, modernization, and renovation) is a prominent factor in the business performance of DIY and garden stores. Based on calculations by the German Institute for Economic Research (DIW), two thirds of housing construction volumes in Germany, which in 2021 amounted to around € 284.4 billion, involved construction work on existing buildings. The DIW expects further strong growth, with rates of 13.9 % and 5.3 % forecast for 2022 and 2023.

In the medium and long term, the age structure of real estate also indicates a growing need for maintenance and modernization. In Germany, for example, more than 80 % of houses and apartments are more than 30 years old. Particular momentum can be expected from the renovation of buildings to improve their energy efficiency. Given rising energy costs and climate protection, this factor is sustainably gaining in importance. In view of demographic developments in Europe, there is also increasing 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.

2. Consumer Trends: Cocooning, Online Shopping, and Sustainability

The coronavirus pandemic has increased the importance consumers attach to their own four walls. People are spending more time at home and increasingly working from home. According to a GfK survey, consumers continued to show great interest in home improvement and gardening in 2021, and that despite the progressive easing of pandemic-related restrictions. Global studies indicate that this trend towards "cocooning" will continue in the medium and long term. In its COVID-19 Consumer Pulse study, Accenture even predicts a "decade at home". Compared with the period prior to the pandemic, this could also create higher demand for construction and DIY product ranges.

Due to the restrictions on stationary sales, online retail with DIY product ranges showed especially strong growth during the pandemic years. The share of DIY retail covered by e-commerce is expected to remain permanently higher and to rise further. Based on expert assessments, online sales with typical DIY store product groups in Germany are expected to grow by around 8% to approximately € 6.4 billion in 2022. HORNBACH has pursued an interconnected retail strategy since 2010 already and is able to benefit from the trend towards online shopping to a greater extent than other stationary DIY store chains.

DIY 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 product 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.

3. New Customer Groups: Commercial Customers and DIFM

The European DIY market is characterized by a large number of different sales formats. In Germany, for example, DIY and home improvement stores only cover around half of the core DIY market. The other half of market volumes is attributable to specialist retailers (e.g. specialist tile, interior decoration, lighting, or sanitary stores), builders' merchants, and timber merchants. 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.

HORNBACH's generously proportioned stores, 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 it an attractive alternative to traditional specialist retail or wholesale procurement sources. Given that our retail format is increasingly attracting professional customers, we have also been able to acquire production specialists who would otherwise only supply professional specialist retailers.

We also see the market segment of do-it-for-me (DIFM) customers as harboring promising growth opportunities, also in the broader context of ageing populations in Germany and other parts of Europe. DIFM customers purchase the products for their home improvement projects themselves, but then prefer to have the work performed by a specialist. HORNBACH cooperates at all of its locations with regional trade companies that implement the projects for our customers at fixed prices and assume the warranty for these projects.

4. Digitalization: ICR and Automated Processes

Since 2010, the HORNBACH Baumarkt AG Group has forged consistently ahead with digitalizing its business model and its transformation into an interconnected retail business. Thanks to these efforts, we have sustainably boosted our competitive position within the DIY sector and made the whole company fit for the future. 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.

We have equipped all sales staff at our stores with mobile multifunction devices, thus significantly reducing their manual work steps and movements and enabling them to spend more time advising customers. Our self-service checkouts serve the same purpose, as does the self-scanning function, which enables customers to scan their articles while shopping already and considerably speed up the payment process at the checkout, particularly for larger-scale purchases. In its administration departments, HORNBACH has installed the infrastructure needed for mobile work. 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.

5. Expansion in Europe

Our expansion into other European countries will provide us with additional growth prospects in future as well due to greater sales potential, higher profitability, and the better distribution of regional market risks. In the next five years, the company plans to open more than 25 new DIY stores and garden centers, mainly outside Germany. Furthermore, the internationalization of group procurement provides us with broad access to global procurement markets and enables us to forge strategic, long-term partnerships with suppliers and industry. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our product selection to regional requirements and improve our margins due to benefits of scale.

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

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

Outlook

1. Macroeconomic and Sector-Specific Framework

One crucial factor for the business prospects of the HORNBACH Group is the future development in consumer demand and in construction and renovation activity in the countries in which we operate. 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, economic and geopolitical crises, such as the war in Ukraine or a resurgence of the coronavirus pandemic, may significantly impact on our company's business performance.

1.1 Business framework in Europe

In April 2022, Germany's leading economic research institutes revised their growth forecasts significantly downwards. Upon the completion of this report, economic output in EU 27 countries was expected to grow by 3.3 % in the 2022 calendar year, while consumer prices were predicted to rise by 5.8 %. Sharp price increases, particularly for fossil fuels and some industrial metals, have been observed in recent months. Food prices have also risen significantly as the volume of cereal and fertilizer exports from Ukraine and Russia decreases. Furthermore, the war in Ukraine and the sanctions imposed on Russia are impacting negatively on global supply chains, which are already under stress. Higher transport costs and supply shortages mean that inflation, already high in many areas, can be expected to rise further in the months ahead.

The institutes expect the macroeconomic recovery from the coronavirus crisis to continue despite the setbacks posed by the war in Ukraine. The forecast is based on the assumptions that the military action does not extend beyond the borders of Ukraine, that the conflict continues and that the sanctions also remain in place.

1.2 Business framework in Germany

Germany's leading economic research institutes expect the country's gross domestic product to grow by 2.7 % and consumer prices to rise by 6.1 % in the 2022 calendar year. The strong recovery starting this spring as the pandemic and its consequences recede would initially be held back by the outbreak of war in Ukraine. Based on the assessment provided by the economic research institutes, the predominant factor is the increase in insecurity surrounding the supply of commodities, especially important energy commodities. This has further intensified the rise in prices already underway before Russia attacked Ukraine.

At the beginning of the year, the German construction industry initially benefited from mild weather conditions. However, the effects of the Ukraine war are currently producing renewed supply shortages and sharp rises in prices for construction materials, especially steel and bitumen. These are holding back construction output and in some cases leading to halts on construction. Furthermore, the rise in diesel prices is resulting in higher transport costs. The uncertainty surrounding the development in prices is expected to make it more difficult to plan construction projects and therefore to dampen momentum.

The economic research institutes expect residential building investments to grow by 2.0 % in the 2022 calendar year. Materials shortages are expected to have a slightly less marked impact on the finishing trade, which plays an important role in residential construction, than on the construction and civil engineering segments. The prospect of a slight deterioration in financing terms in future might also promote the swift implementation of residential construction projects.

The BHB, the DIY sector association, sees the phenomenon of consumers focusing on their own four walls and gardens as a long-term trend that will impact positively on the sector in the period after the pandemic as well. Given the great uncertainty resulting from the Ukraine crisis, the intensification in supply chain bottlenecks, and sharp rises in energy and logistics expenses, however, the association has not provided any specific sales forecast for the DIY store sector for 2022.

2. Forecast Business Performance in 2022/23

Upon the completion of this report, the implications of the conflict in Ukraine could not yet be reliably assessed and will depend in particular on the duration and further course of the military conflict. The management of HORNBACH Baumarkt AG is monitoring geopolitical developments very closely and analyzing their implications for the economic climate and the company's business activities. This enables company processes to be adapted in good time and suitable measures to be taken at an early stage.

2.1 Expansion and investments

In the one-year forecast period, the Group will continue to focus on expanding and modernizing its store network and on scaling up the online shops in its existing country markets. In March 2022, new DIY stores with garden centers were opened in Nitra (Slovakia) and Enschede (Netherlands). In the further course of the 2022/23 financial year, additional new store openings are planned in Constanta (Romania) and Leipzig (Germany). Overall, we expect the group-wide total number of locations to rise to 171 by February 28, 2023 (February 28, 2022: 167), of which 72 in other European countries. This corresponds to an increase in sales areas (BHB) by around 53,000 m².

The volume of gross investments (Capex) at the HORNBACH Baumarkt AG Group in the 2022/23 financial year is budgeted at the previous year's level (€ 168.0 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

For the HORNBACH Baumarkt AG Group, we expect consolidated sales, including sales at stores newly opened, closed, or extended, in the 2022/23 financial year to slightly exceed the figure reported for the 2021/22 financial year (€ 5,496 million).

2.3 Earnings performance

In our base scenario for the 2022/23 financial year, due to ongoing geopolitical uncertainty and the associated price rises for products and services we expect the EBIT adjusted to exclude non-operating earnings items of the HORNBACH Baumarkt AG Group for the 2022/23 financial year to fall slightly short of the figure for the 2021/22 financial year (€ 314.7 million).

The economic climate remains volatile, which makes it significantly more difficult to provide a precise forecast for the 2022/23 financial year.

Other Disclosures

1. Corporate Governance Statement pursuant to § 289f (4) HGB: Share of Women in Senior Management Positions

The Corporate Governance Statement requiring submission pursuant to § 289f (4) of the German Commercial Code (HGB) forms a constituent component of the Combined Management Report.

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 the two senior management tiers below the Board of Management and, since the discontinuation of the company's public listing at the end of February 2022, on its Supervisory Board as well.

1.1 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 Supervisory Board confirmed this target, which was achieved, and extended the target of no less than 1/7, while upholding the current status, through to February 28, 2022. From January 1, 2021 to March 31, 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. This means the target set for February 28, 2022 was not only met, but exceeded. At its meeting on February 17, 2022, the Supervisory Board set the target share of women on the Board of Management for February 28, 2027 at no less than 1/3, with this target taking effect as of March 1, 2022.

At its meeting on February 17, 2022, the Supervisory Board also decided that, in the event of the company's public listing expiring at a date on or after February 28, 2022, the target share of women on the Supervisory Board set for February 28, 2027 should amount to no less than 37.5%.

1.2 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. As of February 28, 2022, women accounted for 24 % of the managers in the first management tier and for 22 % in the second management tier, as a result of which these targets were not only met, but exceeded. In February 2022, the Board of Management decided to set the targets for the share of women for February 28, 2027 at 25 % in the first management tier and 25 % in the second management tier, with these targets taking effect as of March 1, 2022.

2. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2021/22 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 executed. No measures were executed or omitted at the instigation or on behalf of the controlling company or any associate of such."

Non-Financial Declaration

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 2021/22 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).

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 the management of HORNBACH. Although we assume that the expectations expressed or implied in these forward-looking statements are realistic, the company can provide no guarantee that these expectations will also turn out to be accurate. By their nature, forward-looking statements involve known and unknown risks, uncertainties, assumptions, and other factors which could lead actual results, developments, and outcomes to differ 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 exceptional weather conditions, a lack of acceptance for new sales formats or new product ranges, as well as changes to the corporate strategy. Forward-looking statements are always only valid at the time at which they are made. HORNBACH has no plans to update forward-looking 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, 2021 to February 28, 2022

	Notes	2021/22 € 000s	2020/21 € 000s	Change %
Sales	1	5,496,086	5,116,944	7.4
Cost of goods sold	2	3,532,060	3,278,214	7.7
Gross profit		**1,964,026**	**1,838,730**	**6.8**
Selling and store expenses	3/10	1,429,914	1,356,223	5.4
Pre-opening expenses	4/10	17,430	7,130	>100
General and administration expenses	5/10	246,011	232,108	6.0
Other income and expenses	6/10	18,591	15,331	21.3
Earnings before interest and taxes (EBIT)		**289,261**	**258,601**	**11.9**
Other interest and similar income		693	541	28.1
Other interest and similar expenses		57,423	56,118	2.3
Other financial result		4,058	(2,778)	>100
Net financial expenses	**7**	**(52,672)**	**(58,355)**	**(9.7)**
Consolidated earnings before taxes		**236,589**	**200,246**	**18.1**
Taxes on income	8	47,646	47,108	1.1
Consolidated net income		**188,944**	**153,138**	**23.4**
Basic/diluted earnings per share (€)	9	5.94	4.82	23.2

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2021 to February 28, 2022

	Notes	2021/22 € 000s	2020/21 € 000s
Consolidated net income		**188,944**	**153,138**
Actuarial gains and losses on defined benefit plans	24/25	5,440	6,207
Measurement of financial assets	14/32	2,264	(3,745)
Deferred taxes on other comprehensive income that will not be recycled at a later date		(1,017)	(982)
Other comprehensive income that will not be recycled at a later date		**6,687**	**1,480**
Exchange differences arising on the translation of foreign subsidiaries		14,715	(9,911)
Other comprehensive income that will possibly be recycled at a later date		**14,715**	**(9,911)**
Total comprehensive income		**210,346**	**144,706**

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 28, 2022

Assets	Notes	2.28.2022 € 000s	2.28.2021 € 000s
Non-current assets			
Intangible assets	11	19,836	16,969
Property, plant, and equipment	12	1,236,767	1,145,080
Investment property	12	9,939	7,856
Right-of-use assets	13	1,213,472	1,175,772
Financial assets	14/32	9,002	6,738
Other non-current receivables and assets	15	1,396	1,704
Deferred tax assets	16	26,659	11,286
		2,517,072	**2,365,404**
Current assets			
Inventories	17	1,169,279	944,561
Trade receivables	18	16,232	14,628
Contract assets	18	1,576	1,231
Other current assets	18	84,668	98,283
Income tax receivables	27	3,845	6,484
Cash and cash equivalents	19	290,269	334,596
Non-current assets held for sale and disposal groups	20	1,414	0
		1,567,283	**1,399,782**
		4,084,355	**3,765,187**

Equity and liabilities	Notes	2.28.2022 € 000s	2.28.2021 € 000s
Shareholders' equity	**21**		
Share capital		95,420	95,405
Capital reserve		143,623	143,599
Revenue reserves		1,197,987	1,015,941
		1,437,030	**1,254,945**
Non-current liabilities			
Non-current financial debt	23	542,246	541,597
Non-current lease liabilities	23	750,857	675,417
Non-current lease liabilities related to affiliated companies	23	434,564	453,572
Pensions and similar obligations	24	12,653	19,095
Deferred tax liabilities	16	9,228	10,391
Other non-current liabilities	25/28	47,983	39,577
		1,797,531	**1,739,649**
Current liabilities			
Current financial debt	23	5,771	49,484
Current lease liabilities	23	92,218	82,207
Current lease liabilities related to affiliated companies	23	59,916	57,529
Trade payables	26	382,982	293,136
Contract liabilities	26	52,704	44,133
Other current liabilities	26	99,266	91,095
Income tax liabilities	27	36,464	25,239
Other provisions and accrued liabilities	28	120,473	127,771
		849,794	**770,593**
		4,084,355	**3,765,187**

Statement of Changes in Equity of the HORNBACH Baumarkt AG Group

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**

2021/22 financial year € 000s	Notes	Share capital	Capital reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2021		**95,405**	**143,599**	**37,898**	**978,042**	**1,254,945**
Consolidated net income					188,944	188,944
Actuarial gains and losses on defined benefit plans, net after taxes	24/25				4,457	4,457
Measurement of equity instruments, net after taxes	14/32				2,230	2,230
Exchange differences arising on the translation of foreign subsidiaries				14,715		14,715
Total comprehensive income				**14,715**	**195,631**	**210,346**
Dividend distribution	22				(28,622)	(28,622)
Treasury stock transactions	21	16	24		322	361
Balance at February 28, 2022		**95,420**	**143,623**	**52,613**	**1,145,374**	**1,437,030**

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2021/22 € 000s	2020/21 € 000s
Consolidated net income		**188,944**	**153,138**
Depreciation and amortization of property, plant, and equipment and intangible assets	10	79,747	77,325
Depreciation of right-of-use assets	13	182,950	168,687
Change in provisions		(798)	1,060
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(1,404)	78
Change in inventories, trade receivables and other assets		(204,663)	(164,807)
Change in trade payables and other liabilities		115,390	104,789
Other non-cash income/expenses		(15,447)	(6,743)
Cash flow from operating activities		**344,719**	**333,526**
Proceeds from disposal of non-current assets and of non-current assets held for sale		3,525	2,722
Payments for investments in property, plant, and equipment		(161,104)	(134,629)
Payments for investments in intangible assets		(6,940)	(5,018)
Cash flow from investing activities		**(164,519)**	**(136,925)**
Dividends paid	22	(28,622)	(21,629)
Proceeds from taking up long-term debt	23	50,000	0
Repayment of long-term debt	23	(98,374)	0
Repayment of current and non-current lease liabilities	13/23	(150,217)	(141,059)
Cash flow from financing activities		**(227,213)**	**(162,687)**
Cash-effective change in cash and cash equivalents		(47,013)	33,914
Change in cash and cash equivalents due to changes in exchange rates		2,686	(1,480)
Cash and cash equivalents at March 1		334,596	302,162
Cash and cash equivalents at balance sheet date		**290,269**	**334,596**

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 € 51,590k (2020/21: € 48,067k) and interest payments of € 58,743k (2020/21: € 56,914k) and increased by interest received of € 693k (2020/21: € 541k). Of interest payments, € 43,734k (2020/21: € 42,061k) 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. Through to the conclusion of February 28, 2022, shares in HORNBACH Baumarkt AG were listed in the Prime Standard and traded under ISIN DE0006084403 on the Xetra and Frankfurt am Main stock exchanges. The shares are now no longer admitted for trading on the Regular Market but are traded in open trading on the Hanseatic Stock Exchange in Hamburg.

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 2021/22 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 10, 2022. 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 2021/22 financial year onwards:

- 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"
- Amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021"

The implications of the amendment to IFRS 16 "Covid-19-Related Rent Concessions beyond 30 June 2021" are presented below. The other policies requiring application for the first-time in the 2021/22 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 beyond 30 June 2021"

In the first quarter of 2021, the International Accounting Standards Board (IASB) published a further amendment to IFRS 16 to facilitate a one-year extension to the practical expedient supporting lessees to recognize Covid-19-related rent concessions. This amendment permits lessees to recognize rent concessions directly related to Covid-19 through profit or loss rather than as adjustments to right-of-use assets. The amendments extend the period of the practical expedient to include rent concessions reducing lease payments originally maturing on or before June 30, 2022. Previously, the practical expedient only covered those rent concessions that reduced lease payments on or before June 30, 2021. 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, 2022.
- No other substantive changes are made to the terms of the lease.

The Group decided in the previous year already to exercise the option of recognizing rent concessions through profit or loss. However, no rent concessions were received in the 2021/22 financial year. In the previous year, an amount of € 911k was recognized in selling and store expenses with a corresponding reduction to expenses.

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 2022/23 financial year:

- Amendment to IAS 16 "Property, Plant and Equipment"
- Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"
- Amendment to IFRS 3 "Business Combinations"
- Amendment to IFRS 16 "Leases"
- Annual Improvements to IFRSs, 2018 – 2020 Cycle

The following provisions require mandatory application from the 2023/24 financial year:

- IFRS 17 "Insurance Contracts"
- Amendment to IFRS 17 "Insurance Contracts"
- Amendment to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- Amendments to IAS 1 "Presentation of Financial Statements"

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:

- Amendment to IFRS 17 "Initial Application of IFRS 17 and IFRS 9 - Comparative Information"
- Amendment to IAS 12 "Income Taxes"
- Amendment to IAS 1 " Classification of Liabilities as Current or Non-Current"

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

Consolidation principles

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

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

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

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

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBACH Baumarkt AG is based on an assessment of control-related factors. Control over a subsidiary exists when HORNBACH can directly or indirectly influence the relevant activities of the subsidiary and when it is exposed to variable returns from the subsidiary or is entitled to such. Furthermore, control enables the level of returns to be influenced. HORNBACH generally acquires this right when it holds a majority of the voting rights. Where this is not the case, other contractual arrangements may lead to HORNBACH gaining control. Subsidiaries are fully consolidated in the consolidated financial statements of HORNBACH Baumarkt AG on the date on which control is gained. Should any circumstances or facts indicate a change in the control relationship, then a reassessment is performed. Interests in companies not included in the scope of consolidation have been recognized at 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 HORNBACH Baumarkt AG, the consolidated financial statements include 7 domestic and 30 foreign subsidiaries by way of full consolidation. As the sole shareholder in HORNBACH International GmbH, HORNBACH Baumarkt AG holds, either directly or indirectly, 100 % of the voting rights in the consolidated subsidiaries. As in the previous year, all direct and indirect subsidiaries of HORNBACH Baumarkt AG have been included in the consolidated financial statements for the 2021/22 financial year.

Changes in the scope of consolidation

There were no changes in the scope of consolidation in the 2021/22 financial year.
The development in the scope of consolidation was as follows:

	2021/22	2020/21
March 1	**38**	**37**
Companies consolidated for the first time	0	1
February 28/29	**38**	**38**

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]	708	EUR
HORNBACH Forst GmbH, Bornheim	100[5]	(547)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100[4]	3,489,096	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	96,102	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	16,973	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	100	2,621	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	20,010	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	152,432	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	100	220,421	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	227,718	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	30,055	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	100	90	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	100	(110)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,922	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	1,366	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	1,178	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	1,810	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	1,067	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	11	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(440)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	1,277	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	1,188	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,659	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	896	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,942	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,415	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	763	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(104)	EUR
HORNBACH Real Estate Rotterdam B.V., Rotterdam, Netherlands	100	18	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	34,414	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100[3]	241,290	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100	15,864	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 HORNBACH Baumarkt AG and HORNBACH International GmbH and between HORNBACH Baumarkt AG and Hornbach Beteiligungen GmbH. Furthermore, control and profit and loss transfer agreements are also in place between HORNBACH Beteiligungen GmbH and AWV-Agentur für Werbung und Verkaufsförderung GmbH, HB Reisedienst GmbH, BODENHAUS GmbH, and Hornbach Forst GmbH.

Foreign currency translation

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

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

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2022	2.28.2021	2021/22	2020/21
RON Romania	4.9484	4.8750	4.93261	4.85331
SEK Sweden	10.6055	10.1388	10.20196	10.41061
CHF Switzerland	1.0336	1.0986	1.07489	1.07235
CZK Czech Republic	24.9970	26.1950	25.39589	26.60207
USD USA	1.1199	1.2121	1.17009	1.16020
HKD Hong Kong	8.7514	9.4010	9.10269	8.99454

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 and disposal groups	Lower of carrying amount and fair value less costs to sell
Equity and liabilities	
Financial debt (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	At expected settlement amount
Trade payables	At amortized cost
Contract liabilities	At amortized cost
Other liabilities	At amortized cost
Refund liabilities	At expected amount of 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 at the lessee 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 % (2020/21: 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 12.1 % after taxes (2020/21: 5.1 % to 13.2 %) and from 5.6 % to 14.7 % before taxes (2020/21: 3.2 % to 15.7 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

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

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

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

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

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

.Inventories

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

Taxes

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

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

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

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

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

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

Non-current assets held for sale and disposal groups

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

Pensions and similar obligations

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

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

Current service cost and any retrospective service cost are recognized 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 or level of the respective obligation are no longer uncertain.

Financial instruments

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

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

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

Classification

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

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

Measurement

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

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

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

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

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

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

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

- Level 1: 12-month credit losses: applicable to all items (since initial recognition) for which the credit quality has not deteriorated significantly. This involves the recognition of that share of lifetime expected credit losses for the instrument attributable to any default within the next twelve months.

- Level 2: lifetime credit losses – creditworthiness not impaired: applicable when a financial instrument or group of financial instruments has witnessed a significant increase in credit risk but whose creditworthiness is not impaired. This involves the recognition of the lifetime expected credit losses for the financial instrument as an impairment.

- Level 3: lifetime credit losses – creditworthiness impaired: should there be objective indications of any impairment requirement for assets (based on individual consideration), the consideration must be based on the lifetime of the financial instrument.

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

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

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

Equity instruments

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

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

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

Derecognition

HORNBACH derecognizes a financial asset when there is no substantiated expectation that the other party to the contract will meet its contractual obligation or if the other party has already met such obligation in full. 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, HORNBACH exercised the option of continuing to apply IAS 39 hedge accounting requirements rather than IFRS 9 requirements.

Fair value measurement

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

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

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

Sales

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

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

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

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

Service obligations still to be performed mainly relate to customer orders not yet completed as of the balance sheet date and outstanding customer credits in the form of vouchers. The Group generally expects these service obligations to be fulfilled within the next 12 months. Settlement of 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 in other comprehensive income or directly in equity.

Discretionary decisions

Discretionary decisions made when applying the accounting policies and which materially influence the amounts recognized in the consolidated financial statements chiefly relate to determining the term of leases and calculating the incremental borrowing rate. In determining the term of leases, all facts and circumstances that could provide HORNBACH with an economic incentive to exercise an extension option or not exercise a termination option are duly accounted for and assessed. In calculating the incremental borrowing rate, both the calculation of the risk-free interest rate and the determination of the risk premium are subject to discretionary decisions. More detailed information can be found in Notes 13 and 23.

Assumptions and estimates

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

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

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

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
- Recoverability of financial assets; Notes 10, 18, and 33

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 165 (2020/21: 161) DIY megastores and garden centers grouped together in the HORNBACH Baumarkt AG Group, two Bodenhaus specialist retail stores, 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.

2021/22 in € million 2020/21 in € million	Retail	Real Estate	Central functions	Consolidation	HORNBACH Baumarkt AG Group
Segment sales	**5,494.7**	**294.8**	**0.0**	**(293.3)**	**5,496.1**
	5,114.5	282.5	0.0	(280.1)	5,116.9
Sales to third parties	5,494.6	0.0	0.0	0.0	5,494.6
	5,114.5	0.0	0.0	0.0	5,114.5
Rental income from third parties	0.0	1.5	0.0	0.0	1.5
	0.0	2.5	0.0	0.0	2.5
Rental income from affiliated companies	0.0	293.3	0.0	(293.3)	0.0
	0.0	280.1	0.0	(280.1)	0.0
EBIT	**220.8**	**90.6**	**(21.8)**	**(0.3)**	**289.3**
	185.7	94.3	(21.4)	0.0	258.6
of which: depreciation and amortization/write-ups	57.7	195.3	9.2	0.0	262.2
	52.5	183.3	10.2	0.0	246.0
Segment earnings (adjusted EBIT)	**222.4**	**114.4**	**(21.8)**	**(0.3)**	**314.7**
	187.0	113.2	(21.4)	0.0	278.8
Segment assets	**1,622.6**	**2,254.5**	**176.7**	**0.0**	**4,053.9**
	1,340.3	2,138.2	268.9	0.0	3,747.4
of which: credit balances at banks	143.4	0.0	105.5	0.0	248.8
	102.0	0.0	196.8	0.0	298.8
Investments[1]	**67.8**	**306.9**	**10.8**	**0.0**	**385.5**
	53.2	213.5	8.1	0.0	274.8
Segment liabilities	**631.3**	**1,664.4**	**305.9**	**0.0**	**2,601.6**
	542.4	1,630.1	302.1	0.0	2,474.6
of which financial debt and lease liabilities	0.0	1,635.6	250.0	0.0	1,885.6
	0.0	1,612.2	247.6	0.0	1,859.8

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

Reconciliation EBIT <> adjusted EBIT in € million	2021/22	2020/21
EBIT	**289.3**	**258.6**
Impairment of assets (IAS 36)[1)]	26.8	18.6
Result from sale or valuation of non-operating real-estate	(1.3)	0.0
Other	0.0	1.6
Segment earnings (adjusted EBIT)	**314.7**	**278.8**

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

Reconciliation in € million	2021/22	2020/21
Segment earnings (adjusted EBIT)	**314.7**	**278.8**
Non-operating items	(25.5)	(20.2)
Net financial expenses	(52.7)	(58.4)
Consolidated earnings before taxes	**236.6**	**200.2**
Segment assets	**4,053.9**	**3,747.4**
Deferred tax assets	26.7	11.3
Income tax receivables	3.8	6.5
Total assets	**4,084.4**	**3,765.2**
Segment liabilities	**2,601.6**	**2,474.6**
Deferred tax liabilities	9.2	10.4
Income tax liabilities	36.5	25.2
Total liabilities	**2,647.3**	**2,510.2**

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.

2021/22 in € million 2020/21 in € million	Germany	Other European countries	Consolidation	HORNBACH Baumarkt AG Group
Sales	**3,186.4**	**2,715.7**	**(406.0)**	**5,496.1**
	3,020.8	2,463.0	(366.9)	5,116.9
Sales to third parties	2,780.8	2,713.9	0.0	5,494.6
	2,654.3	2,460.2	0.0	5,114.5
Sales to affiliated companies	405.4	0.5	(406.0)	0.0
	366.3	0.5	(366.8)	0.0
Rental income from third parties	0.1	1.3	0.0	1.5
	0.2	2.3	0.0	2.5
EBIT	**74.1**	**215.5**	**(0.3)**	**289.3**
	70.8	187.9	(0.1)	258.6
Depreciation and amortization/write-ups	151.8	110.3	0.0	262.2
	141.3	104.7	0.0	246.0
Segment earnings (adjusted EBIT)	**92.2**	**222.8**	**(0.3)**	**314.7**
	82.8	196.0	0.0	278.8
EBITDA	**225.9**	**325.8**	**(0.3)**	**551.4**
	212.1	292.6	(0.1)	504.6
Assets	**2,570.4**	**1,916.0**	**(432.5)**	**4,053.9**
	2,372.8	1,724.3	(349.7)	3,747.4
of which: non-current assets [1)]	1,185.7	1,295.4	(0.2)	2,481.0
	1,175.0	1,172.1	(0.2)	2,346.9
Investments[2)]	**167.3**	**218.3**	**(0.1)**	**385.5**
	162.2	112.6	0.0	274.8

[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 € 1,458k (2020/21: € 2,453k) from the letting of real estate has also been reported under sales.

Sales include revenues of € 37,981k which were recognized at the beginning of the period as contract liabilities (2020/21: € 28,607k). Furthermore, these also include retrospective sales of € 8,037k for performance obligations pursuant to IFRS 15 that were satisfied in previous years (2020/21: € 3,117k).

The following table presents the breakdown of sales by segment:

External sales 21/22 in € million	Retail	Real Estate	Group figure
of which: Germany	2,780.8	0.1	2,780.9
of which: Other European Countries	2,713.9	1.3	2,715.2
	5,494.6	**1.5**	**5,496.1**

External sales 20/21 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**

(2) Cost of goods sold

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

	2021/22 € 000s	2020/21 € 000s
Expenses for auxiliary materials and purchased goods	3,392,883	3,146,341
Expenses for services rendered	139,177	131,873
	3,532,060	**3,278,214**

(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:

	2021/22 € 000s	2020/21 € 000s
Other income from operating activities		
Income from damages	2,513	2,503
Income from allocations within the HORNBACH HOLDING Group	2,358	1,992
Income from advertising allowances and other reimbursements of suppliers	1,309	1,236
Income from payment differences	1,301	861
Income from disposal of non-current assets	1,187	1,014
Miscellaneous other income	17,774	16,054
	26,442	**23,660**
Other income from non-operating activities		
Income from disposal of real estate	760	0
Income from write-ups to property, plant, and equipment and investment property	535	0
Other income	**27,737**	**23,660**

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.

	2021/22 € 000s	2020/21 € 000s
Other expenses from operating activities		
Losses due to damages	2,561	2,708
Impairments and defaults on receivables	2,467	1,787
Losses on disposal of non-current assets	543	518
Expenses from payment differences	56	170
Miscellaneous other expenses	3,519	3,146
Other expenses	**9,146**	**8,329**
Net balance (income) of other income and expenses	**18,591**	**15,331**

(7) Net financial expenses

	2021/22 € 000s	2020/21 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	196	222
Interest income from compounding of provisions	495	172
Other	2	147
	693	541
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	12,345	12,642
Interest expenses for lease liabilities measured at amortized cost	43,734	42,061
of which: to affiliated companies	17,658	17,350
Interest expenses from compounding of provisions	51	32
Other	1,293	1,383
of which: to affiliated companies	37	37
	57,423	**56,118**
Net interest expenses	**(56,731)**	**(55,577)**
Other financial result		
Gains/losses on derivative financial instruments	2,517	(2,957)
Gains and losses from foreign currency exchange	1,235	179
Income from investments	306	0
	4,058	**(2,778)**
Net financial expenses	**(52,672)**	**(58,355)**

The other interest income stated for the previous year mainly included interest income of € 145k on tax refund claims.

In line with IFRS 16 “Leases”, the interest component of the lease instalments, amounting to € 43,734k (2020/21: € 42,061k) is recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,070k in the year under report (2020/21: € 1,956k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. The average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 2.5 % (2020/21: 2.3 %).

The gains and losses from foreign currency exchange for the 2021/22 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net income of € 498k (2020/21: net income of € 1,964k). Furthermore, this item also includes realized exchange rate gains of € 7,142k (2020/21: € 6,211k) and realized exchange rate losses of € 6,405k (2020/21: € 7,997k).

(8) Taxes on income

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

The German companies included in the HORNBACH Baumarkt AG Group are subject to an average trade tax rate of approximately 14.0 % of their trading income (2020/21: 13.9 %). 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 % (2020/21: 8.5 % to 27.2 %).

The actual income tax charge of € 47,646k (2020/21: € 47,108k) is € 23,331k lower (2020/21: € 12,966k) than the expected tax charge of € 70,977k (2020/21: € 60,074k) which would have been payable by applying the average tax rate of 30 % at the HORNBACH Baumarkt AG Group (2020/21: 30 %) to the Group's pre-tax earnings of € 236,589k (2020/21: € 200,246k).

Deferred tax assets have been stated for losses carried forward amounting to € 22,062k (2020/21: € 78k). The HORNBACH Baumarkt AG Group 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 € 13,098k (2020/21: € 43,842k), 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 € 7,031k for which no deferred taxes had been recognized were utilized (2020/21: € 6,940k).

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 € 601,048k at subsidiaries (2020/21: € 532,658k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of tax charge:

	2021/22 € 000s	2020/21 € 000s
Current taxes on income		
Germany	26,435	16,082
Other countries	39,019	35,156
	65,454	**51,238**
Deferred tax expenses/income		
due to changes in temporary differences	(11,770)	(6,700)
due to changes in tax rates	0	(432)
due to losses carried forward	(6,038)	3,002
	(17,808)	(4,130)
Taxes on income	**47,646**	**47,108**

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

	2021/22		2020/21	
	€ 000s	%	€ 000s	%
Expected income tax charge	70,977	100.0	60,074	100.0
Difference between local tax rate and group tax rate	(17,580)	(24.8)	(15,811)	(26.3)
Tax-free income	(708)	(1.0)	(1,019)	(1.7)
Tax reductions/increases due to changes in tax rates	0	0.0	(432)	(0.7)
Tax increases attributable to expenses not deductible for tax purposes	5,191	7.3	4,783	8.0
Tax effects on losses carried forward	(1,448)	(2.0)	(1,485)	(2.5)
Non-period current and deferred taxes	(8,786)	(12.4)	998	1.7
Taxes on income	**47,646**	**67.1**	**47,108**	**78.5**
Effective tax rate in %	20.1		23.5	

The non-period current tax income of € 2,768k (2020/21: tax expenses of € 1,810k) chiefly results from the reversal of income tax provisions (2020/21: € 1,900k).

The non-period deferred tax income of € 6,018k (2020/21: tax income of € 812k) chiefly results from the recognition of deferred tax assets for loss carryovers in Sweden that were previously not deemed utilizable.

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

	2021/22 € 000s	2020/21 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	5,440	6,207
Change in deferred taxes	(983)	(1,038)
	4,457	**5,169**
Measurement of financial assets		
Measurement of equity instruments	2,264	(3,745)
Change in deferred taxes	(34)	56
	2,230	**(3,689)**
Exchange differences arising on the translation of foreign subsidiaries	**14,715**	**(9,911)**
Other comprehensive income, net after taxes	**21,402**	**(8,431)**
of which: other comprehensive income before taxes	22,419	(7,449)
of which: change in deferred taxes	(1,017)	(982)

(9) Earnings per share

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

The number of shares issued increased by 5,050 in the 2021/22 financial year. On the one hand, 5,240 shares that were not called up in the previous year's employee stock program were used in the 2021/22 employee stock program. On the other hand, 190 shares in the 2021/22 employee stock program were not called up and are therefore in the company's possession.

	2021/22	2020/21
Weighted number of shares issued	31,806,810	31,801,760
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG (in €)	188,943,561	153,137,842
Earnings per share in €	**5.94**	**4.82**

(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:

2021/22 financial year € 000s	Impairments due to IAS 36 impairment tests [1]	Result from sale or valuation of non-operating real-estate	Cancellation of projects	Other	Total
Selling and store expenses	(26,770)	0	0	0	(26,770)
Pre-opening expenses	0	0	0	0	0
Other income and expenses	0	1,295	0	0	1,295
	(26,770)	**1,295**	**0**	**0**	**(25,476)**

2020/21 financial year € 000s	Impairments due to IAS 36 impairment tests [1]	Result from sale or valuation of non-operating real-estate	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)
	(18,555)	**0**	**(574)**	**(1,068)**	**(20,197)**

[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:

	2021/22 € 000s	2020/21 € 000s
Wages and salaries	748,291	718,724
Social security contributions and pension expenses	164,915	155,590
	913,206	**874,314**

Special items (due among other factors to COVID-19, Russia-Ukraine conflict)

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 countermeasures relating to the COVID-19 pandemic.

The annual impairment tests required irrespective of specific events were conducted in the 4th quarter. Due to the existence of a triggering event, these were supplemented by an event-specific impairment test. The increase in the cost of capital (WACCs) in connection with the Russia-Ukraine conflict was classified as a triggering event pursuant to IAS 36. The amended parameters newly referred to in the impairment test resulted in the identification of an impairment requirement of € 26,770k (2020/21: € 18,555k). Further information about the impairment test can be found in Note 12.

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. Furthermore, the sales performance in some of the regions in which the company operates were also affected by pandemic-related restrictions on sales activities, particularly in the first and fourth quarters. However, the effects of these restrictions were largely offset by online retail and click & collect sales. Further information can be found in the Group Management Report.

Government grants

HORNBACH received government grants in those countries affected by lockdown measures in the financial year under report. Grants totaling € 1,674k were recognized across the Group in the period under report (2020/21: € 4,328k). 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

The management decided to pay bonuses to acknowledge the commitment shown by company employees during the pandemic in the year under report. The expenses recognized in the period under report amount to € 4,778k (2020/21: € 13,491k). These outlays were allocated to the respective functional expenses.

Other COVID-19-related income and expenses

The measures required to protect our customers and employees and to uphold stationary sales include commissioning security firms and additional temporary employees, as well as extensive disinfection and hygiene measures. The resultant expenses amounted to € 6,142k at the reporting date (2020/21: € 17,688k). These outlays were allocated to the respective functional expenses.

Depreciation and amortization

	2021/22 € 000s	2020/21 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment, investment property, and right-of-use assets	235,927	226,389
Impairment of intangible assets, property, plant, and equipment, investment property, and right-of-use assets	26,770	19,623
	262,697	**246,012**

The impairment losses recognized in the 2021/22 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:

2021/22 financial year	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	45	68,014	180,681	248,740
Pre-opening expenses	0	27	11	39
General and administration expenses	4,032	7,627	2,258	13,918
	4,078	**75,668**	**182,950**	**262,697**

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
Other income and expenses	0	0	0	0
	3,914	**73,410**	**168,688**	**246,012**

Notes to Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2020/21 and 2021/22 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, 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/March 1, 2021	**94,615**	**3,271**	**504**	**98,390**
Additions	5,754	0	1,186	6,940
Disposals	133	0	0	133
Reclassifications	294	0	(289)	5
Foreign currency translation	12	0	0	12
Balance at February 28, 2022	**100,542**	**3,271**	**1,401**	**105,214**
Amortization				
Balance at March 1, 2020	95,893	0	0	95,893
Additions	3,914	0	0	3,914
Disposals	18,377	0	0	18,377
Reclassifications	0	0	0	0
Foreign currency translation	(8)	0	0	(8)
Balance at February 28/March 1, 2021	**81,422**	**0**	**0**	**81,422**
Additions	4,078	0	0	4,078
Disposals	133	0	0	133
Foreign currency translation	12	0	0	12
Balance at February 28, 2022	**85,379**	**0**	**0**	**85,379**
Carrying amount at February 28,2022	15,163	3,271	1,401	19,836
Carrying amount at February 28,2021	**13,193**	**3,271**	**504**	**16,969**

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 2021/22 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 amounted to 9.5 % and 9.7 % (2020/21: 8.9 %). 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. 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 2020/21 and 2021/22 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, 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/March 1, 2021	**1,284,804**	**1,533,177**	**10,841**	**718,191**	**55,769**	**3,602,783**
Reclassifications to/from non-current assets held for sale	0	0	(1,414)	0	0	(1,414)
Additions	62,607	217,459	0	61,302	37,195	378,563
Disposals	605	10,050	2,256	27,199	0	40,110
Reclassifications pursuant to IAS 40	(6,980)	0	6,980	0	0	0
Reclassifications	20,396	2,225	0	6,163	(28,789)	(5)
Foreign currency translation	17,024	3,008	(4)	3,373	909	24,310
Balance at February 28, 2022	**1,377,246**	**1,745,819**	**14,147**	**761,830**	**65,084**	**3,964,127**
Depreciation						
Balance at 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/March 1, 2021	**346,358**	**357,405**	**2,985**	**567,327**	**0**	**1,274,076**
Additions	25,349	182,950	135	50,185	0	258,619
Write-ups	0	0	(535)	0	0	(535)
Disposals	0	8,604	432	25,811	0	34,847
Reclassifications pursuant to IAS 40	(2,056)	0	2,056	0	0	0
Foreign currency translation	3,402	596	0	2,640	0	6,638
Balance at February 28, 2022	373,053	532,347	4,208	594,341	0	1,503,951
Carrying amount at February 28, 2022	**1,004,194**	**1,213,472**	**9,939**	**167,489**	**65,084**	**2,460,178**
Carrying amount at February 28, 2021	**938,446**	**1,175,772**	**7,856**	**150,864**	**55,769**	**2,328,707**

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

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

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m²)	3.75 €	8.50 €
Outside area (€/m²)	0.50 €	0.94 €
Maintenance costs (€/m²)	1.25 €	4.24 €
Real estate interest rate	5.4 %	7.3 %

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 2021/22 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 eleven stores, which each constitute cash generating units, in the Germany region, at one store in Sweden, at one store in Romania, and at one store in Switzerland. These items were written down by € 1,670k to their net realizable values, which were determined by reference to Level 3 input data. Furthermore, write-downs of € 25,100k 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 5.8 % and 10.8 %. The total recoverable amount for these locations amounts to € 250,955k.

In the previous year, impairment requirements were identified 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.

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

€ 000s	2021/22	2020/21
Retail segment		
Other equipment, plant, and office equipment	1,670	1,269
	1,670	**1,269**
Real Estate segment		
Land	0	1,068
Right-of-use assets	25,100	17,286
	25,100	**18,354**
Total	**26,770**	**19,623**

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

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

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

Investment property mainly relates to retail properties at various locations in Germany. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to around € 10.7 million (2020/21: € 11.2 million). The fair values have been determined by independent external surveyors, who generally calculate the capitalized earnings value pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). The calculation is based on Level 3 input data. Key input factors include future rental income, the property rate, and operating costs. Application is also made of the comparative value method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

In the year under report, a write-up of € 535k was recognized on land not required for operations in the Real Estate segment. This related to the write-back of impairment losses recognized in previous years.

Rental income of € 999k was generated on properties let to third parties in the year under report (2020/21: € 472k). Expenses of € 313k were incurred for the maintenance of the properties let to third parties (2020/21: € 359k). Expenses of € 59k were incurred for all other items of investment property (2020/21: € 60k).

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, 2022.

(13) Leases

The leases for which the right-of-use assets are recognized (see Note 12) developed as follows in the 2021/22 financial year:

2021/22 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, 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**
Carrying amount at March 1, 2021	**1,169,730**	**6,042**	**1,175,772**
Additions	210,261	9,423	219,684
Depreciation	173,946	9,004	182,950
Disposals	1,344	102	1,446
Foreign currency translation	2,424	(12)	2,412
Carrying amount at February 28, 2022	**1,207,126**	**6,346**	**1,213,472**

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 20 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, 2022, the contract portfolio comprises 210 property lease agreements (2020/21: 198). The weighted remaining term of this portfolio amounts to 9.5 years (2020/21: 9.4 years). The weighted remaining term of leases for plant and office equipment amounts to 2.0 years (2020/21: 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 € 86,924k (2020/21: € 112,372k).

The following amounts were recognized in the income statement and the cash flow statement in the 2021/22 financial year:

	2021/22 € 000s	2020/21 € 000s
Sales / other operating income		
Income from operating lease contracts	2,783	3,396
Income from sublease contracts	3,228	3,078
Other income from real estate lease contracts (service charge)	940	1,253
Selling and store expenses / pre-opening expenses / general and administration expenses		
Expenses for short-term lease contracts	4,442	4,175
Expenses for leases involving low-value assets	1,468	1,361
Other expenses for real estate lease contracts (service charge)	8,274	7,662
Depreciation and amortization		
Depreciation of right-of-use assets	157,850	151,402
of which: for lease contracts with affiliated companies	62,445	63,994
Impairment of right-of-use assets	25,100	17,286
of which: for lease contracts with affiliated companies	13,750	2,770
Net financial expenses		
Interest expenses for lease liabilities	43,734	42,061
of which: for lease contracts with affiliated companies	17,658	17,350
Outflow of cash in connection with leases	**214,524**	**203,948**

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	2021/22		2020/21	
	Nominal value	Present value	Nominal value	Present value
Maturity < 1 year	193,927	152,134	182,085	139,735
Maturity 2 - 5 years	738,878	622,621	697,985	579,692
Maturity > 5 years	639,030	562,800	623,547	549,298
	1,571,835	**1,337,555**	**1,503,617**	**1,268,724**

The receivables of € 7,835 from operating lease contracts (2020/21: € 7,893k) mainly relate to retail properties let to third parties, open space, and office space. The contracts generally have terms of up to 15 years. There are no purchase options on the part of the lessees. In individual cases, the contracts include provisions governing extension options.

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

Rental income from third parties € 000s	Maturities 1 year	2 years	3 years	4 years	5 years	> 5 years	Total
February 28, 2022	4,390	1,882	709	397	238	218	7,835
February 28, 2021	3,709	1,853	1,388	499	183	261	7,893

(14) Financial assets

The development in financial assets in the 2020/21 and 2021/22 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2020	10,483	10,483
Measurement of financial assets (FVtOCI)	(3,745)	(3,745)
Balance at February 28, 2021	**6,738**	**6,738**
Measurement of financial assets (FVtOCI)	2,264	2,264
Balance at February 28, 2022	**9,002**	**9,002**
Carrying amount at February 28, 2022	**9,002**	**9,002**
Carrying amount at February 28, 2021	6,738	6,738

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

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

(15) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of accruals of € 945k with a remaining term of more than one year (2020/21: € 1,246k).

(16) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2022 Assets € 000s	2.28.2022 Liabilities € 000s	2.28.2021 Assets € 000s	2.28.2021 Liabilities € 000s
Intangible assets and property, plant, and equipment	923	28,421	757	29,010
Leases	32,996	269	22,543	383
Inventories	1,144	4,509	534	4,614
Other provisions	11,962	18	10,904	19
Liabilities	879	519	1,228	604
Other assets and liabilities	760	2,043	1,379	1,839
Losses carried forward	4,545	0	19	0
	53,209	**35,779**	**37,364**	**36,469**
Set-off	(26,550)	(26,550)	(26,078)	(26,078)
Total	**26,659**	**9,228**	**11,286**	**10,391**

(17) Inventories

	2.28.2022 € 000s	2.28.2021 € 000s
Auxiliary materials and supplies	2,639	2,378
Finished products and merchandise	1,188,413	956,914
Inventories (gross)	1,191,052	959,292
less valuation allowances	21,774	14,731
Inventories (net)	1,169,278	944,561
Carrying amount of inventories measured at net realizable value	46,075	46,078

Expenses of € 3,370,780k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2021/22 financial year (2020/21: € 3,131,918k).

(18) Trade receivables and other current assets

These comprise the following items:

	2.28.2022 € 000s	2.28.2021 € 000s
Trade receivables	14,813	13,367
Receivables from affiliated companies	1,420	1,262
Contract assets	1,576	1,231
Positive fair values of derivative financial instruments	603	666
Other receivables and assets	84,064	97,616
	102,476	**114,142**

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 € 2,699k (2020/21: € 2,390k) assigned within factoring agreements that have not been derecognized as all of the credit risk remains at the HORNBACH Baumarkt AG Group. A corresponding liability has been recognized in the same amount. For these receivables, the business model involves selling these assets; in view of this, these receivables are measured at fair value. Given the short-term nature of the relevant receivables and the corresponding liability, their fair values are basically equivalent to their carrying amounts.

Furthermore, the Group has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 48k (2020/21: € 41k) 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 € 3,177k as of February 28, 2022 (2020/21: € 2,373k) 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

2021/22 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 481k (2020/21: € 409k).

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

Other receivables and assets mainly consist of receivables in connection with pledged funds, receivables from credit card companies, deferred charges and prepaid expenses, credit notes for goods, bonus agreements, and tax refund claims. This item also includes recourse claims of € 4,925k for expected returns. In the previous year, recourse claims for expected returns amounted to € 11,642k, with this being due to the lockdown measures in the 4th quarter.

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	
	2021/22	2020/21	2021/22	2020/21
Allowances at March 1	**1,506**	**1,864**	**349**	**589**
Utilization	81	761	65	248
Reversals	584	529	90	142
Additions	1,501	938	255	150
Foreign currency translation	4	(6)	(1)	0
Allowances at February 28	**2,346**	**1,506**	**448**	**349**

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 € 1,396k depending on the term and in the range 0.43 % - 2.24 % (2020/21: € 900k in the range: 0.47 % - 1.69 %) and individual allowances of € 950k recognized due to objective indications or payment difficulties (2020/21: € 605k).

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 € 246k due to objective indications (2020/21: € 217k) and further individual allowances of € 130k depending on the extent to which the receivables are overdue (2020/21: € 60k). The risk provision for contract assets is based on the simplified allowance model and, at the end of the financial year, amounted to € 72k (2020/21: € 71k).

The complete derecognition of receivables resulted in expenses of € 727k (2020/21: € 699k). The receipt of receivables already derecognized resulted in income of € 25k (2020/21: € 13k).

In the 2021/22 financial year, there were no material balances of derecognized receivables subject to execution proceedings.

(19) Cash and cash equivalents

	2.28.2022 € 000s	2.28.2021 € 000s
Cash balances at banks	248,838	298,835
Checks and cash on hand	41,431	35,762
	290,269	334,596

(20) Non-current assets held for sale and disposal groups

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

In the 2021/22 financial year, one piece of land with a carrying amount of € 1,414k was reclassified out of the balance sheet item "Investment properties".

No assets were classified out of non-current assets in the previous 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 2020/21 and 2021/22 financial years.

Share capital

The Annual General Meeting held on July 7, 2021 resolved the creation of authorized capital in line with the following provisions:

- The Board of Management is authorized until July 6, 2026, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 45,000,000.00 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 2021). 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 6, 2021, the employees of HORNBACH Baumarkt AG and its foreign subsidiaries were offered employee shares. A total of 52,770 shares were acquired via the stock exchange. Of these, 5,240 shares were already acquired in the 2020/21 financial year. Employees were assigned 52,580 shares. The company held the remaining 190 shares as treasury stock as of the balance sheet date. The 52,580 shares ceded to employees were acquired at an average price of € 35.73 and subsequently assigned at a price of € 18.00. An amount of € -167k 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 40,410 shares were assigned to employees of HORNBACH Baumarkt AG, while 12,170 shares were assigned to employees of subsidiaries.

WpHG voting right notifications / notifications pursuant to § 20 AktG

§ 33 (1) of the German Securities Trading Act (WpHG) requires shareholders of publicly listed companies 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 was in the 2021/22 financial year 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, 2021 to February 28, 2022.

Since the conclusion of February 28, 2022, HORNBACH Baumarkt AG has no longer been publicly listed. The company has since been subject to § 20 AktG. Under § 20 (1) AktG, companies owning more than one quarter of the shares in a stock corporation that is not publicly listed are required to notify the company of such circumstance in writing without delay. As soon as a company owns a majority shareholding (§ 16 (1) AktG) in the stock corporation that is not publicly listed, it is also required notify the company of such circumstance in writing without delay pursuant to § 20 (4) AktG. HORNBACH Baumarkt AG is in turn obliged pursuant to § 20 (6) Sentence 1 AktG to publish the existence of any shareholding of which it has been notified under § 20 (1) (4) AktG without delay in its company gazettes.

Subsequent to the balance sheet date, HORNBACH Baumarkt AG received and published three notifications. Publications by HORNBACH Baumarkt AG pursuant to § 20 (6) AktG are made in the Federal Official Gazette (*Bundesanzeiger*) and may be consulted there.

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 2021/22 financial year. The equity ratio amounted to 35.2 % as of February 28, 2022 (2020/21: 33.3 %).

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 2021/22 financial year with an annual net surplus of € 179,257,047.15.

Including the earnings of € 4,716.00 carried forward from the previous year, the unappropriated net profit amounts to € 179,261,763.15.

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, 2022 be appropriated as follows:

	€
Dividend of € 0.90 on 31,806,810 shares	28,626,129.00
Balance to be carried forward	150,635,634.15
	179,261,763.15

By resolution of the Annual General Meeting held on July 7, 2021, a dividend of € 0.90 (2020/21: € 0.68) per share was distributed on a total of 31,801,760 (2020/21: 31,807,000) individual shares in the 2021/22 financial year. The total amount distributed thus amounted to € 28,622k (2020/21: € 21,629k).

(23) Financial debt

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

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2022 Total
Bonds		247,663		247,663
Liabilities to banks	3,479	294,583		298,062
Lease liabilities	152,133	622,621	562,800	1,337,554
Negative fair values of derivative financial instruments	2,293			2,293
Total	**157,905**	**1,164,867**	**562,800**	**1,885,572**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2021 Total
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**

The HORNBACH Baumarkt AG Group had current financial debt amounting to € 157.9 million at the balance sheet date on February 28, 2022 (2020/21: € 189.2 million). This consists of the portion of loans and bonds maturing in the short term, amounting to € 0.0 million (2020/21: € 45.5 million), lease liabilities of € 152.1 million (2020/21: € 139.7 million), liabilities of € 2.3 million relating to the measurement of derivative financial instruments (2020/21: € 0.5 million), and interest deferrals of € 3.5 million (2020/21: € 3.5 million).

The interest of € 2.8 million accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2020/21: € 2.8 million).

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**

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

2021/22 financial year	Currency	Interest agreement in %	Maturity	Amount 2.28.2022 € 000s
Loans	EUR	1.13 to 2.00	2023 to 2026	294,583
				294,583

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

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

As of February 28, 2022, the HORNBACH Baumarkt AG Group had total credit lines of € 393.3 million (2020/21: € 387.9 million) on customary market terms. Unutilized credit lines amounted to € 383.0 million (2020/21: € 380.3 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 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, 2022, 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	3.1.2021	Cash-effective changes		Non-cash changes			**2.28.2022**
			of which: interest included in cash flow from operating activities	Foreign currency translation	Changes in fair values	Other changes	
Bonds	247,154	(8,125)	8,125	0	0	509	247,663
Liabilities to banks	343,433	(53,889)	5,516	(618)	0	3,620	298,062
Liabilities in connection with finance leases	1,268,724	(194,023)	43,807	3,013	0	216,033	1,337,554
Financial and similar liabilities	**1,859,311**	**(256,037)**	**57,448**	**2,395**	**0**	**220,162**	**1,883,278**

Reconciliation pursuant to IAS 7 in € 000s	1.3.2020	Cash-effective changes		Non-cash changes			2.28.2021
			of which: interest included in cash flow from operating activities	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**	**1,859,311**

(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 € 68,462k in the 2021/22 financial year (2020/21: € 63,318k). Of this total, an amount of € 36,695k involved the employer's share of contributions to the state pension scheme in Germany (2020/21: € 33,657k).

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 € 6,686k in the 2022/23 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 1,090 beneficiaries.

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

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

- **Germany**

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

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

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

Pensions and similar obligations are structured as follows:

	2021/22 € 000s	2020/21 € 000s
Present value of pension obligation	97,522	91,135
less fair value of plan assets	(85,453)	(72,040)
Asset ceiling	584	0
Pension commitments as reported in balance sheet	**12,653**	**19,095**
of which: pension provisions	12,653	19,095

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

	2.28.2022 %	2.28.2021 %
Debt securities	64.5	59.1
Shares	6.2	8.9
Real estate	15.8	14.7
Other	13.5	17.3
	100.0	**100.0**

Change in pension obligation

	2021/22 € 000s	2020/21 € 000s
Present value of pension obligation at the beginning of the period	91,135	94,404
Current service cost of employer	5,976	5,859
Past service cost	(1,836)	(269)
Employee contributions	4,459	3,561
Payments from the plan	860	(1,923)
Interest cost	(72)	(76)
Actuarial gains/losses due to:		
Changes in demographic assumptions	0	(5,280)
Changes in financial assumptions	(11,297)	(2,588)
Experience adjustments	6,118	1,793
Insurance premiums	(2,419)	(1,664)
Foreign currency translation	4,599	(2,681)
Present value of pension obligation at the end of the period	**97,522**	**91,135**

Change in plan assets

	2021/22 € 000s	2020/21 € 000s
Plan assets at beginning of period	72,040	70,170
Employer contributions	6,332	4,471
Employee contributions	4,459	3,561
Payments from the plan	860	(1,923)
Interest income	(88)	(60)
Return on plan assets (excluding income recognized in net interest expenses)	975	(718)
Insurance premiums	(2,419)	(1,664)
Foreign currency translation	3,293	(1,797)
Plan assets at the end of the period	**85,453**	**72,040**

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.

	2021/22 € 000s	2020/21 € 000s
Current service cost of employer	5,976	5,859
Past service cost	(1,836)	(269)
Interest cost	(72)	(76)
Interest income	88	60
Effects recognized in P&L	**4,156**	**5,574**
Actuarial gains/losses due to:		
Changes in demographic assumptions	0	5,280
Changes in financial assumptions	11,297	2,588
Experience adjustments	(6,118)	(1,793)
Return on plan assets (excluding income recognized in net interest expenses)	975	(718)
Asset ceiling	(584)	0
Effects recognized in OCI	**5,570**	**5,358**
Costs for defined benefit plans	**(1,415)**	**216**

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:

	2021/22 € 000s	2020/21 € 000s
Selling and store expenses	2,740	4,105
Pre-opening expenses	154	14
General and administration expenses	1,245	1,472
Net interest expenses	16	(16)
	4,156	**5,574**

Actuarial assumptions

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

	2.28.2022		2.28.2021	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.9 %	0.8 % to 1.2 %	0.1 %	(0.1 %) to 0.1 %
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 2020 Generationentafel (CMI)".

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	2.28.2022		2.28.2021	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,683)	2,886	(2,825)	3,054
Rate of pension increase (0.10 basis points change)	645	n/a	671	n/a
Mortality (+ 1 year)	1,204	n/a	1,347	n/a

Future cash flows

Payments of contributions amounting to € 5,563k are expected for the 2022/23 financial year.

Expected payments	2.28.2022 € 000s
2022/2023	7,366
2023/2024	3,783
2024/2025	3,622
2025/2026	3,523
2026/2027	4,570
2027 to 2031	18,725

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

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 46,854k (2020/21: € 38,252k). These include provisions of € 20,508k (2020/21: € 17,017k) for contractually assumed structural maintenance obligations and personnel provisions of € 24,578k (2020/21: € 18,774k). 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), anniversary bonus claims, part-time early retirement obligations, and long-term remuneration claims for the Board of Management. Further information about the severance payment obligation can be found at the end of this chapter.

The development in provisions is presented in Note 28.

Severance payments

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

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

Change in pension obligation and costs of plan

	2021/22 € 000s	2020/21 € 000s
Present value of pension obligation at the beginning of the period	5,880	6,733
Current service cost of employer	264	320
Payments from the plan	(446)	(354)
Interest cost	16	30
Actuarial gains/losses due to:		
Changes in financial assumptions	(167)	(838)
Experience adjustments	299	(11)
Present value of pension obligation at the end of the period	**5,845**	**5,880**

	2021/22 € 000s	2020/21 € 000s
Current service cost of employer	264	320
Interest cost	16	30
Effects recognized in P&L	**280**	**350**
Actuarial gains/losses due to:		
Changes in financial assumptions	167	838
Experience adjustments	(299)	11
Effects recognized in OCI	**(132)**	**849**
Total costs for the plan	**412**	**(499)**

The average remaining term of the obligation amounts to 13.4 years (2020/21: 13.0 years).

Actuarial assumptions and sensitivity analysis

	2.28.2022	2.28.2021
Discount interest rate	1.0 %	0.3 %
Future salary increases	2.3 %	1.8 %

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	2.28.2022		2.28.2021	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(358)	392	(366)	402
Future rate of salary increase (0.25 basis points change)	188	(181)	558	(184)

(26) Trade payables and other current liabilities

	2.28.2022 € 000s	2.28.2021 € 000s
Trade payables	382,922	293,089
Liabilities to affiliated companies	60	48
Contract liabilities	52,704	44,133
Other liabilities	99,266	91,094
of which: other taxation	28,556	22,574
of which: social security contributions	7,016	6,341
	534,952	**428,364**

Trade payables, liabilities to affiliated companies, 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 € 8,124k (2020/21: € 18,344k), 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 € 36,464k for current income taxes, an amount of € 12,793k relates to Germany and € 23,671k to the other countries.

The income tax receivables of € 3.8 million (2020/21: € 6.5 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 2021/22 financial year:

€ 000s	Opening balance at 3.1.2021	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2022	of which: non-current
Other provisions								
Personnel	18,774	1,820	0	8,098	(494)	20	24,578	24,578
Miscellaneous	20,857	1,632	1,188	5,096	18	168	23,318	22,276
	39,631	**3,452**	**1,188**	**13,194**	**(476)**	**188**	**47,897**	**46,854**
Accrued liabilities								
Other taxes	1,417	594	32	1,261	0	(31)	2,021	0
Personnel	94,884	77,883	2,666	74,784	0	305	89,424	0
Miscellaneous	30,092	26,570	2,379	26,722	0	123	27,987	0
	126,393	**105,046**	**5,077**	**102,767**	**0**	**396**	**119,432**	**0**
	166,023	**108,498**	**6,266**	**115,961**	**(476)**	**584**	**167,328**	**46,854**

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, 2022.

(30) Other financial obligations

€ million	Maturities			2.28.2022
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Purchase obligations for investments	139.8	0.0	0.0	139.8
Software rental / licenses	12.2	17.3	2.4	31.9
Miscellaneous financial obligations	2.5	0.0	0.0	2.5
	154.5	**17.3**	**2.4**	**174.2**

€ million	Maturities			2.28.2021
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
Purchase obligations for investments	120.3	0.0	0.0	120.3
Software rental / licenses	13.7	11.3	0.0	25.0
Miscellaneous financial obligations	2.6	0.2	0.0	2.8
	136.6	**11.5**	**0.0**	**148.1**

The miscellaneous 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, 2022:

€ 000s	Category	Carrying amount 2.28.2022	Fair value 2.28.2022	Carrying amount 2.28.2021	Fair value 2.28.2021
Assets					
Financial assets	FVtOCI	9,002	9,002	6,738	6,738
Trade receivables	AC	13,323	13,323	12,238	12,238
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	2,909	2,909	2,390	2,390
Contract assets	AC	1,576	1,576	1,231	1,231
Other current and non-current assets					
Derivatives without hedge relationship	FVtPL	603	603	666	666
Other assets	AC	56,449	56,449	66,816	66,816
Cash and cash equivalents	AC	290,269	290,269	334,596	334,596
Equity and liabilities					
Financial debt					
Bonds	AC	247,663	258,938	247,154	268,038
Liabilities to banks	AC	298,062	303,448	343,433	353,700
Lease liabilities	n/a	1,337,554	n/a	1,268,724	n/a
Derivatives without hedge relationship	FVtPL	2,293	2,293	495	495
Trade payables	AC	382,982	382,982	293,136	293,136
Other current and non-current liabilities	AC	60,724	60,724	28,416	28,416
Accrued liabilities	AC	27,986	27,986	30,091	30,091

The interest of € 2,827k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2020/21: € 2,846k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 29,012k (2020/21: € 32,505k), other current and non-current liabilities of € 139,229k (2020/21: € 115,124k), and accrued liabilities of € 91,445k (2020/21: € 96,301k).

Aggregate totals by measurement category € 000s	Carrying amount 2.28.2022	Carrying amount 2.28.2021
Amortized cost (AC) financial assets	361,617	414,881
FVtOCI	9,002	6,738
FVtPL	3,513	3,056
Amortized cost (AC) financial liabilities	1,017,417	942,230
FVtPL	2,293	495

Cash and cash equivalents, trade receivables, other assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date.

Financial assets in the "FVtOCI" category mainly include a ten-percent company shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic. This company lets out several DIY store properties and is not publicly listed. Its fair value has largely been determined by reference to Level 3 input data. To calculate the fair value, application was made of the discounted cash flow method. To this end, the cash flows resulting from company-specific planning were discounted by a risk-adjusted interest rate (WACC). In the 2021/22 financial year, the discount rate amounted to 6.0 % after taxes (2020/21: 6.7 %). Furthermore, account was taken of a growth factor of 1.0 %. The cash flows derived from company-specific planning mainly result from rental income in long-term letting arrangements and cash flows relating to the company's operations.

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

Changes in financial assets level 3 input data € 000s	2021/22	2020/21
As of March 1	**6,736**	**10,481**
Change in valuation (OCI)	2,264	(3,745)
Balance at February 28	**9,000**	**6,736**

The increase in the amount recognized for the investment is chiefly due to the lower 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	2.28.2022		2.28.2021	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	853	(853)	712	(712)
Discount rate (50 basis point change)	(979)	1,196	(707)	841

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	2.28.2022	2.28.2021
Assets			
Valuation based on Level 2 input data			
Derivatives without hedge relationship	FVtPL	603	666
Valuation based on Level 3 input data			
Financial assets	FVtOCI	9,000	6,736
Liabilities			
Valuation based on Level 1 input data			
Bonds	AC	258,938	268,038
Valuation based on Level 2 input data			
Liabilities to banks	AC	303,448	353,700
Derivatives without hedge relationship	FVtPL	2,293	495

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

Net result by measurement category	2021/22 € 000s	2020/21 € 000s
Amortized cost (AC) financial assets	(930)	(2,287)
FVtPL	2,751	(2,957)
Amortized cost (AC) financial liabilities	2,683	2,940

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 2021/22 financial year measurement changes of € 2,264k relating to "FVtOCI" instruments were recognized directly in equity (2020/21: € -3,745k).

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, 2022, the Group had forward exchange transactions of € 10k that were eligible for netting (2020/21: € 85k).

2.28.2022 € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	603	0	603	(10)	0	594
Equity and liabilities						
Derivatives without hedge relationship	2,293	0	2,293	10	0	2,283

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 HORNBACH Baumarkt AG Group are subject in particular to risks resulting from changes in exchange rates and interest rates.

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

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

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

Market risks

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

Foreign currency risks

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

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

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

000s	2.28.2022	2.28.2021
EUR	(157,886)	(74,063)
USD	(17,757)	(19,695)
CZK	(2,154)	(966)
CNY/CNH	2,455	0

The above EUR currency position results from the following currency pairs: CHF/EUR € -69,041k (2020/21: € -905k), RON/EUR € -54,770k (2020/21: € -42,282k), SEK/EUR € -27,900k (2020/21: € -26,010k), and CZK/EUR € -6,175k (2020/21: € -4,865k).

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 € 11,216k lower (2020/21 € 4,676k). 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 € 11,216k higher (2020/21: € 4,676k). The hypothetical impact on earnings of € +11,216k (2020/21: € +4,676k) is the result of the following sensitivities: EUR/CHF € 6,638k (2020/21: € 94k), EUR/RON € 5,494k (2020/21: € 4,112k), EUR/SEK € 658k (2020/21: € 2,532k), EUR/CNY(CNH) € 245k (2020/21: € 0k), EUR/CZK € -17k (2020/21: € -56k), and EUR/USD € -1,802k (2020/21: € -2,006k).

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. There are no other loans apart from these (2020/21: CHF loan of € 45,512k).

In the sensitivity analysis for interest rate risks, it has been assumed that the volumes as of the balance sheet date are representative of the financial year as a whole. A parallel shift in the interest rate curve has been assumed.

If the market interest rate had been **100 basis points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 2,488k higher (2020/21: € 2,439k). Due to the low level of interest rates currently, a parallel shift in the interest rate curve by 100 basis points downwards in some cases produces negative interest rates. This severely limits the meaningfulness of any such simulation. For the current financial year, the company has therefore rather simulated the hypothetical impact on earnings of a shift in the interest rate curve by 10 basis points downwards. If the market interest rate had been 10 basis points lower at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 249k lower (2020/21: € 244k).

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

The expected loss rates are derived on the basis of an average distribution of receivables over a 36-month period prior to February 28, 2021 / March 1, 2021 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 2.28.2022	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,663	8,125	282,500	0
Liabilities to banks	298,062	4,632	303,881	0
Lease liabilities	1,337,554	193,927	738,878	639,030
Trade payables	382,982	382,982	0	0
Other current and non-current liabilities	60,724	59,664	1,060	0
Accrued liabilities	27,986	27,986	0	0
	2,354,971	**677,316**	**1,326,320**	**639,030**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	2,293	6,742	0	0
	2,293	**6,742**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	603	38,540	0	0
	603	**38,540**	**0**	**0**
		722,598	**1,326,320**	**639,030**

€ 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
Other current and non-current liabilities	28,416	27,193	1,223	0
Accrued liabilities	30,091	30,091	0	0
	2,210,954	**590,793**	**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**
		628,986	**1,040,220**	**881,672**

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 € 2,827k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2020/21: € 2,846k). 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 2021/22 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 € -1,690k (2020/21: € 172k). Of this total, € 603k has been recognized under other assets (2020/21: € 666k) and € -2,293k under financial debt (2020/21: € -495k).

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.

2.28.2022	Foreign exchange contracts	Embedded forward exchange transactions	Total
Nominal value in € 000s	53,000	58,514	111,514
Fair value in € 000s (before deferred taxes)	594	(2,283)	(1,690)

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

(34) Sundry disclosures

Employees

The average number of employees was as follows:

	2021/22	2020/21
Salaried employees	20,916	19,617
Trainees	941	941
	21,857	**20,558**
of which: part-time employees	6,816	6,475

In terms of geographical regions, 11,446 of the average workforce were employed in Germany during the 2021/22 financial year (2020/21: 10,835) and 10,411 abroad (2020/21: 9,723).

Auditor's fee

The fees charged by the auditor of the annual and consolidated financial statements of HORNBACH Baumarkt AG, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim, for the year under report were as follows:

	2021/22 € 000s	2020/21 € 000s
Audit services [1]	657	610
Other confirmation services [2]	11	11
	668	**621**

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

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

Information on the German Corporate Governance Code
The annual Declaration of Compliance with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBACH Baumarkt AG in December 2021 and made available to shareholders on the company's homepage.

(35) Related party disclosures

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

Parent companies

HORNBACH-Familien-Treuhandgesellschaft mbH (ultimate controlling party)
HORNBACH Management AG
HORNBACH Holding AG & Co. KGaA

Associates
HORNBACH Immobilien AG
HORNBACH Baustoff Union GmbH

Subsidiaries and second-tier subsidiaries
Union Bauzentrum Hornbach GmbH
Ruhland-Kallenborn & Co. GmbH
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 Imobiliare SRL
HB Immobilien Bad Fischau GmbH

The following principal transactions were performed with associates:

	2021/22 € 000s	2020/21 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	77,610	78,122
Interest paid for group financing	37	37
Allocations paid for administration expenses	1,052	819
Allocations received for administration expenses	2,806	2,499
Supplies and deliveries to HORNBACH Management AG and its subsidiaries	814	330
Supplies and deliveries by HORNBACH Holding AG & Co. KGaA and its subsidiaries	112	190

At February 28, 2022, there were receivables of € 1,420k (2020/21: € 1,262k) and liabilities of € 60k (2020/21: € 48k) 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 (2020/21: € 8,130k). Guarantee fees of € 37k (2020/21: € 37k) were recognized as expenses at the HORNBACH Baumarkt AG Group in this respect during the year under report.

Some of the companies included in the consolidated financial statements of HORNBACH Baumarkt AG make use of Jugendstilhotel Trifels GmbH & Co. KG, Annweiler am Trifels, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach, and Angelika Hornbach, daughter of Albrecht Hornbach. Services of € 5k were performed by the Jugendstilhotel in the 2021/22 financial year (2020/21: € 0k). These services are invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 28, 2022.

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

No events of material significance for assessing the earnings, financial, and asset position of HORNBACH Baumarkt AG and the HORNBACH Baumarkt AG Group occurred between the balance sheet date on February 28, 2022 and the date on which these financial statements were prepared.

The shortages and disruptions caused in international supply chains by the coronavirus pandemic and the ongoing war in Ukraine continued. Prices remained high for commodities, procurement, transport, and energy and this also impacted on retail prices. None of HORNBACH's stores in any of the regions in which it operates are subject to restrictions in terms of their opening.

The consolidated financial statements of HORNBACH Baumarkt AG for the 2021/22 financial year were approved for publication by the Board of Management on May 10, 2022.

(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, 2027
Dr. Andreas Schobert Technology	First appointed: January 1, 2015 Appointed until: December 31, 2027

Remuneration of the Board of Management for the 2021/22 financial year totals € 9,703k (2020/21: € 9,976k). Of short-term benefits, € 3,094k (2020/21: € 3,232k) relates to fixed remuneration, € 3,250k (2020/21: € 3,542k) to performance-related components, and € 3,359k (2020/21: € 3,202k) to remuneration of a long-term incentive nature. Post-employment benefits (pension provision endowment) of € 729k were incurred for active Board members in the 2021/22 financial year (2020/21: € 761k).

Remuneration of former members of the Board of Management for the 2021/22 financial year totaled € 357k (2020/21: € 0k).

Pension provisions for former members of the Board of Management totaled € 11,542k in the 2021/22 financial year (2020/21: € 4,788k).

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach CEO HORNBACH Management AG	**Chairman** Member since: April 25, 2002 Appointed until: end of 2023 AGM
Dr. John Feldmann Former Executive Board member at BASF SE	**Deputy Chairman** 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
Steffen Hornbach Former CEO of HORNBACH Baumarkt AG	Member since: January 1, 2022 Appointed until: end of 2023 AGM
Simona Scarpaleggia Former Global CEO of EDGE Strategy AG (active until December 31, 2021)	Member since: January 1, 2020 Appointed until: end of 2023 AGM
Vanessa Stützle Chief Digital Officer and Member of Management at Douglas Group	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 Express 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 (until December 31, 2021) Professor of Production Technology Helmut-Schmidt-Universität/Universität der Bundeswehr Hamburg	Member since: September 1, 2005 Until December 31, 2021

As representatives of the employees

Kay Strelow Section Manager Berlin-Marzahn Store	**Deputy Chairman** **for trade unions** Member since: July 10, 2008 Appointed until: end of 2023 AGM
Mohamed Elaouch Section Manager, Mainz Store	**for salaried employees** Member since: July 4, 2013 Appointed until: end of 2023 AGM
Christian Garrecht Operative Head of Workplace Safety and Fire Protection	**for salaried employees** Member since: July 4, 2013 Appointed until: end of 2023 AGM
Markus Lass District Director	**for senior employees** Member since: July 5, 2018 Appointed until: end of 2023 AGM
Jörg Manns Sales Employee, Wiesbaden Store	for salaried employees Member since: July 5, 2018 Appointed until: end of 2023 AGM
Anke Matrose Checkout Assistant, Bremen Store	for trade unions Member since: July 5, 2018 Appointed until: end of 2023 AGM
Brigitte Mauer Section Manager, Tübingen Store	**for salaried employees** Member since: July 4, 2013 Appointed until: end of 2023 AGM
Johannes Otto Assistant Store Director, Schwetzingen Store	**for salaried employees** Member since: July 5, 2018 Appointed until: end of 2023 AGM

The total remuneration of the Supervisory Board for the 2021/22 financial year amounted to € 515k (2020/21: € 515k). Of short-term benefits, € 390k (2020/21: € 390k) related to basic remuneration and € 125k (2020/21: € 125k) to committee activities.

The total remuneration of the Board of Management (including former members) and Supervisory Board amounted to € 10,575k (2020/21: € 10,491k).

Bornheim, May 10, 2022

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 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 2022, 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 2021 to 28 February 2022, 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 2021 to 28 February 2022. In accordance with the German legal requirements, we have not audited the content of the corporate governance statement pursuant to Section 289f (4) German Commercial Code (HGB).

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 2022 and of its financial performance for the financial year from 1 March 2021 to 28 February 2022, 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 Section 289f (4) 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 2021 to 28 February 2022. 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 2022 state "land, land rights and buildings including buildings on third-party land" (so-called real estate at individual locations) of mEUR 1,004.2 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 1,207.1. This makes up 54.1% of the total assets. As at 28 February 2022, total impairments of mEUR 25.1 on these assets were recognised as an expense.

   The recoverability of the real estate at individual locations and of the rights of use of real estate at individual locations is determined at the level of the individual DIY stores, each of which constitute a cash-generating unit. If there are events that indicate an impairment and any related requirement for a write-down of the real estate at individual locations and/or the rights of use of these assets, the Group determines the value in use of the individual cash-generating unit as part of an impairment test according to IAS 36. If the value in use is below the carrying value of the cash-generating unit, the fair value less costs to sell (net realisable value) is determined for the real estate attributable to this cash-generating unit. The higher of both values is used to determine the impairment.

   The outcome of the measurement is largely dependent on the executive directors' judgement and estimate of the future cash inflows and on the used discount rate. 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 the individual location and the related alternative utilisabilities. Therefore, 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 stated in the section "Accounting and measurement", and in the notes "(10) Other notes to the statement of profit or loss", "(12) Property, plant and equipment, rights of use and investment property" 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 adherence to the budget process 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 adopted by the supervisory board. In view of the assessment of the appropriateness of the assumptions and propositions, processes and measurement methods, we consulted internal experts of our Valuation Services function, who also helped us to assess the method applied in the impairment tests and the parameters used to determine the discount factors including the weighted average cost of capital and calculation schemes. For evaluating the appropriateness of the budgeting, we compared general and industry-specific market expectations and considered comprehensive explanations of the executive directors regarding the impairment tests. As only slight changes in the discount rate may have significant effects on the value in use, we evaluated the underlying parameters for plausibility based on information provided by the executive directors and own market research and checked the calculation of the value in use for accuracy.

In addition, we evaluated the competence, capabilities and objectivity of the independent experts consulted by the Group to determine the net realisable values of the real estate at individual locations and assessed their results with the help of our own real estate valuation experts.

2. Measurement of inventories

a) The inventories recognised in the consolidated financial statements of HORNBACH Baumarkt AG as at 28 February 2022 amount to mEUR 1,169.3. This makes up 28.6% of the balance sheet total. As at 28 February 2022, write-downs of the inventories amounted to mEUR 21.8.

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 efficiency and usability of the inventories.

Any required write-downs are determined on the basis of an approach that considers the various risks of usability.

As the measurement of the inventories is based on judgement due to the defined approach including its underlying estimates 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 designed to measure inventories and tested the implemented controls relevant to the audit concerning initial and subsequent measurement for their operating effectiveness.

In this context, we evaluated and assessed, in particular, the Group's applied approach to determine write-downs of inventories. We took a sample and, based on this sample, verified the appropriateness of the estimates made by the executive directors of the usability of the inventories on the basis of historic information and the current costs to sell and examined the estimates based on evidence. In this context, we also checked the corresponding calculations for accuracy. Moreover, we were satisfied with the exact accounting of the determined write-downs.

3. Application of IFRS 16

a) The rights of use of leased objects in the balance sheet as at 28 February 2022 amount to mEUR 1,213.5 and are recognised as assets in the consolidated balance sheet. They account for 48.2% of the non-current assets and 29.7% of the total assets. In addition, lease liabilities recognised among equity and liabilities in the balance sheet amount to mEUR 1,337.6.

For computing the recognised values of the rights of use and the leasing 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 of exercising extension options defined in the lease agreements, which affect the term of the lease, of the amount of 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 group-wide processes and audit-relevant controls, which were designed by the executive directors to ensure the complete and exact identification and record of leases, and checked these processes and controls for structural and operating effectiveness.

In a first step, we checked the complete recognition of the relevant rental agreements and leases. Furthermore, by applying sampling methods, 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. By applying sampling methods, we obtained an understanding of the IT system's logic of calculation using IT audit tools. 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 of exercising extension options under the lease agreements, which affect the term of the lease, of the amount 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, providing other appropriate evidence and on the basis of enquiries of employees of the Group.

In addition, we evaluated whether the inclusion of the data sets, which were generated by the system, in the consolidated financial statements of HORNBACH Baumarkt AG was correct and whether the disclosures in the consolidated notes 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 Section 289f (4) HGB,
- 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. Otherwise, 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 other information identified above and, in doing so, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the audited content of 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 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 for the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the general meeting on 7 July 2021. We were engaged by the supervisory board on 7 July 2021. 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, 10 May 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Steffen Schmidt)
Wirtschaftsprüfer

(Patrick Wendlandt)
Wirtschaftsprüfer

Our locations

Germany

Baden-Württemberg
Binzen
Esslingen
Göppingen
Heidelberg
Karlsruhe-Grünwinkel
Karlsruhe-Hagsfeld
Ludwigsburg
Mosbach
Pforzheim
Remseck
Rottweil
Schwetzingen
Sindelfingen
Sinsheim
Tübingen
Ulm

Bavaria
Altötting
Bamberg
Erlangen
Fürth
Ingolstadt
Kempten
München-Freiham
München-Fröttmaning
Neu-Ulm
Nürnberg
Passau
Schwabach
Straubing
Würzburg

Berlin
Berlin-Bohnsdorf
Berlin-Mariendorf
Berlin-Marzahn
Berlin-Neukölln
Berlin-Weißensee
BODENHAUS Berlin Schöneweide

Brandenburg
Fredersdorf-Vogelsdorf
Ludwigsfelde
Marquardt
Velten

Bremen
Bremen, Duckwitzstraße
Bremen, Weserpark
Bremerhaven

Hamburg
Hamburg-Eidelstedt

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

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

North Rhine-Westphalia
Bielefeld
Datteln
Dortmund
Duisburg
Essen
Gelsenkirchen
Gütersloh
Herne
Kamen
Krefeld
Moers
Mönchengladbach, Künkelstr.
M'gladbach-Reststrauch
Münster
Niederzier
Oberhausen
Paderborn[2)]
Wuppertal
BODENHAUS Köln-Poll

Rhineland-Palatinate
Bad Bergzabern
Bornheim
Kaiserslautern
Koblenz
Ludwigshafen
Mainz-Bretzenheim
Pirmasens
Trier
Worms

Saarland
Saarbrücken

Saxony
Chemnitz
Dresden-Kaditz
Dresden-Prohlis
Görlitz
Leipzig

Saxony-Anhalt
Magdeburg
Halle

Schleswig-Holstein
Kiel
Lübeck

Thuringia
Jena

International

Luxembourg
Bertrange

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

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

Romania
Baloteşti
Braşov
Bucureşti-Berceni
Cluj[1)]
Domneşti
Oradea
Sibiu
Timişoara

Sweden
Arlöv
Borås
Botkyrka
Göteborg
Helsingborg
Kristianstad
Sundbyberg
Trollhättan[1)]

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

Slovakia
Bratislava-Devínska Nová Ves
Bratislava-Ružinov
Kosice
Prešov

Czech Republic
Brno
Hradec Kralové
Olomouc
Ostrava-Svinov
Ostrava-Vítkovice
Plzeň
Praha-Černý Most
Praha-Čestlice
Praha-Řepy
Praha-Velká Chuchle

[1] Newly opened in 2021/22 financial year

[2] Replacement in 2021/22 financial year

IMPRINT

Published by

HORNBACH Holding AG & Co. KGaA

Hornbachstraße 11

76878 Bornheim (Pfalz)

www.hornbach-holding.com

Investor Relations

Telephone (+49) 06348 / 60 - 2444 and -4558

invest@hornbach.com

As a contribution towards protecting the environment, HORNBACH has dispensed with printing and mailing annual reports. This annual report is available at any time on the HORNBACH website at www.hornbach-group.com/FinancialReports.