HORNBACH

Baumarkt AG Group

ANNUAL REPORT 2015/2016

CONTENTS

Key Group Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2015/2016 on previous year	IFRS									
		2015/2016	2014/2015	2013/2014	2012/2013	2011/2012	2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
Sales and earnings figures											
Net sales	5.3 %	3,535	3,357	3,152	3,020	3,001	2,836	2,686	2,599	2,469	2,392
of which in other European countries	9.6 %	1,524	1,390	1,325	1,279	1,272	1,195	1,109	1,065	962	862
Sales growth as % of net sales		5.3	6.5	4.4	0.6	5.8	5.6	3.4	5.2	3.2	7.1
EBITDA [1]	(2.9)%	162	167	161	156	184	173	169	193	142	160
as % of net sales		4.6	5.0	5.1	5.2	6.1	6.1	6.3	7.4	5.7	6.7
EBIT [2]	(17.8)%	90	110	105	99	128	119	115	137	79	96
as % of net sales		2.6	3.3	3.3	3.3	4.3	4.2	4.3	5.3	3.2	4.0
Earnings before taxes	(17.5)%	78	95	87	74	106	102	96	122	56	73
as % of net sales		2.2	2.8	2.8	2.5	3.5	3.6	3.6	4.7	2.3	3.0
Net income for the year	4.2 %	72	70	56	52	77	76	68	95	47	61
as % of net sales		2.0	2.1	1.8	1.7	2.6	2.7	2.5	3.7	1.9	2.5
Gross margin as % of net sales		37.7	38.0	37.4	37.3	37.4	37.4	36.8	36.6	36.3	36.0
Store expenses as % of net sales		30.0	29.8	29.4	29.7	29.0	29.3	29.6	29.1	29.4	29.0
Costs of central administration as % of net sales		5.0	4.7	4.5	4.7	4.3	4.2	4.1	4.1	4.1	3.9
Pre-opening expenses as % of net sales		0.3	0.4	0.3	0.3	0.2	0.1	0.1	0.3	0.3	0.2
Cash flow figures											
Cash flow from operating activities	(0.7)%	107	107	144	95	104	153	156	124	67	197
Investments	38.9 %	139	100	72	117	104	68	68	82	105	88
Proceeds from divestments		2	1	5	3	11	38	3	66	43	40
Earnings potential [3]	(4.2)%	117	122	155	105	111	158	160	132	74	202
as % of net sales		3.3	3.6	4.9	3.5	3.7	5.6	6.0	5.1	3.0	8.4
Dividend distribution	0.0 %	19.1	19.1	15.9	15.9	15.9	15.9	13.7	13.7	13.6	13.5
Balance sheet and financial figures											
Total assets	14.8 %	1,986	1,731	1,670	1,597	1,628	1,592	1,439	1,425	1,351	1,331
Non-current assets	30.0 %	1,023	786	729	722	668	621	601	565	569	616
Inventories	10.5 %	588	533	505	482	476	459	428	496	479	446
Cash and cash equivalents	(15.5)%	283	335	371	317	404	423	296	236	167	193
Shareholders' equity	5.5 %	973	922	862	823	792	730	655	591	516	471
Shareholders' equity as % of total assets		49.0	53.3	51.6	51.5	48.6	45.9	45.5	41.5	38.2	35.4
Return on shareholders' equity based on net income - in %		7.6	7.8	6.7	6.5	10.2	10.9	11.0	17.1	9.4	13.7
Net working capital	6.8 %	408	382	345	349	358	319	312	349	345	306
Additions to non-current assets	212.7 %	312	100	72	117	104	68	68	84	105	87
Inventory turnover rate per year		4.0	4.1	4.0	4.0	4.0	4.0	3.7	3.4	3.4	3.3
Retail store data											
Number of stores		153	146	141	138	134	133	131	129	125	120
of which in Germany		99	97	92	92	91	92	92	92	91	89
of which in other European countries		54	49	49	46	43	41	39	37	34	31
Like-for-like sales growth in %		2.6	4.4	2.7	(1.4)	2.8	2.6	0.7	1.4	(0.2)	4.0
Sales area in m² (based on BHB)	3.9 %	1,771,480	1,704,187	1,646,712	1,597,949	1,549,085	1,513,722	1,480,216	1,446,794	1,384,901	1,307,572
Weighted average net sales per m² in €	1.9 %	2,023	1,985	1,940	1,912	1,933	1,903	1,828	1,839	1,810	1,833
Average store size in m²	(0.8)%	11,578	11,673	11,679	11,579	11,560	11,381	11,299	11,215	11,079	10,896
Weighted average sales per store		23.4	23.2	22.7	22.1	22.3	21.7	20.7	20.6	20.1	19.9
Other information											
Employees - annual average - converted into full-time equivalents	4.3 %	14,570	13,967	13,390	12,674	12,188	11,520	11,357	11,005	10,528	10,091
Sales per employee in € 000s	1.0 %	243	240	239	238	246	246	237	236	235	237
Number of shares [4]		31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	15,903,500	15,903,500	15,740,060	15,685,020	15,506,120
Earnings per share in € [4]		2.28	2.19	1.77	1.64	2.43	4.76	4.32	6.04	2.98	3.95

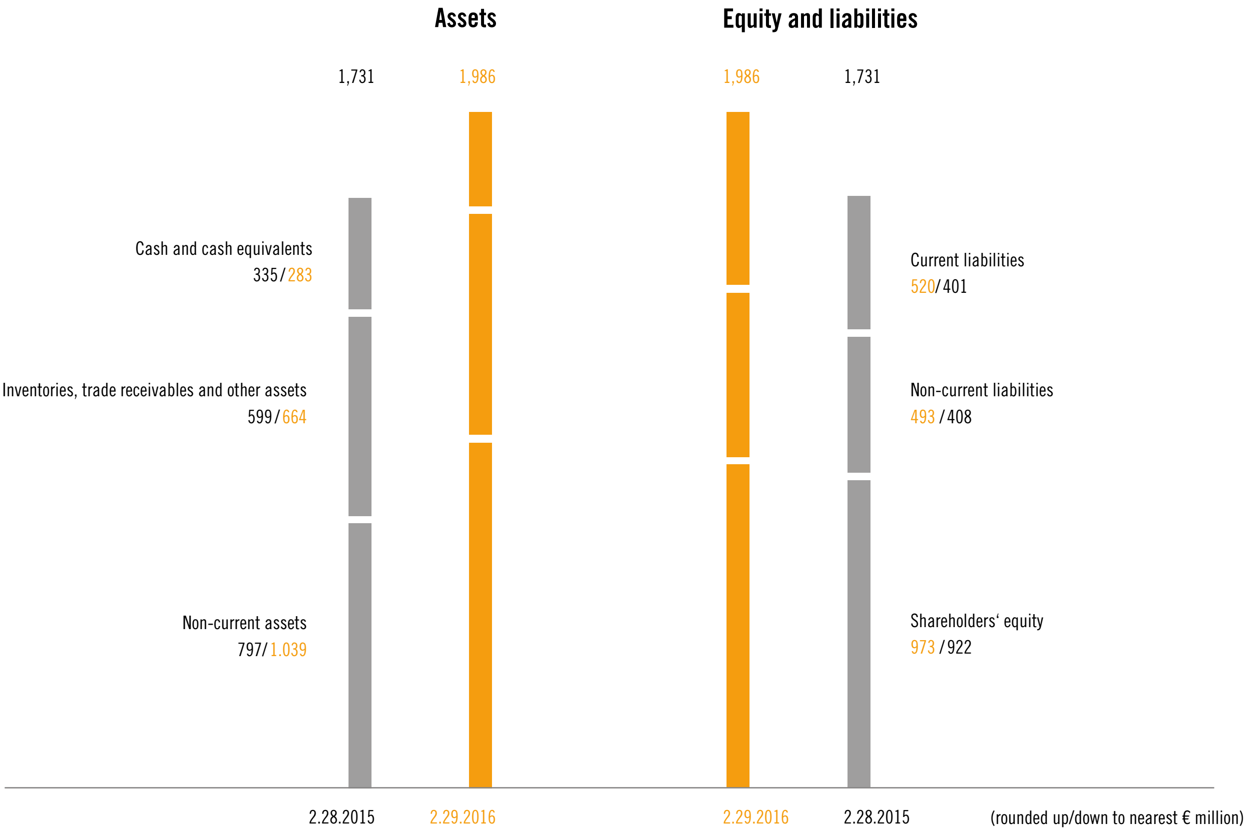
1) Earnings before interest, taxes, depreciation and amortization; starting in the 2007/2008 financial year: excluding net currency result

2) Earnings before interest and taxes; starting in the 2007/2008 financial year: excluding net currency result

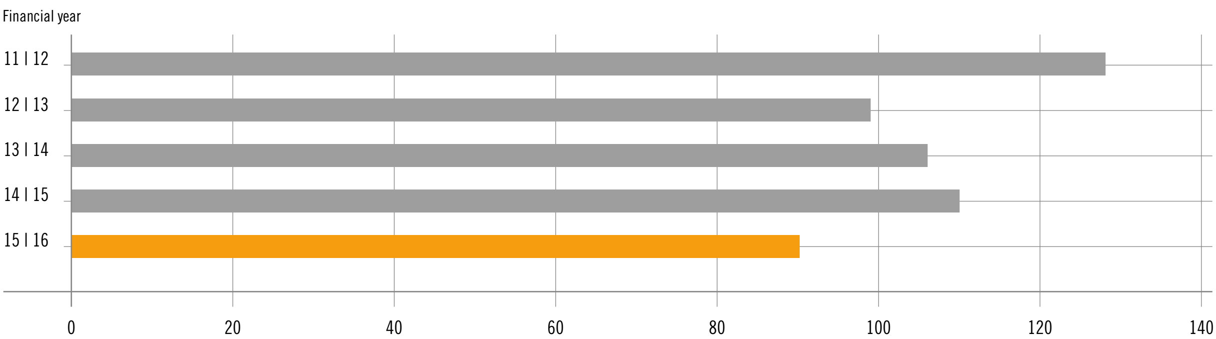
3) Cash flow from operating activities plus pre-opening expenses

4) Starting in the 2011/2012 financial year: change in number of shares following issue of bonus shares as of July 29, 2011

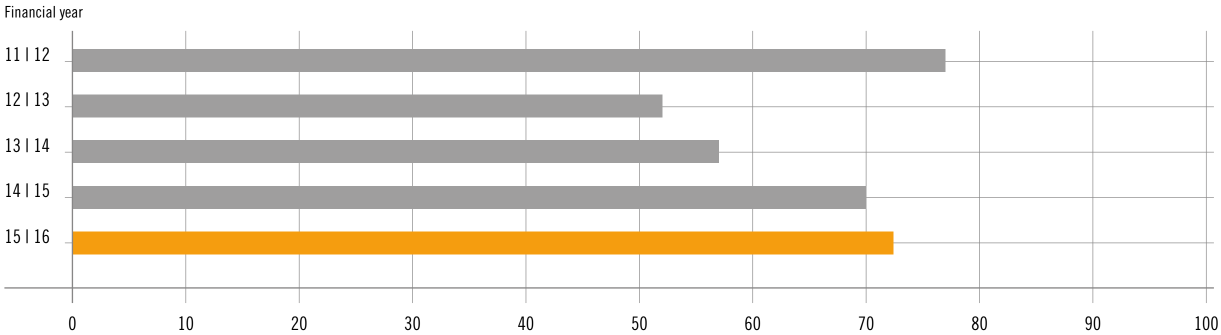
Structure of consolidated balance sheet
(€ million)



Earnings before interest and taxes
(€ million)



Net income for the year
(€ million)

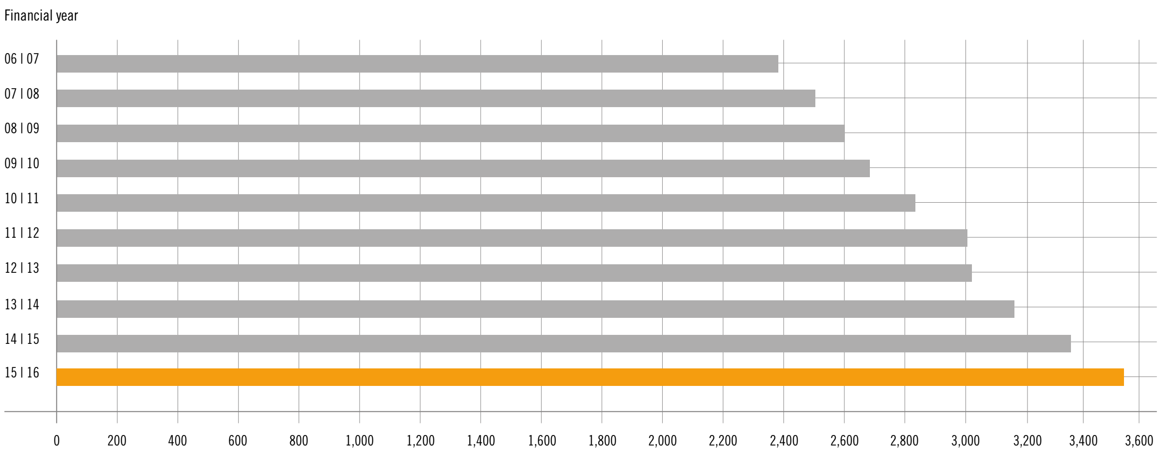


PROJECT STORIES IN THE ANNUAL REPORT

We are proud not only of our company, but also of our customers. They have made us what we are today and motivate us each day afresh. In this supplement we show you some of the things our customers have accomplished. Should you not find a supplement here, then you can read our project stories online at www.hornbach-group.com.

COMPANY PROFILE

Sales performance of the HORNBACH Baumarkt AG Group
(net, € million)



The HORNBACH Group is characterized by its ability to rise to the challenges of trading in DIY, home improvement and garden products, and to set new standards in the process.

Since the company was founded in 1877, five generations of the Hornbach family have been active in almost all areas of the construction sector – in the building trade, as manufacturers of prefabricated components and, for the first time in 1900, as builders' merchants.

As one of the pioneers in Germany and Europe, HORNBACH opened its first DIY store in 1968 and combined it with a garden center – at its time unique in Europe. This combination has since developed into a European standard in the DIY sector today.

In the second half of the 1980s, HORNBACH added a new dimension to the market with its concept of large DIY and home improvement megastores with garden centers. Today, an impressively presented range of around 50,000 top-quality DIY and gardening articles is available to DIY customers in spacious stores and at permanently low prices. Well-trained, service-oriented employees make project customers and DIY enthusiasts, especially those on the lookout for solutions for extensive renovation and construction projects, the focus of their activities.

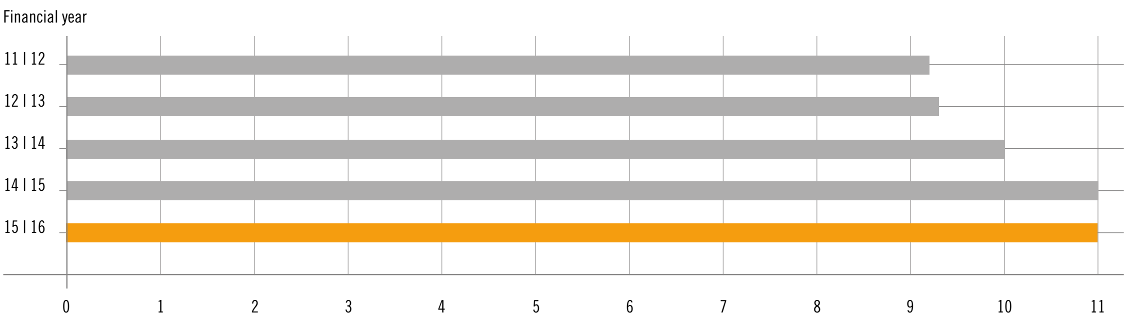
The consistent implementation of the company's concept, coupled with the high expectations it places in the quality of its locations, its stores, its product range and employees, have facilitated the dynamic growth shown by the company in recent years and form the basis for further expansion. With an average sales area of more than 11,500 m² per store, HORNBACH has underlined its unique position in the DIY megastore with garden center segment and also has the highest sales area productivity of any of leading DIY player in Germany. Net sales at the HORNBACH Baumarkt AG Group grew by 5.3 % to € 3,535 million in the 2015/2016 financial year. At the balance sheet date on February 29, 2016, the Group operated 153 DIY stores with garden centers in nine countries across Europe (99 of which in Germany) with total sales areas of around 1.8 million square meters.

Following the company's successful entry into the Austrian market in August 1996, it has consistently pressed ahead with its expansion into neighboring European countries. Stores were subsequently opened in the Netherlands, Luxembourg and the Czech Republic. The company's international growth continued with its expansion to Switzerland, Sweden and Slovakia. The entry into the Romanian market followed in the summer of 2007. As of February 29, 2016, HORNBACH was operating a total of 54 DIY megastores with garden centers in eight countries outside Germany. The international share of consolidated sales amounted to 43.1 % in the 2015/2016 financial year. The Group is nevertheless also continuing to pursue opportunities for expansion in Germany. Since December 1, 2010, the stationary retail business has been supplemented by HORNBACH's online shop, with which the Group is make targeted use of the opportunities presented by the internet.

HORNBACH Baumarkt AG is a publicly listed stock corporation. Ordinary shares in the company (ISIN DE0006084403) are listed on the German Stock Exchange and are admitted to the subsection of the official market with additional admissions obligations (the "Prime Standard"). Of approximately 31.8 million ordinary shares in the company, at the balance sheet date on February 29, 2016 76.4 % were held by HORNBACH Holding AG & Co. KGaA, while 23.6 % were owned by independent shareholders.

HORNBACH is also present on the debt market with a corporate bond. On February 15, 2013, the company successfully placed a seven-year bond with a volume of € 250 million and an interest coupon of 3.875 % (ISIN: DE000A1R02E0). The issue proceeds were used to prematurely redeem the existing bond in place since November 2004 (interest coupon: 6.125 %) on February 25, 2013.

HORNBACH's DIY market share in Germany
(in %)



TO OUR SHAREHOLDERS

Dear Shareholders,

In the past 2015/2016 financial year, the HORNBACH Baumarkt AG Group consistently maintained its strategic course and asserted itself well in a challenging sector climate.

Overall, macroeconomic conditions were favorable for our do-it-yourself (DIY) retail business. Growth rates in 2015 were ahead of the European average in most of the nine countries in which we operate. Improvements in labor markets, low inflation, ongoing record low interest rates, and higher real-term incomes – all these factors boosted private consumers' propensity to spend. Housing construction and retail benefited from increased consumer demand. Against this backdrop, we managed to win over customers – especially those planning larger-scale construction and renovation projects in their houses, apartments, and gardens – to our unmistakable, attractive retail format.

These are the key aspects of the 2015/2016 financial year from my perspective:

- In the year under report, we extended our store network with eight new DIY stores with garden centers (including one replacement location). The key focus of expansion shifted back to our network outside Germany, where we launched operations at five new megastores. At the balance sheet date on February 29, 2016, we were operating 153 locations across Europe, of which 99 in Germany.

- Consistent with our annual forecast, we increased our group-wide net sales, including those at new stores, by 5.3 % to € 3,535 million. Like-for-like, currency adjusted sales at the DIY stores with garden centers across the Group rose by 2.6 %. From a geographical perspective, we increased our sales both in our Germany region and in our Other European countries region. On a like-for-like basis and net of currency items, sales at our international stores outperformed their German counterparts for the first time since the 2008/2009 financial year. Thanks to dynamic growth outside Germany, we met our sales targets on Group level.

- Despite this solid sales performance, we were not able to meet our original earnings expectations, as defined for consolidated operating earnings (EBIT), in the 2015/2016 financial year. EBIT for the year under report fell by 17.8 % to € 90.2 million.

  This was due on the one hand to operating factors that placed a damper on the income statement for the third quarter of 2015/2016 in particular. These mainly included a lower gross margin and strategic outlays incurred for the consistent expansion in our multichannel retail approach.

  On the other hand, our earnings performance in the 2015/2016 financial year was additionally impeded by non-operating impairment losses of almost € 13 million (details can be found under "Earnings situation" from Page 52 onwards). These one-off items mostly came at the expense of our profitability in Germany, while the earnings strength of our international business grew further in the period under report.

- Key earnings figures showed uneven developments in the year under report. While pre-tax earnings fell short of the previous year's figures, due to a significantly lower tax charge consolidated net income grew 4.2 % to € 72.4 million. Earnings per share rose from € 2.19 to € 2.28.

- The equity ratio remains high, as does Group liquidity. Given a broad range of financing sources, we enjoy a high degree of security and flexibility when it comes to financing our further growth.

The competitive climate became even more challenging in the past financial year, and that especially in Germany. Following strong growth in 2014, which the GfK retrospectively corrected upwards to 5.8%, like-for-like sales at Germany's DIY and home improvement stores then marked time in 2015. Now that the tailwind provided by the Praktiker Group's exit from the German DIY market nearly two years ago has gradually petered out, the sector has returned to highly competitive normality. Overall, competition in the German DIY market, which is fought out via retail prices in particular, intensified in the course of 2015 and also at the beginning of 2016. From my perspective, this is due to the following factors:

- **Greater competition in the stationary retail business:** Most of the ex-Praktiker locations remaining in the German DIY market have been taken over by more effective operators. Here, self-critical tones have also been heard within the sector, namely that successfully integrating such stores into existing store networks and exploiting sales potential is no foregone conclusion. Most reflagged locations were online for the first full year in 2015. In the catchment areas affected, this has noticeably raised the pressure on other stationary competitors compared with the Praktiker era.

- **Increasing competition from the internet:** The stationary DIY retail business is increasingly feeling the effects of competition from the internet. Experts expect online retail's share of total sales in the German DIY market to rise from its current level of around 5 % to around 25 % in 15 years' time. There is no denying the fact that stationary retail will have to find answers to the increasing digitization of consumption and more transparent price competition resulting from the internet.

- **Return of discount mania:** In response to the pincer movement resulting from greater stationary and online competition, since the late fall of 2015 the German DIY store sector has witnessed the return of widespread discount campaigns. This approach was further fueled by the striking, albeit temporary, reluctance to shop shown by German consumers in November 2015.

Within this more nervous sector climate, HORNBACH is unerringly upholding its consistent strategy, which at core relates above all to a reliable, transparent, and permanent low-price policy. For us as a company with a long-term operating perspective, the odd poor quarter or unpredictable year-end accounting item gives no reason to err from our clear strategic course.

We are accustomed to fluctuations in our business performance, such as those most recently seen in the third quarter of 2015/2016. After the surprising downturn in November 2015, our like-for-like stores in Germany regained pleasing momentum in the fourth quarter already. At core, our operating business is characterized by strong profitability and great performance capacity. We increased our Group's surface productivity for the fourth consecutive year to a record figure of more than € 2,000 per square meter of sales area in 2015/2016. On this basis, we can afford to make key strategic investments in our future. Sustainably digitizing our entire business model is right at the top of the agenda in this respect. This not only requires substantial financial funds, but also the competence, innovation, and passion of our employees. I would like to take this opportunity to sincerely thank them for their achievements and their unswerving dedication in the past 2015/2016 financial year.

Steffen Hornbach
Chairman of the Board of Management
HORNBACH Baumarkt AG

REPORT OF THE SUPERVISORY BOARD

Albrecht Hornbach

Dear ladies and gentlemen,

In the past 2015/2016 financial year we dealt in great detail with the company's situation, perspectives, and strategic alignment. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with its Chairman, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

In the 2015/2016 financial year, the Supervisory Board held a total of four meetings and the Audit Committee held five meetings. Apart from the exception referred to in the following sentence, all members attended at least half the Supervisory Board and Audit Committee meetings held in the year under report. Georg Hornbach only joined the Supervisory Board of HORNBACH Baumarkt AG in July 2015 following his election by the Annual General Meeting. For this reason, it was not possible for him to attend more than two meetings in the period under report. No conflicts of interest arose in the year under report.

At our meetings, we referred to the respective oral and written reports provided by the Board of Management and dealt in detail with the economic situation of the company, its business performance, corporate strategy and planning, investment and financial policy, opportunity and risk situation, risk management, and corporate governance and discussed these matters with the Board of Management. The Board of Management also provided regular written and oral reports on the company's current situation, and in particular on the development in its earnings and financial situation compared with the previous year and the budget. Budget variances were discussed and substantiated. Those actions of the Board of Management requiring our approval were discussed in detail. Following thorough examination and discussion of the proposals submitted by the Board of Management, the Supervisory Board approved all the respective measures at its meetings.

At the meeting held in May 2015 to approve the annual financial statements, we examined the annual and consolidated financial statements in great detail in the presence of the auditor, as was also the case in May 2016. We also formally accepted the report from the Audit Committee on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The agenda for the Annual General Meeting, including the proposed resolutions, was approved.

At the meeting held directly before the Annual General Meeting in July 2015, the Board of Management reported on the current situation of the Group. Further resolutions related to the targets set by the Supervisory Board for the composition of the Board of Management in accordance with the new legal requirements governing the equal participation of women and men in management positions. Moreover, dates for regular meetings up to and including the 2016/2017 financial year were agreed.

In December 2015, the current business situation, risk report and compliance report were discussed. Furthermore, at the recommendation of the Audit Committee Susanne Jäger, a member of the Board of Management, and Roland Pelka, the Deputy Chairman of the Board of Management, were appointed for a further five years until November 30, 2021 and September 30, 2021 respectively. At the same meeting, the updated Declaration of Conformity with the German Corporate Governance Code was adopted pursuant to § 161 of the German Stock Corporation Act (AktG) and then made permanently available on the company's homepage. HORNBACH Baumarkt AG has largely complied with and continues to comply with the recommendations of the Code with only a few exceptions. Further information about corporate governance at HORNBACH Baumarkt AG can be found in the joint report of the Board of Management and the Supervisory Board from Page 16 onwards.

At its final meeting in the past 2015/2016 financial year, held in February 2016, the Supervisory Board discussed the Group's current business situation, and discussed and approved the budget for the financial years 2016/2017 to 2020/2021.

Committees and committee meetings

The Supervisory Board has established three committees. The current composition of the committees can be found on Page 15 of this Annual Report.

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

In May 2015, 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 Chairman of the Board of Management and CFO. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports compiled by the Board of Management on the company's financial situation and the candidate to be proposed for election as auditor.

At the June meeting the financial report for the first quarter was discussed and in September 2015 the half-year financial report was addressed in the presence of the auditors. In December 2015, key focuses for the audit of the annual financial statements were determined together with the auditors. At the same meeting, the Committee dealt with the nine-month financial report, as well as the risk report, the compliance report, and the company's financial situation. In February 2016, the budget for the financial years 2016/2017 to 2020/2021 was addressed in detail. The internal audit plan for the 2016/2017 financial year was adopted at the same meeting. At its meetings in the year under report, the committee also addressed the company's advertising concept, IT, and logistics strategy.

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

The Personnel Committee held one meeting in the year under report, namely in December 2015. The object of the meeting was the forthcoming extension of the contracts with two members of the Board of Management.

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

Supervisory Board composition

The Annual General Meeting elected Georg Hornbach, Head of the Controlling Department at Cologne University Hospital (*Universitätsklinikum Köln*), to the Supervisory Board as successor to Christoph Hornbach, who stood down from his position. The Supervisory Board would like to thank Christoph Hornbach for his longstanding commitment.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG), audited the annual financial statements and the consolidated financial statements of HORNBACH Baumarkt AG (until August 3, 2015: Hornbach-Baumarkt-Aktiengsellschaft) as of February 29, 2016, as well as the combined management report of HORNBACH Baumarkt AG for the 2015/2016 financial year and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

Key focuses of the audit in the 2015/2016 financial year included the functionality of internal controls of key financial reporting processes, the recoverability of non-current assets (impairment test), the existence and measurement of inventories, the recognition of conversion measures, lease accounting, and the completeness and accuracy of the disclosures made in the combined (group) management report.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 19, 2016 and at the subsequent meeting of the Supervisory Board held on the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual and consolidated financial statements of HORNBACH Baumarkt AG prepared by the Board of Management as of February 29, 2016; the annual financial statements of HORNBACH Baumarkt AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

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

"Based on the audit and assessment we have undertaken in accordance with professional standards, we confirm that
1. the factual disclosures made in the report are correct
2. the performance of the company in the transactions listed in the report was not incommensurately high.
3. for the transactions listed in the report no circumstances indicate any assessment materially different to that by the Board of Management."

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

The 2015/2016 financial year saw increasingly tough competition in our sector once again, also in terms of pricing, and that especially in Germany. HORNBACH Baumarkt AG maintained its position well in this climate and defended its market position. Earnings were adversely affected by high investments in the further digitization of the business model and impairment losses.

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

Bornheim, May 2016

The Supervisory Board

Albrecht Hornbach
Chairman

DIRECTORS AND OFFICERS

Supervisory Board

Albrecht Hornbach
Chairman
Chairman of Board of Management
HORNBACH Management AG

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

Dr. Wolfgang Rupf
Further Deputy Chairman
Managing Director of Rupf Industries GmbH,
Rupf Engineering GmbH and Rupf ATG Casting GmbH

Mohamed Elaouch*
Section Manager, Mainz Store

Dr. John Feldmann
Supervisory Board Chairman of KION Group AG
Former Management Board member of BASF SE

Martin Fischer*
Professional Customer Advisor, Kempten Store

Christian Garrecht*
Security Specialist

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

Kerstin Holfert*
Section Manager, Dresden Store

Christoph Hornbach **until** July 8, 2015
School Principal

Georg Hornbach since July 9, 2015
Head of Controlling Department
Universitätsklinikum Köln

Martin Hornbach
Managing Director
Corivus Gruppe GmbH

Hans Kroha*
State Retail Section Head at ver.di
Rheinland-Pfalz-Saarland

Brigitte Mauer*
Section Manager, Tübingen Store

Michael Reiland*
Sales Director at HORNBACH Compact

Joerg Walter Sost
Managing Director
J. S. Consulting GmbH

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

* Employee representative

Supervisory Board Committees

Audit Committee

Dr. Wolfgang Rupf	Chairman
Dr. John Feldmann	
Erich Harsch	
Albrecht Hornbach	
Martin Hornbach	
Michael Reiland	
Joerg Walter Sost	
Kay Strelow	

Personnel Committee

Dr. Wolfgang Rupf	Chairman
Christian Garrecht	
Erich Harsch	
Michael Reiland	
Joerg Walter Sost	

Mediation Committee

Dr. Wolfgang Rupf	Chairman
Kerstin Holfert	
Albrecht Hornbach	
Kay Strelow	

Board of Management

Members and their areas of responsibility

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

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

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

Wolfger Ketzler
Labor Director
Personnel, Real Estate, Construction, Technical Procurement, Internal Audit, Legal, Compliance

Karsten Kühn
Marketing, Market Research, Internal Communications

Ingo Leiner
Logistics

Dr. Andreas Schobert
Technology

CORPORATE GOVERNANCE

Declaration on Corporate Governance with Corporate Governance Report

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBACH has always accorded priority to high-quality corporate governance. It forms the basis for sustainable economic success and helps us enhance the trust placed in our company by our customers, business partners, investors, employees and financial markets. The standards and guidelines adhered to at the company over and above legal requirements are summarized below in the company's Declaration on Corporate Governance (§ 289a HGB), which also includes the Corporate Governance Report of the Board of Management and Supervisory Board (Point 3.10 DCGK).

DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO § 161 AKTG DATED DECEMBER 2015

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

I. Future-related section
The recommendations of the "German Corporate Governance Code" in the version dated May 5, 2015 and published in the Federal Gazette on June 12, 2015 will basically be complied with in future. No application will be made of the recommendations in Points 3.8 (3), 4.1.5, 4.2.3 (4) and (5), 4.2.5 (3), 4.3.3 Sentence 4, 5.3.3, 5.4.1 (2) and (3), 5.4.2 Sentence 3, and 5.4.6 (3) Sentence 1.

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

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

b) Point 4.2.3 (4) and (5):
Furthermore, no application is made of the recommendations in Point 4.2.3 (4) ("severance payment cap") and (5) ("change of control compensation cap") of the Code. The deviation to Point 4.2.3 (4) and (5) is due to competition-related factors. Apart from that, it still has not been definitively clarified whether and how the recommendations in Point 4.2.3 (4) are legally enforceable.

c) Point 4.2.5 (3):
The compensation paid to the Board of Management is not presented separately for each member. The Annual General Meeting held on July 7, 2011 resolved to uphold the more guarded approach towards reporting management board compensation. For the same reason, no use is made of the "model tables" included in the "German Corporate Governance Code".

d) Point 4.3.3 Sentence 4:
According to Point 4.3.3 Sentence 4 of the new version, important transactions with persons closely associated with a member of the management board may only be carried out with the consent of the supervisory board. For this recommendation, which requires interpretation and has only been in effect for a few months, the company can refer neither to established practice at German stock corporations nor to initial case law. As a matter of precaution, the company has therefore declared a deviation. Due to application of the accounting standard IAS 24, however, the company has already ensured transparency concerning such transactions for many years now.

e) Point 5.3.3:
In Point 5.3.3, the Code recommends that the supervisory board should form a nomination committee composed exclusively of shareholder representatives which proposes suitable candidates to the supervisory board for its election proposals to the Annual General Meeting. The company's Supervisory

Board has not formed such a committee. Based on our experience to date, the establishment of such a committee would not appear to be necessary.

f) Point 5.4.1 (2) and (3) and Point 4.1.5:
According to Point 5.4.1 (2) and (3) of the Code, the supervisory board should specify concrete objectives regarding its composition that should be taken into account in the recommendations made by the supervisory board to the competent election bodies and published in the corporate governance report. Furthermore, according to the new version of the Code dated May 5, 2015, the supervisory board should specify a regular limit for the length of membership of the supervisory board. Overall, the company deviates from the recommendations made in Point 5.4.1 (2) and (3). In the interests of the company, in terms of the composition of its Board of Management and Supervisory Board, as well as of other management positions, HORNBACH Baumarkt AG accords priority above all to the knowledge, ability and expert experience of the individual in question. The same criteria apply when the Board of Management selects candidates for management positions at the company (Point 4.1.5 of the Code).

g) Point 5.4.2 Sentence 3:
In Point 5.4.2 Sentence 3, the Code recommends that the supervisory board should not include more than two former management board members. This is intended to ensure the autonomy of the supervisory board in its advising and monitoring of the management board. However, the Code does not stipulate any number of years for which a former member of the management board is impaired in this respect following his departure from the management board. As a matter of precaution, the company therefore declares that it deviates from the recommendation made in Point 5.4.2 Sentence 3, even though Dr. Wolfgang Rupf, Albrecht Hornbach and Martin Hornbach retired from their positions on the Board of Management of HORNBACH Baumarkt AG on October 31, 1996, October 31, 2001 and December 31, 2001 respectively.

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

II. Past-related section

1. Period since submission of previous Declaration of Conformity in December 2014 through to publication of new version of Code on June 12, 2015:
The recommendations of the "German Corporate Governance Code" in the version dated June 24, 2014 and published in the Federal Gazette on September 30, 2014 were basically complied with in the period since the submission of the previous Declaration of Conformity dated December 2014 through to publication of the new version of the Code on June 12, 2015 with the exception of the deviations already listed and substantiated for the future in Section I – to the extent that such refer to recommendations with unamended content in the version dated June 24, 2014.

2. Period since publication of new version of Code on June 12, 2015:
The recommendations of the "German Corporate Governance Code" in the version dated May 5, 2015 and published in the Federal Gazette on June 12, 2015 were complied with apart from the deviations already listed and substantiated for the future in Section I. As a matter of precaution, the company additionally declares its deviation from Point 6.3 of the new version with the following substantiation:

In 2015, the Annual Results Press Conference was already held prior to publication of the Code amendment. The company subsequently forewent retrospective publication of a past event in its financial calendar. However, consistent with the recommendation the next Annual Results Press Conference, due to be held on May 24, 2016, has already been published in the financial calendar on the company's website.

Bornheim bei Landau, December 2015

HORNBACH Baumarkt AG
Supervisory Board Board of Management

The above Declaration of Conformity dated December 2015 has been published on the internet together with all earlier Declarations of Conformity and is also available as a download [www.hornbach-group.com/Declaration/HBM].

Share capital and share class

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

Dualistic management structure

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

Composition and modus operandi of Supervisory Board

The Supervisory Board of HORNBACH Baumarkt AG consists of sixteen members and, consistent with the German Codetermination Act (MitBestimmG), includes equal numbers of shareholder and employee representatives. Shareholder representatives are elected by the Annual General Meeting. The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the decisive vote in the second round, should renewed voting also produce a parity.

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

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Baumarkt Aktiengesellschaft in the 2015/2016 financial year.

The Supervisory Board has the following committees:

- Mediation Committee
- Personnel Committee
- Audit Committee

The composition of the committees can be found on Page 15 of this report. Their activities have been described in detail in the Report of the Supervisory Board (Page 10 onwards).

Composition and modus operandi of Board of Management
The Board of Management of HORNBACH Baumarkt AG has a Chairman and a Deputy Chairman and consisted of seven members at the end of the 2015/2016 financial year. The composition and areas of responsibility of the Board of Management are presented on Page 15 of this report.

The Board of Management has a self-imposed Code of Procedure. The management of the company's business is the joint responsibility of all of its members. Compliance activities to ensure that the company adheres to laws, legal requirements and its own internal guidelines represent a key management task. The Board of Management usually meets once a week, or on an ad-hoc basis when necessary.

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

Commitments pursuant to § 76 (4) and § 111 (5) AktG
Pursuant to § 111 (5) AktG, at its meeting on July 8, 2015 the company's Supervisory Board set the target share of women on the Board of Management, which amounted to 1/7 at the balance sheet date, at no less than 1/7 as of June 30, 2017.

With regard to the setting of a target share of women on the Supervisory Board of HORNBACH Baumarkt AG, the company is covered by codetermination legislation and therefore subject to the legal requirement of a minimum share of 30%.

At its meeting on August 31, 2015, the Board of Management of HORNBACH Baumarkt AG adopted a resolution pursuant to § 76 (4) AktG setting the share of women in the two management tiers below the Board of Management by June 30, 2017 at no less than its current levels of 6 % in the first management tier and 14 % in the second management tier.

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

Reporting and auditing of annual financial statements
The HORNBACH Baumarkt AG Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The separate financial statements of HORNBACH Baumarkt AG are prepared in accordance with the German Commercial Code (HGB). In line with legal requirements, the auditor is elected by the Annual

General Meeting. The Audit Committee prepares the Supervisory Board's proposal to the Annual General Meeting with regard to the auditor to be elected. The auditor is independent and is responsible for the audit of the consolidated and separate financial statements, as well as for the audit review of half-year financial reports. HORNBACH Baumarkt AG has a risk management system that is continually enhanced and updated to account for changes in conditions. The functionality of the early warning risk management system is checked by the auditors.

Transparency

The company's shareholders, all capital market participants, financial analysts, investors, shareholder associations and the media are regularly provided with up-to-date information about the company's situation and any material changes in its business situation. Here, the internet represents the main channel of communication (www.hornbach-group.com). All individuals with access to insider information in the course of their activities for the company are informed of the resultant obligations for them under insider law. HORNBACH Baumarkt AG reports on its situation and results in its

- Quarterly financial reports
- Half-year financial report
- Annual report
- Annual results press conference
- Conference calls with international financial analysts and investors
- Events with financial analysts and investors in Germany and abroad.

Dates of relevance to the company's regular financial reporting activities have been summarized in the financial calendar published on the internet at www.hornbach-group.com. Alongside this regular reporting, any information arising at HORNBACH Baumarkt AG which is not publicly known and which is likely to influence the company's share price significantly is published in the form of ad-hoc announcements.

Directors' dealings and shareholdings

Members of the Board of Management and the Supervisory Board of HORNBACH Baumarkt AG, and individuals closely related to such, are required by § 15a of the German Securities Trading Act (WpHG) to disclose transactions involving shares in the company or related financial instruments.

In the year under report, the company was notified pursuant to § 15a WpHG (directors' dealings) by members of the management or closely related individuals of five transactions. These involved the sale of 13,720 no-par ordinary shares in HORNBACH Baumarkt AG at prices of between € 32.52 and € 32.92 and a total amount of € 448,402. The securities transactions have been published on our website at www.hornbach-group.com [Investor Relations > Corporate Governance].

In line with Point 6.3 of the German Corporate Governance Code, we report ownership of shares in the company by members of the Board of Management and Supervisory Board where these directly or indirectly exceed 1 % of the shares issued by the company. Where the entire holdings of all members of the Board of Management and Supervisory Board exceed 1 % of the shares issued by the company, we report the entire holdings in the Corporate Governance Report broken down by Board of Management and Supervisory Board. At the balance sheet date on February 29, 2016, both individual holdings and the entire holdings by members of the Board of Management and Supervisory Board fell short of the 1 % threshold.

Relevant corporate governance practices

We base our entrepreneurial activities on the legal frameworks valid in the various countries in which we operate. This places a wide variety of obligations on the HORNBACH Baumarkt AG Group and its employees in Germany and abroad. As well as managing the company responsibly in accordance with the relevant laws, ordinances and other guidelines we have also compiled internal group guidelines setting out the system of values and management principles we adhere to at the Group. We have published the information referred to below under "Corporate Governance" in the "Investor Relations" section of our website at www.hornbach-group.com (see overview of articles).

Our system of values: The HORNBACH Foundation

HORNBACH is a forward-looking, family-managed company and is characterized by a clear system of values. The values on which this system is based are honesty, credibility, reliability, clarity and trust in people. This system of values, which had already been lived over many decades, was summarized in the so-called "HORNBACH foundation" in 2004. This model forms the cornerstone for our corporate strategy, everyday behavior, and responsibility towards society. It lays down the basic values governing how we behave towards our customers, as well how our employees behave towards each other. Moreover, this foundation helps our shareholders, customers and the general public, as well as our employees, to understand what the basis of our business success is [download at: www.hornbach-group.com/Fundament].

Compliance

In a competitive climate, only those companies which manage to convince their customers with their innovation, quality, reliability, dependability and fairness on an ongoing basis will succeed in the long term. Here, we see compliance with legal requirements, internal company guidelines and ethical principles (compliance) as absolutely crucial. HORNBACH's corporate culture is based on this approach, key aspects of which are built on key principles of the "HORNBACH Foundation". These principles are fleshed out in the "HORNBACH Values" [download at: www.hornbach-group.com]. These formulate the standards of conduct expected of managers and employees with regard to the stakeholder groups of "Government and Society", "Managers and Employees", "Customers, Suppliers and Competitors", and "Providers of Equity and Debt Capital". Among other factors, they set out how we meet our responsibility towards society, treat each other with respect, are committed to fair competition, act with integrity in our business dealings, and manage our financial reporting.

At HORNBACH, adherence with compliance requirements is consistently expected of its employees and business partners and is also monitored. The Board of Management bears overall responsibility for compliance. One core component of HORNBACH's compliance system is the Compliance Committee, which acts as the topmost advisory body for compliance organization. The Board of Management entrusted the coordination of compliance activities across the Group to a Chief Compliance Officer in October 2009. This manager reports to the Board of Management and is responsible for permanently optimizing the Group's compliance organization and structures. The Chief Compliance Officer is supported by compliance officers operating on a decentralized basis in all of HORNBACH's regions and departments.

Compliance with social, safety, and environment standards

The development of company guidelines governing minimum social standards, environmental protection, product safety and equality of opportunities forms an integral component of our corporate policy, as does monitoring compliance with such. Within our Corporate Social Responsibility (CSR) framework, we have issued group-wide guidelines to ensure that HORNBACH meets its responsibilities towards individuals, society at large, and the environment. The CSR guidelines [download at: www.hornbach-group.com/CSR-Guidelines] cover four areas of responsibility:

- **Minimum social standards**: In our procurement activities we ensure that acceptable minimum social standards are complied with in the manufacture of our products. We base our standards here on the conventions of the International Labor Organization (ILO). With the assistance of standardized factory audits and targeted checks on location, we are actively working to ensure compliance with these standards. These efforts are continuing to focus above all on direct imports from non-EU countries. We are endeavoring to make sure that a continuously higher share of our suppliers and upstream suppliers commit to these regulations.

- **Rainforest protection**: In procuring timber and related products we ensure that timber is cultivated and felled in accordance with generally accepted rules, especially those governing rainforest protection. For all timber products sold by HORNBACH, we make sure that the timber does not stem from forest depletion, but rather from sustainable forestry and that social welfare and occupational safety standards are adhered to in the timber production process. To this end, we work together with environmental protection organizations, such as Greenpeace, WWF, Robin Wood etc. HORNBACH stocks a large number of articles bearing the Forest Stewardship Council (FSC) seal for sustainable forestry. We only offer tropical woods that are certified by the FSC.

- **Product safety and production conditions**: We guarantee to our customers that all of our products meet the utmost safety standards. The company ensures this within the framework of an ongoing multistage process to assure the quality and audit the safety of its products. These checks are performed by employees in HORNBACH's quality management department with support from internationally certified inspection institutes. Alongside extensive product tests (initial sample inspections), the company focuses on auditing suppliers in the country of manufacture. The quality controllers also audit environmental and social welfare standards at the factories. This way, we aim to ensure that no forced labor or child labor is involved in the production of our merchandise. Not only that, we also perform random checks to audit compliance with strict quality standards along the entire procurement chain – from production via transport to sale at our stores.

- **Equality of opportunity (diversity)**: We ensure that our employees enjoy equal opportunities. We consistently oppose any kind of discrimination. HORNBACH is committed to promoting a liberal and open society based on shared values both within and outside the company. In this spirit we also signed the corporate "Diversity Charter" initiated for companies in Germany by the Federal Government in 2008 and have worked with "Tolerance within Society" print campaigns aimed at raising people's awareness of this topic.

Compensation Report

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

Compensation of the Board of Management

Compensation system at HORNBACH Baumarkt AG

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

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

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

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

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

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

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

Retirement and pension commitment

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

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

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

The employment contracts concluded with members of the Board of Management do not provide for the payment of compensation in the event of their activity on the Board of Management being terminated prematurely without compelling reason or due to a change of control. HORNBACH Baumarkt AG thus deviates from the recommendations made in Point 4.2.3 (4) and (5) of the German Corporate Governance Code. In individual cases, payments may nevertheless be made, based on a corresponding Supervisory Board resolution, to a member of the Board of Management retiring from the Board prematurely, particularly when the reasons for such retirement do not lie with the respective member.

Additional benefits

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

- Reimbursement of travel and other expenses incurred in the interests of HORNBACH Baumarkt AG based on the actual amounts incurred
- Grants towards private health insurance, voluntary retirement pension scheme or alternatively contributions to a private life insurance policy
- Accident insurance covering fatality and invalidity
- Temporary continuation of payment of compensation in event of sickness or death
- Claim to provision of a company car for work-related and private use.

Compensation of the Board of Management for the 2015/2016 financial year

Total compensation of the Board of Management of HORNBACH Baumarkt AG for the 2015/2016 financial year amounted to € 5,719k. Of this sum, € 2,800k constituted fixed compensation and € 2,919k involved performance-related components. Post-employment benefits of € 663k were incurred for active members of the Board of Management in the 2015/2016 financial year (pension provision endowment). Compensation for former members of the Board of Management totaled € 90k in the 2015/2016 financial year (2014/2015: € 1,924k), while pension provisions for former members of the Board of Management amount to € 1,247k (2014/2015: € 910k). All pension provisions are offset by corresponding value credits.

Given the company's size and its market position, we believe that the total compensation of the Board of Management is appropriate. At the 2011 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the compensation of members of the Board of Management on an individual basis up to and including the 2015/2016 financial year (opting-out clause).

Compensation of the Supervisory Board

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

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

The compensation of the Supervisory Board for the 2015/2016 financial year totals € 515k. Of this total, € 390k is basic compensation and € 125k for committee activity.

CORPORATE SOCIAL RESPONSIBILITY

In the interests of corporate social responsibility (CSR), the HORNBACH Group has imposed a set of rules governing its entrepreneurial activity. These ensure that the company meets its responsibilities towards people, the environment, animals, and society as a whole [**download at**: www.hornbach-group.com/CSR-Guidelines].

Responsibility for the environment

Timber only from responsible forestry

We are committed to attracting customers' attention to timbers bearing the quality seal of the Forest Stewardship Council® (FSC®). Back in 1996, our company already provided the WWF and Greenpeace with a voluntary undertaking not to import any uncertified tropical timber. HORNBACH guarantees that all of the timber products it offers come from certified sources. One focus of the activities of our quality management and environmental department involves working to protect rainforests and promote responsible forestry that also meets social and work safety standards. Given this focus, HORNBACH was very well prepared for the European Timber Regulation (995/2010) that took effect in 2013. Among other requirements, this regulation includes a duty of care for all timbers and timber products imported into the EU and also bans the import of illegally felled timbers.

Most extensive FSC-certified product range

Many consumers see DIY stores as having a particular obligation to ensure that only products from responsible forestry are on offer. To meet our customers' expectations in this area while also doing justice to our own commitment to sustainability, in 2007 HORNBACH became the first international DIY chain to be awarded the FSC Chain of Custody certificate GFA-COC-002007. This enables the timber supply chain to be checked from the place of origin through to the end product. The company's entitlement to this certificate is reviewed in annual audits performed by an independent testing institute. At all HORNBACH stores, trade companies and DIY enthusiasts can choose from a range of several thousand timber products bearing the FSC seal.

As part of our commitment to protecting the forests, HORNBACH participated in developing an information platform showing how forests can be put to responsible use. Here, HORNBACH is cooperating with the Swiss company Papiliorama and the FSC Switzerland.

Against hand-hewn natural stone

Stone is often hewn by hand in inhumane conditions. By consistently delisting these products, HORNBACH Baumarkt AG is sending a clear signal. It guarantees that it only offers stone from responsible sources. All direct import suppliers and their manufacturing sites are audited by accredited, certified audit institutes at regular intervals, and at least every twelve months. We have based the audit scope and contents on the accepted BSCI, ISA 9001ff, ILO, ISO 14001, ISO 26001, and SA 8000 standards and adapted these to our requirements. Upstream suppliers of our own suppliers – in this case quarries – have been directly instructed by our suppliers to comply with our guidelines.

New approach to plant protection

On time for the start of the 2016 gardening season, HORNBACH has removed plant protection products containing glyphosate from its product range. The company has also delisted products with insecticides classified as endangering bees (B1) or involving neonicotinoids. With these measures, HORNBACH aims to support customers in keeping their gardens as natural as possible and reducing any risks to human beings or the environment. HORNBACH is taking this approach in close dialog with suppliers and manufacturers and is working with these to investigate joint alternatives and include these in its product range. Customers receive competent advice from our garden center employees as to how the new products work and how they should be applied. At the BHB sector association, HORNBACH will also be further promoting a dialog about plant protection in the sector.

HORNBACH builds on "Healthy Living" quality seal

Consumers' sensitiveness towards contaminants in the air and in products has increased sharply. DIY enthusiasts and construction clients are paying increasing attention to the composition of the materials used. In terms of housing construction and renovation, energy efficiency became the top priority at the latest upon the introduction of the Energy Savings Ordinance. The problem here is that insulation and suitably built windows mean that rooms are now virtually airtight. The climate in the room remains constant, but it is difficult for harmful substances in the air to escape. The "Healthy Living" project aims to help consumers avoid contaminant substances when building and designing their interiors. To enable our customers to recognize at first glance which products are especially low in pollutants, HORNBACH has introduced its own seal of approval. With the HORNBACH seal, we provide our customers with a guide through the labyrinth of different seals. The seal is attached to shelves and acts as a reliable indicator that the products thereby labeled offer permanently better living quality. These include both HORNBACH private label products and products bearing the "Blue Angel" or "natureplus" seals.

The quality of the articles thereby certified is checked in detailed tests performed by independent institutes, such as the eco-Institut in Cologne, and subsequently awarded the "Healthy Living" seal of approval. These products stand for less polluted ambient air and permanently better quality of living. A separate website provides detailed information and answers frequently asked questions (www.hornbach.de/gesundeswohnen). We will be continually expanding our "Healthy Living" product range in the coming years.

Competent energy-saving partner

Construction clients and homeowners are obliged to implement new requirements resulting from legally binding energy-saving ordinances. HORNBACH is a competent partner here and has the product range necessary to help customers implement their energy-saving projects. New windows and doors offer substantial potential savings, as do façade, roof and basement ceiling insulation. Our product range also offers a broad range of energy-saving items – from efficient lighting systems to standby killers, water saving articles and upgraded insulation, as well as new pellet and high-tech reverse cycle heating systems.

All-round waste concept with customer service

Given the increasing scarcity of resources, a commitment to the environment in today's world would be unthinkable without recycling. To minimize the number of journeys required, HORNBACH's stores and logistics centers use compressors for high-volume waste, such as paper and plastics. An all-round waste concept promotes the separation, and thus recycling, of recyclable fractions as secondary commodities, while also helping to reduce the volume of non-recyclable waste.

Our customers in Germany have the possibility to deposit broken energy-saving light bulbs, LEDs, and luminescent tubes free of charge in suitable containers at the stores. With this voluntary service introduced in November 2011, HORNBACH is making it easier for consumers to dispose of these items during its usual opening hours, which are significantly more generous than at municipal collection points. Since 2013, HORNBACH has played a leading role in the framework negotiated by the BHB DIY sector association and the VKU municipal company association. This involves accepting broken small electrical appliances, such as drills, fret saws, and battery-powered drills, as well as non-DIY products such as shavers and toasters. The old appliances accepted are then collected free of charge by municipal disposal companies. The aim here also involves helping to protect the environment and avoid such products being illegally disposed of in normal household waste. Due to the voluntary measures already in place, we were well prepared for the mandatory acceptance of old electrical appliances now introduced by law.

Online recycling portal for stores and logistics centers

Numerous different types of waste arise at our HORNBACH DIY megastores with garden centers. To simplify the disposal of this waste, in 2015 HORNBACH launched its own web-based recycling portal. This option for ordering and organizing the collection of disposal containers was initially launched in the Netherlands and parts of Germany and Austria. In the year under report, the portal was rolled out to a current total of 135 stores in six countries and to seven logistics centers.

Expansion in proprietary resource collection

In the 2014/2015 financial year, we began using special trucks, HORNBACH's "Resource Liners", to organize the proprietary collection of resources from our stores in the Netherlands and parts of northern Germany. In the year under report, we extended this collection to further regions. HORNBACH's "Resource Liners" are now on the road in large parts of Germany, as well as in Austria, the Netherlands, Sweden, Luxembourg, and Switzerland. These enable us to collect large volumes of resources at the stores and then to deliver them to the desired recycling locations, such as paper factories. HORNBACH can thus ensure that further processing of the resources takes place directly. A further benefit is that these trucks – when they are not loaded with resources – can be integrated into the store supply network. This way, empty runs can be avoided and stores located on the trucks' disposal routes can be supplied with the necessary merchandise. This concept is due to be extended to other HORNBACH regions as well.

CSR system for early risk identification

Working in cooperation with the Austrian startup Sophiesystems and the University of Vienna, HORNBACH has developed a so-called CSR map. Behind the name, there is an IT system that enables potential supply risks to be identified earlier and ideally to be avoided. The CSR map is based on two pillars. On the one hand, it includes a wealth of data. These include all relevant article master data for HORNBACH's product range, as well as all supplier audit reports submitted to HORNBACH by the audit institutes. Internationally recognized indices are deposited, initially for each non-European country. These include corruption indices, environmental indices (linked to country-specific legislation), and social welfare indices. Together, all this data is used to present a so-called risk tree on the basis of which individual articles can be assessed. On the other hand, the CSR map is connected to a news system that processes items of news in real time. The news items are presented in relationship to the products, factories, and suppliers entered in the system. In the event of environmental catastrophes, for example, the system can react immediately and color the articles thereby affected red.

Logistics: combining efficiency with environmental protection

HORNBACH is also making a contribution towards protecting the environment with the work performed by its logistics centers. In its logistics activities, the Group continued to work on reducing its CO_2 emissions in the 2015/2016 financial year. By opening new logistics locations and additional delivery plants, and by managing processes with suitable software, the Group managed to reduce total transport distances. Furthermore, alongside trucks the Group also deployed alternative means of transport. Heavy goods, such as tiles, are transported across the Alps by rail. Not only that, containers from the import hubs of Rotterdam and Hamburg are returned not by truck, but by inland waterway and rail.

A further lever for reducing CO_2 emissions involves smartly managing deliveries of merchandise to our stores. In cooperation with suppliers, the key focus is on optimal freight capacity utilization and efficient route planning. Comprehensive transport planning enables reliable deadlines to be issued to haulers and customers at the store. That significantly reduces waiting times and saves resources in terms of truck deployment. Furthermore, it leads to better working conditions for drivers and employees alike.

The introduction of full-range electronic data exchange between HORNBACH and its suppliers is creating greater transparency in the supply chain. Easier data accessibility removes the need for large quantities of printouts. As a member of the Logistics Workgroup at the BHB sector association, HORNBACH is targeting and promoting solutions aimed at digitizing and standardizing the processes involved.

To save resources, one key priority in our logistics involves freeing merchandise from unnecessary packaging material. This is largely made possible by working with reusable, durable transport containers which HORNBACH uses in circuits between its suppliers, logistics centers, and stores.

In the year under report, all employees at the logistics centers were equipped with new work and protective clothing. Safety vests are now part of employees' daily work clothes. This improvement forms a core aspect of employee safety.

Low consumption volumes in car pool

Ecological and economic topics also play a key role when it comes to managing the Group's vehicle pool. In the period under report, HORNBACH further reduced its CO_2 limits – by up to 12 % compared with the previous year. The average consumption of the vehicles ordered amounted to 4.4 liters per 100 kilometers in the past financial year (based on manufacturers' data).

By accounting for fuel consumption in the calculation of the monthly mobility installment, drivers are incentivized to select lower consumption vehicles. HORNBACH company car drivers have increasingly also been offered hybrid vehicles. More far-reaching tests with electric vehicles are planned for the new financial year.

Energy-saving measures at stores and logistics centers

The company also actively takes account of environmental protection factors when building and operating its stores. The new lighting technology has benefited not only all new stores – a further existing store was upgraded in the year under report, so that 125 stores now have the new technology (2014/2015: 124). At core, this sustainable lighting technology involves introducing electronic control gear for the operation of halogen metal vapor lamps. Central lighting control now allows the lighting to be dimmed and means that only that volume of light actually required in a given area is used. What's more, the lighting system is tailored to make optimal use of daylight. The installation of large light domes and long light bands in the roofs of new stores also assists in using natural light. The new lighting technology not only increases the operating lifetime of the lighting equipment by around 50 %, but also helps reduce annual energy costs. Not only that, it has also noticeably improved lighting quality in the shelves.

A further contribution towards saving energy is due to the Building Control Technology (BCT) that we included in our new building standards several years ago. This system manages the operating times of energy-consuming systems in line with requirements, thus optimizing energy consumption volumes. A total of 139 of our stores have been equipped with the latest technological standard (2014/2015: 133).

Efficiency is also the top priority in terms of heating energy. Here, consistent waste heat recovery in the ventilation system ensures a lower volume of consumption. This technology is used when building new stores, as is enhanced heat insulation based on a new façade system. This has benefited the new stores opened in the year under report.

Based on weekly consumption statistics (electricity and heating energy), each HORNBACH store is able to gain a precise picture of its own energy efficiency. By drawing on various energy-saving technologies, we managed to further reduce the annual CO_2 emissions of our group-wide store network in the year under report.

Alongside the efforts made by our DIY stores with garden centers, several innovations have also been introduced at HORNBACH's logistics centers. The first stage involved performing light analyses, which served to identify potential energy savings. The findings were subsequently drawn on to initiate an LED installation pilot project at the logistics centers. When this pilot stage is successfully completed, the project should be rolled out to further logistics centers. Not only that, the use of high-speed doors is being tested in order to reduce heating costs.

Responsibility for our employees

Diversity and equality of opportunity in our workforce

The rejection of any kind of discrimination is an absolute priority in our behavior toward our employees. Ethnic origin, gender, age, sexuality, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities that count are specialist competence, a willingness to learn, and team spirit. By signing the "Diversity Charter" in 2008, the company clearly underlined its commitment to a working environment that is free of prejudice. People from a total of 69 countries across five continents work together in the nine countries in which HORNBACH operates.

For future opportunities – against shortage of specialists
HORNBACH has supported the CHANCENWERK project for several years, thus underpinning its claim to offer the same training opportunities to young people irrespective of their origins, gender, or religion. The aim of the project is to promote young people from different, in some cases difficult social backgrounds. In cooperation with CHANCENWERK, HORNBACH is supporting school pupils in three towns in Germany. Among other measures, our employees offer active job application training, our own trainees report to schools on their day-to-day work, and the DIY stores on location offer work experience and – in the best case – training posts.

HORNBACH took part in the "German-French Training Program" initiated by the Chamber of Commerce and Industry (IHK) for the first time in the 2014/2015 financial year. This initiative on the part of the IHK in the Palatinate region offers French trainees the opportunity to learn at a German company while still attending school in France. The young adults initially complete their training in France. This was a source of valuable experience for trainees and HORNBACH alike. Hiring suitable trainees from across national borders is also possible in other regions.

Personnel development: everyone can become everything
This motto is the principle underlying the development of specialist and management staff at HORNBACH. The company only trains the staff it actually needs, with a trainee quota of more than 7 percent. This means that all trainees and participants in dual academic and vocational training programs have good chances of receiving a job at HORNBACH when they complete their training. In the period under report, around 66 percent of trainees were offered jobs. The company prefers to recruit its managers from among its own staff where possible. Separate qualification modules have been developed for all store positions, and these are embedded into an all-round next generation development program. This career path is open to all employees. The only qualities that count are performance and personal potential.

Key focus on employee satisfaction
The success of the HORNBACH Group is closely linked to the competence and motivation of its employees. Their willingness to roll up their sleeves, and thus continually improve the Group's earnings, is honored by our bonus model. To enable our employees to participate even more closely in the company's success, we also offer the opportunity of acquiring employee shares in HORNBACH Baumarkt AG.

Even in a positive working environment, the possibility of conflicts arising between employees or with their superiors cannot be excluded. To offer employees a neutral point of contact, HORNBACH has created the position of ombudsman. He acts as contact partner to employees and may also be initially approached without involving the opponent in the conflict. If it is apparent at the first meeting that mediation is required between the two parties to the conflict, then the ombudsman takes the initiative. His job is then to listen to both sides, moderate and ideally solve the problem. The employee should not suffer any disadvantage due to this mediation. This neutral point of contact is used by employees from across the Group and has met with high acceptance levels.

Responsibility for society

HORNBACH Foundation: “People in Need”
One particular sign of our social responsibility towards our employees was the establishment in 2002 of the HORNBACH Foundation "People in Need". This has since offered assistance in cases of accidents, severe illness, or tragic cases of fatality. Employees across the company document their solidarity with the Foundation with their "Employees help Employees" campaign, in which HORNBACH Baumarkt AG doubles the donations collected. Moreover, the Foundation is also a contact point for people outside the company who are in

situations of dire need. All in all, the Foundation supported 102 individuals with a total of almost € 140,000 in the year under report.

Key focus on children and young people

However, our commitment to society is not limited to the work performed by the Foundation. HORNBACH supports the work of many local associations and organizations at and around our locations. When selecting projects, priority is generally accorded to projects offering long-term benefits to children and young people. Environmental protection and heritage conservation are two other areas in which the company is active to the benefit of society.

Committed to the Rhein-Neckar metropolitan region

As a member of the Rhine-Neckar European Metropolitan Region Association, our Group is helping promote the region. The aim is to communicate its attractiveness, power of innovation, and economic strength to the outside world. Once every two years the Rhine-Neckar metropolitan region organizes its "Volunteers' Day", in which interested parties are invited to get actively involved in social and welfare projects in their local areas. Just the thing for HORNBACH: in view of this, the company decided in the year under report to participate once again in 2016 by issuing vouchers. In the previous "Volunteers' Day" in 2014, numerous employees also rolled up their sleeves and helped decorate, saw and, weed. The Personnel Department, for example, issued a group-wide invitation to a team day and helped with two major projects. Not only that, many other employees also volunteered on this day to support the good cause in their own local communities, towns, and areas.

Ensuring compliance with international minimum standards

For more than ten years now, HORNBACH has voluntarily made every effort to ensure that minimum social standards are complied with at factories producing goods for the company. To this end, HORNBACH commissions independent audit institutes to check and evaluate factories' compliance with international standards at regular intervals. Among others, the aspects audited and assessed include compliance with local and government environment legislation, no use of forced labor, and the existence of a minimum working age. Furthermore, compliance with further standards is monitored. These include: no requirement to deposit identity papers with employers, no threatening let alone inflicting of physical or psychological violence, compliance with fire protection and occupational safety standards, and the availability of sufficient numbers of easily accessible escape routes. A detailed description can be found in HORNBACH's CSR Policy [download at: www.hornbach-group.com/CSR-Guidelines].

HORNBACH only buys its products from suppliers who acknowledge these basic rules of social responsibility. The conventions of the International Labor Organization (ILO) serve as a basis for HORNBACH's own regulations and have been adapted in line with our requirements. Our suppliers also have to ensure compliance with these standards at their own upstream suppliers. HORNBACH is working actively and insistently to ensure compliance with these regulations and to make sure that any problem areas are systematically identified and immediately remedied.

THE HORNBACH BAUMARKT SHARE

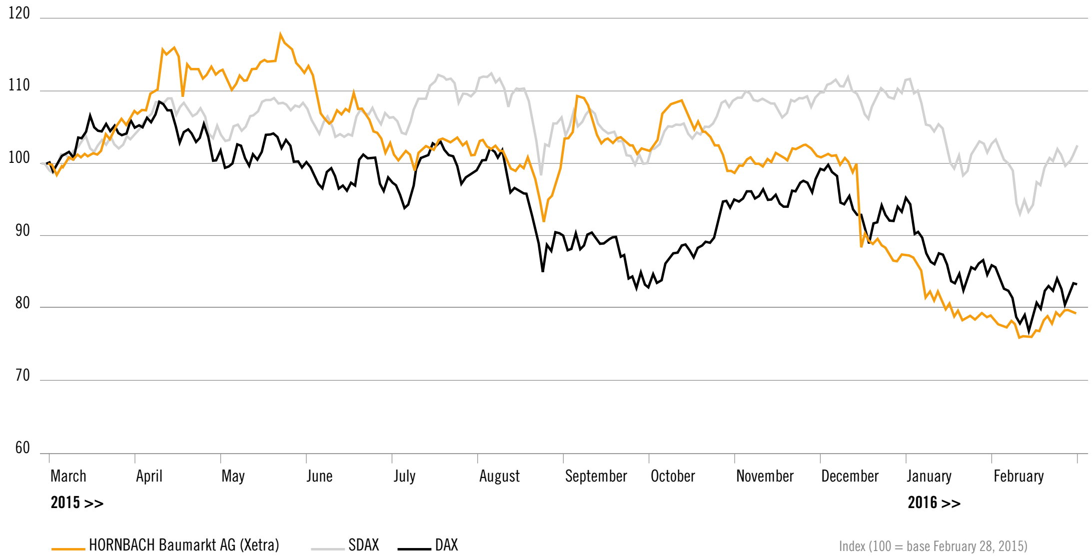
Key figures for the HORNBACH Baumarkt share		2015/2016	2014/2015	2013/2014	2012/2013	2011/2012
Year-end price[1]	€	25.77	32.60	30.50	26.00	25.05
12-month high[1]	€	38.60	34.98	31.10	26.40	28.00
12-month low[1]	€	24.51	26.56	24.00	24.20	21.50
Shares issued	Number	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000
Market capitalization	€ 000s	819,666	1,036,908	970,114	826,982	796,765
Earnings per share	€	2.28	2.19	1.77	1.64	2.43
Price / earnings ratio[2]		11.3	14.9	17.2	15.9	10.3
Book value per share	€	30.59	29.02	27.10	25.83	24.90
Price-to-book ratio[3]		0.8	1.1	1.1	1.0	1.0
Cash flow from operating activities per share	€	3.35	3.38	4.54	2.98	3.26
Price / cash flow ratio[4]		7.7	9.7	6.7	8.7	7.7
Dividend per share[5]	€	0.68	0.60	0.60	0.50	0.50
Distribution total[5]	€ 000s	21,629	19,084	19,084	15,904	15,904
Payout ratio[5,6]	%	29.8	27.4	33.9	30.5	20.6
Dividend yield[7]	%	2.6	1.8	2.0	1.9	2.0
Performance including dividend	%	(19.5)	8.9	19.7	5.8	1.1
Performance excluding dividend	%	(21.0)	6.9	17.3	3.8	(0.7)
Average daily trading volume[1]	Number	10,246	10,476	2,968	1,548	2,212

[1] In Xetra trading
[2] Year-end price ÷ earnings per share
[3] Year-end price ÷ book value per share
[4] Year-end price ÷ cash flow from operating activities per share
[5] 2015/2016: proposal to 2016 Annual General Meeting
[6] Dividend per share ÷ earnings per share
[7] Dividend per share ÷ year-end price

Rollercoaster ride for equity investors in 2015

European stock markets offered attractive returns once again in the 2015 calendar year. However, substantial fluctuations meant investors needed strong nerves and ultimately had to accept results that fell far short of the highs seen early in 2015. The German stock market was no exception. At the beginning of the year, it posted an impressive upturn. This was powered above all by the easing in monetary policy by the European Central Bank to an extent that took investors by surprise. Not only that, the depreciation in the euro benefited Germany's export-dependent economy in particular. The DAX, Germany's lead index, posted a new all-time high at 12,391 points on April 10, by when it had already risen more than 26 % since the start of the year. That marked the end of the good times on the stock market in 2015. What followed was a period of increased nervousness and uncertainty accompanied by sharp fluctuations in prices and several setbacks. The euro depreciation came to a halt due to the postponed turnaround in US base rates. The key focus of unease, however, and one that came ever more to the fore from summer 2015, was the Chinese economy. Growth here slowed far more substantially than economists had expected. As a result, the DAX fell more than 2,000 points in just ten days in August and hit its annual low at 9,325 points on September 29. The gains of around 26 % were thus transformed into a loss of almost 5 %. Thanks to a dynamic year-end rally, the index regained some of its earlier form in the fourth quarter and closed the year up 9.6 % at 10,743 points. The substantial fluctuations seen in 2015 are also reflected in the VDAX volatility index. Still at 19.48 points at the end of 2014, this then fell to 14.66 points in February. By September, however, the index reached 39.94 points – its highest since June 2012.

Share price performance: March 1, 2015 to February 29, 2016



False start to 2016

The 2016 trading year began on a similar note to the previous year – but with reverse signs. Investors are currently monitoring the situation in China in particular with great concern. Numerous economic indicators turned out poorer than expected in recent months, thus nurturing fears that the slowdown in Chinese economic growth could turn out to be prolonged. Another factor is the low in commodity prices. A correlation is currently to be observed between the development in share prices and the oil price. It is therefore no coincidence that the DAX was at 9,495 points at the end of our 2015/2016 financial year and thus posted a performance of minus 16.7 % over our reporting period. The performance of HORNBACH Baumarkt's share was somewhat weaker.

Negative performance despite new all-time high

Even though the HORNBACH Baumarkt share tracked the very positive development in the overall market at the beginning of our 2015/2016 financial year, by the balance sheet date it left the race with a negative performance. On the first trading day of our financial year – March 2, 2015 – the share was listed at a Xetra closing price of € 32.50. On March 24, 2015, it benefited from the pleasing sales figures published in our trading statement for the 2014/2015 financial year. By analogy with positive market developments and driven by high earnings expectations for the 2014/2015 financial year, the share then set course to reach a new all-time high at € 38.60 on May 22, 2015. Profit taking and the negative market climate resulting from concerns about Chinese growth and the turnaround in US base rates subsequently led to a substantial downturn in the Baumarkt share price.

The upgrade in the Moody's credit rating from "Ba1" to "Ba2" at the end of August and publication of solid figures for the first half of 2015/2016 at the end of September offered the share fresh momentum. However, the reaction to the profit warning published on December 9 due to the unsatisfactory operating performance in the third quarter basically provided the final guarantee that the share's performance over the financial year as a whole would be negative. The correction in the earnings target for the 2015/2016 financial year led the share price to plummet by around 12 % to € 28.61 on the day after the ad hoc announcement was released alone. Transparent comments on the earnings performance in the nine-month report published on December 22, 2015 also did not help. This situation was exacerbated by a weak start to the year on the overall market, in the wake of which the Baumarkt share reached its annual low at € 24.51 on February 10, 2016. At the close of trading on the balance sheet date on February 29, 2016, the share was listed at € 25.77. Excluding the dividend payment, the share thus lost 21.0 % of its value over the twelve-month period. Assuming payment and reinvestment of the dividend, the negative performance amounted to 19.5 %.

Stock market turnover at previous year's level

Having risen sharply between the 2013/2014 and 2014/2015 financial years (plus 253 % to 10,476 shares per trading day), in the period under report average daily trading volumes decreased slightly to 10,246 shares per day. Due to the strong share price in the first half of our financial year, average equivalent trading volumes grew from € 328k to € 337k per trading day. Alongside trading volumes, the market capitalization (based on free float) is also a decisive criterion determining a company's listing and ranking in a stock market index such as the SDAX. Due in particular to the profit warning issued on December 9, 2016 and the resultant decline in the share price, this key figure deteriorated. As a result, after around two years of membership the HORNBACH Baumarkt share was obliged to leave the SDAX once again as of March 21, 2016 (included: June 23, 2014).

Voting right notifications

Pursuant to § 21 (1) of the German Securities Trading Act (WpHG), shareholders are obliged to disclose their share of voting rights within four trading days should these reach, exceed, or fall short of specified disclosure thresholds. These amount to 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 %, and 75 %. Similar disclosure obligations apply pursuant to § 25 and § 25a WpHG for bearers of financial instruments should these reach, exceed, or fall short of the aforementioned thresholds with the exception of the 3 % threshold. HORNBACH Baumarkt AG is obliged by § 26 WpHG to publish these disclosures immediately, and at the latest within three trading days of receipt. In the period under report from March 1, 2015 to February 29, 2016 we received and published two such notifications. These notifications can be found in the "NEWS" section of the company website at www.hornbach-group.com (filtered using the catchword "voting right notification").

Buyback of shares for further employee share program

Issuing employee shares each year has become a tradition at HORNBACH. Since the 1993/1994 financial year, the year of the IPO, employees entitled to subscribe are given the opportunity to participate in the sustainable business performance and long-term success of the HORNBACH Group by acquiring HORNBACH Baumarkt shares at reduced prices. At 25.0 %, the participation rate as a percentage of all individuals entitled to subscribe was at the same level in the year under report as in the previous year (2014/2015: 25.4 %). A total of 2,302 employees participated in the offer (2014/2015: 2,185) with 43,760 shares being transferred in all (2014/2015: 42,010).

Analysts consistently recommend buying the share

The HORNBACH Group received strong endorsements from financial analysts once again in the 2015/2016 financial year. Currently (as of February 29, 2016), a total of four analysts regularly report on the HORNBACH Baumarkt share in the form of research reports and studies issued within their coverage. All analysts recommended buying the share and the average share price target came to € 34.50, implying upward potential of 34 % compared with the closing

Key data about the HORNBACH Baumarkt share	
Type of share	No-par ordinary bearer shares
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification number	608440
ISIN	DE0006084403
Stock market ticker	HBM
Bloomberg	HBM GY
Reuters (Xetra)	HBMG.DE
Financial year	March 1 to February 28 (29)
Initial public offering	11.15.1993
Number of shares	31,807,000
Share capital	€ 95,421,000

price of our share in the 2015/2016 financial year. The current list of bank and research institutes regularly reporting on HORNBACH and their respective recommendations for the share can be viewed under Investor Relations > Share > Analyst Recommendations at the HORNBACH Group's website.

Proposed increase in dividend per share

The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose an increase in the dividend paid from € 0.60 to € 0.68 per share with dividend entitlement for approval by the Annual General Meeting on July 7, 2016. The company is thus contributing to the distribution policy announced on the level of HORNBACH Holding AG & Co. KGaA upon the transformation in that company's legal form. Taking due account of the company's performance capacity and the principle of dividend continuity, from the 2015/2016 financial year its general partner HORNBACH Management AG basically intends to pay a dividend of 30 % of consolidated net income after minority interests. This target should also apply for HORNBACH Baumarkt AG. The distribution total for the 2015/2016 financial year amounts to € 21,629k (2014/2015: € 19,084k).

Our investor relations activities provided shareholders, analysts, the financial media, and the general public with prompt information on the business performance of the HORNBACH Baumarkt AG Group in the past financial year. All quarterly reports, annual reports, press releases, and additional financial information were published on the internet communications platform of the HORNBACH Group (www.hornbach-group.com), which has been presented with a new, up-to-date design scheme since the end of September 2015. All contents have been taken over from the old website. New topics, such as sustainability, an extensive media library, and useful information about HORNBACH's shares, including a share tool / yield calculator, have been newly added. This corporate communications site thus complements the product-related and marketing content available at HORNBACH's website at www.hornbach.com.

The Annual General Meeting, annual results press conference, analysts' conferences and meetings with investors give us opportunity to maintain our dialog with the capital markets. Moreover, we draw on personal contacts with investors and the media to present our company's objectives and strategy. Alongside our current performance figures, we also outline the special features of our concept, our market position, particularly with regard to the HORNBACH Group's future growth prospects, as well as the macroeconomic and sector framework.

FINANCIAL CALENDAR 2016

May 24, 2016	Annual Results Press Conference 2015/2016 Publication of Annual Report DVFA Analysts' Conference
June 24, 2016	Quarterly Statement: 1st Quarter of 2016/2017as of May 31, 2016
July 7, 2016	Annual General Meeting of HORNBACH Baumarkt AG Festhalle Landau, Landau/Pfalz
September 29, 2016	Half-Year Financial Report 2016/2017 as of August 31, 2016
December 22, 2016	Quarterly Statement: 3rd Quarter of 2016/2017 as of November 30, 2016

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COMBINED MANAGEMENT REPORT

GROUP FUNDAMENTALS

The Group at a glance

The HORNBACH Baumarkt AG Group (hereinafter "HORNBACH") is one of Europe's leading do-it-yourself (DIY) retail companies. At the balance sheet date on February 29, 2016, the Group operated 153 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 99 locations are in Germany. A further 54 stores are located in the following other European countries: Austria (13), the Netherlands (11), Luxembourg (1), the Czech Republic (9), Switzerland (6), Sweden (5), Slovakia (3), and Romania (6). With total sales areas of almost 1.8 million m², the average size of a HORNBACH DIY store with a garden center amounts to around 11,600 m². In the 2015/2016 financial year (March 1, 2015 to February 29, 2016), the HORNBACH Baumarkt AG Group generated net sales of around € 3.53 billion. This makes HORNBACH the third-largest retail group in the German DIY sector and the fifth-largest player in Europe. At the balance sheet date on February 29, 2016, the Group had a total of 16,600 employees (2014/2015: 15,684), of which 7,034 outside Germany (2014/2015: 6,320).

The diagram on Page 40 presents the current group structure and provides an overview of the most important shareholdings of HORNBACH Baumarkt AG. Complete details about the scope of consolidation and consolidated shareholdings are provided in the notes to the consolidated financial statements.

HORNBACH Baumarkt AG is a listed stock corporation. Its parent company HORNBACH Holding AG & Co. KGaA (until October 9, 2015: Hornbach Holding Aktiengesellschaft) holds 76.4 % of the total of around 31.8 million ordinary shares in the company (ISIN DE0006084403, Prime Standard). 23.6 % of its shares are in free float (status: February 29, 2016). The company was founded in 1877 and is still family-managed, now in the fifth generation.

Group business model

Retail activities

HORNBACH has an absolute focus on project customers. On the one hand, those are home improvement enthusiasts and professional customers wishing to implement extensive renovation and construction projects under their own steam in their houses, apartments, or gardens (do-it-yourself). On the other hand, they also include customers wishing to select their products themselves, but then to have all of the work involved in their project, including all services, performed by a competent partner (do-it-for-me). All of the company's activities are tailored to these target groups. HORNBACH thus offers its customers easily accessible locations, a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, a reliable and transparent permanently low price policy, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in well-known consumer surveys.

The average product range stocked by HORNBACH stores encompasses around 50,000 articles in the five following divisions: Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

HORNBACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio of 153 locations (February 29, 2016) in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company is relying not just on its stationary retail business, but is also building on the development potential harbored by e-commerce. As a high-performing virtual DIY store and garden center, HORNBACH's online store is gradually being rolled out to all of the countries in which HORNBACH operates stores. The guiding principle – HORNBACH should offer customers all channels they need to implement their projects.

Real estate activities

The HORNBACH Baumarkt AG Group has a substantial real estate portfolio. This predominantly relates to retail properties used by the company itself. At the balance sheet date on February 29, 2016, 26.7 % of the sales areas were owned by the Group. HORNBACH Immobilien AG and its subsidiaries owned a further 28.9 % 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.

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 (until 2014/2015 financial year: "DIY stores") comprises the 153 DIY megastores with garden centers pooled at the HORNBACH Baumarkt AG Group (2014/2015: 146) and our e-commerce retail activities. Sales at the HORNBACH Baumarkt AG Group are primarily generated in the Retail segment, i.e. in the operating retail business. The "Real estate" segment comprises the retail properties owned by the HORNBACH Baumarkt AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are summarized in the "Headquarters and consolidation" reconciliation column.

Management system

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

Key management figures

For a retail company like the HORNBACH Baumarkt AG Group, sales growth is the central management figure for its operating business. This figure directly indicates our success with customers. Our sales performance is reported on the one hand as net total sales in euros. On the other hand, we also present the change in like-for-like and currency-adjusted sales, which do not include sales at stores newly opened, closed or subject to major conversion work in the year under report. In the "Earnings situation" section, we supplement this information by reporting on the change in like-for-like sales including currency items.

Operating earnings (EBIT), i.e. earnings before interest and taxes, are also one of the most important key management figures at the Group. In the income statement, these are calculated as gross profit in euros less costs (selling, store, pre-opening, and administration expenses) plus other income and expenses (net balance of other income and other expenses). EBIT represents the central key management figure for planning, measuring and managing the Group's operating earnings performance.

Further key management figures

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

Selling, store, pre-opening, and administration expenses are key parameters for assessing the Group's earnings strength. We use **cost ratios** calculated as percentages of net sales as key management figures and also as cost trend indicators.

In cases where non-operating, unscheduled one-off factors in particular have significantly influenced EBIT in the reporting or comparative period, we enhance the comparability of earnings between individual reporting periods by reporting on the key management figure of EBIT net of non-operating income and expenses (adjusted EBIT or operating earnings from operations).

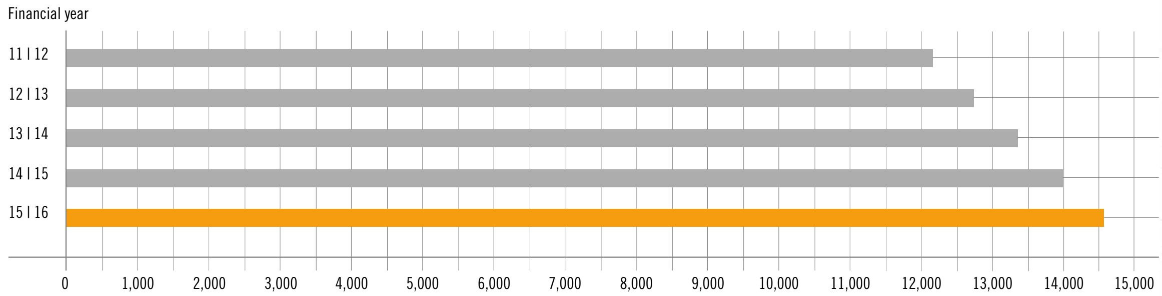
In managing its financial and asset position, the HORNBACH Baumarkt AG Group pursues the objective of safeguarding the Group's liquidity at all times and of covering the financing requirements for the Group's sustainable growth at the least possible expense.

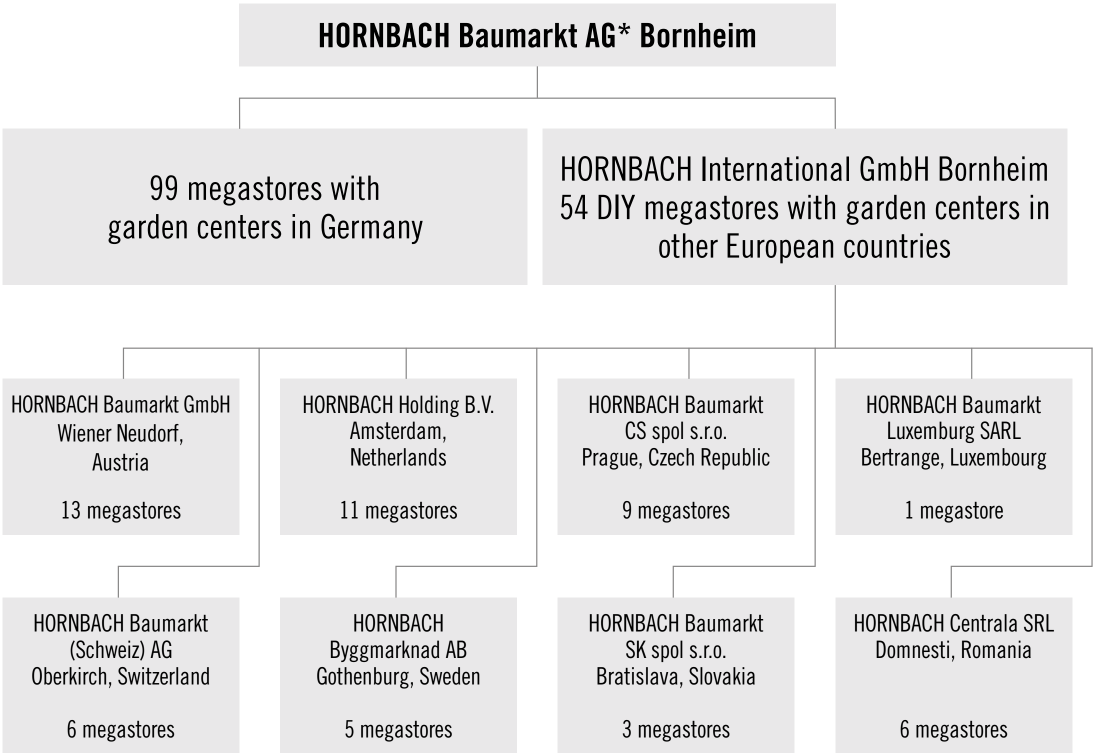
Other key management figures include cash-effective **investments** in land, buildings, plant and operating equipment for new and existing DIY stores with garden centers, and intangible assets. Here, we aim to strike a balance between our operating cash flow and our budgeted investments.

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

The Group has not set any defined target for its shareholders' equity. To safeguard our financial stability and independence, our basic objective is rather to permanently ensure a stable, high **equity ratio**.

Number of employees
(annual average converted into full-time equivalents)





* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 29, 2016

BUSINESS REPORT

MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

International framework

Global economy

According to estimates compiled by the International Monetary Fund (IMF) in January 2016, global output showed year-on-year growth of 3.1 % in 2015 as a whole. That was the lowest rate of growth since the global financial and economic crisis in 2008/2009.

Europe

The European economy maintained its slow, but nevertheless solid recovery. Based on figures released by the European Union statistics authority (Eurostat), gross domestic product (GDP) in the European Union as a whole (EU 28) grew by 1.9 % in the 2015 calendar year (2014: 1.4 %).

Real-term GDP in the euro area (EA19) rose by 1.6 % overall in 2015. That is the highest rate of growth since 2011.

The nine European countries in which HORNBACH operates also showed a uniformly positive picture in terms of their economic developments. Based on the data available upon completion of this report, the growth rates achieved in 2015 were in most cases well ahead of the previous year's figures. The top performer here was Luxembourg, with GDP growth of 4.8 %, closely followed by the Czech Republic with 4.4 %. Romania, Slovakia, and Sweden all posted strong performances with growth rates of around 4.0 %. The Netherlands and Germany were in the middle of the field, with growth rates of plus 1.9 % and plus 1.7 % respectively, while only Switzerland and Austria fell short of the European average with growth rates of 0.9 % in each case.

Construction industry, consumer spending, and retail

Based on estimates compiled by the Euroconstruct Group, European construction volumes in its 19 partner countries grew overall by 1.5 % to around € 1.37 trillion in 2015. Of this total, almost € 255 billion was invested in new housing construction, which thus grew by 10.9 % from € 230 billion in the previous year. Consistent with this development, the number of building permits issued rose by 5.9 % in the EU 28 countries and by 2.7 % in the euro area. Most HORNBACH countries even exceeded these high figures. Based on data collected by Eurostat, the number of building permits issued in Germany, the Netherlands, Austria, Romania, Sweden, Slovakia, and the Czech Republic posted substantial growth rates ranging from plus 3.8 % to plus 36.0 %.

Lower crude oil prices were the dominant factor determining the development in consumer prices once again in 2015. Due to the sharp drop in energy prices, the average rate of inflation (HICP rate) in the euro area fell to 0.0 % following an already very low rate of 0.4 % in the previous year. In combination with a marked downturn in unemployment of around 8 %, real-term disposable incomes rose tangibly and boosted private consumers' willingness to spend. Apart from in Greece, real-term private consumer spending thus rose across all countries of the European Union by a total of 2.1 %.

The effects of this also made themselves felt in the European retail sector. Average retail sales in 2015 (excluding automobile sales and adjusted for calendar factors) grew year-on-year by 3.3 % in the EU 28 countries and by 2.7 % in the euro area. All countries in HORNBACH's network except Switzerland reported positive growth rates. Germany, Luxembourg, Romania, Sweden, and the Czech Republic posted rates at around or above the European average.

The indicators available on the basis of sector association surveys also point to a successful year in the DIY store and garden center sector in 2015. In most of the European countries for which data was available, like-for-like sales in the DIY retail sector increased compared with 2014, in some cases significantly so.

Business framework in Germany

The macroeconomic situation in Germany in 2015 was characterized by solid, consistent economic growth. Based on calculations compiled by the Federal Statistical Office, price-adjusted gross domestic product rose by an average of 1.7 % in 2015 compared with the previous year.

Domestic demand, the key macroeconomic factor in assessing the framework for DIY stores and garden centers in Germany, continued to develop positively in 2015. The driving force here came from buoyant levels of consumer confidence based on a sharp rise in employment totals and marked income growth. Price-adjusted private consumer spending rose by 1.9 %.

Construction activity and construction trade

Taken as a whole, the economic data for the construction industry paints a favorable picture for 2015. Strong demand and low mortgage rates further boosted housing construction in Germany in the past year.

Building permits showed further strong growth. The construction of around 309,000 housing units was approved in the 2015 calendar year. According to the Federal Statistical Office, that represents a year-on-year increase of 8.4 %, or almost 24,000 units. Not only that, the 300,000 unit mark was exceeded for the first time since 2000. The growth was driven in 2015 once again by an increase in the permits issued for detached houses at plus 8.1 % (2014: minus 1.4 %) and semi-detached houses at plus 5.3 % (2014: minus 5.8 %). The number of building permits issued grew by 6.9 % for apartments in apartment blocks and by 12.5 % for apartments in residential blocks.

Sales in the construction trade grew nominally by 1.6 % to € 101 billion in 2015. Housing construction accounted for the greatest momentum, with growth of 2.9 % to € 37 billion, while more subdued developments were reported for public sector construction (1.0 %) and commercial construction (0.6 %).

Retail and DIY

The pleasing situation on the labor market, income growth, and moderate price rises - all these factors benefited retail consumer spending in 2015. Based on figures released by the Association of German Retailers (HDE), aggregate sales rose to € 472.4 billion. Sector sales therefore grew year-on-year by 3.1 % in nominal terms and by 2.8 % in real terms. This is the highest rate of growth for 20 years. The key growth driver once again in 2015 was online retail (e-commerce), where sales most recently came to € 41.7 billion (2014: € 37.1 billion). This corresponds to growth of 12.4 %. E-commerce sales thus accounted for an 8.8 % share of total retail sales in 2015 (2014: 8.1 %).

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

Percentage change in GDP on previous quarter Source: Eurostat, Reuters	1st Quarter 2015	2nd Quarter 2015	3rd Quarter 2015	4th Quarter 2015	Calendar Year 2015 vs. 2014
Germany	**0.4**	**0.4**	**0.3**	**0.3**	**1.7**
Austria	0.7	0.3	0.0	0.2	0.9
Czech Republic	2.4	1.0	0.7	0.0	4.4
Luxembourg	(1.2)	1.8	1.2	1.1	4.8
Netherlands	0.6	0.2	0.2	0.3	2.0
Romania	1.3	(0.2)	1.5	1.1	3.7
Slovakia	0.9	1.0	1.0	1.0	3.6
Sweden	0.9	1.2	1.0	1.3	4.1
Switzerland	(0.3)	0.3	(0.1)	0.4	0.9
Euro area (EA 19)	**0.6**	**0.4**	**0.3**	**0.3**	**1.6**
EU 28	**0.6**	**0.5**	**0.4**	**0.4**	**1.9**

Based on figures released by the BHB sector association, the German DIY sector can also look back on a successful year. Large-scale DIY stores with sales areas of more than 1,000 m² increased their gross sales by 2.4 % to € 17.97 billion in 2015 as a whole (2014: € 17.55 billion). This pleasing development in the sector was driven in particular by the high-volume seasonal business in the second and third calendar quarters, with growth rates of 6.0 % and 4.6 %. Like-for-like sector sales, i.e. excluding sales at stores newly opened, closed or subject to substantial conversion measures in the year under report, showed slight growth of 0.2 %. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) increased by 1.6 % to € 3.75 billion (2014: € 3.69 billion). The market volume of all DIY and home improvement stores thus rose by 2.2 % to around € 21.7 billion in 2015.

The trend towards e-commerce is continuing apace among home improvement enthusiasts and hobby gardeners as well. According to sector experts, stationary retailers, mail order players and pure online retailers generated sales of € 2.43 billion with DIY products in 2015 (2014: € 2.03 billion). That represents growth of 19.7 % compared with 2014 and now accounts for around 5.5 % of the core DIY market (DIY and home improvement stores, specialist retailers, and small-scale formats), which most recently came to € 43.8 billion.

BUSINESS PERFORMANCE

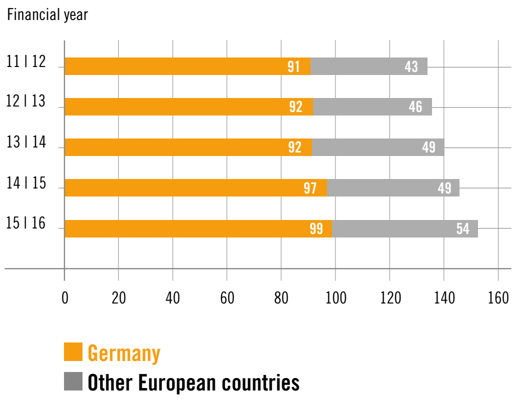
Development in HORNBACH's store network

Number	Location	Country	Sales area in m² (weighted as per BHB)	Opening date
146 (replacement)	Saarbrücken	Germany	13,700	03.11.2015
147	Regau	Austria	8,000	03.18.2015
148	Neunkirchen	Germany	2,400 (HORNBACH Compact)	06.10.2015
149	Alzey	Germany	1,200 (HORNBACH Compact)	08.26.2015
150	Geleen	Netherlands	13,200	09.02.2015
151	Klagenfurt	Austria	10,900	10.07.2015
152	Sibiu	Romania	9,100	10.14.2015
153	Best (near Eindhoven)	Netherlands	13,800	11.04.2015

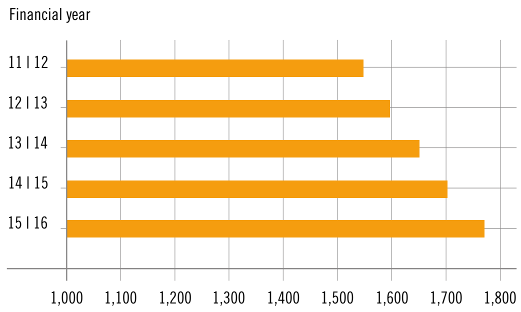
HORNBACH opened a total of eight new DIY stores with garden centers (of which one replacement location) in the 2015/2016 year under report. As of February 29, 2016, we were therefore operating a group-wide total of 153 retail outlets (February 28, 2015: 146). The sales areas of the 99 stores in Germany amount to around 1,052,000 m². The 54 DIY stores with garden centers in other European countries have sale areas of around 719,000 m². The international stores are located in Austria (13), Netherlands (11), Czech Republic (9), Switzerland (6), Romania (6), Sweden (5), Slovakia (3), and Luxembourg (1). Total sales areas at the HORNBACH Baumarkt AG Group amounted to around 1,771,000 m² as of February 29, 2016. The average size of a HORNBACH DIY store with a garden center thus amounts to almost 11,600 m².

Stores and sales areas at the HORNBACH Baumarkt AG Group

(No. of HORNBACH DIY megastores with garden centers)



(Total sales areas in thousand square meters)



Impact of business framework on the business performance of the Group

Most countries in which we operate exceeded the moderate rate of macroeconomic growth across Europe in the period covered by our 2015/2016 financial year. Improved conditions on labor markets, low rates of inflation, ongoing record low levels of interest rates, and real-term income growth all served to boost consumer confidence among private consumers. Housing construction and retail benefited in turn from increased consumer demand. Against this backdrop, numerous operating and non-operating factors contributed to a business performance at the HORNBACH Baumarkt AG Group in 2015/2016 that was rich in contrasts.

Sales performance

The positive underlying economic sentiment was basically also reflected in demand at our HORNBACH DIY stores with garden centers. A glance at our two geographical reporting segments nevertheless shows that we witnessed two-speed growth in the 2015/2016 financial year.

Given the substantial sales growth achieved in the previous year, the standard set for the German DIY retail business to beat was high. The sales performance of the domestic business in the year under report was held back by more intense competition (stationary and retail) compared with the 2014/2015 financial year and by unsatisfactory levels of demand during the third quarter. While like-for-like sales in the Germany region grew by just under one percent in 2015/2016, our locations in the Other European countries region showed far strong sales momentum, with like-for-like currency-adjusted growth of almost five percent. The international stores thus outperformed their German counterparts for the first time since the 2008/2009 financial year. Thanks to above-average growth outside Germany, the sales targets were met on group level.

Earnings performance

Key earnings figures showed disparate developments in the year under report. In terms of pre-tax figures, earnings fell short of the previous year's key figures. This was due on the one hand to operating factors that placed a damper on the income statement for the third quarter of 2015/2016 in particular. These mainly include a reduction in the gross margin partly due to competitive factors and increased costs incurred at stores and administration departments in connection with the consistent expansion of our multichannel retailing approach. In the 2015/2016 financial year, these operating factors weighed on our profitability in Germany in particular, while the earnings strength of our international business showed further cumulative growth over the twelve-month period.

The divergence between the domestic and international businesses was further exacerbated by substantial non-operating, one-off items which we report in detail in our comments on our earnings performance. Impairment losses of € 12.5 million recognized under IAS 36 left clearly negative marks on the earnings reported for the Germany region. On the level of the HORNBACH Baumarkt AG Group, these non-operating charges on earnings were only partly offset by opposing items in other European countries.

Against this backdrop, the HORNBACH Baumarkt AG Group increased its net sales by 5.3 % to € 3,535 million in the 2015/2016 financial year (2014/2015: € 3,357 million) and its like-for-like sales net of currency items by 2.6 %. Consolidated operating earnings (EBIT) for the same period fell by 17.8 % to € 90.2 million (2014/2015: € 109.8 million). At € 99.3 million, operating earnings adjusted to exclude non-operating one-off items were 13.8 % down on the equivalent previous year's figure (€ 115.2 million). By contrast, due to a significantly lower tax charge, consolidated net income increased compared with the previous year's figure. This also impacted positively on earnings per share. Overall, despite a solid sales performance the company's business performance in the 2015/2016 financial year fell short of the original earnings expectations.

Comparison of actual and forecast business performance

Expansion

In the Outlook section of our 2014/2015 Annual Report, we announced that the focus of our expansion and investment activities would return to our international business in the 2015/2016 financial year. Six new DIY megastore with garden centers were planned to be opened in total (including two replacement locations). Of these, five new store openings would be at locations in the Netherlands (2), Austria (2), and Romania (1), with one new store opening in Germany (replacement location in Saarbrücken). Furthermore, our annual planning for 2015/2016 also foresaw the opening of up to five small-scale DIY stores in the HORNBACH Compact store format. Accounting for the replacement locations, the number of HORNBACH DIY stores with garden centers was planned to increase from 146 to up to 156, of which up to 102 in Germany and 54 in other European countries. We met these forecasts in terms of our expansion with DIY megastores with garden centers and opened the new locations on schedule.

We deviated from our original planning, by contrast, with regard to the small-scale HORNBACH Compact format. Here, we opened two new stores (Neunkirchen and Alzey) rather than up to five. The Compact format is due to undergo a period of in-depth trials at the three locations now open before any decision is taken concerning further store openings with this format.

Investments

We forecast total investments of between € 170 million and € 190 million for the 2015/2016 financial year. With an actual investment total of almost € 140 million, we did not exhaust the budget framework. This was mainly due to the expansion-related postponement of advance investments in land.

Sales and earnings performance

The sales forecast for the HORNBACH Baumarkt AG Group formulated in the Outlook section of the 2014/2015 Annual Report and not revised in the course of the year predicted that net sales would show growth in a medium single-digit percentage range. With consolidated sales growth of 5.3 %, we met this target.

For like-for-like sales net of currency items, we forecast group-wide growth in a low to medium single-digit percentage range. In actual fact, we improved our adjusted sales by

2.6 % in the financial year. We were thus in the middle of the target corridor.

In terms of our geographical segmentation, the forecast/actual comparison for the 2015/2016 financial was as follows:

- Building on the high level of sales achieved in the previous year, we expected to generate further like-for-like sales growth in **Germany** in the 2015/2016 financial year. With growth of 0.8 % (2014/2015: 5.5 %), we achieved this target despite an unexpected dip in sales in the third quarter. On a like-for-like basis, we slightly outperformed the German sector average.

- For our retail activities in **other European countries**, in our 2015/2016 forecast we predicted that we would further improve our like-for-like sales net of currency items compared with the 2014/2015 financial year and achieve a growth rate comparable to that in Germany. We actually exceeded these targets. With adjusted growth of 4.9 % (2014/2015: 2.8 %) we achieved significantly higher growth in other European countries than in Germany.

Further key figures by segment

- **Retail segment:** Our target was to maintain the **gross margin** for the 2015/2016 financial year at around the previous year's level (38.0 %). With an actual figure of 37.6 %, we did not meet this target. Our assessment that pressure on prices would remain high in the stationary DIY business and that the rapid growth in online retail and resultant increase in price transparency in the DIY store sector would tend to raise the pressure on margins further in future has been confirmed. Having said this, we did not foresee the extent of the deterioration in margins in Germany in the second half of the financial year. We were only able to offset this factor in part with positive volume effects, more favorable procurement terms, and the expansion in our share of private labels.

  Based on the annual budget for 2015/2016, **selling and store expenses** were expected to rise slightly more rapidly than sales (plus 5.3 %). Largely consistent with expectations, these expenses rose by 6.3 %, and thus slightly faster than sales. As a result, the store expense ratio rose from 31.2 % to 31.5 %.

  Consistent with our forecast, **pre-opening expenses** reduced in absolute terms in the 2015/2016 financial year, falling from € 14.5 million to € 11.0 million. As a percentage of net sales, the ratio decreased from 0.4 % to 0.3 %.

  The budget for 2015/2016 foresaw a clearly disproportionate increase in **administration expenses**. These were chiefly budgeted for forward-looking strategic projects, and especially for the consistent further expansion in our online activities in Germany and other European countries. In actual fact, our administration expenses grew by 12.4 %. As expected, the administration expense ratio rose from 4.2 % to 4.5 %.

  In our forecast, we expected **EBIT** in the Retail segment in 2015/2016 to fall significantly short of the figure reported for the 2014/2015 financial year (€ 82.4 million). This was mainly due to clearly disproportionate increases in expenses for infrastructure and strategic projects. With a 30.0 % reduction in EBIT to € 57.7 million, this was also the case, a development also due in part to unscheduled, non-operating charges on earnings.

- Consistent with the forecast, rental income in the **Real estate segment** developed stably in line with the Group's expansion and increased by 5.9 % to € 162.1 million. The significant operating earnings growth originally expected for the 2015/2016 financial year nevertheless failed to materialize. On the one hand, we did manage to reduce real estate expenses, which had risen sharply in the 2014/2015 financial year due to conversion work on former Praktiker and Max Bahr locations. In the 2015/2016 reporting period, however, this factor was countered on the other hand by non-operating impairment losses on one DIY store property in connection with the IAS 36 impairment tests. Overall, at € 47.7 million EBIT in the Real estate segment fell slightly short of the previous year's figure (€ 48.5 million).

Consolidated operating earnings (EBIT)

In summary for the HORNBACH Baumarkt AG Group, in our previous Annual Report we originally forecast that operating earnings (EBIT) for the 2015/2016 financial year would more or less match the figure for the 2014/2015 financial year (€ 108.9 million). This was because the planned improvement in earnings in the Real estate segment was expected to make up for the budgeted reduction in earnings in the Retail segment in the forecast period. We did not meet this target.

Given the unsatisfactory earnings performance in the third quarter, on December 9, 2015 we published a profit warning that we then specified in greater detail in the interim report for the first nine months of 2015/2016, stating that full-year consolidated operating earnings (EBIT) for 2015/2016 would fall short of the previous year's figure of € 109.8 million by a maximum of 20 %. In actual fact, despite substantial impairment losses consolidated operating earnings for the 2015/2016 financial year fell by 17.8 % to € 90.2 million and thus remained within the adjusted forecast corridor.

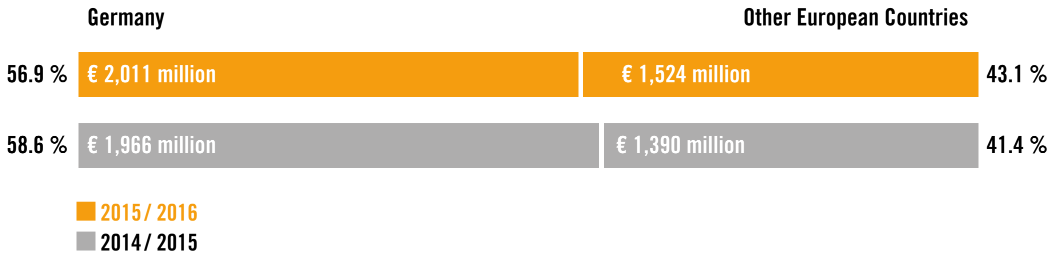
Budget/actual comparison for separate financial statements (HGB)

In the separate financial statements of HORNBACH Baumarkt AG, which are shaped by the performance of the HORNBACH DIY stores and garden centers in Germany, our sales forecast for the 2015/2016 financial year envisaged sales growth in a medium single-digit percentage range. With actual sales growth of 4.4 % to € 2,317.8 million, we reached this target.

In terms of the result of ordinary operations at HORNBACH Baumarkt AG in the 2015/2016 forecast period, we expected a figure at or slightly above the level reported for the 2014/2015 financial year. At € 68.9 million, the result of ordinary operations actually achieved in the 2015/2016 year under report was significantly higher than the figure for the 2014/2015 financial year (€ 55.6 million). Here, significantly higher income from investments enabled us to more than offset the slight reduction in gross profit, significant rise in other operating expenses, and impairment loss recognized on a DIY store property.

Earnings Situation

Sales by region



Sales performance

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

Following a very pleasing end spurt in the fourth quarter, the HORNBACH Baumarkt AG Group increased its net sales in the 2015/2016 financial year (March 1, 2015 to February 29, 2016) by 5.3 % to € 3,535 million (2014/2015: € 3,357 million). Net sales in the Germany region grew by 2.3 % to € 2,011 million in the period under report (2014/2015: € 1,966 million). Outside Germany (Other European countries region) and including five newly opened DIY megastores we reported sales growth of 9.6 % to € 1,524 million (2014/2015: € 1,390 million). Due to the higher rate of growth compared with Germany, the international stores' share of consolidated sales increased from 41.4 % to 43.1 %.

The following comments refer to the development in like-for-like sales at the HORNBACH Baumarkt AG Group, which thus take no account of stores newly opened or closed in the past twelve months. In the 2015/2016 year under report, there was a group-wide average total of one more business day than in the previous year.

The first quarter (March 1 to May 31, 2015) was influenced by significant base effects in the previous year. Consistent with expectations, following substantial double-digit sales growth in the first quarter of 2014/2015, adjusted consolidated sales showed a slight decline of 1.1 % in the first quarter of 2015/2016. After this, we reported sales growth in all other quarters, with the strongest growth momentum of plus 5.6 % generated in the fourth quarter. Cumulatively for the twelve-month period, like-for-like consolidated sales net of currency items rose by 2.6 %. Including currency items for the non-euro countries, namely the Czech Republic, Romania, Sweden, and Switzerland, adjusted sales growth amounted to 3.6 %.

From a geographical perspective, we increased our sales both in the Germany region and in the Other European countries region. For the first time since the 2008/2009 financial year, the international stores outperformed the German stores in terms of the development in their like-for-like sales net of currency items.

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

2015/2016 financial year 2014/2015 financial year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Group	**(1.1)**	**4.0**	**2.9**	**5.6**	**2.6**
	14.6	(1.0)	1.0	2.4	4.4
Germany	**(2.4)**	**4.0**	**(0.2)**	**2.5**	**0.8**
	19.4	(1.0)	1.4	1.8	5.5
Other European countries	**0.7**	**4.0**	**7.0**	**9.7**	**4.9**
	8.2	(1.0)	0.6	3.4	2.8

* Excluding currency items

- **Germany**

The standard for our DIY retail business in Germany to beat was high. Building on high like-for-like sales growth in the two previous years, with 4.9 % in 2013/2014 and 5.5 % in 2014/2015, our domestic HORNBACH DIY stores with garden centers generated further slight sales growth in the 2015/2016 financial year.

Competition in the German market intensified compared with the previous 2014/2015 financial year. After the departure of the Praktiker Group from the German DIY store sector, around half the former Praktiker/Max Bahr locations were closed. However, the former Praktiker locations remaining in the German DIY market were mostly taken over by better-performing operators. As a result, competitive pressure in the relevant catchment areas has increased once more compared with the Praktiker era. Following the reflagging process, most of these locations were now in operation for the first time for all of our year under report. HORNBACH's DIY stores with garden centers asserted themselves well in this more challenging competitive climate compared with the two previous financial years. Against a backdrop of rising consumer spending and higher numbers of building permits, our unmistakable retail format scored highly, especially with customers planning larger-scale construction and renovation projects. This was underlined once again in 2015 by our repeated very pleasing performance in Kundenmonitor Deutschland, the most prestigious consumer survey for the German retail sector.

As expected, the sales performance in the first quarter of 2015/2016, which had two business days fewer than in the previous year's quarter, was subdued. Not only that, given the record jump of 19.4 % in like-for-like sales in the previous year's period the basis for comparison was extremely high. Our stores had benefited at that time from the market consolidation in the wake of the Praktiker insolvency and from exceptionally mild weather conditions. Against this backdrop, we view the slight reduction of 2.4 % in like-for-like sales in the first quarter of 2015/2016 as a success.

Thanks to pleasing summer season business in the second quarter of 2015/2016, we then more than made up for this shortfall with sales growth of 4.0 %. Despite the high basis for comparison with the previous year (plus 8.9 %), like-for-like sales in Germany returned to growth, rising by 0.6 % in the first half of 2015/2016.

Our domestic business then suffered a setback in the third quarter of 2015/2016. The like-for-like downturn of 0.2 % was mainly due to the unexpectedly weak business performance in November 2015, in which monthly sales fell despite one business day more than in the previous year. Among other factors, this was due to surprisingly subdued levels of consumer confidence among German consumers in November 2015, which also led to a temporary dip in consumption in other retail segments. Not only that, this period witnessed the return of discount campaigns with which other competitors attempted to stimulate their sluggish turnover by adjusting retail prices. These factors also left their mark on our third-quarter sales performance. In the first nine months of 2015/2016, our like-for-like sales growth slowed to plus 0.4 %.

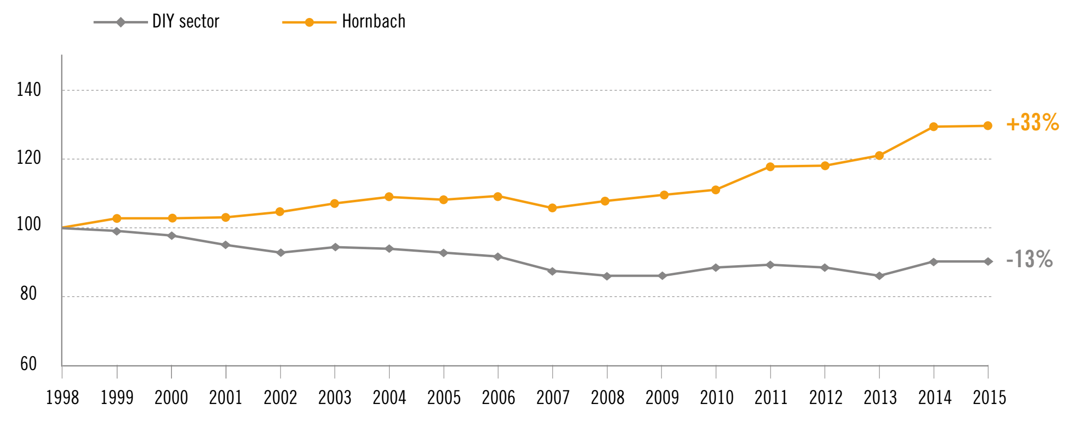
This weak sales trend did not continue in the fourth quarter of 2015/2016. Quite the reverse: with like-for-like sales growth of 2.5 %, our German stores posted a pleasing end spurt driven in particular by a dynamic sales performance in February 2016. On a cumulative basis, we generated like-for-like sales growth of 0.8 % in Germany in the 2015/2016 financial year.

In its "DIY Total Store Report", the GfK determines the sales performance of German DIY stores and garden centers on behalf of the BHB sector association. According to this report, DIY sector sales showed like-for-like growth of 0.2 % in the period from January to December 2015. In this comparative period, which deviates from our financial year, our domestic like-for-like sales performed slightly better than the German sector average, albeit at a far higher basis for comparison. If the 1998 calendar year is taken as an index value of 100 %, by 2015 HORNBACH had increased its like-for-like sales in Germany to 133 %. By contrast, the overall sector only reached 87 % in 2015. The company's head start over the German DIY sector thus amounts to 46 percentage points – in 2005, the difference had only amounted to 17 percentage points.

Our German market share remained largely unchanged in 2015. This is because our domestic sales, including newly opened stores, increased at a rate comparable to that in the overall DIY sector. As a percentage of aggregate sales at all German DIY stores and garden centers (2015: € 21.7 billion), our market share amounted – as in the previous year – to 11.0 %. If the calculation is based only on the market volume of German DIY stores and garden

Like-for-like sales performance in Germany

(Index: 1998 = 100 %, calendar year)



centers with sales areas of more than 1,000 m² (2015: € 18.0 billion), our market share in this segment remained unchanged at 13.3 %.

- **Other European countries**

The international HORNBACH DIY stores with garden centers regained their former strength in the 2015/2016 financial year. Compared with our performance in Germany, like-for-like sales net of currency items in other European countries gained far more momentum and accelerated from quarter to quarter. The disparity between the two speeds of growth was particularly striking in the second half of the year.

The positive sales trend that already began in our international business in the past financial year continued in the first quarter of 2015/2016. On a like-for-like basis and net of currency items, we improved our sales in other European countries – here too building on the challenging standard set in the previous year's quarter – by 0.7 % (2014/2015: plus 8.2 %). Following growth of 4.0 % in the second quarter, our adjusted sales rose by 2.3 % in the first half of the year.

In the third quarter, we successfully escaped the weak sales trend in the domestic business by posting like-for-like, currency-adjusted sales growth of 7.0 %. At the end of the first nine months, we were thus 3.7 % ahead of the previous year.

The greatest growth momentum then came in the final quarter. Between December 2015 and February 2016, like-for-like sales net of currency items even grew at double-digit rates in most countries outside Germany. For the Other European countries region as a whole, this led adjusted sales to jump by 9.7 % in the fourth quarter.

Cumulatively for the twelve-month period, we therefore generated substantial growth of 4.9 % in like-for-like sales net of currency items in the 2015/2016 year under report (2014/2015: 2.8 %). Including currency items, adjusted sales even rose by 7.5 % (2014/2015: 2.2 %). The significantly higher growth rate in the euro calculation than in the national currency calculation is chiefly due to positive currency items in Switzerland.

These figures for other European countries reflect the great popularity of our DIY stores among project customers in particular. These are chiefly professional customers in the construction industry, as well as private customers with a passion for home improvement. In the European countries in which we operate, these target groups benefited from an overall improvement in macroeconomic conditions in terms of consumer spending and house building compared with the previous year.

Alongside our own sales performance, comparison with the sector is also a key indicator of our stores' competitiveness. Based on the sales indications available to us for five countries in our network outside Germany, we outperformed the relevant DIY sector averages in most cases in the 2015 calendar year and thus further increased our market position.

Numerous consumer surveys, such as Kundenmonitor Österreich in Austria and its Swiss counterpart, or the sector study performed by INCOMA GfK for the Czech DIY market, offer renewed proof that, with its uniform presence across Europe as the "Top address for projects", HORNBACH is very popular among DIY store customers outside Germany as well. Top marks for the assessment criteria of "Selection and Product Variety", "Prices Compared with Competitors", "Value for Money", and "Product Quality" are the common thread running through all of our survey results in recent years.

Key earnings figures of the HORNBACH Baumarkt AG Group

Key figure (€ million, unless otherwise stated)	2015/2016	2014/2015	Change
Net sales	3,535	3,357	5.3 %
EBITDA	162.4	167.2	(2.9)%
EBIT	90.2	109.8	(17.8)%
Consolidated earnings before taxes	78.4	95.0	(17.5)%
Consolidated net income	72.4	69.5	4.2 %
EBITDA margin	4.6 %	5.0 %	
EBIT margin	2.6 %	3.3 %	
Tax rate	7.6 %	26.8 %	

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

Earnings performance of the HORNBACH Baumarkt AG Group

The earnings performance in the 2015/2016 financial year was the result of a wide variety of factors. On the level of pre-tax figures, earnings fell short of the previous year's key figures. This was due on the one hand to operating factors. These mainly include a year-on-year reduction in the gross margin and higher cost ratios at the stores and in administration departments. We report on these factors in our comments on the Retail segment. On the other hand, earnings were adversely affected to a significant extent by non-operating, one-off items. By contrast, due to a substantially lower tax charge consolidated net income rose compared with the previous year. This also impacted positively on earnings per share.

Consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) fell by 2.9 % to € 162.4 million (2014/2015: € 167.2 million). The EBITDA margin (as a percentage of net sales) is reported at 4.6 % (2014/2015: 5.0 %). Consolidated operating earnings (EBIT) decreased 17.8 % to € 90.2 million (2014/2015: € 109.8 million). The EBIT margin decreased from 3.3 % to 2.6 %. The sharper reduction in EBIT than in EBITDA in the 2015/2016 financial year was due in particular to impairment losses recognized under IAS 36.

These non-operating impairment losses resulted from an impairment test performed on the assets of the HORNBACH Baumarkt AG Group in accordance with IFRS accounting requirements. This test was triggered by the fact that the market capitalization of HORNBACH Baumarkt AG fell short of the carrying amount of its shareholders' equity in the fourth quarter. As a result, all cash generating units – i.e. all DIY stores with garden centers and the online shop – had to be subject to an impairment test. This resulted in unscheduled, non-cash write-downs on marketing-oriented and sales promotional plant and office equipment, software, and one DIY store property. Overall, an amount of € 12.6 million was charged to other income and expenses (see Note 6 in the notes to the consolidated financial statements). Almost one third of this sum (€ 3.8 million) was offset by non-operating income resulting from the reversal of provisions for pending losses and by write-ups pursuant to IAS 36 on advertising-related assets.

At € 99.3 million, operating earnings adjusted to exclude non-operating, one-off items were 13.8 % lower than the comparative figure in the previous year (€ 115.2 million). The adjusted EBIT margin amounted to 2.8 % (2014/2015: 3.4 %).

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

2015/2016 in € million 2014/2015 in € million	Retail segment	Real estate segment	Headquarters and consolidation	HORNBACH Baumarkt AG Group
Operating earnings (EBIT)	**57.7**	**47.7**	**(15.2)**	**90.2**
	82.4	48.5	(21.2)	109.8
Non-operating income	**3.9**	**0.0**	**-**	**3.9**
	0.0	-	-	0.0
Non-operating expenses	**3.9**	**8.9**	**0.3**	**13.0**
	4.1	1.3	-	5.4
Adjusted EBIT	**57.7**	**56.6**	**(14.9)**	**99.3**
	86.6	49.9	(21.2)	115.2

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

The above table presents the reconciliation of consolidated operating earnings (EBIT) with EBIT adjusted for non-operating, one-off items (adjusted EBIT).

Net financial expenses improved from minus € 14.8 million in the previous year to minus € 11.8 million in the 2015/2016 year under report. As in the previous year, this was due to positive currency items, which rose from € 0.5 million to € 2.5 million and largely resulted from the appreciation in US dollar holdings. Furthermore, the interest result improved by € 0.9 million to minus € 14.3 million. Consolidated earnings before taxes fell by 17.5 % to € 78.4 million (2014/2015: € 95.0 million.

Consolidated net income, by contrast, rose by 4.2 % to € 72.4 million (2014/2015: € 69.5 million). At 2.0 %, the return on sales was almost unchanged (2014/2015: 2.1 %) Due to the reduction in taxes on income from € 25.5 million in the 2014/2015 financial year to € 6.0 million in the year under report, the effective tax rate on group level fell from 26.8 % to 7.6 %. This was mainly due to two reasons. On the one hand, non-period current and deferred taxes decreased by almost € 10 million in total. Of this, two thirds resulted from the capitalization of deferred taxes on losses carried forward in Sweden that had been written down in the 2013/2014 financial year. Unlike our negative assessment at the time, given the dynamic improvement in the business performance of our Swedish DIY stores with garden centers we now expect it to be possible for the losses carried forward in Sweden to be used in the multiyear budget period. On the other hand, tax expenses fell significantly due to the changed country mix. A higher share of earnings generated in other European countries with lower tax charges than in Germany led to a difference of almost minus € 9 million between taxation at local rates and at the Group's tax rate.

Earnings per share (please see Note 9 in the notes to the consolidated financial statements) improved from € 2.19 to € 2.28.

Key earnings figures of the Retail segment

Key figure (€ million, unless otherwise stated)	2015/2016	2014/2015	Change
Net sales	3,533	3,355	5.3 %
of which: in Germany	2,010	1,966	2.2 %
of which in other European countries	1,524	1,390	9.6 %
Like-for-like sales growth	2.6 %	4.4 %	
EBITDA	96.9	118.3	(18.1)%
EBIT	57.7	82.4	(30.0)%
EBITDA margin	2.7 %	3.5 %	
EBIT margin	1.6 %	2.5 %	
Gross margin	37.6 %	38.0 %	
Store expenses as % of net sales	31.5 %	31.2 %	
Pre-opening expenses as % of net sales	0.3 %	0.4 %	
General and administration expenses as % of net sales	4.5 %	4.2 %	

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

Earnings performance of the Retail segment

The Retail segment comprises the operating retail business within the Group. At the balance sheet date on February 29, 2016, we were operating a total of 153 DIY retail outlets across Europe (2014/2015: 146) and online shops in six of the nine countries within our European network.

Net sales in this segment grew by 5.3 % to € 3,533 million in the 2015/2016 financial year (2014/2015: € 3,355 million). By contrast, earnings fell in the same period. This was mainly due to a lower gross margin, a disproportionate rise in selling, store, general and administration expenses compared with sales, and non-operating impairments under IAS 36.

Gross margin

The gross margin decreased as a result of more unfavorable developments in the second half of the 2015/2016 financial year. As a percentage of net sales, gross profit, which had still almost matched the previous year's figure in the first half, fell from 38.0 % to 37.6 % on a cumulative basis for the twelve-month period. This was principally due to lower retail prices, changes in the product mix, higher freight costs for customer deliveries (B2C), and one-off base effects. Opposing positive factors resulting from changes in retail prices and currency items were insufficient to offset these factors. The negative factors affecting the gross margin chiefly impacted on our retail business in Germany, where the margin showed a cumulative reduction of more than one hundred base points. By contrast, the gross margin in other European countries remained stable.

- **Falling retail prices**: The end of the third quarter of 2015/2016 witnessed the return of discount campaigns in the German DIY sector on a scale not seen since the Praktiker era. This price competition was clearly triggered by some competitors in response to sluggish demand for DIY articles in November 2015. The intensification in competitive pressure compared with the first half year was also due to increasing competition on the internet, which has made customers more sensitive to prices, especially in product categories such as electric tools.

- **Changes in the product mix**: Compared with our customers' average shopping carts in the stationary business, average e-commerce carts include a significantly higher share of lower-margin articles. The rising share of sales in our online business is changing the Group's product mix and diluting its margins.

- **Higher freight costs**: Growing sales at HORNBACH's online shop have also led to higher freight costs incurred to deliver products to customers. In the 2015/2016 financial year, these were only partly covered by the delivery costs paid for by online customers (freight revenues). This held back the profit margin in the online retail business, where sales showed high double-digit percentage growth in the year under report compared with the previous 2014/2015 financial year.

- **One-off base effects**: Our margins were also adversely affected by significantly lower gross margins at the former Praktiker/Max Bahr locations we have taken over. This is a one-off base effect due to the entry-term conditions granted to us by suppliers in the past financial year upon the reopening of the stores under HORNBACH flags.

Selling and store, pre-opening and administration expenses

Selling and store expenses in the Retail segment showed slightly disproportionate growth compared with sales, rising by 6.3 % to € 1,114.0 million (2014/2015: € 1,048.3 million). Due to the Group's expansion, personnel expenses (excluding bonuses), the largest cost block within selling and store expenses, increased by 6.5 %. Including a significantly lower volume of bonus provisions, however, the personnel expense ratio at the stores decreased compared with the previous year. Advertising expenses and general operating expenses showed clearly disproportionate growth compared with sales in the year under report, a development chiefly due to the stepping up of marketing activities and higher maintenance requirements at our stationary stores. As a percentage of net sales, selling and store expenses rose from 31.2 % to 31.5 %.

Pre-opening expenses (please also see Note 4 in the notes to the consolidated financial statements) fell from € 14.5 million to € 11.0 million in the 2015/2016 financial year. This reduction was due to the lower number of new DIY megastore openings. In the year under report, six new DIY megastores (of which one replacement location) and two small-scale stores were opened. This contrasted with seven new DIY megastore openings, one small-scale store opening, and one location extension measure in the 2014/2015 financial year. The pre-opening expenses reported for the 2015/2016 financial year already include expenses for the locations in Prague Velká Chuchle and Innsbruck opened in the first quarter of 2016/2017.

As in the previous year, earnings were negatively affected by the disproportionate increase in **administration expenses** from € 141.1 million to € 158.5 million (plus 12.4 %). The administration expense ratio rose from 4.2 % to 4.5 %. This development resulted above all from the expenses incurred for the increasing digitization of our business model within our multichannel strategy, as well as for further innovation projects. Overall spending here rose from around € 35 million to almost € 50 million. These costs essentially involve developing e-commerce and the necessary infrastructure, including a customer service center. Most of these costs impacted on the Group's earnings situation in Germany. Net of the digitization and project costs, administration expenses in the Retail segment grew less rapidly than sales.

Other income and expenses, EBITDA, und EBIT

Other income and expenses increased by 3.7 % to € 11.6 million in the year under report (2014/2015: € 11.2 million). Non-operating income and non-operating expenses were more or less in balance in the 2015/2016 financial year. Specifically, we more than offset impairment losses of around € 3.6 million for advertising-related plant and office equipment (DIY stores) and intangible assets (web shop) required under IAS 36 with income of around € 3.8 million from the reversal of provisions for pending losses and write-ups on advertising-related assets.

EBITDA in the Retail segment decreased by 18.1 % to € 96.9 million in the 2015/2016 financial year (2014/2015: € 118.3 million). That corresponds to an EBITDA margin of 2.7 % (2014/2015: 3.5 %). **Operating earnings** (EBIT) fell by 30.0 % to € 57.7 million (2014/2015: € 82.4 million). EBIT was equivalent to 1.6 % of net sales in the year under report (201472015: 2.5 %). Adjusted EBIT for this segment is reported at € 57.7 million (2014/2015: € 86.6 million).

Earnings performance of the Real estate segment

All the real estate activities of the HORNBACH Baumarkt AG Group are pooled in the Real estate segment. Its main business activities involve building and subsequently letting DIY store properties within the Group. These either remain in group ownership or are sold following construction to an external investor and then leased back. The respective DIY store properties are charged to the Retail segment on rental and other terms customary to the market. Due to non-operating charges on earnings, operating earnings in the Real estate segment declined slightly in the 2015/2016 financial year.

Earnings from rental activities

In line with the Group's expansion, rental income in the Real estate segment, 99 % of which comprises internal rental income, rose by 5.9 % to € 162.1 million in the year under report (2014/2015: € 153.1 million). Real estate expenses showed less marked growth, rising by 2.3 % to € 104.8 million (2014/2015: € 102.5 million). As a result, earnings from rental activities rose by 13.3 % to € 57.3 million in the year under report (2014/2015: € 50.6 million).

Disposal losses and net real estate income

Real estate disposal losses decreased from € 0.8 million to € 0.2 million in the year under report. Net income from real estate activities grew by 14.6 % to € 57.1 million (2014/2015: € 49.8 million).

Other income and expenses

Other income and expenses (excluding disposal losses) in the real estate segment deteriorated from minus € 0.4 million in the previous year to minus € 8.5 million in the 2015/2016 financial year. This was mainly due to non-operating impairment losses recognized on one DIY store property in connection with the IAS 36 impairment test.

EBITDA and EBIT

Earnings before interest, taxes, depreciation and amortization (**EBITDA**) grew by 15.0 % to € 73.9 million in the reporting period from March 1, 2015 to February 29, 2016 (2014/2015: € 64.3 million). Due to the impairment losses **EBIT** fell slightly by 1.7 % to € 47.7 million (2014/2015: € 48.5 million).

Key earnings figures of the Real estate segment

Key figure (€ million, unless otherwise stated)	2015/2016	2014/2015	Change
Rental income	162.1	153.1	5.9 %
Real estate expenses	104.8	102.5	2.3 %
Net rental income	57.3	50.6	13.3 %
Disposal gains/losses	(0.2)	(0.8)	(71.8)%
Net real estate income	57.1	49.8	14.6 %
EBITDA	73.9	64.3	15.0 %
EBIT	47.7	48.5	(1.7)%

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

EBIT adjusted for non-operating, one-off items in the Real estate segment increased by 13.6 % to € 56.6 million (2014/2015: € 49.9 million).

Earnings performance by geographical region

The Germany region and the Other European countries region reported disparate earnings performances in the 2015/2016 financial year.

Due to the convergence of a number of operating and non-operating factors, the Germany region posted a marked downturn in earnings. From an operating perspective, the earnings strength of our German retail business was held back in particular by the disappointing third-quarter sales performance and the decline in the gross margin in the course of the second half of the year. At the same time, in the period under report we had to absorb substantial store operation and administration expenses that predominantly related to the increasing digitization of our business model, the stepping up in marketing activities, and increased maintenance needs at our stationary stores. In relation to the sales growth achieved, the significantly disproportionate rise in selling, store, general and administration expenses also raised the negative pressure on earnings in Germany. Furthermore, non-operating impairment losses also clearly left their mark on the domestic earnings performance. The group-wide impairment losses of € 13.0 million related almost exclusively to the Germany region, while 92 % of the opposing non-operating income of € 3.9 million at the Group benefited the Other European countries region.

Thanks mainly to the quarter-by-quarter improvement in like-for-like sales, the operating earnings strength of our international activities improved significantly, as is apparent from the delineation by geographical regions in the segment report.

EBITDA in Germany fell by 32.0 % from € 64.2 million to € 43.6 million. The domestic share of the Group's EBITDA declined from 38 % to 27 %. EBIT in the Germany region turned negative, falling from € 29.6 million to minus € 4.8 million. The domestic share of operating earnings declined from 27 % to minus 5 % in the 2015/2016 financial year. The EBIT margin for Germany came to minus 0.2 %, as against 1.5 % in the previous year. EBIT for the Germany region adjusted for non-operating earnings items was reported at € 7.7 million (2014/2015: € 32.1 million).

The earnings contributions from our international activities, which are pooled on the level of the HORNBACH International GmbH subgroup, grew significantly in the 2015/2016 financial year. With EBITDA of € 118.8 million (2014/2015: € 103.5 million), other European countries accounted for around 73 % of EBITDA at the HORNBACH Baumarkt AG Group in the period under report (2014/2015: 62 %). We increased our EBIT outside Germany by 17.8 % to € 95.0 million (2014/2015: € 80.6 million). Thanks to this enhanced earnings power, the international share of EBIT grew from 73 % to 105 %. The EBIT margin for other European countries came to 6.2 % (2014/2015: 5.8 %). Adjusted EBIT for the Other European countries region amounted to € 91.6 million (2014/2015: € 83.5 million).

Dividend proposal

Despite the weaker earnings performance in the 2015/2016 financial year compared with the previous year, the Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose an increase in the dividend from € 0.60 to € 0.68 per share with dividend entitlement for approval by the Annual General meeting on July 7, 2016. The company will thus be making a contribution to the distribution policy announced on the level of HORNBACH Holding AG & Co. KGaA upon its change of legal form. Taking due account of the company's performance capacity and the principle of dividend continuity, that company's general partner, HORNBACH Management AG, basically intends to distribute a dividend of 30 % of consolidated net income after minority interests from the 2015/2016 financial year onwards. This target should also apply for HORNBACH Baumarkt AG.

Financial Situation

Principles and objectives of financial management

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

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

External financing requirements are covered by taking up loans from banks and on the capital market. Moreover, to date DIY store properties have been sold to investors upon completion, with utilization secured by rental agreements (sale and leaseback). Here, efforts have been made to meet the IAS 17 criteria governing classification as “operating leases”. As a result of contracts extended and newly concluded for existing sale and leaseback agreements, individual locations were reclassified as “finance leases” in the 2015/2016 financial year. Due to the forthcoming amendments to lease accounting under IFRS 16 and the discontinuation of the “operating lease” classification, in future – and at the latest from the 2019/2020 financial year – lease transactions will be reported in a manner basically comparable to that used for finance leases pursuant to IAS 17.

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

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

Financial debt

At the balance sheet date on February 29, 2016, the net financial debt of the Group amounted to € 230.0 million (2014/2015: € 9.6 million). The increase in net financial debt was due in particular to the aforementioned reclassification of various operating leases as finance leases. Reference is made here to Note 12 “Property, plant and equipment and investment property”. As a result, gross financial debt rose from € 344.5 million in the previous year to € 513.0 million in the year under report. This is structured as follows:

Type of financing € million	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	2.29.2016 Total	2.28.2015 Total
	Liabilities broken down into remaining terms							
Short-term bank debt[1]	0.8						0.8	0.8
Mortgage loans	3.7	3.0	0.6	0.0	0.0	0.0	7.3	11.4
Other loans[2] [3]	80.0	0.0	0.0	0.0	0.0	0.0	80.0	79.9
Bonds[3]	0.0	0.0	0.0	247.6	0.0	0.0	247.6	247.0
Negative fair values of derivative financial instruments	1.2	0.2	0.0	0.0	0.0	0.0	1.4	4.5
Finance leases	8.9	9.3	9.4	9.8	10.2	128.4	175.9	0.8
Total financial debt	**94.5**	**12.5**	**10.0**	**257.4**	**10.2**	**128.4**	**513.0**	**344.5**
Cash and cash equivalents							283.0	334.8
Net financial debt							**230.0**	**9.6**

(Differences due to rounding up or down to nearest € million)
[1] Financing facilities with nominal terms of under one year and interest deferrals
[2] Loans not secured by mortgages
[3] The costs relating to the taking up of the corporate bond and the promissory note bonds have been spread pro rata temporis over the respective terms.

The Group had no short-term financing facilities at the balance sheet date on February 29, 2016. The current financial debt (up to 1 year) of € 94.5 million (2014/2015: € 6.9 million) comprises interest deferrals of € 0.8 million (2014/2015: € 0.8 million), the portion of long-term financing facilities maturing in the short term, at € 92.5 million (2014/2015: € 4.4 million), and the measurement of derivative financial instruments, at € 1.2 million (2014/2015: € 1.7 million).

HORNBACH enjoys great financing flexibility and draws on a wide range of different financing instruments. The following main facilities were in place at the balance sheet date on February 29, 2016:

- The corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until February 15, 2020 and an interest rate of 3.875 %
- The promissory note bond of € 80 million at HORNBACH Baumarkt AG with a term until June 30, 2016. No follow-up financing is planned upon the bond maturing.

Furthermore, the overall Group has financing facilities of € 7.3 million (2014/2015: € 11.4 million) secured by land charges of € 36.6 million (2014/2015: € 46.7 million).

Credit lines

At the balance sheet date on February 29, 2016, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 282.3 million (2014/2015: € 286.9 million) on customary market terms. These include a syndicated credit line of € 250 million with a term running until April 15, 2019. To ensure the maximum possible degree of flexibility, all major group companies have credit lines denominated in local currencies, generally at local banks.

Covenants

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

In the case of the syndicated credit line and the promissory note bond at the HORNBACH Baumarkt AG Group, 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. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report. Further information about financial debt can be found in Note 22 of the notes on the consolidated balance sheet.

Cash and cash equivalents

Cash and cash equivalents amounted to € 283.0 million at the balance sheet date (2014/2015: € 334.8 million). As in the past, liquidity was managed in the past financial year in the form of fixed deposits on the money market with maximum investment horizons of three months. To enhance security, the Group has also set maximum deposit totals per bank. Due to the broad distribution of the company's liquidity, the current investments have so far escaped the negative investment rates or "custody fees" appearing on money markets due to the expansive measures taken by the ECB. It may be necessary to extend investment horizons to avoid negative interest rates in future. The possibility of negative interest rates arising on liquidity investments in future also cannot be excluded.

Investments of € 138.8 million

The HORNBACH Baumarkt AG Group invested a total of € 138.8 million in the 2015/2016 financial year (2014/2015: € 99.9 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at stores under construction. The funds of € 138.8 million (2014/2015: € 99.9 million) required for cash-effective investments were largely acquired from the cash flow of € 106.6 million from operating activities (2014/2015: € 107.6 million).

Around 57 % of total investments were channeled into new real estate, including properties under construction, while 43 % were invested largely in replacing and expanding plant and office equipment. Of total investments, € 59.9 million related to the Retail segment, mainly to replace and expand plant and office equipment (2014/2015: € 47.5 million), while € 78.9 million related to the Real estate segment and was invested in new real estate, including properties under construction (2014/2015: € 45.5 million).

Key financial figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.29.2016	2.28.2015
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	230.0	9.6
Interest cover	Adjusted(*) EBITDA / Gross interest expenses		10.6	10.6
Net debt / EBITDA	Net financial debt / Adjusted(*) EBITDA		1.4	0.1

* EBITDA excluding changes in non-current provisions and gains/losses on the disposal of non-current assets as reported in the cash flow statement

Cash flow statement

Cash flow statement (abridged) € million	2015/2016	2014/2015
Cash flow from operating activities	106.6	107.4
of which: funds from operations[1)]	133.0	128.2
of which change in working capital[2)]	(26.4)	(20.8)
Cash flow from investing activities	(137.1)	(98.5)
Cash flow from financing activities	(21.2)	(45.9)
Cash-effective change in cash and cash equivalents	**(51.7)**	**(37.1)**

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

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

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

The inflow of funds from operating activities decreased from € 107.4 million in the previous year to € 106.6 million in the 2015/2016 financial year. Here, the inflow of funds from operations rose slightly from € 128.2 million to € 133.0 million. This slight increase was largely due to greater earnings strength in the international business. Profitability in Germany, by contrast, was adversely affected by a low gross margin due to competitive factors and by increased costs incurred at the stores and in administration departments to press consistently ahead with our multichannel retail. The change in working capital resulted in an outflow of funds of € 26.4 million, as against an outflow of funds of € 20.8 million in the previous year. This outflow of funds primarily resulted from the expansion-related build-up in inventories.

The outflow of funds for investing activities increased from € 98.5 million to € 137.1 million. Here, the rise in investments by € 38.9 million to € 138.8 million was opposed by proceeds of € 1.7 million from disposals of non-current assets (2014/2015: € 1.4 million). As in the previous year, no DIY stores with garden centers were disposed of within sale and leaseback transactions in the 2015/2016 financial year.

The outflow of funds for financing activities totaled € 21.2 million in the 2015/2016 financial year, compared with an outflow of € 45.9 million in the previous year. This figure includes the scheduled redemption of non-current financial debt amounting to € 4.2 million. Current financial loans increased by € 2.1 million, having risen by € 1.3 million in the previous year.

Rating

Since 2004, the creditworthiness of the HORNBACH Baumarkt AG Group has been rated by the leading international rating agencies Standard & Poor's and Moody's Investors Service. Upon completion of this report, both agencies had in their most recent publications confirmed their ratings at "BB+" with a stable outlook in the case of Standard & Poor's and "Ba1" and a stable outlook at Moody's.

Asset Situation

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

€ million	2.29.2016	2.28.2015	Change
Non-current assets	1,038.6	796.9	30.3 %
Current assets	947.8	934.1	1.5 %
Assets	**1,986.4**	**1,731.0**	**14.8 %**
Shareholders' equity	972.9	922.4	5.5 %
Non-current liabilities	493.7	407.6	21.1 %
Current liabilities	519.8	401.0	29.6 %
Equity and liabilities	**1,986.4**	**1,731.0**	**14.8 %**

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

At 49.0 %, equity ratio remains high

Total assets at the Group rose year-on-year by € 255.4 million, or 14.8 %, to € 1,986.4 million. This increase was mainly due to the capitalization of values in use for newly concluded or extended rental agreements qualifying as finance leases under IAS 17. Furthermore, property, plant and equipment and inventories also grew as a result of the Group's expansion. There was also an increase in deferred tax assets that was largely due to the capitalization of deferred taxes on losses carried forward. The equity of the Group as stated in the balance sheet amounted to € 972.9 million at the end of the financial year (2014/2015: € 922.4 million). The equity ratio decreased from 53.3 % in the previous year to 49.0 % at the end of the 2015/2016 financial year.

Non-current and current assets

Non-current assets amounted to € 1,038.6 million at the balance sheet date (2014/2015: € 796.9 million) and thus accounted for around 52 % (2014/2015: 46 %) of total assets. Property, plant and equipment and investment property rose by € 233.5 million (plus 30.2 %) from € 773.1 million to € 1,006.6 million. Additions of € 305.5 million to property, plant and equipment were countered by depreciation of € 68.9 million, write-ups of € 0.9 million, and disposals of assets amounting to € 1.5 million. Adjustments to account for exchange rate movements led property, plant and equipment and investment property to decrease by € 2.2 million. Furthermore, assets of € 0.2 million were reclassified as held for sale and sold in the year under report.

Non-current income tax receivables also include a claim to payment of a corporate income tax credit with a present value of € 1.7 million (2014/2015: € 3.2 million). This item was capitalized in the 2007/2008 and 2010/2011 financial years due to legislative amendments (SEStEG). The rise in deferred tax assets was chiefly due to capitalization of losses carried forward of € 6.5 million that were previously not classified as utilizable.

Current assets increased by 1.5 % from € 934.1 million to € 947.8 million, equivalent to around 48 % of total assets (2014/2015: 54 %). This resulted from the growth-driven increase in inventories from € 532.7 million to € 588.4 million. This was countered by a reduction in cash and cash equivalents from € 334.8 million in the previous year to € 283.0 million in the year under report. Despite the increase in inventories, it was possible to maintain the inventory turnover rate at a high level of 4.0 (2014/2015: 4.1). Current receivables and other assets (including income tax receivables) increased by € 9.9 million to € 76.4 million. This was due above all to higher trade receivables and higher current income tax receivables resulting from tax prepayments being too high.

Non-current and current liabilities

Liabilities, including provisions, amounted to € 1,013.5 million at the balance sheet date, as against € 808.6 million in the previous year. Due mainly to the increase in non-current financial debt, non-current liabilities rose from € 407.6 million to € 493.7 million. This increase was primarily due to the newly concluded or extended rental agreements requiring classification as finance leases. The recognition of the leasing liabilities under liabilities pursuant to IAS 17 has increased non-current liabilities for finance leases from € 0.6 million to € 167.0 million. By contrast, non-current financial debt decreased following the reclassification of the promissory note bond of € 80 million to current financial debt. The promissory note bond has a term running until June 30, 2016. Provisions for pensions rose from € 11.1 million in the previous year to € 14.6 million. This was due to actuarial losses caused by the further reduction in interest rates. Non-current liabilities also include deferred tax liabilities of € 28.6 million (2014/2015: € 30.8 million).

Current liabilities rose from € 401.0 million to € 519.8 million. Within this item, the increase in current financial debt was largely due to the reclassification of the promissory note bond. Trade payables and other liabilities totaled € 335.6 million at the balance sheet date, as against € 288.8 million in the previous year. This increase results in particular from the growth in inventories. Mainly due to lower provisions for bonuses and for onerous contracts, other provisions and accrued liabilities fell by € 7.8 million from € 83.1 million to € 75.3 million. The net debt of the HORNBACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, rose from € 9.6 million to € 230.0 million, with this increase being chiefly due to the recognition of finance leases.

Key balance sheet figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.29.2016	2.28.2015
Equity ratio	Equity / Total assets	%	49.0	53.3
Return on equity	Annual net income / Average equity	%	7.6	7.8
Return on total capital	NOPAT[1)]/ Average total capital[2)]	%	5.9	8.6
Debt / equity ratio (gearing)	Net debt / Equity	%	23.6	1.0
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	312.4	99.9
Net working capital	Inventories and receivables less trade payables	€ million	407.8	381.9
Inventory turnover rate	Cost of goods sold / Average inventories		4.0	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.

Off-balance sheet financing instruments and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH Baumarkt AG Group and 11 DIY stores with garden centers used on the basis of a finance lease agreements (2014/2015: 1), there are 44 stores and one logistics center that are let from the associate company HORNBACH Immobilien AG or its subsidiaries (2014/2015: 43), as well as 54 DIY megastores with garden centers that are let from third parties (2014/2015: 61). Moreover, the Group also has a small number of additional land leasehold, leasing and rental agreements.

Obligations under rental, hiring, leasehold and leasing contracts relate exclusively to rental agreements for which the companies of the HORNBACH Baumarkt AG Group are not the economic owners of the assets thereby leased pursuant to IFRS accounting standards (Operating Lease). The rental agreements principally relate to DIY stores with garden centers in Germany and other countries. The terms of the rental agreements usually amount to between 15 and 20 years, with subsequent rental extension options. The respective agreements include rent adjustment clauses.

As of February 29, 2016, obligations under rental, hiring, leasehold and leasing contracts totaled € 1,016.8 million (2014/2015: € 1,160.2 million).

Overall Assessment of Group Earnings, Financial and Asset Situation

Overall, the HORNBACH Baumarkt AG Group can look back on a very challenging 2015/2016 financial year. Despite a solid sales performance, the Group's earnings fell short of its original expectations.

Assisted by positive underlying macroeconomic sentiment in Europe, HORNBACH's DIY stores and garden centers increased their sales in the period under report and outperformed the sector averages in most European countries in which we operate.

The HORNBACH Baumarkt AG Group thus improved its net sales by 5.3 % to € 3,535 million (2014/2015: € 3,357 million) in the 2015/2016 financial year (March 1, 2015 to February 29, 2016). From a geographical perspective, we increased our sales both in the Germany region and in the Other European countries region. For the first time since the 2008/2009 financial year, like-for-like currency-adjusted sales grew faster at the international stores than at the stores in Germany. Ultimately, the Group posted what amounts to two-speed growth.

Net sales in the Germany region grew 2.3% to € 2,011 million in the period under report (2014/2015: € 1,966 million). Based on the high level of like-for-like sales growth achieved in the previous year (plus 5.5 %), our domestic DIY stores with garden centers increased their adjusted sales by 0.8 % in an increasingly competitive climate in the 2015/2016 financial year.

Outside Germany (Other European countries region), and including sales at five newly opened stores, we reported sales growth of 9.6 % to € 1,524 million (2014/2015: € 1,390 million). On a like-for-like basis and net of currency items, we generated growth of 4.9 % here (2014/2015: 2.8 %). Due to stronger growth compared with Germany, the international share of consolidated sales rose from 41.4 % to 43.1 %.

Key earnings figures showed disparate developments in the year under report. Pre-tax earnings fell short of the previous year's key figures. This was due on the one hand to operating factors that adversely affected the income statement for the third quarter of 2015/2016 in particular. These essentially involved a reduction in the gross profit due in part to competitive factors and higher expenses incurred at stores and administration departments for the consistent expansion in our multichannel retailing approach. In the 2015/2016 financial year, these operating items impacted negatively on profitability in Germany in particular, while our international business further increased its earnings strength cumulatively over the twelve-month period. Not only that, the divergence between the domestic and international businesses was further exacerbated by substantial non-operating, one-off items. Impairment losses of € 12.5 million recognized under IAS 36 left clearly negative marks on earnings in the Germany region. On HORNBACH Baumarkt AG Group level, these non-operating charges on earnings were only offset in part by opposing items in other European countries. Overall, the earnings situation in the 2015/2016 financial year was therefore tense, and that although consolidated net income even increased due to a substantially lower tax charge than in the previous year.

HORNBACH pressed consistently ahead with its sustainable innovation projects in the year under report and thus made a valuable contribution to the Group's long-term growth, even though the additional strategic outlays for e-commerce, logistics, and IT infrastructure will hold back earnings in the short and medium term.

There was a further increase in shareholders' equity as of the balance sheet date. Due largely to classification of extended rental agreements as finance leases under IAS 17, total assets showed even more marked growth. The resultant extension in the balance sheet led the equity ratio to slip from 53.3 % to 49.0 %. The equity ratio nevertheless remains high, as does the Group's liquidity. In view of our broad spectrum of financing sources, we enjoy a high degree of security and flexibility to finance our further growth. All in all, despite the operating and non-operating charges on earnings in the 2015/2016 year under report the Group's economic situation is satisfactory.

Notes on the Annual Financial Statements of HORNBACH Baumarkt AG (HGB)

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

Business framework

The macroeconomic and sector-specific framework for our operating business in Germany is described in detail in the Business Report from Page 42 onwards.

Development in the store network

HORNBACH launched operations at a total of three new DIY stores with garden centers in the 2015/2016 year. At the beginning of March 2015, we opened a new HORNBACH DIY megastore with a garden center in Saarbrücken that replaced our smaller existing location. This was followed in the second quarter by the launch of operations at small-scale DIY stores (HORNBACH Compact) in **Neunkirchen** and **Alzey**.

Including stores newly opened and closed in the year under report, as of February 29, 2016 we operated a total of 99 retail outlets across Germany (February 28, 2015: 97). Sales areas in Germany totaled around 1,052,000 m² (2014/2015: 1,039,000 m²).

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

€ 000s	2015/2016	2014/2015
Sales	2,317,821	2,220,545
Other own work capitalized	250	82
Other operating income	52,591	53,252
Cost of materials	1,579,541	1,480,669
Gross profit	**791,121**	**793,210**
Personnel expenses	386,051	380,316
Depreciation and amortization	42,049	32,082
Other operating expenses	363,900	342,809
Operating result	**(879)**	**38,003**
Financial result	69,826	17,642
Result of ordinary operations	**68,947**	**55,645**
Taxes	(1,014)	9,405
Annual net surplus	**69,961**	**46,240**
Allocation to other revenue reserves	34,980	23,100
Net profit	**34,981**	**23,140**

Earnings position

Sales performance

Net sales (excluding sales tax) as reported in the separate financial statements of HORNBACH Baumarkt AG grew by 4.4 % from € 2,221 million to € 2,318 million in 2015/2016. Sales include an amount of € 307 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2014/2015: € 254 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 the Business Report from Page 49.

Earnings performance

The other operating income reported in the income statement, which mainly consists of income from group allocations, reversals of provisions, and exchange rate gains, decreased by € 0.7 million from € 53.3 million to € 52.6 million. This development was chiefly due to lower exchange rate gains, lower income from currency translation, and lower non-period income from the derecognition of liabilities. These items were opposed by higher income from group allocations and items charged on.

Cost of materials grew by 6.7 %, and thus disproportionately compared with sales, to € 1,579.5 million (2014/2015: € 1,480.7 million). Gross profit totaled € 791.1 million, or 34.1 % of net sales, as against € 793.2 million, or 35.7 %, in the previous year.

Personnel expenses rose by 1.5 %, and thus less rapidly than sales, from € 380.3 million to € 386.1 million. At € 42.0 million, depreciation and amortization were 31.1 % higher than in the previous year (€ 32.1 million). This was chiefly due to an impairment loss of € 7.5 million recognized on a DIY store property. At € 3.2 million, amortization of intangible assets was more or less at the same level as in the previous year (€ 2.8 million).

Other operating expenses rose from € 342.8 million in the previous year to € 363.9 million. This increase was mainly due to higher external advisory expenses and services procured (plus € 12.1 million) for the further expansion of the internet business and logistics. Furthermore, rental and leasing expenses increased by € 4.5 million, while advertising expenses grew by € 3.1 million.

At minus € 0.9 million, the operating result fell substantially short of the previous year's figure (€ 38.0 million). This was principally attributable to higher other operating expenses (plus € 21.1 million), higher depreciation and amortization (plus € 10.0 million), and higher personnel expenses (plus € 5.7 million).

The financial result (including income from investments) grew by € 52.2 million from € 17.6 million to € 69.8 million in the year under report. This increase was mainly driven by the rise in income from investments from € 33.1 million to € 84.4 million as a result of a transfer of profit from HORNBACH International GmbH.

In the 2015/2016 financial year, HORNBACH Baumarkt (Schweiz) AG, HORNBACH Holding B. V., Netherlands, HORNBACH Baumarkt CS spol s.r.o., Czech Republic, HORNBACH Baumarkt Luxemburg SARL, Luxembourg, and HORNBACH Baumarkt GmbH, Austria, distributed profit totaling € 57.0 million to HORNBACH International GmbH (2014/2015: € 31.3 million).

In the 2015/2016 year under report, HORNBACH International GmbH additionally benefited from a write-up to earnings of the carrying amount of the investment in the Swedish subsidiary HORNBACH Byggmarknad AB. This amounted to € 25.7 million and led to a corresponding increase in the profit transferred to HORNBACH Baumarkt AG. This write-up was due to the substantial improvement in the business performance and positive earnings prospects for our DIY retail activities in Sweden.

At € 2.4 million, interest income and income from loans of financial assets were almost unchanged on the previous year (2014/2015: € 2.2 million). The interest expenses of € 17.0 million were 4.1 % lower than in the previous year (€ 17.7 million).

At € 68.9 million, the result of ordinary operations was around 24 % higher than the previous year's figure of € 55.6 million.

In view of the individual factors outlined above, the annual net surplus for the 2015/2016 financial year grew from € 46.2 million to € 70.0 million.

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

Assets	2.29.2016 € 000s	2.28.2015 € 000s
Intangible assets	8,831	7,091
Property, plant and equipment	269,575	281,036
Financial assets	208,421	175,897
Non-current assets	**486,827**	**464,024**
Inventories	374,885	343,339
Receivables and other assets	157,050	90,515
Cash holdings, credit balances at banks, and checks	221,169	299,137
Current assets	**753,104**	**732,991**
Deferred expenses and accrued income	5,434	6,243
Deferred tax assets	4,323	2,389
Total assets	**1,249,688**	**1,205,647**
Equity and liabilities		
Shareholders' equity	584,201	533,338
Provisions	56,670	69,320
Liabilities	600,680	600,641
Deferred income and accrued expenses	8,137	2,348
Total assets	**1,249,688**	**1,205,647**

Asset situation

At € 1,249.7 million, total assets as of February 29, 2016 were € 44.0 million, or 3.7 %, ahead of the previous year's figure (€ 1,205.6 million).

Non-current assets amounted to € 486.8 million, or 39.0 % of total assets, at the balance sheet date (2014/2015: € 464.0 million / 38.5 %). Given depreciation of € 38.9 million, retirements of carrying amounts of € 0.9 million and investments of € 28.4 million, property, plant and equipment decreased to € 269.6 million (2014/2015: € 281.0 million).

Due to long-term loans to two Dutch group companies, financial assets grew by a total of € 32.5 million from € 175.9 million to € 208.4 million.

Current assets rose to € 753.1 million, up from € 733.0 million at the previous year's balance sheet date. Due to the company's growth, inventories rose by 9.2 %, or € 31.6 million, from € 343.3 million in the previous year to € 374.9 million. At 4.4, the inventory turnover rate in the 2015/2016 financial year fell slightly short of the previous year's figure of 4.5. Receivables from affiliated companies increased by € 59.0 million to € 100.9 million (2014/2015: € 41.9 million). The increase in receivables in the 2015/2016 financial year was chiefly attributable to the year-on-year growth in the profit transferred from group companies. Cash and cash equivalents fell by € 77.9 million from € 299.1 million in the previous year to € 221.1 million.

At € 4.3 million, deferred tax assets were higher than in the previous year (2014/2015: € 2.4 million). This increase was chiefly due to the change in temporary booking differences for intangible assets and property, plant and equipment and the entry of deferred taxes for corporate income tax losses carried forward.

At € 584.2 million, shareholders' equity as of February 29, 2016 was 9.5 % higher than in the previous year (€ 533.3 million). The equity ratio is reported at 46.7 % (2014/2015: 44.2 %). Provisions decreased from € 69.3 million to € 56.7 million at the balance sheet date. This largely resulted from lower provisions for personnel expense items and a reduction in tax provisions.

At € 600.7 million, liabilities were unchanged on the previous year at the balance sheet date. Due to scheduled repayments, liabilities to banks for non-current loans decreased from € 81.6 million in the previous year to € 81.1 million. Given the company's growth, trade payables rose from € 160.5 million to € 183.2 million. By contrast, liabilities to affiliated companies fell from € 74.3 million to € 49.9 million in the 2015/2016 financial year. This was mainly due to the year-on-year increase in the volume of profit transferred from group companies.

Financial situation

Information about the principles and objectives of financial management, an explanation of financial liabilities and the capital structure can be found in the Financial Situation of the HORNBACH Baumarkt AG Group (Page 58 onwards).

Shareholders' equity (after the planned dividend distribution) covers around 120 % of non-current assets. In the 2015/2016 financial year, HORNBACH Baumarkt AG invested a total of € 33.3 million (2014/2015: € 45.6 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 2.4 million, while a further sum of € 24.3 million was channeled into replacing and expanding plant and office equipment. Of total investments, € 4.9 million (2014/2015: € 3.0 million) related to intangible assets acquired in return for payments. Furthermore, largely due to the granting of long-term loans to two Dutch group companies financial assets also increased.

Overall assessment of earnings, financial and net asset situation of HORNBACH Baumarkt AG

Given the substantial sales growth in the previous year, the standard set for the operating business at the domestic DIY stores with garden centers pooled at HORNBACH Baumarkt AG to beat in its DIY retail business was high. Despite an unexpected dip in sales in the third quarter, the company met its target of increasing like-for-like sales, generating growth of 0.8 % (2014/2015: 5.5 %). We thus slightly outperformed the sector average in Germany.

Key earnings figures developed unevenly in the year under report. Operating earnings fell significantly from € 38.0 million to minus € 0.9 million. This was chiefly due to the lower gross margin, the marked rise in operating expenses, and the recognition of an impairment loss for a DIY store property. Thanks to the € 51.3 million increase in income from investments, however, the result of ordinary operations improved significantly compared with the previous 2014/2015 financial year and rose to € 68.9 million (2014/2015: € 55.6 million).

The equity ratio increased further. Non-current assets and around 46 % 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 situation remains satisfactory.

Proposed appropriation of net profit of HORNBACH Baumarkt AG

HORNBACH Baumarkt AG concluded the 2015/2016 financial year with an annual net surplus of € 69,960,936.78.

Following the allocation of € 34,980,000.00 to revenue reserves, the Board of Management proposes to appropriate the net profit of € 34,980,936.78 as follows:

- € 0.68 dividend per share with a nominal value of € 3.00 on 31,807,000 ordinary shares
- Dividend distribution: € 21,628,760.00
- Further allocation of € 13,352,176.78 to revenue reserves

EVENTS AFTER THE BALANCE SHEET DATE

No events that could be of material significance for the assessment of the net asset, financial or earnings position of HORNBACH Baumarkt AG or of the HORNBACH Baumarkt AG Group occurred between the balance sheet date on February 29, 2016 and the date of preparation of this Annual Report.

RISK REPORT

Risk management at the Group

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

Risk policy principles

The generation of 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. Risks which cannot be avoided 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.

Organization and process

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

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

Earnings risks are analyzed with the assistance of a risk matrix. This records both the probability of occurrence and the potential level of damages of the relevant risks. This way, we can assess the existence and extent of any need for action. Where risks cannot be quantified, they are assessed in terms of their qualitative implications.

Company risk assessment categories in ascending order

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

The principles and regulations underlying the risk management system are documented in a risk management handbook. This sets out uniform principles for the overall Group concerning the structures and processes necessary for the early detection of risks. To support the risk management process, a standard software solution has been implemented across the Group which offers assistance in recording and documenting risks and the relevant risk management measures.

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

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

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

Internal control and risk management system in respect of the group financial reporting process (report pursuant to § 315 (2) No. 5 HGB)

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

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

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

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

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

Major changes to financial reporting processes due to new laws, legislative amendments or changes in internal processes are discussed prior to implementation at sometimes 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 for the overall Group. 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 a consolidation 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. Alongside these internal audits, the external auditor also assesses the effectiveness of internal checks relevant to the financial reporting process within its audit. However, even suitable functional systems cannot provide absolute certainty concerning the identification and management of risks.

Overview of overall risks *

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

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

Financial risks

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

Foreign currency risks

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

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

Liquidity risks

The acquisition of land, investments in DIY stores with garden centers and procurement of large quantities of merchandise require high volumes of liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 250 million with a term running until April 15, 2019, a promissory note bond at HORNBACH Baumarkt AG with a volume of € 80 million and a term running until June 30, 2016, and not least the € 250 million bond issued by HORNBACH Baumarkt AG in February 2013, which has a term running until February 15, 2020. HORNBACH counters the risk of no longer being able to obtain longer-term financing for new locations from banks or via sale and leaseback transactions due to financing conditions on the capital markets by flexibly adjusting its investments, maintaining a substantial liquidity cushion, and with short and medium-term financing based on existing credit lines. No security in the form of assets was granted in connection with the bond, the syndicated credit line, or the promissory note bond at HORNBACH Baumarkt AG. 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 promissory note bond and the syndicated credit line at HORNBACH Baumarkt AG. These require compliance with an equity ratio of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBACH Baumarkt AG Group. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries. The bond is only governed by general covenants, such as pari passu, negative pledge, and cross default covenants, but not by financial covenants. As of February 29, 2016, the equity ratio amounted to 49.0 % (2014/2015: 53.3 %) and interest cover came to 10.7 (2014/2015: 10.6).

Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2015/2016 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.

Credit risks

The company limits the risk of any financial loss in connection with financial investments and derivative financial instruments by working exclusively with contractual partners of strong creditworthiness and selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to counter the risk of bank deposit default. This approach was also maintained in the 2015/2016 financial year. The company’s retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced.
Further detailed information about financial risks and sensitivity analyses can be found in Note 33 in the notes to the consolidated financial statements.

External risks

Macroeconomic and sector-specific risks

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

Irrespective of this, a major dependency on economic developments in Germany has been identified. The further expansion into other European countries is intended to achieve an ongoing diversification of risk. Furthermore, the company generates a substantial share of its sales with seasonal articles whose turnover is significantly affected by external factors, such as weather conditions. Prolonged winter weather, for example, might shorten the spring season and result in lower sales in the gardening division in the important 1st quarter of the financial year.

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

Natural hazards

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

Operating risks

Location and sales risks

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

Procurement risks

As a retail company, HORNBACH is dependent on external suppliers and manufacturers. We exercise the utmost caution in our selection of our suppliers. Particularly when selecting private label suppliers, we pay attention to their reliability in terms of high product quality and their consistent compliance with safety and social standards at the respective companies. To avoid the loss of major suppliers, the Group has developed an efficient early warning system that monitors suppliers continuously on the basis of various quantitative and qualitative criteria. The implications of any potential supplier loss are further reduced by probing the market for alternative substitutes at an early stage and maintaining a multi-supplier strategy. Should there be any deterioration in the macroeconomic situation, however, then the risk of the Group losing suppliers and being unable to procure such products elsewhere at short notice cannot be excluded entirely. The overall Group has several central warehouses in order to reduce the risk of any interruption to the logistics chain and optimize the supply of merchandise. In its procurement of merchandise, HORNBACH is subject, among other risks, to increasing purchasing prices for articles involving a high share of crude oil, copper or steel as a result of volatile prices on the international commodities markets. Furthermore, higher prices for products involving energy-intensive manufacturing processes could lead to an increase in overall procurement costs, one which it might not be possible to pass on to customers in full, or only following a certain delay.

Legal risks

Legislative and regulatory risks

As a result of its international business activities, the HORNBACH Baumarkt AG Group is subject to various national legislative frameworks and regulations. Legislative amendments may therefore lead to higher compliance costs. Alongside risks such as those relating to damages claims due to infringements of patents or industrial property rights, or of damages resulting from environmental or product liability, the Group's future earnings situation may also be negatively affected in particular by any tightening up of national construction laws or regulations governing the acquisition of land.

To avoid contract breaches and disadvantageous arrangements, we continually monitor compliance with our contractual obligations and seek advice from internal and external legal experts for contract-related matters. Furthermore, to help avert fraudulent actions, the Board of Management has adopted a group-wide Corporate Compliance Policy.

Risks relating to legal disputes

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

Management and organizational risks

IT risks

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

Personnel risks

The deployment of highly motivated and qualified employees represents one of the foundations for HORNBACH's success. This pillar of the corporate culture is therefore of great significance for the overall Group. The maintenance of employee satisfaction is therefore evaluated in regular employee surveys carried out by external service providers, while employee qualification levels are continually improved with appropriate training and development measures. Performance-based bonus models support the company in reaching this objective. Not only that, all management staff hold annual one-to-one meetings with their employees in which their past performance is appraised and future development measures are agreed. In its recruitment and retention of highly qualified specialist and management personnel, however, HORNBACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

Overall assessment of risk situation

The assessment of the overall risk situation found that there were no risks to the continued existence of the HORNBACH Baumarkt AG Group in the 2015/2016 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position.

OPPORTUNITY REPORT

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

The business performance of DIY and garden stores may be affected in the coming years by a series of sector-specific development trends (megatrends). Against this backdrop, the company is consistently enhancing its retail format and corporate strategy, aiming to ensure continuity, reliability and sustainability so as to make optimal use of potential opportunities for future growth.

Sector-specific opportunities

Megatrends play a key role for DIY store and garden center operators. These harbor various degrees of potential in individual country markets in terms of rising demand for products and services relating to construction, renovation and gardens.

In the hunt for growth factors, one key aspect of relevance to the entire European construction and modernization sector is the great need for solutions in terms of energy-saving building technology and energy efficiency and of contemporary interior fittings. Overall, we believe that the outlook is favorable for increasing sales and earnings in the DIY sector in Germany and abroad. These growth prospects are backed up by, among others, the opportunities briefly described below.

Opportunities due to sustainability

Construction work on existing buildings (the modernization and renovation market) has become an ever more important factor in the business performance of DIY and garden stores in recent years. The share of construction work involving new housing, by contrast, is declining across Europe and most recently accounted for significantly less than half of total housing construction investments. In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Due to favorable financing terms, the share of new construction work has risen slightly once again since 2011. More than two thirds of the most recent total construction volumes of around € 183 billion nevertheless involved modernization projects. Three key trends are responsible for this development:

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

- Given the long-term increase in energy costs and climate protection, renovating buildings in terms of their energy efficiency is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. **Energy-efficient construction and renovation** enable a residential property's energy costs to be cut by up to three quarters and the property's operating costs to be sustainably reduced over its lifecycle. Energy-efficiency renovation also makes a major contribution towards cutting CO_2 emissions. Energy efficiency is therefore one of the top themes in the European DIY sector.

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

These trends can also be summarized under the heading of "sustainability". The ecological, economic and social dimension of sustainable construction is ever more important as a key competitive factor, not only in the real estate market. At the same time, by offering the right range of products and services, high-performing industrial and retail players, as well as tradesmen, stand to benefit from the ever greater sales potential resulting from this development.

Opportunities due to consumer trends

Past experience shows that people are more likely to withdraw into their private sphere during periods of uncertainty than at other times ("homing"). Consumers spend more time at home again and are prepared to invest in decorating and equipping their own four walls. This is not just a German phenomenon but also a key international motivation for home improvement as a popular leisure activity. This is all the more relevant at present, as consumers in numerous regions across Europe are benefiting from low mortgage interest rates and prefer to channel their resources into private house construction or renovation projects than into alternative capital investments that are increasingly viewed as unsafe or unattractive.

The realization of "living worlds" is playing an ever greater role in modernization projects in consumers' houses, apartments and gardens. Consumers are showing growing awareness of trends and influences from the realms of fashion, art, architecture and the media. Consumers' desire to map these living trends onto their own four walls is socially motivated by a desire for durable values, quality (of living), individualism and emotional flair. Compared with specialist retailers, the DIY store sector still has great potential for development, and thus new opportunities, in terms of addressing its target groups in ways which arouse their emotions, presenting "living worlds", and advising consumers on complex interior design projects.

Opportunities due to new market potential

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

Germany is the largest DIY market in Europe. Having said this, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 44 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so.

Alongside activities to boost competitiveness in stationary retail formats, since 2010 the DIY store and garden center sector has also increasingly relied on the internet as a distribution channel. Online retail has reported by far the strongest growth rates within the overall retail sector. E-commerce with DIY product ranges has so far posted an above-average performance in this respect. Experts expect online sales with typical DIY store product groups in Germany to grow by 14 % to around € 2.8 billion in 2016. Given a forecast gross sales volume of around € 44.3 billion for the core DIY market (DIY and home improvement stores, specialist stores and small-scale retail formats) in 2016, this corresponds to an online share of 6.3 %. According to the BHB sector association, this share is set to rise to around 10 % by 2020 and according to a joint study with Roland Berger to up to 25 % of total sales by 2030.

Specialists see multichannel retailing, in which the stationary business is closely dovetailed with online retail, as representing one of the most promising sales formats within e-commerce. Not only that, e-commerce is also set to become even more sociable. Social media offer innumerable platforms for consumers to share their experience with projects, products, and prices, as well as with providers and their service and quality standards. Ever more companies in the DIY sector are dealing closely with these networks and entering into active dialog with their customers.

Opportunities due to internationalization

Over and above the opportunities available in the German DIY market, the company's expansion into other countries offers additional growth prospects. Numerous leading German DIY store players already took the decision to expand outside their own borders years ago. Outside Germany, they hope to benefit from greater sales potential and higher profitability than in the saturated German market. Not only that, internationalization also helps companies spread their market risks more widely. It should be noted, however, that regional DIY markets are increasingly gaining in maturity and that some EU countries are recovering only sluggishly from the downstream impact of the financial and sovereign debt crisis on employment and income levels. These factors increase the strategic, as well as the equity requirements placed in DIY retail players if they wish to generate attractive sales and earnings growth in their international businesses in the longer term as well.

Strategic opportunities

Our aim is to continually expand HORNBACH's position in the European DIY market by means of organic growth. Our sales and profitability are to be sustainably increased by expanding our internationally successful retail format. This involves focusing on the strategic enhancement of our concept and the expansion of our store network at locations offering above-average growth potential in Germany and abroad.

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

- One unshakable component of our uniform strategy across the Group is our reliable **permanent low price policy**. We believe that we are better able to retain customers at HORNBACH in the long term by offering and guaranteeing the best market price on a permanent basis. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. This is not possible with temporary discount campaigns.

- DIY customers are increasingly according priority not only to competitive prices, but also to the **quality** and **sustainability** of the products and advisory services on offer. Above all the lifestyle-driven customer target group, who base their lifestyles on health and sustainability factors, is playing an increasingly important role in this respect. These so-called "LOHAS" (lifestyle of health and sustainability) mostly have above-average incomes, and are conscious, critical consumers. They accord great value to quality, brand and design. With our focus on the quality and sustainability of our product ranges, accompanied by professional advice, we are particularly well-placed to meet the high standards of these target groups. We are the DIY sector leaders, for example, in trading FSC-certified timber products.

- We believe that we are excellently positioned in the sector with regard to the ever more important **modernization market** and, within this market, especially with regard to the increasingly strict legal requirements governing building **energy efficiency**. We will in future continue to present complex projects, such as the insulation of facades or the replacement of windows and doors, as "Project Shows" at the stores. The "Project Show" is an innovative marketing instrument aimed at intensifying the project concept. Presentations held in special event sections at the stores provide customers with specialist advice, information and suggestions as to how they can undertake renovation projects or realize their dream living space either under their own steam or with specialist support. These activities are accompanied by service packages from our tradesman service. Moreover, further sales momentum may also be provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly. Here, we offer an extensive database of subsidy opportunities on our homepage.

- Furthermore, we are expanding our range of services, information and advice in order to attract **new customer groups** to HORNBACH. These include home improvement demonstrations at the stores intended to motivate customers to do it themselves, and special workshops for women. These measures are backed up by the promotion of specialist skills on the part of the store personnel with the aim of achieving a further increase in product expertise and advisory competence, and thus in customer satisfaction. Our DIY megastores with garden centers are also increasingly of interest to professional customers. Generous opening hours, the stocking of large quantities, the rapid handling of purchases at our drive-in stores and builders' merchant centers, and the uncomplicated acceptance of residual volumes no longer required make HORNBACH an attractive alternative to traditional specialist retail or wholesale procurement sources.

- We see the **buy-it-yourself** (BIY) or do-it-for-me market segment as offering promising growth opportunities. This segment includes the target group of those customers who are on the lookout for solutions for their home improvement projects and who wish to purchase the product ranges themselves, but who then prefer to have the work undertaken by a specialist. We also view this market segment within the broader context of the ageing population in Germany and other parts of Europe. Our tradesman service aims to tap this potential.

- For many of our project customers, it has become absolutely normal to plan construction and renovation projects and the related purchases in detail on the **internet**. Since its launch in December 2010, our online store (www.hornbach.de) has grown into a high-performance virtual DIY store and garden center. The internet plays a key role in flanking our stationary retail business. Alongside Germany, we have now rolled out our e-commerce activities to Austria, Switzerland, the Netherlands, the Czech Republic, and Luxembourg as well.

  One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. This way, our customers can inform themselves online about products, prices and availability and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Customers can have articles delivered directly to their homes by mail order or opt for our "Reserve online and pick up at the store" service. From just two hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBACH store. This service is a real timesaver, especially for our professional customers. Not only that, the online shop offers us the opportunity of acquiring new customers outside our store network catchment areas and arousing their interest in the HORNBACH brand.

- The exploitation of opportunities is not limited to further enhancing our concept or accessing market segments. We are also focusing on **optimizing our operating processes**. The processes involved in store organization, sales and the links to procurement and logistics are subject to a process of ongoing enhancement. This is expected to have a sustainable positive impact on the Group's sales and earnings performance.

- The **internationalization** of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply all of our stores as efficiently as possible. Suppliers are able make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries. The fact that our retail format is increasingly attracting professional customers to HORNBACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers. The flexible dovetailing of our suppliers with the company's logistics structures optimizes our value chain and secures a significant competitive advantage for us. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our product selection to regional requirements in those countries and to improve our margins due to benefits of scale. We are tapping further earnings potential by increasingly developing private labels in cooperation with partners. These provide our customers with attractive value for money, while at the same time differentiating us from competitors.

- HORNBACH is committed to **organic growth**. We will continue to track down opportunities in our expansion across Europe in future as well. In the densely occupied German DIY market, we are relying on selective growth in attractive catchment areas. Here, we can draw on our structural advantages and benefits of scale, especially our high surface productivity together with the largest average store size in the market. In our expansion, we will be focusing on countries outside Germany. Due to their lower degree of market saturation in the DIY megastore and garden center segment compared with Germany, most other European regions harbor above-average growth opportunities.

Explanatory comments on risk and opportunity report of HORNBACH Baumarkt AG

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

OUTLOOK

FORECAST MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

One crucial factor for the business prospects of the HORNBACH Baumarkt AG Group is the future development in consumer demand and in construction and renovation measures in the countries in which we operate. Private consumer spending is decisively influenced by developments in employment totals and disposable incomes, factors that are influenced not least by developments in inflation, austerity measures to consolidate public finances, or reforms to welfare and healthcare systems. Forward-looking parameters, such as economic and income expectations, or consumers' propensity to spend, provide early indications of developments in consumer confidence ahead of the real macroeconomic data. 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.

Business framework in Europe

According to the European Commission, the moderate growth in the European economy chiefly driven by consumer spending is set to continue in 2016. Certain growth factors are expected to have a more marked and durable impact than initially assumed by experts. These include low oil prices, favorable financing terms, and the low euro exchange rate. At the same time, specific risks to the European economy and new challenges are increasingly apparent: the economic downturn in emerging economies such as Brazil, Russia, and above all China, the ongoing search for a solution to the European refugee crisis, and the increased risk of terrorist attacks.

Initial key figures most recently indicated that the chances of the European and German economies slowing down have risen. Major early indicators, such as the Purchasing Managers Index, the Ifo Business Confidence Index, and the ZEW Economic Sentiment Index, all fell in February 2016, in some cases for the second time in succession. Forecasts have already been adjusted on a selective basis.
According to the median forecast issued by the Centre for European Economic Research (ZEW), economists and bank analysts expect gross domestic product in the euro area to grow by 1.4 % in 2016, and thus slightly more slowly than in 2015 (1.5 %). The European Commission forecasts growth of 1.7 %.

The Commission's forecasts for most countries in which HORNBACH operates its DIY megastores with garden centers are significantly more positive than the euro area average. The respective estimates range between plus 1.3 % and plus 4.2 %. Real-term GDP is set to grow by 1.7 % in Austria and by 1.8 % in Germany in 2016. Luxembourg, the Netherlands, Slovakia, the Czech Republic, Romania and Sweden are forecast to achieve growth rates of 2.1 % to 4.2 %. With forecast GDP growth of plus 1.3 %, Switzerland is the only country expected to fall slightly short of the euro area average.

As in the past year, the GfK market research company expects private consumer spending to be a key economic driver once again in 2016. According to the economists, this is due to the widespread upturn in economic momentum and resultant stocking up in personnel totals expected at many companies. Unemployment is therefore expected fall further. Energy prices should also remain low. These in turn depress inflation and consumers have more money in their pockets. For the European Union as a whole (EU 28), the GfK expects private consumer spending to rise by between 1.5 % and 2.0 % in real terms. In the euro area, the ZEW expects to see a growth rate of 1.5 %.

Having risen by around 1.5 % in 2015, European construction volumes are expected to grow by 3.0 % in 2016. This was the conclusion reached by the Euroconstruct research and consulting network in its forecast dated December 2015. While civil engineering and non-housing construction in Europe are set to grow by more than 2.5 % and almost 3.0 % respectively in 2016, housing construction is forecast to show growth of more than 3.0 %. According to the experts, this latter segment will profit noticeably in the years ahead from the fall in unemployment. Not only that, the construction industry should benefit from the substantial growth in refugee totals since late summer of 2015 due to the urgent need for apartments in many places.

Business framework in Germany

Despite downside risks, such as increasing nervousness on global stock markets and the controversial discussions surrounding the setting of limits on the numbers of refugees arriving, the economists surveyed by the ZEW in April 2016 expect the German economy to post further solid growth of 1.6 % in the current year.

One major reason for this optimistic assessment relates above all to the ongoing excellent situation on the German labor market. Rising employment totals and growing demand from companies for specialist staff are boosting consumers' income expectations. Based on the forecasts available, private household disposable incomes are set to rise by around 3.0 % in nominal terms this year. Inflation, which amounted to 0.3 % in 2015, should also remain low. As a result, German citizens will have noticeably more cash in their pockets in real terms as well.

This combination of a stable employment situation and rising income expectations provides consumers with planning reliability and thus also increases their willingness to make larger-scale purchases in particular. Consistent with this picture, the consumer confidence measured by the GfK in February 2016 remained at a high level. For the year as whole, the market research company expects private consumer spending in Germany to rise by 2.0 % in real terms. The ZEW has also forecast the same growth rate.

The retail sector, which depending on the definition used accounts for around 30 % of consumer spending, is also set to benefit from this development. For 2016, the Association of German Retailers (HDE) expects sales to grow by 2 % to a total of € 481.8 billion. Online retail, which according to the HDE forecast is set to grow by 11 % to € 46.3 billion, will remain the key growth driver. Online sales would then make up almost one tenth of total retail sales in 2016. Industry experts predict that this share could rise to up to 20 % by 2020.

The Association of the German Construction Industry has forecast sales growth of 3.0 % to around € 103 billion for the main construction trade in 2016. The key growth driver identified by the industry is still housing construction, with expected nominal sales growth of 5.0 %. Overall, around 290,000 apartments would thus be newly added to the market. According to the assessment provided by the Association, however, ongoing internal migration and growing numbers of refugees make it necessary to complete more than 400,000 apartments a year, a level that is only achievable on a gradual basis.

The BHB sector association has forecast nominal sales growth of between 1.3 % and 1.5 % for the German DIY retail sector in 2016. On a like-for-like basis, sales growth of 1.0 % is forecast. The BHB sees particular potential for sales growth in the field of private renovation and housing construction and in the improved prospects for the construction industry.

For 2016, market researchers expect e-commerce sales involving DIY product ranges to grow by around 14 % to around € 2.8 billion. Given gross sales volumes of around € 44.3 billion forecast for the core DIY market (DIY and home improvement stores, specialist retailers, and smaller-scale formats) in 2016, this corresponds to an online share of 6.3 %.

Overall assessment of the expected impact of the business framework on the business performance of the Group

Based on our assessment, the macroeconomic and sector-specific framework forecast across Europe for 2016 – and especially the revival in consumer demand and housing construction activity – will impact positively on the sales and earnings performance of the HORNBACH Baumarkt AG Group in the 2016/2017 financial year.

FORECAST BUSINESS PERFORMANCE OF THE HORNBACH BAUMARKT AG GROUP IN 2016/2017

The statements made concerning the expected business performance in the 2016/2017 financial year are based on the company's medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The budget for the financial years 2016/2017 to 2020/2021, into which the annual budget for 2016/2017 is integrated, was approved by the Supervisory Board at the end of February 2016.

Expansion

We still have not planned any market entry into a new country for the one-year forecast period, but will rather focus on expanding and modernizing our store network in our existing country markets, i.e. in Germany and eight other European countries. Depending on the progress made in the building permit and construction planning stages, store openings may be rescheduled between individual years.

The pace of expansion in the 2016/2017 financial year and in our medium-term planning will reduce noticeably compared with the two preceding 2014/2015 and 2015/2016 financial years. Given the challenges facing the sector in the field of e-commerce, in our stationary retail business we will be focusing even more closely than in the past on selective growth at premium locations. That is especially true for new store openings in Germany. In the coming five years, the number of HORNBACH DIY stores here will remain essentially unchanged, as the planned new store openings – some of which replacement locations – will be balanced by closures. The key focus of our expansion and investment activities will be outside Germany.

A total of up to three new store openings are thus planned for 2016/2017. Operations were launched at the new locations in Prague (Velká Chuchle, Czech Republic) and Innsbruck (Austria) in the first quarter of the forecast period already. Furthermore, a DIY megastore is scheduled to be opened in Amsterdam (Netherlands) at the end of the 2016/2017 financial year. In Germany, a store in Mannheim that was nearly 25 years old was closed at the end of April 2016, as the conditions for extending and modernizing the 4,000 m² sales areas were not met. The total number of HORNBACH DIY stores with garden centers is therefore set to rise to up to 155 by February 28, 2017 (February 29, 2016: 153), of which up to 57 in other European countries.

Investments

Gross investments of between € 100 million and € 130 million have been budgeted at the HORNBACH Baumarkt AG Group for the 2016/2017 financial year. The overwhelming share of these funds will be channeled into building new stores, administration buildings, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure. Around half of the planned investment budget involves advance payments to purchase land for new HORNBACH DIY stores planned for periods beyond the 2016/2017 financial year.

HORNBACH enjoys maximum flexibility in terms of financing its investments. Alongside the free cash flow from operating activities, the company's cash resources and free credit lines mean that a large volume of disposable liquidity is available. The inflow of cash from operating activities will exceed the total investment volume both in the one-year forecast period and in the period covered by the medium-term planning. No sale and leaseback transactions are planned in the 2016/2017 financial year.

Sales performance

Thanks to our expansion and increased growth at our existing stores, we expect consolidated sales in the 2016/2017 budget year to exceed the figure for the 2015/2016 financial year under report (€ 3,535 million). Given the macroeconomic and sector-specific framework outlined above, we expect the Group's like-for-like sales net of currency items in the 2016/2017 financial year to show moderate growth compared with the level achieved in the previous year.

The start to the 2016/2017 financial year was within the projected framework. In line with expectations, upon the completion of this report it was apparent that sales for the first quarter of 2016/2017 (March 1 to May 31, 2016) would show growth in a low to medium single-digit percentage range compared with the previous year's figure (€ 995 million). We expect consolidated sales to exceed the respective figure for the previous year's quarter in each of the three following quarters. In terms of our geographical segments, we have based our forecasts on the following assumptions:

- In **Germany,** we expect to see further like-for-like sales growth in the 2016/2017 financial year over and above the level achieved in the previous year. Given the comparatively more dynamic sales performance outside Germany, this growth will be lower than in other European countries. Given our strong competitive position in our stationary retail business, and increasingly in our online retail business as well, we are optimistic that HORNBACH will outperform the German sector average and thus acquire further market share in future as well. Our forecast is based on the assumption that the consumer climate in Germany will remain largely stable and continue to be supported by robust developments in employment and income levels. However, any significant macroeconomic disruptions during the forecast period, for example as a result of geopolitical crises, terrorism, or exogenous price shocks on commodity or energy markets, would lead via a potential deterioration in consumer confidence to downside risks for the development in our like-for-like sales.

- We believe that the like-for-like, currency-adjusted sales performance of our stores in other European countries will improve in the 2016/2017 forecast period compared with the 2015/2016 financial year. Growth rates in the Other European countries region are expected to exceed the group average. This expectation is also backed up by the further economic recovery forecast by economists for Europe, which will be supported in particular by rising consumer spending and increased housing construction activity. Any significant deterioration in the macroeconomic framework would also present a downside risk for the like-for-like sales performance at HORNBACH's locations in other European countries.

Sales forecast for the HORNBACH Baumarkt AG Group

We expect our consolidated sales, i.e. net sales including new openings, closures and extensions of stores, to show growth in a medium single-digit percentage range in the 2016/2017 financial year. For like-for-like sales net of currency items, we expect to see group-wide growth in a low to medium single-digit percentage range.

Earnings performance

Our future earnings performance is mainly based on the earnings contributions expected from the "Retail" and "Real estate" segments.

Retail segment

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

We expect the **gross margin** in the 2016/2017 financial year to be undercut on a scale similar to that seen in the 2015/2016 financial year (minus 0.4 percentage points to 37.6 %). We expect the pressure on prices to remain high in the highly competitive stationary DIY business. Not only that, we believe that the rapid growth in online retail and resultant increase in price transparency due to the internet will further raise pressure on margins in future. To stabilize the gross margin in the long term, we intend to counter the negative impact on prices largely with positive volume effects, further increases in our share of private labels, and further expansions in import volumes.

According to our 2016/2017 annual budget, **selling and store expenses** are set to rise slightly less rapidly than sales. As a result, the store expense ratio should fall slightly short of the level seen in the 2015/2016 financial year.

Due to expected collectively agreed pay rises and shortages of specialists in regional labor markets in the countries in which HORNBACH operates, personnel expenses are expected to increase, but less rapidly than sales.

Rental expenses should rise less rapidly than sales. According to our 2016/2017 budget, utility expenses should remain virtually unchanged. The positive implications of the measures taken in previous years to optimize energy use with state-of-the-art building control and lighting technology are thus taking permanent effect.

Advertising expenses, which showed disproportionate growth compared with sales in the 2015/2016 financial year due to increased use of innovative advertising formats, especially in the e-commerce business, are budgeted to increase less rapidly than sales once again in the budget period.

We also expect our general operating expenses to rise more slowly than in the 2015/2016 financial year. As a percentage of net sales, these should remain at around the same level as in the 2015/2016 year under report. One main reason for the cost increases in the 2016/2017 financial year relates once again to planned maintenance measures for land and buildings. Some of the properties used for DIY retail are already more than 20 years old. To maintain their substance while also ensuring an up-to-date store appearance, it will be necessary to make substantial funds available once again in the forecast period to renovate our properties and modernize our sales areas and merchandise presentation. Furthermore, expenses have been budgeted for the further optimization of our logistics infrastructure.

Pre-opening expenses should virtually halve in 2016/2017 compared with the previous year. This reflects the new weighting of the expansion strategy from the forecast period onwards. While we still opened six DIY megastores (including one replacement location) in the 2015/2016 financial year, in the 2016/2017 forecast period we plan to open up to three HORNBACH DIY megastores. As a percentage of net sales, pre-opening expenses will also fall by around half.

The 2016/2017 budget foresees a further disproportionate rise in **administration expenses** compared with sales. However, the rate of cost growth should decrease compared with the 2015/2016 financial year. The increase in costs is closely linked to the additional expenses incurred for the increasing digitization of our business model and forward-looking strategic projects and will be driven in particular by higher personnel expenses.

Following the rollout of the online shop to the Netherlands and the Czech Republic in the 2015/2016 financial year, the priorities in the 2016/2017 forecast period will be to optimize existing HORNBACH online shops, press ahead with dovetailing these with the stationary retail business, and further enhance customer deliveries (B2C). Further resources will be channeled in a targeted manner into customer service relating to the online retail business. Furthermore, the budget for information technology, which is closely linked to the expansion in multichannel retail and a prerequisite for sustainable overall IT infrastructure, will be raised significantly. In view of this, the administration expense ratio will show a further significant increase in the 2016/2017 financial year.

By contrast, expenses at traditional head office departments will rise only moderately, chiefly as a result of higher personnel expenses for staff newly hired during the financial year, while material expenses and costs of external services should fall slightly short of the level reported for the 2015/2016 financial year.

In the Retail segment, both EBIT and adjusted EBIT for the 2016/2017 forecast period are expected to more or less match the previous year's figures of € 57.7 million in each case. We expect the increase in gross profit and the reduction in pre-opening expenses in absolute terms on the one hand to offset the budgeted increase in store and administration expenses on the other hand.

Real estate segment

We expect the Real estate segment to post a pleasing earnings performance in the 2016/2017 financial year.

On the one hand, **rental income** will continue to show stable growth in line with the Group's expansion. On the other hand, the **real estate expenses** budgeted for 2016/2017 are significantly lower than the previous year's figure. That is chiefly due to lower leasing expenses as a result of the reclassification of ten rental agreements (operating lease) as finance leases. The impact of this reclassification will be countered by increased depreciation within real estate expenses and higher interest expenses in net financial expenses. Furthermore, due to lower costs for conversion measures in the forecast period the level of general operating expenses budgeted is lower in absolute terms than in the 2015/2016 financial year.

Finally, the one-year forecast includes a significant improvement in other income and expenses, which were adversely affected in the previous year by non-operating impairment losses of € 8.4 million recognized for one DIY store property (IAS 36).

In the Real estate segment, we therefore expect to see significant increases in EBIT (2015/2016: € 47.7 million) and in EBIT adjusted for non-operating earnings items (2015/2016: € 56.6 million) in the 2016/2017 financial year.

Earnings forecast for the HORNBACH Baumarkt AG Group
This earnings forecast in terms of consolidated operating earnings is based on the assumption that there will not be any unexpected macroeconomic downturn or any significant deterioration in consumer confidence in the forecast period.

The earnings performance of the Group in the forecast period from March 1, 2016 to February 28, 2017 will be shaped by the stable earnings performance budgeted in the Retail segment and the improvement in earnings expected in the Real estate segment.

In our earnings forecast, we assume operating earnings (EBIT) will significantly exceed the figure for the previous 2015/2016 financial year (€ 90.2 million). Based on our assessment – and despite substantial additional expenses for the digitization of our retail business and the necessary logistical and technological infrastructure – operating earnings adjusted to eliminate non-operating income and expenses (adjusted EBIT) at the HORNBACH Baumarkt AG Group in the 2016/2017 financial year are expected to match the level reported for the 2015/2016 financial year (€ 99.3 million).

Separate financial statements (HGB)
In the separate financial statements of HORNBACH Baumarkt AG, which will be shaped by developments at the HORNBACH DIY stores with garden centers in Germany, we expect sales growth in a low to medium single-digit percentage range in the 2016/2017 financial year. With regard to earnings factors, we expect to see a lower gross margin and a significantly higher administration expenses ratio. The negative impact on earnings of these will be more than offset by a lower store expense ratio, lower pre-opening expenses in absolute terms, and the positive base effect of the impairment losses recognized on one DIY store property in the past 2015/2016 financial year. Assuming consistent profit transfer from HORNBACH International GmbH and excluding the negative base effect from the write-up in the carrying amount of the Swedish subsidiary in 2015/2016, we expect the result of ordinary operations at HORNBACH Baumarkt AG to rise significantly in the 2016/2017 forecast period.

OTHER DISCLOSURES

Disclosures under § 315 (4) and § 289 (4) HGB and explanatory report of Board of Management

As the parent company of the HORNBACH Baumarkt AG Group, HORNBACH Baumarkt AG participates in an organized market as defined in § 2 (7) of the German Securities Acquisition and Takeover Act (WpÜG) by means of the shares with voting rights thereby issued and therefore reports in accordance with § 315 (4) and § 289 (4) of the German Commercial Code (HGB).

Composition of share capital

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

Direct or indirect capital shareholdings

HORNBACH Holding AG & Co. KGaA, based in Le Quartier Hornbach 19, 67433 Neustadt an der Weinstrasse, Germany, holds more than 10 % of the voting rights. Its shareholding, and thus its share of voting rights, amounted to 76.4 % as of February 29, 2016.

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

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

Change of control

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

Powers of Board of Management to issue shares

Pursuant to § 4 of the company's Articles of Association (Share Capital), the Board of Management is authorized until July 7, 2016, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 15,000,000.00 by issuing new ordinary shares on one or several occasions in return for cash contributions (Authorized Capital I). The new shares may in each case be issued as ordinary shares with voting rights or as non-voting preference shares. The Board of Management is authorized, subject to approval by the Supervisory Board, to determine the further details concerning the execution of capital increases. Shareholders are generally to be granted subscription rights when the authorized capital is drawn on. However, the Board of Management is entitled, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights:

- in order to settle residual amounts
- to the extent necessary to grant subscription rights to the holders of conversion or option rights issued or still to be issued by the company or by direct or indirect wholly-owned subsidiaries to the extent that they would be entitled to such shares having exercised their respective conversion or option rights
- to offer new shares up to a total volume of € 1,500,000.00 to employees of the company and its subsidiaries for subscription as employee shares
- to the extent that the proportion of share capital attributable to the new shares for which subscription rights are excluded does not exceed a total of ten percent of the existing share capital either at the time of this authorization being adopted or at the time at which such authorization takes effect or is exercised and that the issue price of the new shares does not fall significantly short of the stock market price. Shares issued, disposed of or to be issued by any other direct or analogous application of § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG) are to be imputed to this restriction to ten percent of the share capital. This relates in particular to the disposal of treasury stock undertaken on the basis of an authorization to dispose of treasury stock pursuant to § 71 and § 186 (3)

Sentence 4 of the German Stock Corporation Act (AktG), as well as to shares issued or to be issued in order to service bonds with conversion and/or option rights in cases where the respective bonds were issued on the basis of an authorization pursuant to § 221 (4) and § 186 (3) Sentence 4 of the German Stock Corporation Act (AktG).

The Board of Management is authorized until July 7, 2016, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to € 30,000,000.00 by issuing new individual shares on one or several occasions in return for cash or non-cash contributions (Authorized Capital II). The new shares may in each case be issued as ordinary shares with voting rights or as non-voting preference shares. The Board of Management is authorized, subject to approval by the Supervisory Board, to determine the further details concerning the execution of capital increases. Shareholders are generally to be granted subscription rights when the authorized capital is drawn on. However, the Board of Management is authorized, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights to the extent that the capital increases in return for non-cash contributions are undertaken for the purpose of acquiring companies or shareholdings in companies.

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

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

Corporate Governance declaration pursuant to § 289a HGB

The Corporate Governance Declaration requiring submission pursuant to § 289a of the German Commercial Code (HGB) is available under "Corporate Governance" in the Investor Relations section of the company's homepage at www.hornbach-group.com. Pursuant to § 317 (2) Sentence 3 HGB, the disclosures made under § 289a HGB have not been included in the audit performed by the auditor.

Dependent company report

A report on relationships with associate companies has been compiled for the 2015/2016 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 and measures executed with the controlling company or any associate of such or at the instigation or on behalf of any of these companies in accordance with the circumstances known to us at the time at which the legal transactions were performed or the measures taken and has not been disadvantaged by such. No measures were omitted at the instigation of or on behalf of the controlling company or any associate of such."

Compensation report

The compensation report sets out the basic features and structure of the compensation paid to the Board of Management and Supervisory Board. It is a constituent component of the Group Management Report and has been presented in the Corporate Governance chapter from Page 23 onwards of this Annual Report.

DISCLAIMER

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

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2015 to February 29, 2016

	Notes	2015/2016 € 000s	2014/2015 € 000s	Change %
Sales	1	3,534,846	3,356,547	5.3
Cost of goods sold	2	2,203,638	2,080,043	5.9
Gross profit		**1,331,208**	**1,276,503**	**4.3**
Selling and store expenses	3	1,059,541	999,363	6.0
Pre-opening expenses	4	10,619	14,958	(29.0)
General and administration expenses	5	175,111	157,423	11.2
Other income and expenses	6	4,254	5,018	(15.2)
Earnings before interest and taxes (EBIT)		**90,191**	**109,778**	**(17.8)**
Other interest and similar income		776	1,113	(30.3)
Other interest and similar expenses		15,104	16,360	(7.7)
Other financial result		2,501	461	442.5
Net financial expenses	7	**(11,827)**	**(14,786)**	**(20.0)**
Consolidated earnings before taxes		**78,363**	**94,993**	**(17.5)**
Taxes on income	8	5,962	25,485	(76.6)
Consolidated net income		**72,401**	**69,508**	**4.2**
Basic/diluted earnings per share (€)	9	2.28	2.19	4.1

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2015 to February 29, 2016

	Notes	2015/2016 € 000s	2014/2015 € 000s
Consolidated net income		**72,401**	**69,508**
Actuarial gains and losses on defined benefit plans	23/24	(3,602)	(11,147)
Deferred taxes on actuarial gains and losses on defined benefit plans		486	2,246
Other comprehensive income that will not be recycled at a later date		**(3,116)**	**(8,901)**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity [1]		(115)	(1,205)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		1,925	2,750
Measurement of available for sale financial assets	13/32	1,881	1,895
Exchange differences arising on the translation of foreign subsidiaries		(2,857)	16,821
Deferred taxes on gains and losses recognized directly in equity	8	(559)	(425)
Other comprehensive income that will be recycled at a later date		**275**	**19,836**
Total comprehensive income		**69,560**	**80,443**

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

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 29, 2016

Assets [1]	Notes	2.29.2016 € 000s	2.28.2015 € 000s
Non-current assets			
Intangible assets	11	12,045	11,207
Property, plant, and equipment	12	991,694	757,678
Investment property	12	14,895	15,388
Financial assets	13/32	3,871	1,989
Non-current receivables and other assets	14/23	3,946	3,183
Non-current income tax receivables	26	1,666	3,244
Deferred tax assets	15	10,495	4,259
		1,038,612	**796,948**
Current assets			
Inventories	16	588,440	532,733
Other receivables and assets	17	58,689	51,572
Income tax receivables	26	17,676	14,937
Cash and cash equivalents	18	282,998	334,813
		947,803	**934,055**
		1,986,415	**1,731,004**

Equity and liabilities [1]	Notes	2.29.2016 € 000s	2.28.2015 € 000s
Shareholders' equity	**20**		
Share capital		95,421	95,421
Capital reserve		143,623	143,623
Revenue reserves		733,834	683,375
		972,878	**922,418**
Non-current liabilities			
Non-current financial debt	22	418,495	337,567
Provisions for pensions	23	14,570	11,138
Deferred tax liabilities	15	28,590	30,763
Other non-current liabilities	24/27	32,075	28,137
		493,730	**407,605**
Current liabilities			
Current financial debt	22	94,485	6,894
Trade payables and other liabilities	25	335,561	288,781
Income tax liabilities	26	14,494	22,222
Other provisions and accrued liabilities	27	75,267	83,082
		519,807	**400,980**
		1,986,415	**1,731,004**

[1] Previous year's figures adjusted due to IFRIC 21; please see "Changes in accounting policies due to new accounting requirements".

Statement of Changes in Equity of the HORNBACH Baumarkt AG Group

2014/2015 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2014		**95,421**	**143,623**	**(2,965)**	**22,803**	**603,104**	**861,986**
Change in accounting due to IFRIC 21						(726)	(726)
Balance at March 1, 2014 (adjusted)		**95,421**	**143,623**	**(2,965)**	**22,803**	**602,378**	**861,260**
Consolidated net income						69,508	69,508
Actuarial gains and losses on defined benefit plans	23					(8,901)	(8,901)
Measurement of derivative financial instruments (cash flow hedge), net after taxes				1,148			1,148
Measurement of available for sale financial assets, net after taxes	32					1,867	1,867
Foreign currency translation					16,821		16,821
Total comprehensive income				**1,148**	**16,821**	**62,474**	**80,443**
Dividend distribution	21					(19,084)	(19,084)
Treasury stock transactions	20					(201)	(201)
Balance at February 28, 2015		**95,421**	**143,623**	**(1,817)**	**39,624**	**645,567**	**922,418**

2015/2016 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2015 [1]		**95,421**	**143,623**	**(1,817)**	**39,624**	**645,567**	**922,418**
Consolidated net income						72,401	72,401
Actuarial gains and losses on defined benefit plans	23					(3,116)	(3,116)
Measurement of derivative financial instruments (cash flow hedge), net after taxes				1,279			1,279
Measurement of available for sale financial assets, net after taxes	32					1,853	1,853
Foreign currency translation					(2,857)		(2,857)
Total comprehensive income				**1,279**	**(2,857)**	**71,138**	**69,560**
Dividend distribution	21					(19,084)	(19,084)
Treasury stock transactions	20					(16)	(16)
Balance at February 29, 2016		**95,421**	**143,623**	**(538)**	**36,767**	**697,605**	**972,878**

[1] Previous year's figures adjusted due to IFRIC 21; please see "Changes in accounting policies due to new accounting requirements".

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2015/2016 € 000s	2014/2015 [1] € 000s
Consolidated net income		**72,401**	**69,508**
Depreciation and amortization of non-current assets	10	73,064	57,454
Change in provisions		(2,003)	5,138
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(172)	274
Change in inventories, trade receivables and other assets		(64,872)	(38,322)
Change in trade payables and other liabilities		38,481	17,546
Other non-cash income/expenses		(10,342)	(4,241)
Cash flow from operating activities		**106,557**	**107,357**
Proceeds from disposal of non-current assets and of non-current assets held for sale		1,692	1,402
Payments for investments in property, plant, and equipment		(133,758)	(96,924)
Payments for investments in intangible assets		(5,034)	(2,999)
Cash flow from investing activities		**(137,100)**	**(98,521)**
Dividends paid	21	(19,084)	(19,084)
Payments for redemption of financial loans		(4,172)	(27,674)
Proceeds from group financing activities		0	91
Payments for transaction costs		0	(500)
Change in current financial debt		2,099	1,280
Cash flow from financing activities		**(21,157)**	**(45,887)**
Cash-effective change in cash and cash equivalents		(51,700)	(37,051)
Change in cash and cash equivalents due to changes in exchange rates		(115)	754
Cash and cash equivalents at March 1		334,813	371,110
Cash and cash equivalents at balance sheet date		**282,998**	**334,813**

[1] Previous year's figures adjusted due to IFRIC 21; please see "Changes in accounting policies due to new accounting requirements".

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, unrecognized exchange rate gains/losses, and write-ups to non-current assets.

The cash flow from operating activities was reduced by income tax payments of € 23,238k (2014/2015: € 34,620k) and interest payments of € 16,449k (2014/2015: € 16,972k) and increased by interest received of € 776k (2014/2015: € 944k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory notes on the principles and methods applied in the consolidated financial statements

Basis of preparation

In line with § 315a of the German Commercial Code (HGB), HORNBACH Baumarkt AG (until August 3, 2015: Hornbach-Baumarkt-Aktiengesellschaft) prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. New IFRS are basically 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 2015/2016 financial year.

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

HORNBACH Baumarkt AG is a publicly listed stock corporation whose legal domicile is in Bornheim, Germany. Its address is Hornbachstrasse 11, 76879 Bornheim. HORNBACH Baumarkt AG and its subsidiaries develop and operate DIY megastores with garden centers on an international basis.

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

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

The consolidated financial statements have been compiled in euros. This represents the functional currency at HORNBACH Baumarkt AG. The figures have been rounded to the nearest thousand or million euros. Such rounding up or down may result in minor 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 4, 2016. 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

Application has been made of all International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid and requiring mandatory application at the balance sheet date, to the extent that such are relevant for the HORNBACH Baumarkt AG Group.

The following new standards, revised standards and interpretations required application for the first time in the 2015/2016 financial year:

- IFRIC 21 "Levies": This interpretation deals with the accounting treatment of public dues (levies) and clarifies when such obligations have to be recognized as provisions or liabilities in the financial statements. The scope of the interpretation specifically does not include fines, duties resulting from public law contracts or duties covered by the scope of other IFRS standards, such as IAS 12 "Income Taxes". Pursuant to its EU endorsement, the interpretation requires first-time application in financial years beginning on or after June 17, 2014.

  This interpretation has implications for the recognition of land tax obligations at HORNBACH Baumarkt AG. Consistent with the retrospective application requirement, these implications were as follows:

€ 000s	February 28, 2015	March 1, 2014
Assets		
Non-current assets		
Deferred tax assets	51	242
Current assets		
Receivables and other assets	(10)	(97)
Equity and liabilities		
Shareholders' equity		
Revenue reserves	(726)	(726)
Non-current liabilities		
Deferred tax liabilities	(222)	0
Current liabilities		
Trade payables and other liabilities	894	788
Other provisions and accrued liabilities	95	83

Earnings-effective items that arose as of February 28, 2015 due to retrospective application had no material implications for the consolidated financial statements for the comparative period. Non-application in the 2015/2016 financial year would essentially have resulted in the aforementioned items being reversed. At the same time, non-application would not have had any material impact on earnings for the period under report as IFRIC 21 merely clarifies the point in time at which the obligation is recognized within the given financial year.

The other standards, revised standards, and interpretations requiring mandatory application from the 2015/16 financial year did not have any material implications for the consolidated financial statements of HORNBACH Baumarkt AG:

- Amendments to IAS 19 (revised 2011) "Employee Contributions"
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Annual Improvements to IFRSs 2011 – 2013 Cycle

Standards and interpretations not applied prematurely

The IASB has issued the following standards, interpretations, and revisions to existing standards of relevance to the HORNBACH Baumarkt AG Group which only require mandatory application in later financial years and which the HORNBACH Baumarkt AG Group has also not applied prematurely:

- Annual Improvements to IFRSs 2012 – 2014 Cycle: Within the IASB's annual improvements process, amendments are introduced within individual IFRS standards in order to eliminate inconsistencies with other standards or to specify their content in greater detail. This cycle introduces amendments to IFRS 5, IFRS 7, IAS 19, and IAS 34. Unless otherwise stipulated in individual cases, these amendments require first-time application in financial years beginning on or after January 1, 2016. The amendments have no material implications for the consolidated financial statements of HORNBACH Baumarkt AG.
- Amendments to IAS 27 "Equity Method in Separate Financial Statements": This amendment reintroduces the option abolished in 2003 of recognizing interests in subsidiaries, joint ventures and associates in the separate financial statements of the investor using the equity method. This standard requires first-time application in financial years beginning on or after January 1, 2016. The amendments have no implications for the consolidated financial statements of HORNBACH Baumarkt AG.
- Amendments to IAS 16 and IAS 41 "Bearer Plants": These amendments clarify that bearer plants should in future no longer be recognized under IAS 41. Application is therefore made of IAS 16. Through to maturity, bearer plants should be recognized by analogy with internally generated property, plant and equipment and subsequently using the cost model or the revaluation model. This standard requires first-time application in financial years beginning on or after January 1, 2016. The amendments have no implications for the consolidated financial statements of HORNBACH Baumarkt AG.
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation": The amendments specify that revenue-based methods of depreciation and amortization are not appropriate for property, plant and equipment and intangible assets. A rebuttable presumption nevertheless applies for intangible assets with limited useful lives. In limited cases, it is then nevertheless possible to apply revenue-based amortization. This standard requires first-time application in financial years beginning on or after January 1, 2016. The amendments have no implications for the consolidated financial statements of HORNBACH Baumarkt AG.
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations": These amendments clarify that the acquisition of interests or additional interests in joint operations should be recognized under IFRS 3 and other standards provided that the operations constitute a business as defined in IFRS 3 and that such recognition does not conflict with the guidelines in IFRS 11. In the case of the acquisition of additional interests, however, the interests already held do not require remeasurement. This standard requires first-time application in financial years beginning on or after January 1, 2016. The amendments have no implications for the consolidated financial statements of HORNBACH Baumarkt AG.

- Amendments to IAS 1 “Disclosure Initiative”: This amendment clarifies in particular that disclosure obligations only apply when their content is not immaterial. Furthermore, clarifications have also been introduced concerning the aggregation and disaggregation of items in the balance sheet and the statement of comprehensive income, the presentation of other comprehensive income for companies included at equity, and the structure of note disclosures. This standard requires first-time application in financial years beginning on or after January 1, 2016. The amendments have no material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

Standards, interpretations and amendments published, but not yet adopted into European law by the EU Commission

The following requirements had been published in English by the IASB and the IFRIC but not yet endorsed by the EU upon the approval of the financial statements for publication.

- IFRS 9 “Financial Instruments”: This standard issued in July 2014 is set to replace the existing IAS 39 requirements. IFRS 9 contains revised guidelines concerning the classification and measurement of financial instruments, including a new expected credit loss model to calculate impairments of financial assets and new general hedge accounting requirements. It has also taken over requirements governing the recognition and retirement of financial instruments from IAS 39. Subject to adoption into EU law, which is still outstanding, this new standard will require first-time application in financial years beginning on or after January 1, 2018.

- IFRS 14 "Regulatory Deferral Accounts": This standard allows first-time adopters of IFRS to continue recognizing regulatory deferral accounts under national law in their IFRS financial statements as well where specific conditions are met. This standard will require first-time application in financial years beginning on or after January 1, 2016. The EU has decided not to start the endorsement process, but rather to wait for the final version of the standard.

- IFRS 15 “Revenue from Contracts with Customers”: This new standard reorganizes the requirements governing the recognition of revenues. As a result, IFRS 15 will replace all previous relevant standards governing revenue recognition (IAS 18, IAS 11, and IFRIC 13), as well as the relevant interpretations. From now on, companies will be required to determine the date or period in which revenues are recognized by reference to a five-stage model. The model will also be used to determine the amount of revenues. In general, revenues will have to be recognized as of the date/period in which control over the goods and services is transferred. The standard also includes guidelines for multiple element arrangements and new requirements governing the treatment of service contracts and contract modifications. The scope of note disclosures has also been extended. An "Amendment to IFRS 15" proposing that the effective date be postponed was published in September 2015. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2018. Premature application is permitted.

- IFRS 16 "Leases": This standard replaces the existing lease accounting requirements and fundamentally alters the treatment of leases at the lessee. The existing review performed to classify a lease as an operating lease or a finance lease is no longer required at the lessee. Apart from short-term and low-value contracts, from now on all lease contracts are to be presented using a methodology similar to that previously applied for finance leases, i.e. alongside a right of use a corresponding lease liability is also recognized upon initial recognition. Both items are updated as appropriate. When accounting for leases, lessors are still required to perform a review to classify leases as operating or finance leases. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2019. Premature application is permitted, provided that parallel application is made of IFRS 15.

- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”: This amendment offers clarification concerning transactions between investors and associates or joint ventures. Where the transaction involves a business as defined in IFRS 3, the complete gains or losses must be recognized at the investor. Partial recognition of gains or losses applies when the transaction does not involve a business. The IASB decided in 2015 to postpone the effective date until the completion of a research project addressing equity-method accounting.

- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”: This amendment specifies the consolidation obligation when the parent company is an investment entity. The circumstances in which there is no obligation to consolidate subsidiaries are listed. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2016.

- Amendments to IAS 12 – Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses: The amendments provide basic clarifications concerning the treatment of deductible temporary differences. In particular, the amendments address the treatment of deductible temporary differences resulting from debt instruments measured at fair value. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2017.

- Amendments to IAS 7 "Statement of Cash Flows: Disclosure Initiative": The amendments are intended to enhance the information provided on changes in liabilities for financing activities. Subject to adoption into EU law, which is still outstanding, this standard will require first-time application in financial years beginning on or after January 1, 2017. Premature application is permitted.

The implications for the consolidated financial statements of the aforementioned standards and supplements not yet adopted into EU law are currently being investigated. The following as yet inconclusive implications have been identified within the analyses currently underway.

IFRS 16 will basically make it necessary to recognize all leases in the balance sheet in future. At HORNBACH, this relates in particular to those rental agreements previously classified as operating leases, which are disclosed as financial obligations in the notes. As a result, non-current assets and financial debt will both increase in future. Furthermore, changes will also arise in the income statement. To date, rental payments in connection with operating lease agreements were mainly included as expenses within selling and store expenses. In future, these expenses will be split into depreciation and interest expenses and recognized accordingly.

In respect of IFRS 15, the impact analysis identified topics that may have implications for the consolidated financial statements. These potential implications are currently being analyzed in greater detail and mainly relate to guarantee commitments for multiple element arrangements. Application of IFRS 15 may lead to revenues being recognized at a later point in time.

From a current perspective, the amendments to IAS 7 will result in extended disclosures in connection with the cash flow statement.

From a current perspective, the other new requirements are not expected to have any material implications.

Consolidation principles

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

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

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

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

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

Scope of consolidation

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

Interests in companies not included in the scope of consolidation have been recognized in accordance with IAS 39.

In addition to HORNBACH Baumarkt AG, the consolidated financial statements include 6 domestic and 29 foreign subsidiaries by way of full consolidation. As the sole shareholder in HORNBACH International GmbH, HORNBACH Baumarkt AG holds, either directly or indirectly, 100 % of the voting rights in the consolidated subsidiaries. As in the previous year, all direct and indirect subsidiaries of HORNBACH Baumarkt AG have been included in the consolidated financial statements for the 2015/2016 financial year.

Changes in scope of consolidation

There were no changes in the scope of consolidation in the 2015/2016 financial year.

The development in the scope of consolidation was as follows:

	2015/2016	2014/2015
March 1	**36**	**36**
Companies consolidated for the first time	0	2
Mergers	0	2
February 28/29	**36**	**36**

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
Germany [2]			
HORNBACH International GmbH, Bornheim	100	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	100	294	EUR
HB Reisedienst GmbH, Bornheim	100	7,340	EUR
HB Services GmbH, Bornheim	100	18	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100	139	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	100	(35)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100[4]	2,028,185	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	67,688	EUR
EZ Immobilien Beta GmbH, Wiener Neudorf, Austria	100	8,490	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	574	EUR
HS Immobilien Sigma GmbH, Wiener Neudorf, Austria	100	(785)	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	9,394	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	144,753	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	100	114,926	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	100	586	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	88,751	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	4,384	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,807	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	659	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	(176)	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	2	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	7	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	13	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(346)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	729	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	693	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,217	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	1,438	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,380	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,352	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	524	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(8)	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	21,729	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100[3]	72,782	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100	3,409	HKD

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

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

Currency translation

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

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

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.29.2016	2.28.2015	2015/2016	2014/2015
RON Romania	4.4757	4.4413	4.45285	4.43664
SEK Sweden	9.3219	9.3693	9.33668	9.19695
CHF Switzerland	1.0914	1.0636	1.07097	1.18988
CZK Czech Republic	27.0570	27.4380	27.16532	27.58367
USD USA	1.0888	1.1240	1.10114	1.29303
HKD Hong Kong	8.4651	8.7167	8.54162	10.02620

Accounting policies

General principles

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

Balance sheet item	Valuation principal
Assets	
Goodwill	Impairment-only approach
Intangible assets	
with indefinite useful lives	Impairment-only approach
with finite useful lives	At amortized cost
Property, plant, and equipment	At amortized cost
Investment property	At amortized cost
Financial assets	
Available for sale	Fair value with gains or losses recognized directly in equity and at amortized cost
Inventories	Lower of cost and fair value less costs to sell
Trade receivables	At amortized cost
Other assets	
Loans and receivables	At amortized cost
Held for trading	Measured at fair value through profit and loss
Cash and cash equivalents	Par value
Non-current assets held for sale	Lower of book value and fair value less costs to sell
Equity and liabilities	
Financial debt	
Measured at amortized cost	Measured at amortized cost using the effective interest method
Held for trading	Measured at fair value through profit and loss
Provisions	
Provisions for pensions	Present value of future obligations (projected unit credit method)
Other provisions	Expected settlement amount
Trade payables	At amortized cost
Other liabilities	At amortized cost
Accrued liabilities	At amortized cost

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

Goodwill

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

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

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

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

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

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

There are no intangible assets with indefinite useful lives.

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

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

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

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

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

Impairment of non-current non-financial assets

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

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

The value in use of an individual asset or a cash generating unit is calculated by reference to the discounted future cash flows of a cash generating unit expected on the basis of the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future (perpetuity) have been based on growth factors of 1.0 % to 1.5 % (2014/2015: 1.0 % to 1.5 %). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current procurement terms and future expectations as to such terms.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBACH Baumarkt AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. To this extent, the value in use is basically determined by reference to Level 3 input data. Depending on the countries and activities involved, the pre-tax discount rates applied in the 2015/2016 financial year ranged from 6.5 % to 11.7 % (2014/2015: 8.1 % to 12.2 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

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

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

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

Leases

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

Inventories

Inventories are carried at cost or at their net realizable value, if lower. The net realizable value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Costs of unfinished services relate to customer orders for merchandise deliveries, including services provided with tradesmen commissioned by HORNBACH. Unfinished products and unfinished services mainly involve directly allocable costs of material and invoiced tradesman services. Supplier compensation requiring measurement as a reduction in the respective costs of acquisition or manufacture is recognized accordingly 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. Recognized and unrecognized deferred tax assets are reviewed at each balance sheet date to ascertain whether any adjustment in their current values is required.

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

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

Non-current assets held for sale and disposal groups

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

Pensions and similar obligations

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

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

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

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

Provisions and accrued liabilities

Provisions are recognized for uncertain obligations to third parties where these result from past events and are likely to lead to a future outflow of resources. Provisions are stated at the expected settlement amount, having accounted for all identifiable risks, and are not offset against recourse claims. This item also includes provisions for severance payments, for which actuarial surveys are obtained. If the overall effect is material, non-current provisions are measured at present value discounted to the end of the respective terms. Provisions for pending losses and onerous contracts are recognized if the contractual obligations are higher than the expected economic benefits. Any risks existing in connection with legal disputes and court cases are recognized under provisions. The amount of provision is based on the assessment of the relevant circumstances. In the case of accrued liabilities, the date and level of the respective liability 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 recognized 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 instruments
In accordance with IAS 39 “Financial Instruments: Recognition and Measurement”, financial assets are subsequently measured at amortized cost, at cost, or at fair value. Primary financial instruments constituting liabilities are measured at amortized cost. 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.

Financial assets are classified pursuant to IAS 39 as available for sale, as they cannot be allocated to any other of the IAS 39 categories. They are measured at fair value. Investments and prepayments for financial assets (equity instruments) are recognized at cost when there is no active market for these items and their fair values cannot be reliably determined at reasonable expense.

Receivables and other assets (except derivatives) are carried at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable risks. These are determined on the basis of individual risk assessments and depending on the maturity structure of overdue receivables. Specific cases of default lead to the receivable in question being derecognized. Impairment accounts are maintained for trade receivables and the financial assets recognized under other receivables and 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.

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

Financial debt (bank loans, bonds) are recognized at the respective loan amount, less transaction costs, and subsequently measured at amortized cost. The difference to the repayment amount is recognized as an expense over the term of the bond and the promissory note bonds using the effective interest method. All other debt items are also recognized at amortized cost. This mostly corresponds to the respective repayment amount.

Derivative financial instruments

Derivative financial instruments, such as forward exchange transactions and interest swaps, are used to hedge exchange rate and interest risks. In line with the Group's risk principles, no derivative financial instruments are held for speculative purposes. Upon addition, derivative financial instruments are recognized in the balance sheet at fair value. Any transaction costs incurred are immediately recognized as expenses.

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 are subject to mandatory classification as held for trading (financial assets/liabilities held for trading) and are thus measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the balance sheet date. The fair value of interest and interest-currency swaps is determined by the financial institutions with which they were concluded. The financial institutions use customary market valuation models (e.g. discounted cash flow method) that refer to the interest and currency information available on the market. This corresponds to Level 2 input factors in the fair value hierarchy.

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

Fair value measurement

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

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

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

Revenues

Pursuant to IAS 18, sales and other operating income are recognized at the time at which the service is performed provided that the amount of income can be reliably determined and the inflow of benefits is deemed likely.

For the sale of merchandise, the time at which ownership, i.e. the significant risks and rewards associated with ownership, is transferred is taken to be the time at which the service is performed. The amount of sales recognized is based on the fair value of the consideration received, taking due account of sales deductions and the expected level of goods returned.

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

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

Expenses

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

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

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

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

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

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

Discretionary decisions

Discretionary decisions made when applying the accounting policies and which materially influence the amounts recognized in the consolidated financial statements chiefly relate to the classification of leases as finance or operating leases. Based on the contractual terms, an assessment is made upon concluding or modifying the respective contracts as to whether the risks and rewards associated with ownership of the leased item are attributable to HORNBACH Baumarkt AG or to the counterparty. More detailed information can be found in Notes 22 and 29.

Assumptions and estimates

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

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11 & 12), the recognition and measurement of provisions (Notes 23 & 24), the calculation of the recoverable amount to determine the amount of any impairments of non-current, non-financial assets (Notes 10, 11 & 12), the determination of the net realizable price for inventories (Note 16), and the ability to obtain future tax relief (Notes 8, 15 & 26). Further information about the accounting policies relating to the respective topic can be found in the aforementioned notes.

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

Segment Report

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 153 (2014/2015: 146) DIY megastores and garden centers grouped together in the HORNBACH Baumarkt AG Group and the online shops in six of the nine European countries in which we operate. The "Real estate" segment includes the retail properties owned by the HORNBACH Baumarkt AG Group, which are let and charged to the respective DIY stores with garden centers within the Group at normal market conditions. The "Headquarters and consolidation" reconciliation column includes administration and consolidation items not attributable to the individual segments.

Segment earnings

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

Segment assets and liabilities

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

2015/2016 in € million 2014/2015 in € million	Retail	Real estate	Headquarters and consolidation	HORNBACH Baumarkt AG Group
Segment sales	**3,533.1**	**162.1**	**(160.4)**	**3,534.8**
	3,355.2	153.1	(151.7)	3,356.5
Sales to third parties	3,533.1	0.0	0.0	3,533.1
	3,355.1	0.0	0.0	3,355.1
Sales to affiliated companies	0.0	0.0	0.0	0.0
	0.1	0.0	0.0	0.1
Rental income from third parties	0.0	1.7	0.0	1.7
	0.0	1.4	0.0	1.4
Rental income from affiliated companies	0.0	160.4	(160.4)	0.0
	0.0	151.7	(151.7)	0.0
Segment earnings (EBIT)	**57.7**	**47.7**	**(15.2)**	**90.2**
	82.4	48.5	(21.2)	109.8
of which: depreciation and amortization/write-ups	39.2	26.2	6.8	72.2
	35.9	15.8	5.8	57.5
Segment assets [1]	**881.2**	**850.6**	**224.8**	**1,956.6**
	786.8	630.8	290.9	1,708.5
of which: credit balances at banks	66.1	0.0	186.1	252.2
	42.9	0.0	257.7	300.6
Investments [1]	**48.8**	**250.2**	**11.5**	**310.5**
	47.5	45.5	6.9	99.9
Segment liabilities [1]	**400.7**	**286.4**	**283.4**	**970.5**
	365.4	32.7	357.5	755.6
of which: financial debt	0.2	263.9	248.9	513.0
	9.5	87.9	247.0	344.5

Reconciliation in € million	2015/2016	2014/2015
Segment earnings (EBIT) before "Headquarters and consolidation"	**105.4**	**131.0**
Headquarters	(15.2)	(21.2)
Net financial expenses	(11.8)	(14.8)
Consolidated earnings before taxes	**78.4**	**95.0**
Segment assets [1]	**1,956.6**	**1,708.6**
Deferred tax assets	10.5	4.3
Income tax receivables	19.3	18.2
Total assets	**1,986.4**	**1,731.0**
Segment liabilities [1]	**970.5**	**755.6**
Deferred tax liabilities	28.6	30.8
Income tax liabilities	14.5	22.2
Total liabilities	**1,013.5**	**808.6**

[1] Previous year's figures adjusted due to IFRIC 21; please see "Changes in accounting policies due to new accounting requirements".
[2] Investments in the "Real estate" segment include additions resulting from the capitalization of finance leases amounting to € 171.7 million.

Geographical disclosures

In the interests of comprehensibility, the mandatory geographical disclosures for sales to third parties and non-current assets have been supplemented on a voluntary basis with 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.

2015/2016 in € million 2014/2015 in € million	Germany	Other European countries	Reconciliation	HORNBACH Baumarkt AG Group
Sales	**2,293.0**	**1,524.3**	**(282.5)**	**3,534.8**
	2,199.4	1,390.3	(233.2)	3,356.5
Sales to third parties	2,010.7	1,522.4	0.0	3,533.1
	1,966.2	1,388.8	0.1	3,355.1
Sales to affiliated companies	282.2	0.3	(282.4)	0.0
	233.2	0.2	(233.3)	0.1
Rental income from third parties	0.1	1.6	0.0	1.7
	0.1	1.3	0.0	1.4
EBIT	**(4.8)**	**95.0**	**0.0**	**90.2**
	29.6	80.6	(0.4)	109.8
Depreciation and amortization/write-ups	**48.4**	**23.8**	**0.0**	**72.2**
	34.6	22.9	0.0	57.5
EBITDA	**43.6**	**118.8**	**0.0**	**162.4**
	64.2	103.5	(0.4)	167.2
Assets [1)]	**1,460.2**	**845.7**	**(349.3)**	**1,956.6**
	1,270.7	727.2	(289.4)	1,708.5
of which: non-current assets [*)]	511.4	508.5	(0.1)	1,019.8
	372.0	413.1	0.0	785.0
Investments [1)]	**189.2**	**121.4**	**0.0**	**310.5**
	45.6	54.4	0.0	99.9

[*)] These involve property, plant and equipment, investment property, intangible assets and non-current deferrals and accruals. This item does not include non-current income tax receivables of € 1.7 million (2014/2015: € 3.2 million) for the Germany region.
[1)] Previous year's figures adjusted due to IFRIC 21; please see "Changes in accounting policies due to new accounting requirements".
[2)] Investments include additions resulting from the capitalization of finance leases amounting to € 171.7 million.

Notes on the Consolidated Income Statement

(1) Sales

Sales mainly involve revenues in the Retail segment. Furthermore, revenues of € 1,711k (2014/2015: € 1,386k) from the letting of real estate have also been reported under sales.

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

(2) Cost of goods sold

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

	2015/2016 € 000s	2014/2015 € 000s
Expenses for auxiliary materials and purchased goods	2,156,309	2,041,040
Expenses for services rendered	47,329	39,003
	2,203,638	**2,080,043**

(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 administration expenses, transport costs, 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:

	2015/2016 € 000s	2014/2015 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	1,617	1,228
Income from allocations within the HORNBACH HOLDING Group	2,558	1,760
Income from disposal of non-current assets	880	788
Income from damages	1,586	1,864
Income from payment differences	957	529
Miscellaneous other income	11,919	15,981
	19,517	**22,150**
Other income from non-operating activities		
Income from disposal of real estate	20	15
Income from reversal of provisions for onerous contracts	2,967	0
Reversal of impairments recognized in prior years	862	0
Other non-operating income	56	0
	3,905	**15**
Other income	**23,422**	**22,164**

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

	2015/2016 € 000s	2014/2015 € 000s
Other expenses from operating activities		
Losses due to damages	2,440	3,022
Impairments and defaults on receivables	1,211	2,956
Losses on disposal of non-current assets	558	318
Expenses from payment differences	354	350
Miscellaneous other expenses	1,566	5,058
	6,129	**11,704**
Other expenses from non-operating activities		
Impairment of property, plant, and equipment, intangible assets and investment property	12,633	1,668
Losses on disposal of non-current assets	169	759
Additions to provisions for onerous contracts	224	2,981
Other non-operating expenses	13	34
	13,039	**5,442**
Other expenses	**19,168**	**17,146**
Net income from other income and expenses	**4,254**	**5,018**

Further information about impairment losses and income from write-ups can be found in Notes 11 and 12.

(7) Net financial expenses

	2015/2016 € 000s	2014/2015 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	483	661
Other	293	452
of which: from affiliated companies	150	150
	776	**1,113**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	12,025	12,482
Interest expenses on financial instruments used as hedging instruments	1,925	2,750
Interest expenses from compounding of provisions	208	184
Other	946	944
of which: to affiliated companies	54	(15)
	15,104	**16,360**
Net interest expenses	**(14,328)**	**(15,247)**
Other financial result		
Gains/losses on derivative financial instruments	1,447	(1,947)
Gains and losses from foreign currency exchange	1,054	2,408
	2,501	**461**
Net financial expenses	**(11,827)**	**(14,786)**

In line with IAS 17 “Leases”, finance leases are recognized under property, plant and equipment, with the interest component of the leasing installments, amounting to € 843k (2014/2015: € 64k) being recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,059k in the year under report (2014/2015: € 1,364k) 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 4.4 % (2014/2015: 4.4 %).

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

In the previous year, the interest expenses on financial instruments used as hedging instruments included expenses of € 414k resulting from the reversal of a cash flow hedge relationship.

Gains/losses on derivative financial instruments include gains and losses of € 1,447k on derivative currency instruments (2014/2015: € -1,947k).

The gains and losses from foreign currency exchange for the 2015/2016 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net income of € 578k (2014/2015: income of € 2,168k). Furthermore, this item also includes realized exchange rate gains of € 9,920k (2014/2015: € 6,669k) and realized exchange rate losses of € 9,443k (2014/2015: € 6,428k).

(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.

As in the previous year, the German companies included in the HORNBACH Baumarkt AG Group are subject to an average trade tax rate of approximately 14.6 % of their trading income. The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. The income tax rates applied to foreign companies range from 16 % to 31 %.

The actual income tax charge of € 5,962k (2014/2015: € 25,485k) is € 17,547k lower (2014/2015: € 3,013k) than the expected tax charge of € 23,509k (2014/2015: € 28,498k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Baumarkt AG (2014/2015: 30 %) to the Group's pre-tax earnings of € 78,363k (2014/2015: € 94,993k).

Deferred tax assets have been stated for losses carried forward amounting to € 39,084k (2014/2015: € 633k). HORNBACH Baumarkt AG expects it to be possible to offset the tax losses carried forward, which in some cases are attributable to start-up losses in individual countries, against future earnings in full.

No deferred tax assets have been reported in the case of losses carried forward amounting to € 5,414k (2014/2015: € 39,458k), as future realization of the resultant benefit is not expected. Of these, losses carried forward of € 2,964k and € 634k are due to expire within the next 5 and 7 years respectively. The previous year's figures included losses carried forward whose use is limited to 5 years (€ 2,003k) or 7 years (€ 4,277k). There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated. Losses carried forward amounting to € 2,678k for which no deferred taxes had been recognized were utilized.

Deferred tax assets of € 6,531k were recognized in the 2015/2016 financial year for losses carried forward whose utilization was previously not deemed possible.

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 € 313,521k at subsidiaries (2014/2015: € 311,105k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of the tax charge:

	2015/2016 € 000s	2014/2015 € 000s
Current taxes on income		
Germany	(56)	6,523
Other countries	14,405	21,053
	14,349	**27,576**
Deferred tax expenses/income		
due to changes in temporary differences	(159)	(2,091)
due to changes in tax rates	(398)	0
due to losses carried forward	(7,830)	0
	(8,387)	**(2,091)**
Taxes on income	**5,962**	**25,485**

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

	2015/2016		2014/2015	
	€ 000s	%	€ 000s	%
Expected income tax charge	23,509	100.0	28,498	100.0
Difference between local tax rate and group tax rate	(8,713)	(37.1)	(5,472)	(19.2)
Tax-free income	(928)	(3.9)	(280)	(1.0)
Tax reductions/increases due to changes in tax rates	(398)	(1.7)	0	0
Tax increases attributable to expenses not deductible for tax purposes	3,708	15.8	3,591	12.6
Tax effects on losses carried forward	(429)	(1.8)	999	3.5
Non-period current and deferred taxes	(10,787)	(45.9)	(1,851)	(6.5)
Taxes on income	**5,962**	**25.4**	**25,485**	**89.4**
Effective tax rate in %	7.6		26.8	

The non-period current tax income of € 4,181k (2014/2015: € 174k) chiefly results from refunds of income taxes following definitive tax assessments (€ 3,391k) and from the increase in trade tax credits on foreign dividends (€ 303k).

The non-period deferred tax income of € 6,606k (2014/2015: € 1,677k) chiefly results from the capitalization of deferred tax assets for losses carried forward in Sweden that were previously not deemed utilizable. The previous year's figure largely resulted from the findings and follow-up effects of the tax audit completed in Germany for the years 2008 – 2011.

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

	2015/2016 € 000s	2014/2015 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	(3,602)	(11,147)
Change in deferred taxes	486	2,246
	(3,116)	**(8,901)**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	1,810	1,545
Change in deferred taxes	(531)	(397)
	1,279	**1,148**
Measurement of available for sale financial assets		
Changes in fair value of available for sale financial assets before taxes	1,881	1,895
Change in deferred taxes	(28)	(28)
	1,853	**1,867**
Exchange differences arising on the translation of foreign subsidiaries	**(2,857)**	**16,821**
Other comprehensive income, net after taxes	**(2,841)**	**10,935**
of which: other comprehensive income before taxes	(2,768)	9,114
of which: change in deferred taxes	(73)	1,821

(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.

	2015/2016	2014/2015
Weighted number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG (in €)	72,401,186	69,507,608
Earnings per share in €	**2.28**	**2.19**

(10) Other disclosures on the income statement

Personnel expenses

The individual expense items include the following personnel expenses:

	2015/2016 € 000s	2014/2015 € 000s
Wages and salaries	521,142	502,478
Social security contributions and pension expenses	112,606	106,669
	633,748	**609,147**

Wages and salaries also include expenses for temporary employees.

Depreciation and amortization

	2015/2016 € 000s	2014/2015 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	60,431	55,786
Impairment of property, plant, and equipment, intangible assets and investment property	12,633	1,668
	73,064	**57,454**

The impairment losses recognized in the 2015/2016 financial year relate to properties used for operations, properties not used for operations, plant and office equipment, and intangible assets. In the previous year, impairment losses related to properties used for operations, properties not used for operations, and plant and office equipment. Reference is also made to the disclosures on intangible assets and property, plant and equipment in Notes 11 and 12 respectively.

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

2015/2016 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	599	51,372	51,971
Pre-opening expenses	0	20	20
General and administration expenses	2,397	6,042	8,439
Other income and expenses	1,211	11,422	12,633
	4,208	**68,856**	**73,064**

2014/2015 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	568	47,170	47,738
Pre-opening expenses	0	44	44
General and administration expenses	2,508	5,496	8,004
Other income and expenses	0	1,668	1,668
	3,076	**54,378**	**57,454**

Notes on the Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2014/2015 and 2015/2016 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, 2014	80,328	3,271	152	83,751
Additions	2,828	0	171	2,999
Disposals	332	0	0	332
Reclassifications	153	0	(151)	2
Foreign currency translation	16	0	0	16
Balance at February 28/March 1, 2015	**82,993**	**3,271**	**172**	**86,436**
Additions	2,339	0	2,695	5,034
Disposals	43	0	0	43
Reclassifications	62	0	(49)	13
Foreign currency translation	(1)	0	0	(1)
Balance at February 29, 2016	**85,350**	**3,271**	**2,818**	**91,439**
Amortization				
Balance at March 1, 2014	72,470	0	0	72,470
Additions	3,076	0	0	3,076
Disposals	332	0	0	332
Foreign currency translation	15	0	0	15
Balance at February 28/March 1, 2015	**75,229**	**0**	**0**	**75,229**
Additions	4,208	0	0	4,208
Disposals	42	0	0	42
Foreign currency translation	(1)	0	0	(1)
Balance at February 29, 2016	**79,394**	**0**	**0**	**79,394**
Carrying amount at February 29, 2016	**5,956**	**3,271**	**2,818**	**12,045**
Carrying amount at February 28, 2015	7,764	3,271	172	11,207

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 2015/2016 financial year did not identify any impairment requirement. The recoverable amounts of the two cash generating units are based in each case on their value in use. This is calculated using the discounted cash flow method by reference to Level 3 input data.

The pre-tax discount rates applied in the 2015/2016 financial year amounted to 8.8 % and 6.8 % (2014/2015: 9.2 % and 8.3 %).

Changes deemed possible in key assumptions would not result in any impairments at the two locations. The sensitivity analysis performed in the previous year - based on analogous assumptions and possible changes in key assumptions - resulted in impairment requirements of € 1,650k and € 2,545k respectively.

An impairment requirement was identified for software in the Germany region in the 2015/2016 financial year. The items were written down by € 1,211k to their net realizable values. This impairment requirement was triggered by the fact that the market capitalization fell short of the carrying amount of shareholders' equity in the fourth quarter. As a result of this circumstance, all cash generating units were subject to impairment tests. Alongside intangible assets, impairment requirements were also identified for individual items of property, plant and equipment. Further information about the impairment losses recognized on property, plant and equipment can be found in the following section.

(12) Property, plant and equipment and investment property

The development in property, plant and equipment in the 2014/2015 and 2015/2016 financial years was as follows:

€ 000s	Land, leasehold rights, and buildings on third-party land	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost					
Balance at March 1, 2014	765,713	9,647	533,446	13,938	1,322,744
Additions	29,579	9,366	42,521	15,458	96,924
Disposals	1,029	29	18,006	797	19,861
Reclassifications pursuant to IAS 40	(286)	286	0	0	0
Reclassifications	3,072	0	5,618	(8,692)	(2)
Foreign currency translation	14,650	0	3,321	66	18,037
Balance at February 28/March 1, 2015	**811,699**	**19,270**	**566,900**	**19,973**	**1,417,842**
Reclassifications to/from non-current assets held for sale	0	(448)	0	0	(448)
Additions	232,621	594	48,039	24,219	305,473
Disposals	(302)	0	27,211	171	27,080
Reclassifications pursuant to IAS 40	952	(952)	0	0	0
Reclassifications	5,771	0	8,626	(14,410)	(13)
Foreign currency translation	(2,090)	0	(470)	(31)	(2,591)
Balance at February 29, 2016	**1,049,255**	**18,464**	**595,884**	**29,580**	**1,693,183**
Depreciation					
Balance at March 1, 2014	183,861	3,786	417,381	0	605,028
Additions	16,501	111	37,766	0	54,378
Disposals	1,028	15	17,142	0	18,185
Foreign currency translation	849	0	2,706	0	3,555
Balance at February 28/March 1, 2015	**200,183**	**3,882**	**440,711**	**0**	**644,776**
Reclassifications to/from non-current assets held for sale	0	(248)	0	0	(248)
Additions	27,208	87	41,561	0	68,856
Write-ups	0	0	(862)	0	(862)
Disposals	(437)	0	25,997	0	25,560
Reclassifications pursuant to IAS 40	152	(152)	0	0	0
Foreign currency translation	52	0	(420)	0	(368)
Balance at February 29, 2016	**228,032**	**3,569**	**454,993**	**0**	**686,594**
Carrying amount at February 29, 2016	**821,223**	**14,895**	**140,891**	**29,580**	**1,006,589**
Carrying amount at February 28, 2015	611,516	15,388	126,189	19,973	773,066

The impairment losses included in depreciation relate to assets whose carrying amounts exceed their recoverable amounts. The impairment losses were triggered, among other factors, by the fact that the company's market capitalization fell short of the carrying amount of shareholders' equity in the fourth quarter and that impairment tests therefore had to be performed on all cash generating units. These impairment losses have been recognized under other expenses from non-operating activities.

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

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m²)	10.50 €	10.50 €
Outside area (€/m²)	2.63 €	5.25 €
Administrative costs (% per annual earnings)	1.00 %	1.00 %
Maintenance costs (€/m²)	4.50 €	4.50 €
Real estate interest rate	6.00 %	6.00 %

Due to a lack of utilizability by third parties, a net realizable value of zero was assumed for marketing-oriented and sales promotional plant and office equipment. Given the useful lives selected, the net realizable values of other items of plant and office equipment included in the tests did not fall short of their carrying amounts, as a result of which the net realizable values basically correspond to the current carrying amounts.

As a result of the impairment tests, impairment requirements were identified in the 2015/2016 financial year for marketing-oriented and sales promotional plant and office equipment and for real estate at nine stores in the Germany region, which each constitute cash generating units, and at one store in the Czech Republic. The items were written down by € 11,423k to their net realizable values. The recoverable amount for these locations amounts to € 41,295k.

In the previous year, impairment requirements were identified for marketing-oriented and sales promotional plant and office equipment and on real estate at one store in the Sweden region and at two stores in Germany. These items were written down by € 1,645k to their net realizable values. The recoverable amount for these locations amounted to € 23,494k.

In the 2015/2016 financial year, no impairment losses to net realizable value were recognized for items of investment property (2014/2015: € 23k).

In the 2015/2016 financial year, write-ups of € 862k were recognized in the Retail segment. These involved the reversal of impairment losses recognized in previous years for marketing-oriented and sales promotional plant and office equipment at four stores in the Romania region and one store each in the Germany and Sweden regions. The recoverable amount for these locations amounts to € 145,321k. The recoverable amounts of the cash generating units at which write-ups were recognized are based in each case on their value in use. This is determined using the discounted cash flow method by reference to Level 3 input data.

Depending on the country involved, the pre-tax discount rates used to test the recovery in value when calculating the value in use ranged from 7.1 % to 11.7 % (2014/2015: 8.5 % to 12.2 %).

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

	2015/2016	2014/2015
Retail segment		
Intangible assets	1,211	0
Other equipment, plant, and office equipment	2,671	1,146
	3,882	**1,146**
Real estate segment		
Land	5,060	23
Buildings	3,074	499
Outdoor facilities	616	0
	8,751	**522**
Total	**12,633**	**1,668**

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

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

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

Investment property mainly relates to retail properties at various locations in Germany. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to approximately € 18.5 million (2014/2015: € 18.2 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. Irrespective of this, application is also made of the comparative method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

Rental income of € 1,163k was generated on properties let to third parties in the year under report (2014/2015: € 829k). Expenses of € 424k were incurred for the maintenance of the properties let to third parties (2014/2015: € 305k). Expenses of € 23k were incurred for all other items of investment property (2014/2015: € 77k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 36.6 million (2014/2015: € 46.7 million).

Contractual amendments and new rental contracts were negotiated for several existing locations in the 2015/2016 financial year. The existing lease agreements were classified as operating leases. Due to the amendments and the new agreements, these contracts now require classification as finance leases.

The net carrying amount of finance leases included in the "Land, leasehold rights and buildings, and buildings on third-party land" asset class at the balance sheet date totals € 170,514k (2014/2015: € 0k).

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

The following table provides disclosures on finance lease obligations. Further information about operating lease obligations can be found in Notes 29 and 30.

2015/2016 financial year **€ 000s**	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	16,201	63,898	157,303
Discounting	(7,333)	(25,294)	(28,871)
Present value	**8,868**	**38,604**	**128,432**

2014/2015 financial year € 000s	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	302	604	0
Discounting	(47)	(40)	0
Present value	**255**	**564**	**0**

(13) Financial assets

The development in financial assets in the 2014/2015 and 2015/2016 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2014	94	94
Measurement of available for sale financial assets	1,895	1,895
Balance at February28/March 1, 2015	**1,989**	**1,989**
Measurement of available for sale financial assets	1,881	1,881
Balance at February 29, 2016	**3,871**	**3,871**
Carrying amount at February 29, 2016	**3,871**	**3,871**
Carrying amount at February 28, 2015	1,989	1,989

Investments included a ten-percent shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic, which is classified as an available-for-sale financial asset and measured at fair value. Information about the measurement assumptions can be found in Note 32. The other financial assets of € 1k (2014/2015: € 1k) involve investments in non-operating companies. These are measured at cost as there is no active market for such investments and their fair values cannot be reliably determined.

The Group currently has no intention to sell financial assets.

(14) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of deposits of € 2,185k (2014/2015: € 2,397k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum remaining term of 4 years.

Furthermore, other non-current receivables and assets also include deferred expenses of € 519k (2014/2015: € 763k) in connection with a syndicated credit line of € 250 million with a term running until April 15, 2019, which was extended in the 2015/2016 financial year but has not yet been utilized.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.29.2016		2.28.2015 [1)]	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	811	31,067	812	33,476
Inventories	630	4,204	601	3,448
Other provisions	7,960	187	7,812	259
Liabilities	296	581	1,253	920
Other assets and liabilities	834	599	1,218	141
Tax-free reserves	0	0	0	129
Losses carried forward	8,012	0	173	0
	18,543	**36,638**	**11,869**	**38,373**
Set-off	(8,048)	(8,048)	(7,610)	(7,610)
Total	**10,495**	**28,590**	**4,259**	**30,763**

1) Previous year's figures adjusted due to IFRIC 21.

(16) Inventories

	2.29.2016 € 000s	2.28.2015 € 000s
Auxiliary materials and supplies	1,625	1,652
Unfinished products, unfinished services	1,239	1,666
Finished products and merchandise	594,635	538,425
Inventories (gross)	**597,499**	**541,743**
less valuation allowances	9,059	9,010
Inventories (net)	**588,440**	**532,733**
Carrying amount of inventories measured at net realizable value	29,370	25,998

Expenses of € 2,147,250k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2015/2016 financial year (2014/2015: € 2,032,030k).

(17) Receivables and other assets

The receivables and other assets of the Group are structured as follows:

	2.29.2016 € 000s	2.28.2015 € 000s
Trade receivables	9,941	5,851
Receivables from affiliated companies	1,920	1,188
Positive fair values of derivative financial instruments	102	0
Other receivables and assets [1]	46,726	44,533
	58,689	**51,572**

[1] Previous year's figures adjusted due to IFRIC 21.

Trade receivables include receivables of € 1,409k (2014/2015: € 1,273k) assigned within factoring agreements that have not been derecognized as the credit risk remains at the HORNBACH Baumarkt AG Group. A corresponding liability has been recognized in the same amount. Given the short-term nature of the relevant receivables and the corresponding liability, their fair values are basically equivalent to their carrying amounts.

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 29k (2014/2015: € 30k) that represents the likely liability risk. Any liability-related issues are generally addressed shortly after the assignment of the receivable. The maximum risk of loss amounted to € 1,513k as of February 29, 2016 (2014/2015: € 1,410k) 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 2015/2016 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 419k (2014/2015: € 362k).

Other receivables and assets mainly consist of receivables from credit card companies, receivables in connection with pledged funds, deferred charges and prepaid expenses, tax refund claims, credit notes for goods, and bonus agreements.

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

The following tables provide an analysis of the financial assets included under receivables and other assets. Only those receivables for which individual allowances have been recognized have been portrayed as impaired. The HORNBACH Baumarkt AG Group also accounts for credit risks by recognizing portfolio-based allowances.

2.29.2016 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	9,941	2,608	3,361	3,576	183	99
Receivables from affiliated companies	1,920	1,920				
Positive fair values of derivative financial instruments	102	102				
Other receivables and assets	35,537	33,602	628	348	156	41
	47,500	**38,231**	**3,989**	**3,924**	**339**	**139**

2.28.2015 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	5,851	2,686	2,285	151	265	3
Receivables from affiliated companies	1,188	1,188				
Other receivables and assets	30,780	29,027	658	341	185	83
	37,819	**32,901**	**2,943**	**492**	**450**	**86**

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

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

€ 000s	Trade receivables		Other receivables and assets	
	2015/2016	2014/2015	2015/2016	2014/2015
Allowances at March 1	**692**	**632**	**2,023**	**348**
Utilization	338	312	73	40
Reversals	223	166	98	77
Additions	387	500	152	1,791
Foreign currency translation	(2)	38	(1)	1
Allowances at February 28/29	**516**	**692**	**2,003**	**2,023**

The complete retirement of receivables resulted in expenses of € 727k (2014/2015: € 649k). The receipt of receivables already derecognized resulted in income of € 54k (2014/2015: € 43k).

(18) Cash and cash equivalents

	2.29.2016 € 000s	2.28.2015 € 000s
Cash balances at banks	252,152	300,631
Checks and cash on hand	30,845	34,182
	282,998	**334,813**

(19) Non-current assets held for sale

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

In the 2015/2016 financial year, a piece of land was reclassified out of property, plant and equipment and sold at its carrying amount of € 200k.

(20) 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 2014/2015 and 2015/2016 financial years.

Share capital

The Annual General Meeting held on July 7, 2011 resolved the creation of Authorized Capital I and Authorized Capital II in line with the following provisions:

- The Board of Management is authorized until July 7, 2016, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 15,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash contributions (Authorized Capital I). Shareholders' subscription rights may be excluded in specified circumstances.

- The Board of Management is authorized until July 7, 2016, subject to approval by the company's Supervisory Board, to increase the company's share capital by up to € 30,000,000 by means of a single or repeated issue of new shares – ordinary shares with voting rights or non-voting preference shares – in exchange for cash or non-cash contributions (Authorized Capital II). Shareholders' subscription rights may be excluded in specified circumstances.

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

On the basis of a resolution adopted by the Board of Management on August 31, 2015, the employees of HORNBACH Baumarkt AG and its foreign subsidiaries were offered employee shares at a preferential price of € 21.00 per share. A total of 43,560 shares were acquired via the stock exchange at an average price of € 32.78 and subsequently assigned to employees. An amount of € 14k was recognized in equity to account for the difference between the acquisition price and the stock market price upon the date on which the shares were assigned to employees. The difference per share between the preferential sale price and the stock market price (€ 11.46) has been recognized through profit or loss.

WpHG voting right notifications

§ 21 (1) of the German Securities Trading Act (WpHG) requires shareholders to disclose the fact that they have reached, exceeded, or fallen short of specific disclosure thresholds within four trading days. The disclosure thresholds amount to 3 %, 5 %, 10 %, 15 %, 20 %, 25 %, 30 %, 50 %, and 75 %. Similar disclosure obligations are set out in § 25 and § 25a 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 § 26 WpHG, HORNBACH Baumarkt AG is obliged to publish such notifications immediately, and no later than three trading days after receipt. We received and published two such notifications in the reporting period from March 1, 2015 to February 29, 2016. These notifications can be found in the "NEWS" section of the company website at www.hornbach-group.com (filtered by catchword "voting right notification").

Capital reserve

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

Revenue reserves

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

Disclosures concerning capital management

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

The company has entered into covenants towards some providers of debt capital which, among other conditions, require it to maintain an equity ratio of at least 25 %. The equity ratio, interest cover, debt/equity ratio and company liquidity (cash and cash equivalents plus available committed credit lines) are monitored monthly as part of the company's internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2015/2016 financial year. The equity ratio amounted to 49.0 % as of February 29, 2016 (2014/2015: 53.3 %).

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

(21) 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 2015/2016 financial year with an annual net surplus of € 69,960,936.78.

Following the allocation of € 34,980,000.00 to other revenue reserves, the unappropriated net profit amounts to € 34,980,936.78.

The Board of Management and the Supervisory Board of HORNBACH Baumarkt AG will propose to the Annual General Meeting that the unappropriated net profit of HORNBACH Baumarkt AG reported as of February 29, 2016 be appropriated as follows:

	€
Dividend of € 0.68 on 31,807,000 shares	21,628,760.00
Additional allocation to revenue reserves	13,352,176.78
	34,980,936.78

By resolution of the Annual General Meeting held on July 8, 2015, a dividend of € 0.60 (2014/2015: € 0.60) per share was distributed on a total of 31,807,000 (2014/2015: 31,807,000) individual shares in the 2015/2016 financial year. The total amount distributed thus amounted to € 19,084k (2014/2015: € 19,084k).

(22) Financial debt

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

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.29.2016 Total
Bonds	0	247,620	0	247,620
Liabilities to banks	84,423	3,622	0	88,045
Liabilities in connection with finance leases	8,868	38,604	128,432	175,904
Negative fair values of derivative financial instruments	1,194	217	0	1,411
Total	**94,485**	**290,063**	**128,432**	**512,980**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2015 Total
Bonds	0	247,009	0	247,009
Liabilities to banks	4,972	87,111	0	92,083
Liabilities in connection with finance leases	255	564	0	819
Negative fair values of derivative financial instruments	1,667	2,882	0	4,550
Total	**6,894**	**337,567**	**0**	**344,461**

Current financial debt amounted to € 94.5 million at the balance sheet date on February 29, 2016 (2014/2015: € 6.9 million). This consists of the portion of long-term financing facilities maturing in the short term, amounting to € 92.5 million (2014/2015: € 4.4 million), liabilities of € 1.2 million relating to the measurement of derivative financial instruments (2014/2015: € 1.7 million), and interest deferrals of € 0.8 million (2014/2015: € 0.8 million).

HORNBACH Baumarkt AG took up a seven-year corporate bond of € 250 million on February 15, 2013. The bond has an interest coupon of 3.875%. In combination with the issue price of 99.25 %, this results in a yield of 4.00 % p.a. The total costs of € 2,355k arising in connection with the corporate bond and the disagio of € 1,875k have been spread over the term using the effective interest method.

As of June 30, 2011, HORNBACH Baumarkt AG took up an unsecured promissory note bond of € 80 million with a floating rate and a term running until June 30, 2016. To secure the interest rate, a forward swap with congruent terms was concluded in the 2010/2011 financial year already. The swap enabled the half-yearly interest payable to be secured at a level of 2.11 % p.a., plus a bank margin, for the entire term.

Alongside the aforementioned bond and promissory note bonds, the Group has further non-current liabilities, generally secured by mortgages, to banks.

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

2015/2016 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.29.2016 € 000s
Loans	EUR	4.86	2016	79,968
Mortgage loans	EUR	5.57	2017	4,350
	CZK	5.08	2018	2,929
				87,247

2014/2015 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2015 € 000s
Loans	EUR	4.86	2016	79,873
Mortgage loans	EUR	5.57 to 6.36	2015 to 2017	7,351
	CZK	5.08	2018	4,044
				91,267

Non-current liabilities to banks either have fixed interest rates, or have floating interest rates based on the short-term Euribor, or a corresponding foreign currency Ibor, plus a bank margin of, as in the previous year, 0.75 to 2.75 percentage points. Interest swaps have been concluded to secure the interest rate on non-current liabilities with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

As of February 29, 2016, the HORNBACH Baumarkt AG Group had total credit lines of € 286.8 million (2014/2015: € 290.8 million) on customary market terms. Unutilized credit lines amounted to € 282.3 million (2014/2015: € 286.9 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits amounting to USD 40.0 million (2014/2015: USD 40.0 million). Of this, an amount of USD 8.1 million had been drawn down as of the balance sheet date (2014/2015: USD 6.4 million).

The credit lines at the HORNBACH Baumarkt AG Group include a syndicated credit line of € 250 million at HORNBACH Baumarkt AG that is due to mature on April 15, 2019. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 50 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.

Land charges amounting to € 36.6 million have been provided as security for liabilities to banks (2014/2015: € 46.7 million).

No assets have been provided as security for the credit lines, the promissory note bond referred to above, or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities. In the case of the syndicated credit line and the promissory note bond 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. The interest cover, net debt/EBITDA ratio, equity ratio, agreed financing limits, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report.

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

(23) 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 € 48,095k in the 2015/2016 financial year (2014/2015: € 45,481k). Of this total, an amount of € 28,330k involved the employer's share of contributions to the state pension scheme in Germany (2014/2015: € 27,611k).

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 € 2,400k in the 2016/2017 financial year.

Defined benefit plans

Switzerland

The HORNBACH Baumarkt AG Group has one fund-financed pension plan which is financed via an external pension provider. This pension plan exists due to legal requirements in Switzerland (Swiss Occupational Pensions Act - BVG) and grants old-age, invalidity and fatality pensions and payments for 825 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 2011/2012 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 fund assets.

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

Pensions and similar obligations are structured as follows:

	2015/2016 € 000s	2014/2015 € 000s
Present value of pension obligation	62,643	55,561
less fair value of plan assets	(48,073)	(44,423)
Pension commitments as reported in balance sheet	**14,570**	**11,138**
of which: pension provisions	14,570	11,138

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

	2.29.2016 %	2.28.2015 %
Debt securities	84.2	83.6
Shares	3.7	4.0
Real estate	9.7	10.6
Other	2.4	1.8
	100.0	**100.0**

Change in pension obligation

	2015/2016 € 000s	2014/2015 € 000s
Present value of pension obligation at the beginning of the period	55,561	37,654
Current service cost of employer	4,762	3,043
Past service cost	(947)	0
Employee contributions	2,929	2,470
Payments from the plan	(1,647)	(2,466)
Interest cost	527	1,099
Remeasurement effects because of:		
Changes in financial assumptions	3,766	11,014
From experience adjustments	220	(1,121)
Insurance premiums	(1,231)	(1,138)
Foreign currency translation	(1,297)	5,005
Present value of pension obligation at the end of the period	**62,643**	**55,561**

Change in plan assets

	2015/2016 € 000s	2014/2015 € 000s
Plan assets at beginning of period	44,423	36,898
Employer contributions	3,621	3,081
Employee contributions	2,929	2,470
Payments from the plan	(1,647)	(2,466)
Interest income	432	1,112
Return on plan assets (excluding interest income)	503	(147)
Insurance premiums	(1,231)	(1,138)
Foreign currency translation	(956)	4,614
Plan assets at the end of the period	**48,073**	**44,423**

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.

	2015/2016 € 000s	2014/2015 € 000s
Current service cost of employer	4,762	3,043
Past service cost	(947)	0
Interest cost	527	1,099
Interest income	(432)	(1,112)
Effects recognized in P&L	**3,911**	**3,030**
Remeasurement effects because of:		
Changes in financial assumptions	(3,766)	(11,014)
From experience adjustments	(220)	1,121
Return on plan assets (excluding interest income)	503	(147)
Effects recognized in OCI	**(3,483)**	**(10,040)**
Costs for defined benefit plans	**7,394**	**13,070**

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:

	2015/2016 € 000s	2014/2015 € 000s
Selling and store expenses	2,601	2,096
General and administration expenses	1,214	934
Net financial expenses	96	0
	3,911	**3,030**

Actuarial assumptions

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

	2.29.2016		2.28.2015	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.8 %	0.6 % to 2.0 %	1.1 %	1.0 % to 1.9 %
Future salary increases	1.7 %	1.5 % to 3.0 %	1.7 %	1.5 % to 3.0 %
Future pension increases	0.3 %	0.0 % to 2.0 %	0.3 %	0.0 % to 2.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 2005 G". Swiss plans are governed by the "BVG 2010 Generationentafel".

Sensitivity analysis

The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in present value of pension obligation

€ 000s	2.29.2016		2.28.2015	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,483)	2,706	(2,446)	2,665
Rate of pension increase (0.10 basis points change)	755	(739)	604	(590)
Mortality (+ 1 year)	1,065	n/a	955	n/a

Future cash flows

Payments of contributions amounting to € 3,602k are expected for the 2016/2017 financial year.

Expected Payments	2.29.2016 € 000s
2016/2017	376
2017/2018	414
2018/2019	520
2019/2020	605
2020/2021	726
2021 to 2025	13,110

Expected Payments	2.28.2015 € 000s
2015/2016	300
2016/2017	371
2017/2018	468
2018/2019	565
2019/2020	628
2020 to 2024	11,769

(24) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions. These include personnel provisions, provisions for contractually assumed structural maintenance obligations, and a provision required by law for the storage of business documents. The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

The development in provisions is presented in Note 27.

This item also includes an accrual stated for the amounts paid by HORNBACH Immobilien AG as settlement for the disadvantages sustained by HORNBACH Baumarkt AG in connection with the termination of existing rental agreements and the conclusion of new rental agreements with increased rent and the assumption of maintenance expenses. The accrual item established for this purpose is being written back to earnings over the remaining term of the original rental agreements (18 years).

Non-current personnel provisions have been recognized mainly for the statutory reserve required in Austria to cover potential claims on the part of employees in the event of their leaving the company (severance pay).

Part-time early retirement

The provisions for part-time early retirement mainly involve the part-time early retirement agreements concluded by HORNBACH Baumarkt AG in the 2005/2006 and 2006/2007 financial years. The work undertaken by part-time early retirees is performed within the framework of the so-called block model. Provisions amounting to € 49k (2014/2015: € 284k) have been recognized to cover the performance backlog up to the balance sheet date and for top-up payments. This provision is expected to be reversed upon the final employee thereby entitled reaching regular retirement age in the 2016/2017 financial year. Claims from an existing reinsurance policy have been netted with the existing obligations. The provisions have been calculated by an independent expert on the basis of the 2005 G mortality tables published by Heubeck-Richttafeln-GmbH and using a discount rate of 0 % p.a. (2014/2015: 0.11 % p.a.). Moreover, provisions of € 197k (2014/2015: € 66k) were recognized to cover part-time early retirement obligations in Austria.

Severance payments

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

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

Change in pension obligation and costs of plan

	2015/2016 € 000s	2014/2015 € 000s
Present value of pension obligation at the beginning of the period	5,243	4,003
Current service cost of employer	361	275
Payments from the plan	(231)	(275)
Interest cost	92	134
Remeasurement effects because of:		
Changes in financial assumptions	(9)	970
From experience adjustments	127	136
Transfers	478	0
Present value of pension obligation at the end of the period	**6,061**	**5,243**

The transfers result from the locations taken over by HORNBACH Baumarkt AG.

	2015/2016 € 000s	2014/2015 € 000s
Current service cost of employer	361	275
Interest cost	92	134
Expense from Transfers	91	0
Effects recognized in P&L	**545**	**409**
Remeasurement effects because of:		
Changes in financial assumptions	9	(970)
From experience adjustments	(127)	(136)
Effects recognized in OCI	**(118)**	**(1,106)**
Total costs for the plan	**663**	**1,515**

The average remaining term of the obligation amounts to 14.1 years (2014/2015: 15.3 years).

Actuarial assumptions and sensitivity analysis

	2.29.2016	2.28.2015
Discount interest rate	1.6 %	1.6 %
Future salary increases	2.7 %	2.7 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The biometric calculation has been based on "AVÖ 2008 P – Rechnungsgrundlage für die Pensionsversicherungen".

The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in the present value of the pension obligation

€ 000s	2.29.2016		2.28.2015	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(405)	447	(378)	420
Rate of salary increase (0.25 basis points change)	231	(221)	217	(207)

(25) Trade payables and other liabilities

	2.29.2016 € 000s	2.28.2015 € 000s
Trade payables and advance payments received for orders	273,121	231,417
Liabilities to affiliated companies	275	230
of which: to shareholders	0	38
Other liabilities	62,165	57,134
of which: other taxation	22,189	18,317
of which: social security contributions	3,766	3,604
	335,561	**288,781**

As in the previous year, all trade payables and other liabilities have remaining terms of less than one year.

Trade payables are secured by reservations of title to the customary extent.

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, merchandise credits not yet redeemed, and amounts due for outstanding invoices.

(26) Income tax receivables and liabilities

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes for previous financial years. Current income tax provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Tax provisions for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The “German act on fiscal measures accompanying the introduction of the European Company and amending further tax legislation (SEStEG)” came into force on December 13, 2006. Among other aspects, this act allows refunds of corporate income tax credits resulting from the retention of profit in accordance with previous corporation tax law requirements no longer to be linked to the distribution of profits. Furthermore, due to the 2010 Annual Tax Act, corporate income tax claims previously viewed as irrecoverable and amounting to a – discounted – total of € 3.0 million were recognized in the 2010/2011 financial year. The corporate income tax credits will be disbursed in ten equal amounts on September 30 of each year through to 2017. As of February 29, 2016, the HORNBACH Baumarkt AG Group had corporate income tax refund claims amounting to € 3.3 million in total (2014/2015: € 5.0 million), which have been recognized at a present value of € 3.3 million (2014/2015: € 4.9 million) under non-current and current income tax receivables. Due to the low level of interest rates, the present value of the receivable corresponds to its nominal value at the current reporting date.

Income tax receivables include a receivable of € 1.7 million in connection with trade tax credits on foreign dividends. The other income tax receivables mainly comprise prepayments.

Reference is made to the information about deferred taxes included in Note 15 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(27) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2015/2016 financial year:

€ 000s	Opening balance at 3.1.2015	Utilization	Reversals	Additions	Interest com-pounding	Foreign currency translation	Closing balance at 2.29.2016	of which: non-current
Other provisions								
Personnel	8,568	1,687	0	3,315	2	6	10,203	10,203
Miscellaneous	24,302	8,057	3,917	8,215	20	(17)	20,545	15,692
	32,870	**9,744**	**3,917**	**11,530**	**22**	**(12)**	**30,748**	**25,894**
Accrued liabilities								
Other taxes	385	166	62	217	0	0	374	0
Personnel	55,374	52,878	1,025	47,693	0	(6)	49,159	0
Miscellaneous	17,868	14,405	1,721	19,154	0	(16)	20,880	0
	73,628	**67,449**	**2,808**	**67,064**	**0**	**(22)**	**70,413**	**0**
	106,498	**77,193**	**6,726**	**78,593**	**22**	**(33)**	**101,161**	**25,894**

[1] Previous figure's adjusted due to IFRIC 21.

Miscellaneous other current provisions mainly relate to provisions for customers' expected utilization of their rights of return, recognized at € 1,727k (2014/2015: € 1,592k), for onerous contracts, at € 676k (2014/2015: € 6,153k), and for litigation risks, at € 579k (2014/2015: € 604k).

Reference is made to Note 24 with regard to details of non-current provisions.

Other taxes largely involve the deferral of land tax.

The accrued liabilities for personnel obligations primarily relate to outstanding holiday entitlements, overtime, holiday pay, Christmas bonuses, and employee bonuses.

Miscellaneous accrued liabilities relate in particular to the costs of gas, water, electricity, property duties and advertising, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(28) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 29, 2016.

(29) Other financial obligations

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.29.2016 Total
Purchase obligations for investments	92.2	42.9	0.0	135.1
Obligations under rental, leasehold and leasing contracts	153.8	473.2	389.8	1,016.8
Other financial obligations	10.2	0.4	0.0	10.6
	256.2	**516.5**	**389.8**	**1,162.5**

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2015 Total
Purchase obligations for investments	67.6	41.9	0.0	109.5
Obligations under rental, leasehold and leasing contracts	168.0	559.2	433.0	1,160.2
Other financial obligations	12.3	0.4	0.0	12.7
	247.9	**601.5**	**433.0**	**1,282.4**

HORNBACH Baumarkt AG agreed a credit line of up to € 50 million with HORNBACH Immobilien AG within the framework of its expansion strategy. The agreement has a term running up to and including June 29, 2018. No funds had been drawn down as of the balance sheet date on February 29, 2016.

The obligations resulting from rental, hiring, leasehold and leasing contracts relate exclusively to those rental contracts in which the companies of the HORNBACH Baumarkt AG Group do not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly relate to DIY stores in Germany and abroad. The terms of the rental agreements mostly range from 15 to 20 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 166,181k, excluding ancillary expenses, was recognized in the 2015/2016 financial year as rental expenses in connection with operating lease agreements (2014/2015: € 160,889k).

(30) Future income from rental and leasing contracts

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

Rental income from third parties € 000s	Maturities Current < 1 year	 Non-current 1 to 5 years	 Non-current > 5 years	Total
February 29, 2016	3,431	5,669	271	9,371
February 28, 2015	3,650	5,904	203	9,757

Rental income results from the letting of retail real estate. The rental contracts mostly have terms of between 5 and 15 years.

Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

(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 and adequate insurance benefits are anticipated at the relevant group companies for any financial charges in connection with other legal or arbitration proceedings. Such charges are therefore not expected to have any material impact on the financial position of the Group.

(32) Supplementary disclosures on financial instruments

The following tables show the carrying amounts of the financial instruments in each IAS 39 measurement category, and their fair values broken down by balance sheet category:

€ 000s	Category	Carrying amount 2.29.2016	Fair value 2.29.2016	Carrying amount 2.28.2015	Fair value 2.28.2015
Assets					
Financial assets	AfS	3,871	3,871	1,989	1,989
Other receivables and assets					
Derivatives without hedge relationship	FAHfT	102	102	0	0
Other financial assets	LaR	50,092	50,092	40,238	40,238
Cash and cash equivalents	LaR	282,998	282,998	334,813	334,813
Equity and liabilities					
Financial debt					
Bonds	FLAC	247,620	267,325	247,009	274,750
Liabilities to banks	FLAC	88,045	88,222	92,083	92,424
Liabilities in connection with finance leases	n.a.	175,904	181,845	819	821
Derivatives with hedge relationship	n.a.	1,089	1,089	2,882	2,882
Derivatives without hedge relationship	FLHfT	323	323	1,667	1,667
Trade payables and other liabilities	FLAC	280,484	280,484	239,052	239,052
Accrued liabilities	FLAC	20,880	20,880	17,868	17,868

The following items are outside the scope of IFRS 7: receivables and other assets of € 12,441k (2014/2015: € 14,517k; before IFRIC 21 adjustments: € 14,527k), trade payables and other liabilities of € 87,152k (2014/2015: € 77,866k; before IFRIC 21 adjustments: € 76,972k), and accrued liabilities of € 49,532k (2014/2015: € 55,759k; before IFRIC 21 adjustments: € 55,664k).

Aggregate totals by measurement category € 000s	Category	Carrying amount 2.29.2016	Carrying amount 2.28.2015
Loans and receivables	LaR	333,090	375,051
Available for sale financial assets	AfS	3,871	1,989
Financial assets held for trading	FAHfT	102	0
Financial liabilities measured at amortized cost	FLAC	637,029	596,012
Financial liabilities held for trading	FLHfT	323	1,667

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

Available for sale financial assets include shareholdings recognized at cost due to the lack of an available fair value. One exception relates to a ten-percent company shareholding in HORNBACH Immobilien H.K. s.r.o., Czech Republic. This company lets out several DIY store properties and is not publicly listed. Its fair value has largely been determined by reference to Level 3 input data. To calculate the fair value, application was made of the discounted cash flow method. To this end, the cash flows resulting from company-specific planning were discounted by a risk-adjusted interest rate (WACC). In the 2015/2016 financial year, the discount rate amounted to 6.2 % (2014/2015: 7.5 %). Furthermore, account was taken of a growth factor of 1.0 %. The cash flows derived from company-specific planning mainly result from rental income within long-term letting arrangements and cash flows relating to the company's operations

The development in the available for sale financial assets measured at fair value on the basis of Level 3 input data is presented below.

Changes in financial assets level 3 input data	2015/2016	2014/2015
As of March 1	**1,988**	**0**
Transfer into Level 3 from measured at cost	0	93
Change in valuation (OCI)	1,882	1,895
Balance at February 28/29	**3,870**	**1,988**

The changes in fair value resulting from changes in the most important input factors at the respective reporting date are presented in the following sensitivity analysis.

€ 000s	2.29.2016		2.28.2015	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	774	(774)	591	(591)
Discount rate (50 basis point change)	(786)	960	(504)	589

The derivative financial instruments within hedges recognized in the balance sheet involve interest hedges (interest swaps). Derivative financial instruments outside of hedges include foreign currency items for outstanding orders. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of finance leases have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk discounts available on the market.

The fair value of the publicly listed 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 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		2.29.2016	2.28.2015
Assets			
Valuation based on level 2 input data			
Derivatives without hedge relationship	FAHfT	102	0
Valuation based on level 3 input data			
Financial assets	AfS	3,870	1,988
Liabilities			
Valuation based on level 1 input data			
Bonds	FLAC	267,325	274,750
Valuation based on level 2 input data			
Liabilities to banks	FLAC	88,222	92,424
Liabilities in connection with finance leases	n.a.	181,845	821
Derivatives with hedge relationship	n.a.	1,089	2,882
Derivatives without hedge relationship	FAHfT	323	1,667

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

Net result by measurement category	2015/2016 € 000s	2014/2015 € 000s
Loans and receivables (LaR)	391	3,120
Financial instruments held for trading (FAHfT and FLHfT)	1,447	(1,947)
Financial liabilities measured at amortized cost (FLAC)	1,092	(1,517)

The net results of the measurement category “financial instruments held for trading” are attributable to derivative financial instruments. The net results of the measurement categories “loans and receivables”, "available-for-sale financial assets", and “financial liabilities measured at amortized cost” involve foreign currency translation items, the results of disposals and write-downs. Furthermore, in the 2015/2016 financial year measurement changes of € 1,882k relating to “available-for-sale financial assets” were recognized directly in equity (2014/2015: € 1,895k).

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions. As in the previous year, the negative current fair values of these transactions, amounting to € 1,089k (2014/2015: minus € 2,882k) mean that it would not be possible to net these transactions were the triggering event to occur.

(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.

Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

€ 000s	2.29.2016	2.28.2015
EUR	(59,384)	(14,343)
USD	12,627	11,896
CZK	(1,046)	(807)

The above EUR currency position results from the following currency pairs: CZK/EUR € -27,114k (2014/2015: € -3,554k), RON/EUR € -23,970k (2014/2015: € -13,628k), SEK/EUR € -21,423k (2014/2015: € -7,673k), and CHF/EUR € 13,123k (2014/2015: € 10,513k).

The most important exchange rates have been presented under "Foreign currency translation".

In the sensitivity analysis provided below for foreign currency risks, it has been assumed that the foreign currency holdings as of the balance sheet date are representative of the financial year as a whole.

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 4,451k lower (2014/2015: € 2,870k). Conversely, if the euro had **depreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 4,451k higher (2014/2015: € 2,870k). The hypothetical impact on earnings of € +4,451k (2014/2015: € +2,870k) is the result of the following sensitivities: EUR/CZK € 2,596k (2014/2015: € 273k), EUR/SEK € 2,129k (2014/2015: € 775k), EUR/USD € 1,700k (2014/2015: € 1,397k), EUR/RON € -636k (2014/2015: € 1,364k), and EUR/CHF € -1,338k (2014/2015: € -939k).

Interest rate risks

At the end of the year, the Group was principally financed by a euro bond with a nominal total of € 250,000k and by unsecured promissory note bonds with total equivalent nominal values of around € 80,000k (2014/2015: € 80,000k). Furthermore, the Group also has short-term and long-term fixed-interest euro loans amounting to € 4,350k (2014/2015: € 7,351k), and long-term CZK loans amounting to € 2,929k (2014/2015: € 4,044k). The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments.

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

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

If the market interest rate had been **100 basis points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 2,521k higher (2014/2015: € 3,006k) and equity before deferred taxes would have been € 37k higher (2014/2015: € 865k). 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 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 € 252k lower (2014/2015: € 301k) and equity before deferred taxes would have been € 4k lower (2014/2015: € 88k).

Credit risk

Credit 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 concluded as far as possible 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.

Liquidity risks

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

€ 000s	Carrying amount 2.29.2016	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,620	9,688	279,089	0
Liabilities to banks	88,045	84,853	3,702	0
Liabilities in connection with finance leases	175,904	16,202	63,900	157,305
Trade payables and other liabilities	280,484	280,481	3	0
Accrued liabilities	20,880	20,880	0	0
	812,933	**412,104**	**346,694**	**157,305**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	323	323	0	0
Interest derivatives in connection with cash flow hedges	1,089	1,066	50	0
	1,412	**1,389**	**50**	**0**
		413,493	**346,744**	**157,305**

€ 000s	Carrying amount 2.28.2015	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,009	9,688	288,776	0
Liabilities to banks	92,083	7,491	88,610	0
Liabilities in connection with finance leases	819	302	604	0
Trade payables and other liabilities	239,052	210,920	28,133	0
Accrued liabilities	17,868	17,868	0	0
	596,831	**246,268**	**406,123**	**0**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	1,667	1,667	0	0
Interest derivatives in connection with cash flow hedges	2,882	1,896	1,019	0
	4,550	**3,564**	**1,019**	**0**
		249,831	**407,142**	**0**

All financial liabilities held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities. Floating-rate interest payments were calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies were translated at the relevant reporting date rate.

With regard to the management of liquidity risk, reference is made to Note 22 and to the disclosures on the financial situation in the management report.

Hedging measures

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

Cash flow hedge – interest rate risks

Payer interest swaps are concluded for major long-term financial liabilities with floating interest rates. These enable the variable interest rates on the loans to be converted into fixed interest rates. Creditworthiness risks are not hedged.

As of June 30, 2011, HORNBACH Baumarkt AG took up an unsecured promissory note bond of € 80 million with a floating interest rate and a term running until June 30, 2016. To secure the interest rate, a forward swap with congruent terms was taken up in the 2010/2011 financial year already. The swap enabled the half-yearly interest payable to be secured for the entire term at a level of 2.11 % p.a., plus a bank margin.

At the end of the 2015/2016 financial year, the Group had interest swaps amounting to € 84,350k (2014/2015: € 86,836k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -1,089k as of February 29, 2016 (2014/2015: € -2,882k) and has been recognized under financial debt.

All interest rate swaps met hedge accounting requirements as of February 29, 2016. Fair value changes are recognized in the hedging reserve in equity up to recognition of the results of the hedged transaction.

The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.29.2016 in € 000s	Nominal value at 2.28.2015 in € 000s	Reference rate
6.30.2011	6.30.2016	80,000	80,000	6-month Euribor
9.30.2002	9.30.2017	2,590	4,070	3-month Euribor
9.30.2002	9.30.2017	1,760	2,766	3-month Euribor

The HORNBACH Baumarkt AG Group meets the hedge accounting requirement set out in IAS 39 in that it already documents the relationship between the derivative financial instrument deployed as a hedging instrument and the hedged item, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also includes an assessment of the effectiveness of the hedging instruments thereby deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

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 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 making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

Of the fair value of embedded forward exchange transactions, amounting to € -220k (2014/2015: € -1,667k), an amount of € 102k has been recognized under other assets in the 2015/2016 financial year and an amount of € -323k under financial debt. In the previous year, the fair value of € -1,667k was recognized under financial debt.

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

Derivatives

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

2.29.2016	Embedded forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	34,573	84,350	118,923
Fair value in € 000s (before deferred taxes)	(220)	(1,089)	(1,308)

2.28.2015	Embedded forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	19,824	86,836	106,660
Fair value in € 000s (before deferred taxes)	(1,667)	(2,882)	(4,549)

As all interest swaps are included in effective hedging relationships, the changes in their value, less deferred taxes, have basically been recognized in the hedging reserve within equity. The ineffective portion is recognized through profit or loss under net financial expenses.

(34) Sundry disclosures

Employees

The average number of employees was as follows:

	2015/2016	2014/2015
Salaried employees	16,370	15,715
Trainees	806	776
	17,176	**16,491**
of which: part-time employees	4,788	4,559

In terms of geographical regions, 10,116 of the average workforce were employed in Germany during the 2015/2016 financial year (2014/2015: 9,913) and 7,060 in other European countries (2014/2015: 6,578).

Auditor's fee

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

	2015/2016 € 000s	2014/2015 € 000s
Auditing of financial statements	428	429
Other certification services	60	163
Tax advisory services	62	20
Other services	8	41
	558	**653**

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBACH Baumarkt AG in December 2015 and made available to shareholders on the company's homepage.

(35) Related party disclosures

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

The associated companies are:
HORNBACH-Familien-Treuhandgesellschaft mbH
HORNBACH Management AG

Parent company
HORNBACH Holding AG & Co. KGaA

Associates
HORNBACH Immobilien AG
HORNBACH Baustoff Union GmbH

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

The following principal transactions were performed with associates:

	2015/2016 € 000s	2014/2015 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	75,943	75,416
Interest charge for group financing	54	(15)
Interest income for group financing	150	150
Allocations paid for administration expenses	915	701
Allocations received for administration expenses	2,558	1,760
Deliveries and services to HORNBACH HOLDING AG & Co. KGaA and its subsidiaries	250	209
Deliveries and services from HORNBACH HOLDING AG & Co. KGaA and its subsidiaries	659	662

At February 29, 2016, there were receivables of € 1,920k (2014/2015: € 1,188k) and liabilities of € 275k (2014/2015: € 230k) 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 € 13,291k (2014/2015: € 11,744k). Guarantee fees of € 54k (2014/2015: € 15k) were recognized as expenses at the HORNBACH Baumarkt AG Group in this respect during the year under report.

Some of the companies included in the consolidated financial statements of HORNBACH Baumarkt AG make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 19k were performed by the seminar hotel in the 2015/2016 financial year (2014/2015: € 12k). These services were invoiced at customary rates. Liabilities of € 5k were outstanding at the balance sheet date on February 29, 2016 (2014/2015: € 0k).

(36) Events after the balance sheet date

The consolidated financial statements of HORNBACH Baumarkt AG for the 2015/2016 financial year were approved for publication by the Board of Management on May 4, 2016.

(37) Supervisory Board and Board of Management

Members of the Board of Management:

Steffen Hornbach — Chairman
Strategic Development; Operative Store Management,
Sales and Services

Roland Pelka — Deputy Chairman
Finance, Accounting, Tax, Controlling,
Risk Management, Loss Prevention, Group Communications

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

Wolfger Ketzler
Labor Director
Personnel, Real Estate, Construction, Technical Procurement,
Internal Audit, Legal, Compliance

Karsten Kühn
Marketing, Market Research, Internal Communications

Ingo Leiner
Logistics

Dr. Andreas Schobert
Technology

Compensation of the Board of Management for the 2015/2016 financial year totals € 5,719k (2014/2015: € 5,024k). Of this, € 2,800k (2014/2015: € 2,594k) relates to fixed compensation and € 2,919k (2014/2015: € 2,430k) to performance-related components. Post-employment benefits (pension provision endowment) of € 663k were incurred for active Board members in the 2015/2016 financial year (2014/2015: € 614k).

Compensation to former members of the Board amounted to € 90k in the 2015/2016 financial year (2014/2015: € 1,924k); the pension provisions for former members total € 1,247k (2014/2015: € 910k).

All pension provisions are offset by corresponding value credits (Note 11).

Based on a shareholder resolution for a limited period up to and including the 2015/2016 financial year, individualized disclosure of the compensation of members of the Board of Management has been waived.

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach Chairman of the Board of Management HORNBACH Management AG	Chairman
Dr. Wolfgang Rupf Managing Director of Rupf Industries GmbH Rupf Engineering GmbH and Rupf ATG Casting GmbH	Further Deputy Chairman
Dr. John Feldmann Supervisory Board Chairman of KION Group AG Former Management Board member at BASF SE	
Erich Harsch CEO dm-drogerie markt GmbH & Co. KG	
Christoph Hornbach School Principal	until July 8, 2015
Georg Hornbach Head of Controlling Department at Universitätsklinikum Köln	since July 9, 2015
Martin Hornbach Managing Director Corivus Gruppe GmbH	
Joerg Walter Sost Managing Director J.S. Consulting GmbH	
Prof. Dr.-Ing. Jens P. Wulfsberg Professor of Production Technology Universität der Bundeswehr Hamburg	

As representatives of the employees

Kay Strelow Section Manager, Berlin-Marzahn Store	Deputy Chairman for trade unions
Mohamed Elaouch Section Manager, Mainz Store	for salaried employees
Martin Fischer Professional Customer Advisor, Kempten Store	for salaried employees
Christian Garrecht Security Specialist	for salaried employees
Kerstin Holfert Section Manager, Dresden Store	for salaried employees
Hans Kroha State Retail Section Head at ver.di Rheinland-Pfalz-Saarland	for trade unions
Brigitte Mauer Section Manager, Tübingen Store	for salaried employees
Michael Reiland Sales Director at HORNBACH Compact	for senior employees

The total compensation of the Supervisory Board for the 2015/2016 financial year amounted to € 515k (2014/2015: € 515k). Of this sum, € 390k (2014/2015: € 390k) related to basic compensation and € 125k (2014/2015: € 125k) to committee activities.

Mandates in supervisory boards and other control bodies
(Disclosures pursuant to § 285 Number 10 HGB)

Members of the Supervisory Board
a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Albrecht Hornbach
a) HORNBACH Immobilien AG (Chairman)
b) Inception Exploration Ltd. (Member of Board)
Rheinland-Pfalz Bank (Member of Advisory Board)

Dr. Wolfgang Rupf
a) HORNBACH Holding AG & Co. KGaA (until October 9, 2015: HORNBACH HOLDING AG) (Chairman)
HORNBACH Management AG (Chairman since October 2015)
IVA Valuation & Advisory AG (Deputy Chairman)
b) Inception Exploration Ltd. (Member of Board)

Dr. John Feldmann
a) Bilfinger SE
HORNBACH Holding AG & Co. KGaA (until October 9, 2015: HORNBACH HOLDING AG)
HORNBACH Management AG (since October 2015)
KION Group AG (Chairman)

Erich Harsch
a) HORNBACH Holding AG & Co. KGaA (until October 9, 2015: HORNBACH HOLDING AG)
HORNBACH Management AG (since October 2015)
b) GS 1 Germany GmbH (Chairman, until May 2015)

Georg Hornbach
a) HORNBACH Management AG (since October 2015)

Martin Hornbach
a) Corivus AG (Chairman)
HORNBACH Holding AG & Co. KGaA (until October 9, 2015: HORNBACH HOLDING AG; member since July 10, 2015; Deputy Chairman since October 9, 2015)
HORNBACH Management AG (October to December 2015)
b) Corivus Swiss AG (Chairman of Advisory Board)
Corivus GmbH (Chairman of Advisory Board, until October 2015)

Hans Kroha
a) WASGAU Produktions & Handels AG

Joerg Walter Sost

a) DUOPLAST AG
HORNBACH Holding AG & Co. KGaA (until October 9, 2015: HORNBACH HOLDING AG)
HORNBACH Management AG (since October 2015)

b) Atreus GmbH (Member of Advisory Board)
Bürger GmbH (Member of Advisory Board)
Deutsche Bank AG (Member of Regional Advisory Board until December 31, 2015)
DUOPLAST Holding GmbH (Member of Advisory Board)
ECF GmbH (Chairman of Advisory Board)
VREP GmbH (Member of Industrial Advisory Board)
ZT Management Holding GmbH (Member of Advisory Board)

Prof. Dr.-Ing. Jens P. Wulfsberg

a) HORNBACH Management AG (since October 2015)

Members of the Board of Management

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

Steffen Hornbach

a) HORNBACH Immobilien AG

Roland Pelka

a) HORNBACH Immobilien AG (Deputy Chairman)
WASGAU Produktions & Handels AG

b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Susanne Jäger

a) VR Bank Südliche Weinstraße eG (since June 2015)

Wolfger Ketzler

a) RNR AG (Chairman)

Bornheim bei Landau/Pfalz, May 4, 2016

HORNBACH Baumarkt AG
The Board of Management

Steffen Hornbach	Roland Pelka
Susanne Jäger	Wolfger Ketzler
Karsten Kühn	Ingo Leiner
Dr. Andreas Schobert	

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

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

Bornheim bei Landau/Pfalz, May 4, 2016

HORNBACH Baumarkt Aktiengesellschaft
The Board of Management

Steffen Hornbach	Roland Pelka
Susanne Jäger	Wolfger Ketzler
Karsten Kühn	Ingo Leiner
Dr. Andreas Schobert	

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by Hornbach Baumarkt AG, Bornheim bei Landau/Pfalz, comprising the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements and its report on the position of the company and the Group for the business year from March 1, 2015 to February 29, 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system in respect of the financial reporting process and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined, primarily on a test basis, within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

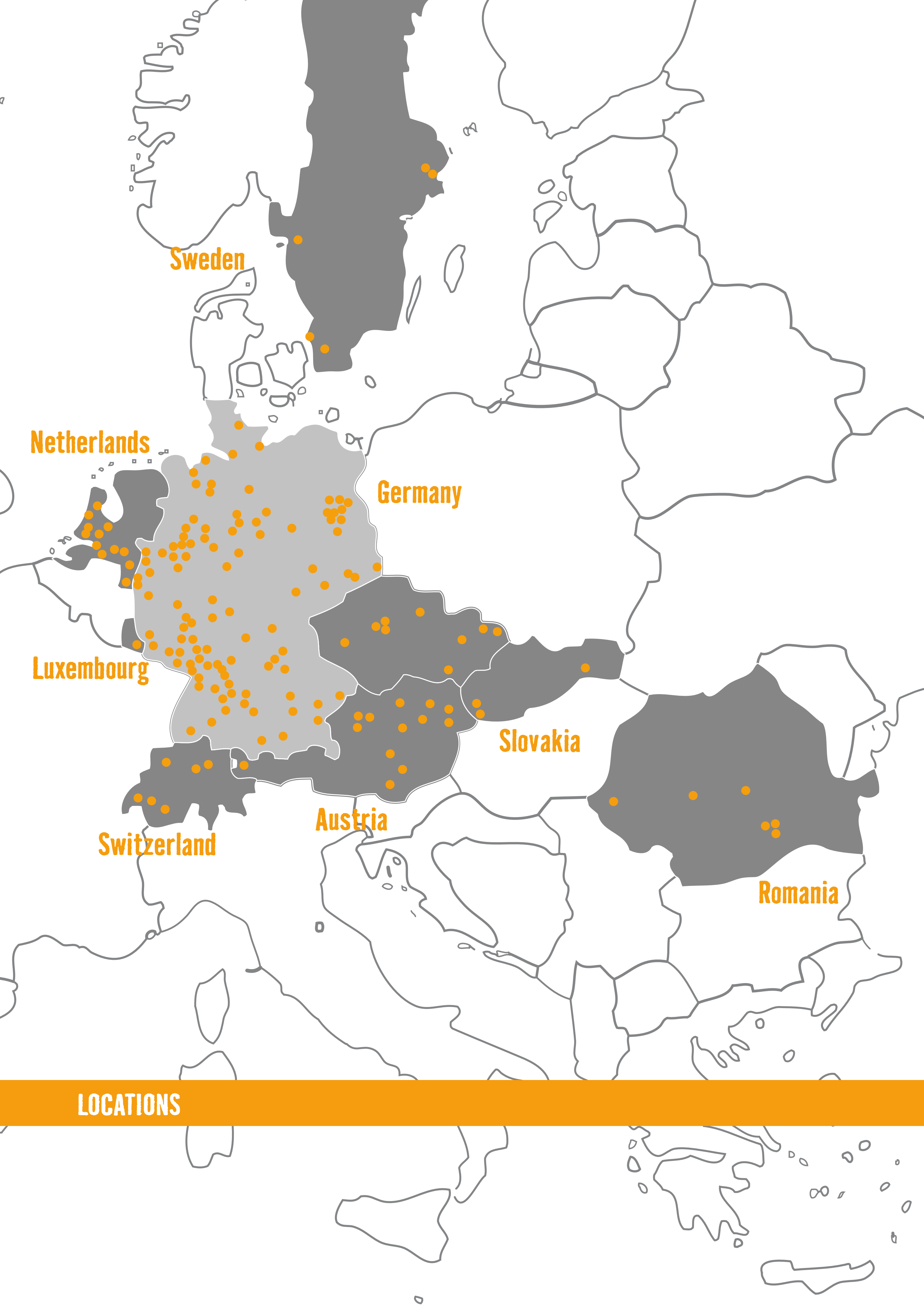
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, May 4, 2016
KPMG AG, Wirtschaftsprüfungsgesellschaft

Meurer
German Public Auditor

Palm
German Public Auditor

LOCATIONS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Ostrava-Svinov
Ostrava-Vítkovice
Plzeň
Prague-Černý Most
Prague-Řepy

* newly opened in 2015/2016 financial year

IMPRINT

Published by
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Production
Druckhaus Friedr. Schmücker GmbH
Gutenbergstraße 1
49624 Löningen - Germany
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www.druckerei-schmuecker.de

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