

ANNUAL REPORT
2017/18

HORNBAACH BAUMARKT

AG Group

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Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2017/18 on previous year	IFRS									
		2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10	2008/09
Sales and earnings figures											
Net sales	4.9 %	3,891	3,710	3,535	3,357	3,152	3,020	3,001	2,836	2,686	2,599
of which in other European countries	9.0 %	1,820	1,670	1,524	1,390	1,325	1,279	1,272	1,195	1,109	1,065
Sales growth as % of net sales		4.9	5.0	5.3	6.5	4.4	0.6	5.8	5.6	3.4	5.2
EBITDA	5.2 %	183	174	162	167	161	156	184	173	169	193
as % of net sales		4.7	4.7	4.6	5.0	5.1	5.2	6.1	6.1	6.3	7.4
EBIT	5.1 %	102	98	90	110	105	99	128	119	115	137
as % of net sales		2.6	2.6	2.6	3.3	3.3	3.3	4.3	4.2	4.3	5.3
Adjusted EBIT ¹⁾	7.0 %	110	103	99	115	111	101	132	120	115	102
as % of net sales		2.8	2.8	2.8	3.4	3.5	3.3	4.4	4.2	4.3	3.9
Earnings before taxes	2.0 %	81	79	78	95	87	74	106	102	96	122
as % of net sales		2.1	2.1	2.2	2.8	2.8	2.5	3.5	3.6	3.6	4.7
Net income for the year	11.0 %	59	53	72	70	56	52	77	76	68	95
as % of net sales		1.5	1.4	2.0	2.1	1.8	1.7	2.6	2.7	2.5	3.7
Gross margin as % of net sales		37.3	37.2	37.7	38.0	37.4	37.3	37.4	37.4	36.8	36.6
Store expenses as % of net sales		29.6	29.8	30.2	29.8	29.4	29.7	29.0	29.3	29.6	29.1
Costs of central administration as % of net sales		5.3	5.0	5.0	4.7	4.5	4.7	4.3	4.2	4.1	4.1
Pre-opening expenses as % of net sales		0.1	0.2	0.3	0.4	0.3	0.3	0.2	0.1	0.1	0.3
Cash flow figures											
Cash flow from operating activities	16.4 %	134	115	107	107	144	95	104	153	156	124
Investments ²⁾	(18.0)%	129	157	139	100	72	117	104	68	68	82
Proceeds from divestments		2	2	2	1	5	3	11	38	3	66
Earnings potential ³⁾	14.8 %	139	121	117	122	155	105	111	158	160	132
as % of net sales		3.6	3.3	3.3	3.6	4.9	3.5	3.7	5.6	6.0	5.1
Dividend distribution	0.0 %	21.6	21.6	19.1	19.1	15.9	15.9	15.9	15.9	13.7	13.7
Balance sheet and financial figures											
Total assets	1.9 %	1,998	1,960	1,986	1,731	1,670	1,597	1,628	1,592	1,439	1,425
Non-current assets	3.6 %	1,165	1,124	1,023	786	729	722	668	621	601	565
Inventories	5.1 %	658	626	588	533	505	482	476	459	428	496
Cash and cash equivalents	(9.6)%	102	113	283	335	371	317	404	423	296	236
Shareholders' equity	3.8 %	1,049	1,011	973	922	862	823	792	730	655	591
Shareholders' equity as % of total assets		52.5	51.6	49.0	53.3	51.6	51.5	48.6	45.9	45.5	41.5
Return on shareholders' equity based on net income - in %		5.7	5.5	7.6	7.8	6.7	6.5	10.2	10.9	11.0	17.1
Net working capital	(0.4)%	469	471	408	382	345	349	358	319	312	349
Additions to non-current assets	(26.9)%	129	176	312	100	72	117	104	68	68	84
Inventory turnover rate per year		3.8	3.9	4.0	4.1	4.0	4.0	4.0	4.0	3.7	3.4
Retail store data											
Number of stores		156	155	153	146	141	138	134	133	131	129
of which in Germany		98	98	99	97	92	92	91	92	92	92
of which in other European countries		58	57	54	49	49	46	43	41	39	37
Like-for-like sales growth in %		3.6	3.0	2.6	4.4	2.7	(1.4)	2.8	2.6	0.7	1.4
Sales area in m ² (based on BHB)	0.9 %	1,821,807	1,805,729	1,771,480	1,704,187	1,646,712	1,597,949	1,549,085	1,513,722	1,480,216	1,446,794
Weighted average net sales per m ² in €	3.2 %	2,135	2,068	2,023	1,985	1,940	1,912	1,933	1,903	1,828	1,839
Average store size in m ²	0.2 %	11,678	11,650	11,578	11,673	11,679	11,579	11,560	11,381	11,299	11,215
Weighted average sales per store		24.9	24.1	23.4	23.2	22.7	22.1	22.3	21.7	20.7	20.6
Other information											
Employees - annual average - converted into full-time equivalents	2.8 %	15,431	15,016	14,570	13,967	13,390	12,674	12,188	11,520	11,357	11,005
Sales per employee in € 000s	2.0 %	252	247	243	240	239	238	246	246	237	236
Number of shares ⁴⁾		31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000	15,903,500	15,903,500	15,740,060
Earnings per share in € ⁴⁾		1.84	1.66	2.28	2.19	1.77	1.64	2.43	4.76	4.32	6.04

¹⁾ Adjusted for non-operating earnings items

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

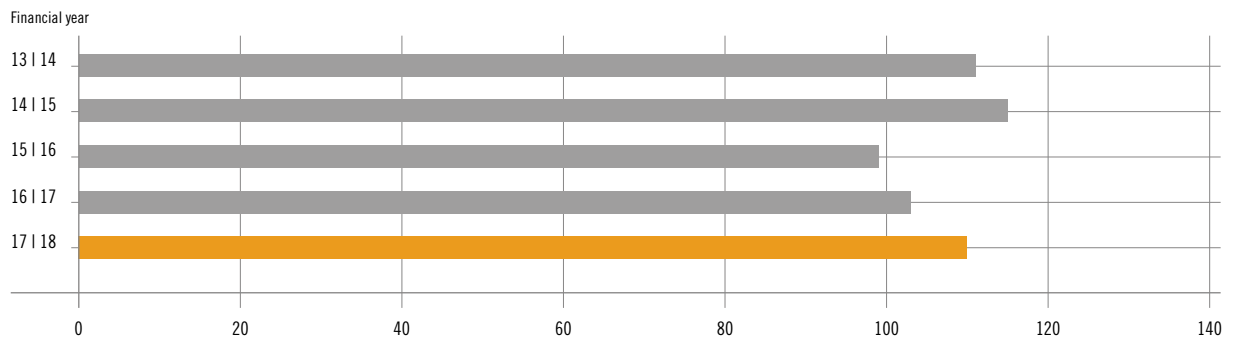
³⁾ Cash flow from operating activities plus pre-opening expenses

⁴⁾ Starting in the 2011/12 financial year: change in number of shares following issue of bonus shares as of July 29, 2011

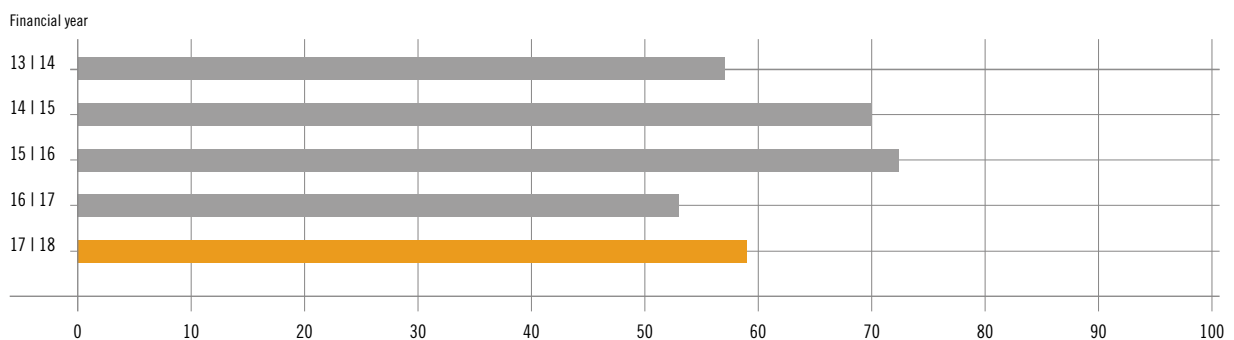
Structure of consolidated balance sheet
(€ million)



Adjusted EBIT
(€ million)

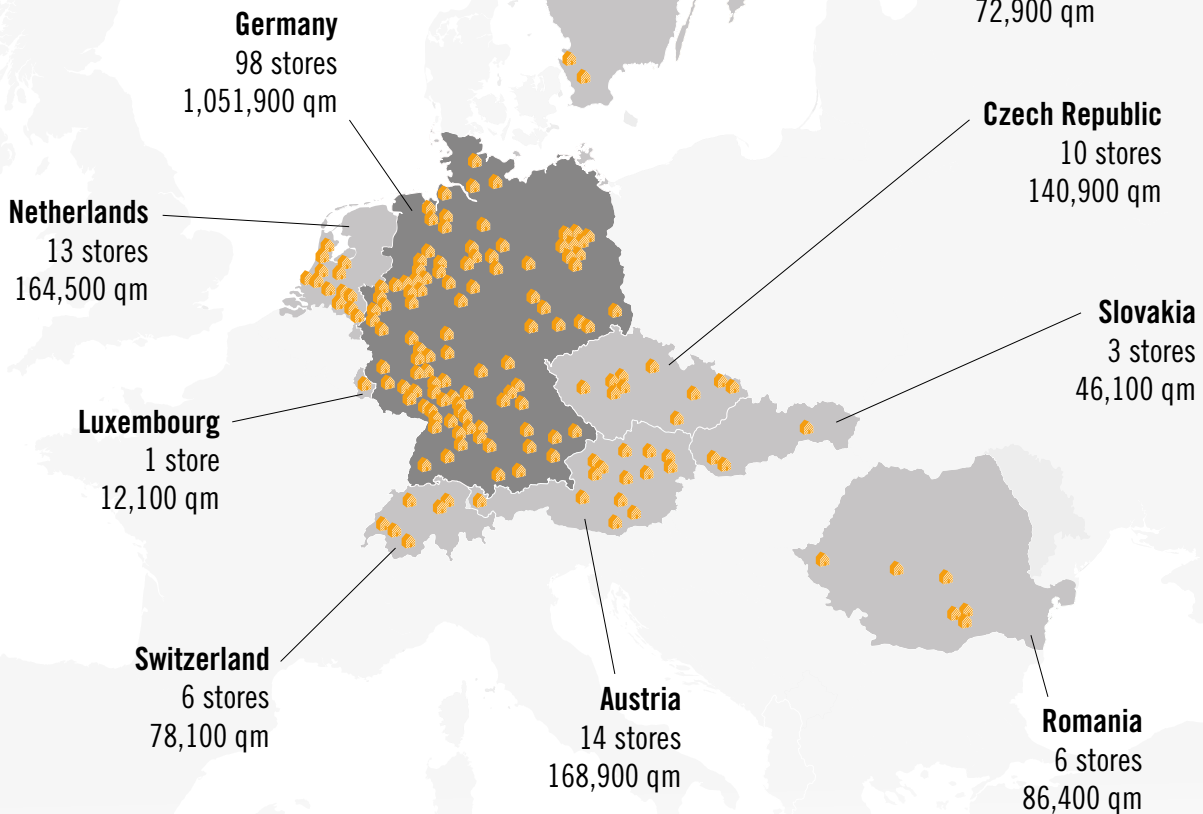


Net income for the year
(€ million)



156 locations in Europe

Status: February 28, 2018



Company Profile

HORNBAACH is one of the leading DIY retail groups in Germany and Europe, with 156 DIY stores and garden centers in nine European countries. HORNBAACH's megastores and online shops offer DIY enthusiasts and professionals a broad product range of around 150,000 high-quality articles at permanently low prices. HORNBAACH supplements its products with a wide range of project-based advice and services.

50 years

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

€ 3.9 billion

Consolidated sales rise by 4.9 % to more than € 3.9 billion in 2017/18 financial year.

€ 2,135

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

Dividend gem

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

No. 1

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

57%

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

TO OUR SHAREHOLDERS

Letter from the CEO

Dear Shareholders,

In the past 2017/18 financial year, the HORNBACH Baumarkt AG Group successfully asserted itself against its competitors in the European countries in which it operates while also pressing energetically ahead with the digital transformation of its business model.

I deliberately made both those points in the same sentence. That is because I am convinced that – at this time when digitization is advancing into all areas of life – one is no longer possible without the other. It goes without saying that this will give rise to a conflict of objectives – at least in the short term. On the other hand, we have to formulate sales and earnings forecasts that are also acceptable to the capital market. The fact that investors and entrepreneurs do not always have the same horizon of expectations will not come as any surprise. Nevertheless, we have to make substantial advance investments, and absorb the resultant costs, to make our company fit for the future. We have to find a healthy balance for these two factors. The sales and earnings targets we set ourselves a year ago took due account of this conflict of economic objectives.

We met our targets for the 2017/18 financial year. Here are the main highlights:

- Having opened new stores in The Hague in the Netherlands and Halle (Saale) and closed one store in Hanau, we operated a group-wide total of 156 retail stores at the balance sheet date on February 28, 2018, of which 98 in Germany and 58 in other European countries. Alongside our stationary store network, in the second half of the year we also launched operations at the online shops previously still outstanding in Slovakia, Sweden, and Romania.
- We increased our consolidated sales, i.e. our total net sales in Germany and abroad, by 4.9% to € 3,891 million. We owe this growth not only to the robust performance of our stationary DIY stores with garden centers, but also to pleasing sales momentum at our online shops. The relevant sector statistics show that, of the ten largest German DIY store operators, HORNBACH posted by far the highest growth in the past year. The average growth rate (excluding HORNBACH) came to 1.4%.
- We are undisputedly the most productive DIY store operator among Germany's "Top 10". Over the past ten years, our net sales per store rose by a fifth from € 20.6 million to € 24.9 million most recently. Over the same period, we improved our surface productivity (excluding sales tax) by more than 16% from € 1,839 to € 2,135 per square meter. Just to compare: The other "Top 10" competitors achieved surface sales averaging just under € 1,350 per square meter in their international retail businesses in 2017. That is just 4% more than ten years ago and 37% less than HORNBACH.

- On a like-for-like basis and net of currency items, we increased our net sales by 3.6 % in the 2017/18 financial year, following growth of 3.0% one year earlier. This was driven both by the Germany region and by the Other European countries region. In Germany, we generated cumulative like-for-like sales growth of 1.5 %, and that despite fewer business days. We generated the greatest sales momentum once again in other European countries, where like-for-like sales net of currency items grew by 6.1 %.
- We also met our expectations on the earnings front. Adjusted EBIT, which serves as the key indicator for our operating earnings strength, rose by 7.0 % to € 110 million. This was due to our pleasing sales growth, stable gross margin, and improved store cost ratios. We maintained our adjusted EBIT margin at a stable 2.8 %. Our consolidated net income and earnings per share grew by around 11 %.

Once again in the 2017/18 financial year, our stable operating earnings strength enabled us to channel substantial resources into digitizing our business model within our multichannel strategy. We take "multichannel retail" to mean the customer-oriented interaction of our 156 high-performance stationary stores across Europe with our e-commerce channels.

Notwithstanding all the energy we are investing in our digital transformation, we have not lost sight of our traditional virtues. Our permanent low price strategy remains a key cornerstone of our success – and it applies both offline and online. We offer the same prices across all channels and deliberately avoid discounts or campaign pricing. That creates trust and enables us to boost our position compared with pure players, particular when customers wish to inexpensively implement larger-scale DIY projects on an ongoing basis. As the "project DIY store", we have also set ourselves the standard of being viewed by our customers as the best in the sector when it comes to advice. This takes well-trained employees able to offer competent advice across all product ranges, even for trickier projects. Video tutorials, which have been well received by our customers, are a sensible addition here, but are certainly no substitute for good one-to-one advice.

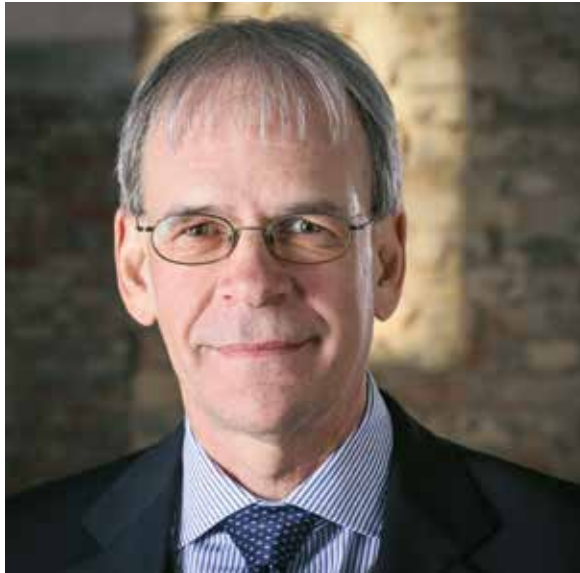
Our success in maintaining this "balancing act" between traditional strengths and innovative solutions is reflected in our strong performance in renowned customer surveys. As in previous years, in 2017 HORNBAACH was awarded top rankings in all European countries for which results are available, and especially in the criteria of product range, prices, and specialist advice.

In view of this, we can look to the future with confidence. Operations in our established stationary retail business are successful and profitable. We will therefore continue to open new stationary HORNBAACH stores. In the first quarter of 2018/19, we already launched operations at two DIY stores with garden centers – in Zwolle in the Netherlands and Affoltern in Switzerland. At the same time, we will continue to invest in future as well in further expanding our multichannel retail across all HORNBAACH regions.

I am grateful and proud that our employees, now numbering nearly 19,000 across the Group, are willing to face new challenges each and every day, and that with great enthusiasm and dedication. And I would like to thank you, our shareholders, for the trust you have placed in us.

Steffen Hornbach
CEO
HORNBAACH Baumarkt AG

Report of the Supervisory Board



Albrecht Hornbach

Dear Ladies and Gentlemen,

In the past 2017/18 financial year we dealt in great detail with the company's situation, perspectives, and strategic alignment. We advised the Board of Management in its management of the company and monitored its conduct in accordance with the requirements of the law, the Articles of Association and the Code of Procedure. At our meetings, the Board of Management provided us with regular, prompt and extensive written and oral reports on the business performance and the economic situation of the company and its subsidiaries. The Supervisory Board was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with the Chief Executive Officer, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

In the 2017/18 financial year, the Supervisory Board and the Audit Committee held a total of four and five meetings respectively. Apart from the exceptions referred to in the following sentence, all members attended at least half the meetings of the Supervisory Board and of the committees to which they belonged in the year under report. Due to sickness, Martin Fischer was able to attend only two meetings of the Supervisory Board, but participated in all resolutions by way of voice messages. Average attendance at the meetings of the Supervisory Board and of its committees amounted to around 95 % and 98 % respectively. Individualized disclosure of the meeting attendance by Supervisory Board members can be found in the Corporate Governance Report. No conflicts of interest arose in the year under report.

At our meetings, we referred to the oral and written reports provided by the Board of Management and dealt in detail with the economic situation of the company, its business performance, corporate strategy and plan-

ning, 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.

At the meeting held in May 2017 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 2018. Furthermore, the Audit Committee also reported on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The agenda for the Annual General Meeting, including the proposed resolutions, was approved. Furthermore, at its meeting in May 2017 the Supervisory Board also set the target for the share of women on the Board of Management to be achieved by February 28, 2022.

At the meeting held directly before the Annual General Meeting in July 2017, the Board of Management reported on the current situation of the Group. Further topics included meeting dates and various matters relating to corporate governance. Both the employee and the shareholder representatives spoke out in favor of the overall gender quota for the Supervisory Board elections in 2018 being met separately for both groups of members.

In December 2017, the current business situation, risk report, and compliance report were discussed. Furthermore, at the recommendation of the Audit Committee the Supervisory Board approved the premature extension and increase in a syndicated loan facility to € 350 million. Moreover, the Supervisory Board adopted amendments to the Codes of Procedure of the Board of Management and Supervisory Board, elected the members of the newly established Nomination Committee and, following in-depth discussions, laid down its objectives for the composition of the Supervisory Board and a competence profile for the overall board. The same meeting dealt with the efficiency review of supervisory board activities and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). This was made permanently available on the company's homepage. HORNBACH Baumarkt AG has largely complied with and continues to comply with the recommendations of the German Corporate Governance Code with only a few exceptions. Further information about corporate governance at HORNBACH Baumarkt AG can be found in the joint report of the Board of Management and Supervisory Board in the "Corporate Governance" chapter.

At its final meeting in the past 2017/18 financial year, held in February 2018, the Supervisory Board discussed the Group's current business situation, and discussed and adopted the budget for the financial years 2018/19 to 2022/23. Furthermore, it laid down diversity concepts for the Board of Management and the Supervisory Board.

Committees and committee meetings

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

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



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Declarations of Conformity



Corporate Governance
Corporate Governance
Declaration



Directors and Officers
Supervisory Board
committees

In May 2017, the Audit Committee discussed the annual financial statements of HORNBAACH Baumarkt AG and the consolidated financial statements, management reports, proposed appropriation of profits, and audit reports, including the dependent company report, in the presence of the auditor and members of the Board of Management. Key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports from the Board of Management on the company's financial situation, and the candidate to be proposed for election as auditor.

At the June meeting the statement for the first quarter was discussed and in September 2017 the half-year financial report was addressed in the presence of the auditors. The Committee was informed by the Board of Management about major technology-related projects. In December 2017, key focuses for the audit of the consolidated financial statements were determined together with the auditors. The Committee held detailed discussions concerning the proposal to prematurely extend and increase a syndicated loan to € 350 million. At the same meeting, the Committee dealt with the statement on the first nine months, as well as the risk report, compliance report, and the company's financial situation. In February 2018, the budget for the financial years 2018/19 to 2022/23 was addressed in detail, as were logistics-related topics. The internal audit plan for the 2018/19 financial year was adopted at the same meeting.

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

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

The Nomination Committee held one meeting in the past financial year. At this, it elected Albrecht Hornbach as Committee Chairman and discussed shareholder representative candidates for the regular elections to the Supervisory Board due to take place at the Annual General Meeting in July 2018. In selecting candidates, the Committee took due account of the composition-related objectives adopted by the Supervisory Board on December 19, 2017 and aims to meet the competence profile adopted by the Supervisory Board for the board as a whole. Outside this meeting, the members of the Nomination Committee also reviewed potential Supervisory Board candidates and held corresponding talks.

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

Supervisory Board composition

We regret to report the loss of our Supervisory Board member Hans Kroha, who passed away on April 5, 2017 following severe illness. He had represented the trade union ver.di on our Supervisory Board since July 2013. We will always honor his memory. Monika Di Silvestre replaced Hans Kroha on the company's Supervisory Board as of April 5, 2017.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG), audited the annual financial statements and the consolidated financial statements of HORNBAACH Baumarkt AG as of February 28, 2018, as well as the combined management report and group management report of HORNBAACH Baumarkt AG for the 2017/18 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 2017/18 financial year included the measurement of inventories and ongoing value of stores in respect of the consolidated financial statements and the measurement of inventories in respect of the annual financial statements.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 17, 2018 and at the subsequent meeting of the Supervisory Board held the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual and consolidated financial statements of HORNBAACH Baumarkt AG prepared by the Board of Management as of February 28, 2018; the annual financial statements of HORNBAACH Baumarkt AG are thus adopted. We endorse the appropriation of profits proposed by the Board of Management.

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

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

1. the factual disclosures made in the report are correct
2. the performance of the company in the transactions listed in the report was not incommensurately high
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).

In a market climate which remains highly price-sensitive and competitive, and that both in Germany and abroad, the HORNBAACH Baumarkt AG Group asserted itself well and defended or expanded its market share. This was due not least to its online activities in all regions. The substantial investments made in digitizing the business model are beginning to pay off. Non-operating earnings, on the other hand, were held back by write-downs and additions to provisions. Overall, however, the company fully met its sales and earnings targets.

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

Bornheim, May 2018

Supervisory Board

Albrecht Hornbach
Chairman

Directors and Officers

Supervisory Board

Albrecht Hornbach
Chairman
Chief Executive Officer
HORNBACH Management AG

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

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

Monika Di Silvestre* (since April 5, 2017)
State Retail Section Head at ver.di
Rheinland-Pfalz-Saarland

Mohamed Elaouch*
Section Manager, Mainz Store

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

Martin Fischer*
Professional Customer Advisor, Kempten Store

Christian Garrecht*
Operative Head of Workplace Safety and Fire Prevention

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

Kerstin Holfert*
Section Manager, Dresden Store

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

Martin Hornbach
Managing Partner
Corivus Gruppe GmbH

Hans Kroha* († April 5, 2017)
State Retail Section Head at ver.di
Rheinland-Pfalz-Saarland

Brigitte Mauer*
Section Manager, Tübingen Store

Michael Reiland*
Sales Director at HORNBACH Compact and
Regional Director

Joerg Walter Sost
Managing Partner
J. S. Consulting GmbH

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

* 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

Nomination Committee (since December 19, 2017)

Albrecht Hornbach Chairman (since February 22, 2018)
 Dr. John Feldmann
 Martin Hornbach
 Dr. Wolfgang Rupf

Board of Management

Members and their areas of responsibility

Steffen Hornbach

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

Roland Pelka

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

Susanne Jäger

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

Wolfer 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

CVs of Directors and Officers

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



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Corporate Governance Report with Corporate Governance Declaration

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

1. Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 AktG dated December 2017

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

I. Future-related section

The recommendations of the "German Corporate Governance Code" in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 will basically be complied with in future. No application will be made of the recommendations in Points 3.8 (3), 4.2.3 (2) Sentence 3, 4.2.5 (3), 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 (2) Sentence 3:

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

c) Point 4.2.5 (3):

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

d) Point 5.4.2 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.

e) 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 2016 through to publication of new version of Code on April 24, 2017**

The recommendations of the "German Corporate Governance Code" in the version dated May 5, 2015 and published in the Federal Official Gazette on June 12, 2015 were basically complied with in the period since the submission of the previous Declaration of Conformity dated December 2016 through to publication of the new version of the Code on April 24, 2017 with the exception of the deviations listed below. No application was made of the following recommendations included in the old version: Points 3.8 (3), 4.1.5 Sentence 1, 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 were due to the following factors:

a) Point 3.8 (3) old version:

In Point 3.8 (3), the previous version of the Code recommended agreeing a specified deductible in any D&O insurance policy taken out for supervisory board members. No such deductible was 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) of the old version was therefore not followed.

b) Point 4.2.3 (4) and (5) old version:

Furthermore, no application was made of the recommendations made in the previous versions of Point 4.2.3 (4) ("severance payment cap") and (5) ("change of control compensation cap") of the Code. These deviations were due to competition-related factors.

c) Point 4.2.5 (3) old version:

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

d) Point 4.3.3 Sentence 4 old version:

As a matter of precaution, the previous Declaration of Conformity included a deviation to the former version of Point 4.3.3. Due to application of the accounting standard IAS 24, however, the company had already ensured transparency concerning such transactions for many years.

e) Point 5.3.3 old version:

In Point 5.3.3, the previous version of the Code recommended that the supervisory board should form a nomination committee composed exclusively of shareholder representatives which should propose suitable candidates to the supervisory board for its election proposals to the Annual General Meeting. The company's Supervisory Board had not formed such a committee. Based on our previous experience, the establishment of such a committee did not appear to be necessary.

f) Point 5.4.1 (2) and (3) old version and Point 4.1.5 Sentence 1 old version:

Overall, the company deviated from the recommendations made in the previous versions of 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, HORNBAACH Baumarkt AG accorded priority above all to the knowledge, ability and expert experience of the individual in question. The same applied when the Board of Management selected candidates for management positions at the company (Point 4.1.5 Sentence 1 old version).

g) Point 5.4.2 Sentence 3 old version:

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

h) Point 5.4.6 (3) Sentence 1 old version:

In Point 5.4.6 (3) Sentence 1, the previous version of the Code recommended 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 saw no need to disclose individual compensation packages.

2. Period since publication of new version of Code on April 24, 2017

The recommendations of the "German Corporate Governance Code" in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 were basically complied with apart from the deviations already listed and substantiated for the future in Section I. Furthermore, the company also did not comply with the recommendations included in Point 4.1.5 Sentence 1, 4.2.3 (4) and (5), 4.3.3 Sentence 4, 5.3.3, and 5.4.1 (2) to (4). These deviations from the recommendations were due to the following considerations:

a) Point 4.2.3 (4) and (5):

No application was made of the recommendations in Point 4.2.3 (4) ("severance payment cap") and (5) ("change of control compensation cap") of the Code. These deviations were due to competition-related factors.

b) Point 4.3.3 Sentence 4:

As a matter of precaution, a deviation from the unchanged recommendation in Point 4.3.3 Sentence 4 was declared in the previous Declaration of Conformity. Due to application of the accounting standard IAS 24, however, the company had already ensured transparency concerning such transactions for many years.

c) Point 5.3.3:

In Point 5.3.3, the Code recommended that the supervisory board should form a nomination committee composed exclusively of shareholder representatives which should propose suitable candidates to the supervisory board for its election proposals to the Annual General Meeting. The company's Supervisory Board had not formed such a committee. Based on our previous experience, the establishment of such a committee did not appear to be necessary.

d) Point 5.4.1 (2) to (4) and Point 4.1.5 Sentence 1:

Overall, the company deviated from the recommendations made in Point 5.4.1 (2) to (4). In the interests of the company, in terms of the composition of its Board of Management and Supervisory Board, HORNBACH Baumarkt AG accorded priority above all to the knowledge, ability and expert experience of the individual in question. The same applied when the Board of Management selected candidates for management positions at the company (Point 4.1.5 Sentence 1).

Bornheim bei Landau, December 2017

HORNBACH Baumarkt AG
Supervisory Board

Board of Management

The above Declaration of Conformity dated December 2017 has been published on our website together with all earlier Declarations of Conformity and is also available as a download.



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

2. Share Capital and Share Class

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

3. Structure and Modus Operandi of Company Boards

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

3.1 Supervisory Board

The Supervisory Board of HORNBACH Baumarkt AG consists of sixteen members and, consistent with the German Codetermination Act (MitBestimmG), includes equal numbers of shareholder and employee representatives. The CVs of the Supervisory Board members have been published on our website. Shareholder representatives are elected by the Annual General Meeting.

The Supervisory Board Chairman coordinates the work of the Supervisory Board and attends to the affairs of the Supervisory Board externally. In the event of a parity of votes in the Supervisory Board, the Supervisory Board Chairman has the casting vote in the second round, if renewed voting also produces a parity.

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

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary should result in the termination of the mandate. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Baumarkt AG in the 2017/18 financial year.

The Supervisory Board has the following committees:

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

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

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

Taking due account of the recommendations made in Point 5.4.1 of the German Corporate Governance Code, on December 19, 2017 the Supervisory Board adopted the targets for its composition, including a competence profile for the overall board. The corresponding Supervisory Board resolution also includes the diversity concept for the Supervisory Board, which has set the objective of creating space for younger members without losing experienced members. Given the diverse composition thereby envisaged and the resultant variety of viewpoints and perspectives accounted for, the concept is intended to ensure that the Supervisory Board can optimally perform its tasks.

Pursuant to the competence profile, the Supervisory Board of HORNBACH Baumarkt AG must possess the expertise needed to fulfill its supervisory function and to assess and monitor the transactions performed by the company. To this end, the Supervisory Board members must collectively be familiar with the sector in which the company operates. This particularly includes knowledge, skills, and professional expertise in operating large-scale retail stores, especially DIY stores and home improvement centers, with or without garden centers, specialist stores, other specialist retail businesses, and e-commerce. This also includes expertise in the fields of digitization and technology, as well as in accounting, auditing, financing, and corresponding legal expertise, including expertise in the field of tax law.

In view of these factors, and to compile its competence profile, the Supervisory Board listed the following objectives for its composition which are both specific and tailored to the company's individual situation:

- Supervisory Board members must be reliable, possess the expertise needed to fulfill their supervisory function and to assess and monitor the transactions performed by HORNBACH Baumarkt AG, and must have sufficient time to dedicate to their duties as members of the Supervisory Board.
- The Supervisory Board must collectively have the knowledge, skills, and professional expertise required to properly perform its duties. In particular, expertise in matters relating to the operation of a retail company must be available in the Supervisory Board, as must management experience, experience in managing and organizing companies, and experience in working in Supervisory Boards.
- The Supervisory Board must avoid potential conflicts of interest, and will continue to do so in future.
- The Supervisory Board should not include any members who hold directorships or perform advisory functions at any significant competitors.
- The composition of the Supervisory Board accounts for the diversity criterion, in particular with regard to the ages, genders, educational and career backgrounds of its members.
- As a general rule, the Supervisory Board should only include individuals who were no older than 70 at the time of their election.
- As a general rule, the Supervisory Board should only include individuals who have not been members of the Supervisory Board for four full terms already at the time of their election.



**Directors and Officers
Supervisory Board
committees**

**Report of the Supervisory
Board
Committees and committee
meetings**

- The Supervisory Board should include a suitable number of independent members. The Supervisory Board believes that it is sufficient in this respect if at least half of its members are independent.
- Shareholder representatives who have been members of the Supervisory Board for more than three terms in office are now no longer deemed as independent in this respect.

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

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

Subject to the share of women (c.f. Section "2.3 Share of Women in Senior Management Positions"), the current composition of the Supervisory Board meets the aforementioned composition-related objectives, complies with the diversity concept, and satisfies the competence profile. The members of the Supervisory Board complement one another in terms of their ages, educational, and career backgrounds, experience, and expertise in such a way that the Board as a whole can draw on a highly varied wealth of experience and broad range of skills. No members of the Supervisory Board of HORNBAACH Baumarkt AG hold any directorships or perform advisory functions at significant competitors. The regular periods of membership and regular age limits are laid down in the Code of Procedure of the Supervisory Board and are complied with.

Assuming that the holding of a Supervisory Board mandate as an employee representative does not give rise to any doubts concerning satisfaction of the independence criteria set out in Point 5.4.2 of the Code, the Supervisory Board currently includes twelve independent members, of which four shareholder representatives. These are Dr. John Feldmann, Erich Harsch, Joerg Walter Sost, and Prof. Dr. Jens Wulfsberg.

3.1.3 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Albrecht Hornbach, Chairman	4/4	100.00
Dr. Wolfgang Rupf, Deputy Chairman	4/4	100.00
Kay Strelow, Deputy Chairman	4/4	100.00
Dr. John Feldmann	4/4	100.00
Erich Harsch	4/4	100.00
Martin Hornbach	4/4	100.00
Michael Reiland	4/4	100.00
Joerg Walter Sost	4/4	100.00
Mohamed Elaouch	4/4	100.00
Martin Fischer	2/4	50.00
Christian Garrecht	4/4	100.00
Kerstin Holfert	4/4	100.00
Georg Hornbach	4/4	100.00
Monika Di Silvestre	3/4	75.00
Brigitte Mauer	4/4	100.00
Prof. Dr. Jens Wulfsberg	4/4	100.00
Total		95.31

Audit Committee	Meetings attended	Attendance in %
Dr. Wolfgang Rupf, Chairman	5/5	100.00
Dr. John Feldmann	4/5	80.00
Erich Harsch	5/5	100.00
Albrecht Hornbach	5/5	100.00
Martin Hornbach	5/5	100.00
Michael Reiland	5/5	100.00
Joerg Walter Sost	5/5	100.00
Kay Strelow	5/5	100.00
Total		97.5

Nomination Committee	Meetings attended	Attendance in %
Albrecht Hornbach, Chairman	1/1	100.00
Dr. John Feldmann	1/1	100.00
Martin Hornbach	1/1	100.00
Dr. Wolfgang Rupf	1/1	100.00
Total		100.00



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

3.2 Board of Management

The Board of Management of HORNBAACH Baumarkt AG has a Chairman and a Deputy Chairman and consisted of seven members at the end of the 2017/18 financial year. The Board of Management has a self-imposed Code of Procedure. The management of the company's business is the joint responsibility of all of its members. Compliance activities to ensure that the company adheres to laws, legal requirements, and its own internal guidelines represent a key management task. The Board of Management usually meets once a week, or on an ad-hoc basis when necessary.

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

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

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

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

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

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

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

Overall, the Board of Management, which also includes one woman, has the knowledge, skills and professional expertise needed to properly perform its duties. No member of the Board of Management exceeds the targeted regular age limit.

3.3 Share of women in senior management positions

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

Specifically:

3.3.1 Women on the Board of Management and Supervisory Board

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

The Supervisory Board currently includes three female members (status: May 2018). As there has so far not been any occasion to elect new members, the minimum share provided for in § 92 (2) AktG is currently not complied with. However, this share will be met at the next Supervisory Board elections in July 2018, taking due account of the decision taken that both employee and shareholder representatives should separately meet the respective share.

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

In May 2017, the Board of Management of HORNBACH Baumarkt AG adopted a resolution pursuant to § 76 (4) AktG which set the share of women to be achieved in the two management tiers below the Board of Management by February 28, 2022, while upholding the current status, at no less than 9% in the first management tier and no less than 13% in the second management tier. The target of 6% adopted on August 31, 2015 for the share of women in the first management tier was achieved by June 30, 2017. The target for the second management tier, which was set at 14% by June 30, 2017, was not met. However, this was solely due to the fact that the framework also used to determine the share of women was itself amended as of March 1, 2016. The previously applicable functional level model was rescinded. Management staff are now differentiated by reference to their management level.

3.4 Annual General Meeting

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

4. Reporting and Auditing of 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.

5. Transparency

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

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

The documents and dates of relevance to the company's regular financial reporting activities are published on our homepage. Alongside this regular reporting, any information arising at HORNBACH Baumarkt AG which is not publicly known and which is likely to influence the company's share price significantly is published in the form of ad-hoc announcements as insider information pursuant to Article 17 of the Market Abuse Regulation (MAR). All individuals working on behalf of the company and with access to insider information in the course of their activities are informed of the resultant obligations for them under insider law.

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



6. Relevant Corporate Governance Practices

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

6.1 Our system of values: the HORNBACH Foundation

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

6.2 Compliance

In a competitive climate, only those companies which manage to convince their customers with their innovation, quality, reliability, dependability, and fairness on an ongoing basis will succeed in the long term. Here, we see compliance with legal requirements, internal company guidelines and ethical principles (compliance) as absolutely crucial. HORNBACH's corporate culture is based on these principles.

HORNBACH has a value-based compliance system which primarily pursues the objective of preventing compliance infringements before they arise, where possible. The "HORNBACH Foundation" forms the basis for HORNBACH's system of values. The principles included in the "HORNBACH Foundation" are fleshed out in the "HORNBACH Values". These formulate the standards of conduct expected of managers and employees with regard to the stakeholder groups of "Government and Society", "Managers and Employees", "Customers, Suppliers and Competitors", and "Providers of Equity and Debt Capital". Among other factors, they set out how we meet our responsibility towards society, treat each other with respect, are committed to fair competition, act with integrity, and manage our financial reporting. The "HORNBACH Values" have been translated into all languages relevant to the Group and made available to all employees.

The "Accepting and Granting Gratuities" code of conduct sets out guiding principles which make clear what HORNBACH expects of its managers and employees in this regard. This code of conduct has been communicated on a top-down basis and distributed to employees in the form of a leaflet compiled in the relevant national language.

Upon joining the company, our employees are informed about compliance-related topics with the assistance of the HORNBACH Values and the codes of conduct.

The Board of Management bears overall responsibility for compliance. One core component of HORNBACH's compliance system is the Compliance Committee, which acts as the topmost advisory body for compliance organization. The Chief Compliance Officer is responsible for coordinating group-wide compliance activities. This officer reports to the Board of Management and is responsible for permanently optimizing the Group's compliance organization and structures. The Chief Compliance Officer is supported by compliance officers operating on a decentralized basis in all of HORNBACH's regions and departments. HORNBACH's compliance system is subject to regular reviews and enhancements.



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Corporate Governance



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Compliance

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

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

Notifications received via the whistleblower system are assessed by the Chief Compliance Officer on an on-going basis. Where there is legitimate reason to suspect a compliance-related infringement, the Group Internal Audit department investigates the matter. Where compliance infringements are actually detected, the company initiates labor law, criminal law, and civil law proceedings.

In the year under report, there was a low single-digit number of confirmed compliance infringements at the HORNBAACH Group.

Compensation Report

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

1. Compensation of Board of Management

1.1 Compensation system at HORNBACH Baumarkt AG

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

■ Fixed annual salary:

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

■ Variable compensation:

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

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

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

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

1.2 Internal ratio of compensation components:

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

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

1.3 Retirement and pension commitment

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

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

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

From January 2018, employment contracts newly agreed or extended with members of the Board of Management will provide for caps on the compensation paid in the event of their activity on the Board of Management being terminated prematurely. The recommendations made in Point 4.2.3 (4) of the German Corporate Governance Code will therefore be complied with in future.

1.5 Additional benefits

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

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

1.6 Compensation of the Board of Management for the 2017/18 financial year

Total compensation of the Board of Management for the 2017/18 financial year amounted to € 5,535k. Of this sum, € 2,828k constituted fixed compensation and € 2,707k involved performance-related components. Post-employment benefits of € 663k were incurred for active members of the Board of Management in the 2017/18 financial year (pension provision endowment). Pension provisions for former members of the Board of Management total € 1,246k. All pension provisions are offset by corresponding value credits.

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

2. Compensation of the Supervisory Board

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

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

The compensation of the Supervisory Board for the 2017/18 financial year totals € 515k. Of this, € 390k is basic compensation and € 125k for committee activity. Compensation totaling € 362k was paid for the 2017/18 financial year for further Supervisory Board positions at HORNBACH Holding AG & Co. KGaA or HORNBACH Management AG (basic: € 245k; committee: € 117k).

The HORNBAACH Baumarkt Share

Key figures for the HORNBAACH Baumarkt share		2017/18	2016/17	2015/16	2014/15	2013/14
Year-end price ¹⁾	€	30.50	29.72	25.77	32.60	30.50
12-month high ¹⁾	€	33.32	31.50	38.60	34.98	31.10
12-month low ¹⁾	€	28.90	23.69	24.51	26.56	24.00
Shares issued	Number	31,807,000	31,807,000	31,807,000	31,807,000	31,807,000
Market capitalization	€ 000s	970,114	945,304	819,666	1,036,908	970,114
Earnings per share	€	1.84	1.66	2.28	2.19	1.77
Price / earnings ratio ²⁾		16.6	13.0	11.3	14.9	17.2
Book value per share	€	32.97	30.59	30.59	29.02	27.10
Price-to-book ratio ³⁾		0.9	1.0	0.8	1.1	1.1
Cash flow from operating activities per share	€	4.22	3.62	3.35	3.38	4.54
Price / cash flow ratio ⁴⁾		7.2	8.2	7.7	9.7	6.7
Dividend per share ⁵⁾	€	0.68	0.68	0.68	0.60	0.60
Distribution total ⁵⁾	€ 000s	21,629	21,629	21,629	19,084	19,084
Payout ratio ^{5),6)}	%	37.0	41.0	29.8	27.4	33.9
Dividend yield ⁷⁾	%	2.2	2.3	2.6	1.8	2.0
Performance including dividend	%	4.8	18.6	-19.5	8.9	19.7
Performance excluding dividend	%	2.6	15.3	-21.0	6.9	17.3
Average daily trading volume ¹⁾	Number	5,399	8,201	10,246	10,476	2,968

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⁾ 2017/18: proposal to 2018 Annual General Meeting

⁶⁾ Dividend per share ÷ earnings per share

⁷⁾ Dividend per share ÷ year-end price

2017/18 on the Stock Markets

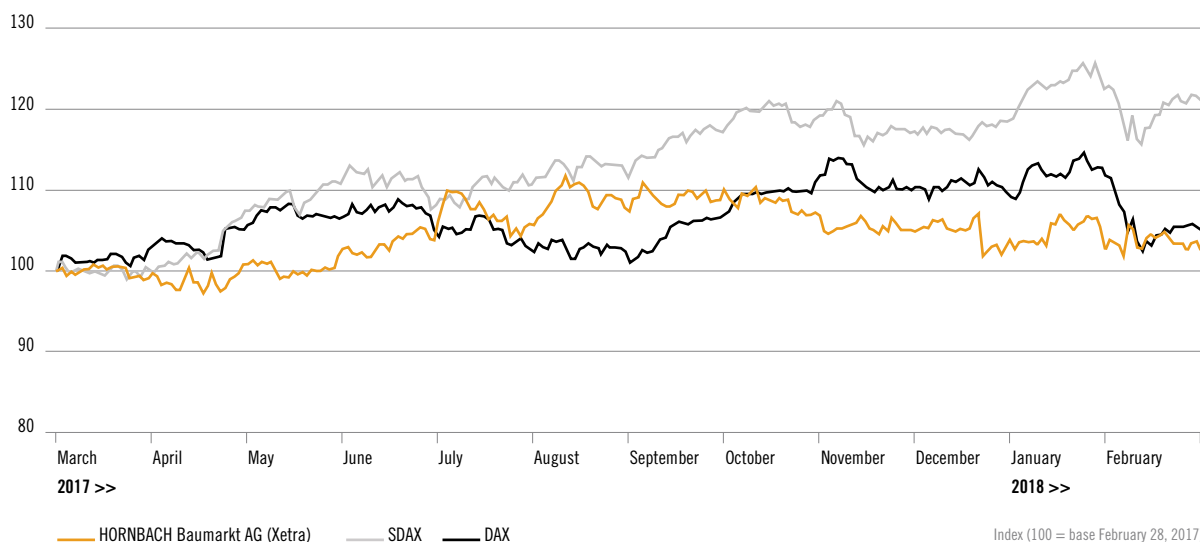
Hangover in the wake of record high

For equity investors, the 2017 calendar year developed more pleasingly than expected. Benefiting from a climate of persistently favorable interest rates, robust global economic growth, and rising corporate earnings, all major stock indices reported substantial increases. Volatility fell to historic lows, and that despite distinct political risks in connection with elections in Europe, the Brexit negotiations, and uncertainty surrounding the future political course of the USA. The DAX, Germany's lead index, reached a record high of more than 13,500 points in November, but nevertheless had to absorb slight losses once again at the end of the year. 2018 began on a promising note, with a clear upward trend in global stock markets and new record highs in January. This was followed by a marked drop in prices in February. The DAX fell around 11 % from 13,560 points to 12,107 points, closing at 12,436 points at the end of February.

HORNBAACH Baumarkt share price performance

The HORNBAACH Baumarkt share price rose by 2.6 % during the 2017/18 financial year (March 1, 2017 to February 28, 2018). Including the distribution, and assuming reinvestment of the dividend, the share price rose by 4.8 %. It thus fell short of its comparative indices: DAX (+5.1 %), SDAX (+21.0 %), and the DAXSector All Retail Performance Index (+14.5 %).

Share price performance: March 1, 2017 to February 28, 2018



At the beginning of the financial year, the HORNBAACH Baumarkt AG share initially performed more weakly than the German stock market and reached its annual low at € 28.90 on April 13. The share recovered during the summer months, posting its annual high at € 33.32 on September 1. Following a slight downward trend in the second half of the financial year, a development due in part to the difficult market climate, the share closed at € 30.57 in Xetra trading on the balance sheet date on February 28, 2018 (2016/17: € 29.72). The market capitalization therefore amounted to € 970 million at the end of the financial year (2016/17: € 945 million).

Interesting for value investors

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

Share buyback for employee stock program

The annual issue of employee shares has a long tradition at HORNBAACH. Since the 1993/94 financial year, the year of the company's IPO, employees entitled to subscribe have been offered the opportunity to acquire shares in HORNBAACH Baumarkt at advantageous prices and thus to benefit from the company's sustainable business performance and long-term success. A total of 2,459 HORNBAACH Group employees participated in last year's employee stock program, with 46,960 shares being transferred in all.



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

Analyst assessments

As of the balance sheet date on February 28, 2018, the HORNBACH Baumarkt share was regularly covered by four financial analysts (2016/17: five) in research reports and studies. Of these analysts, two recommended buying and two holding the share as of the balance sheet date. Their average share price target of € 35.50 implies upward potential of 16% compared with the closing price at the end of our 2017/18 financial year. The current list of banks and research institutes regularly reporting on HORNBACH and their respective recommendations for the share can be viewed at the HORNBACH Group's website.

Dividend policy

HORNBACH pursues a continuity-based dividend policy which aims to maintain a fair balance between shareholders' interests on the one hand and financing the company's growth on the other hand. The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose a dividend of € 0.68 per share with dividend entitlement, and thus at the same level as in the previous year, for approval by the Annual General Meeting on July 5, 2018. The distribution total of € 21,629k corresponds to a distribution quota of 37.0% (2016/17: 41.0%) of earnings per share.

Financial communications

Our investor relations activities provided shareholders, analysts, the financial media, and the general public with prompt information on the business performance of the HORNBACH Baumarkt AG Group in the past financial year. All quarterly statements, annual reports, press releases, and additional financial information were published on the website of the HORNBACH Group. The Annual General Meeting, the annual results press conference, analysts' press conferences, and meetings with investors give us the opportunity to maintain our dialog with the capital markets. Moreover, we draw on personal contacts to investors and the media to present our company's objectives and strategy.



www.hornbach-group.com
Investor Relations

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

FINANCIAL CALENDAR 2018

May 24, 2018	Annual Results Press Conference 2017/18 Publication of Annual Report DVFA Analysts' Conference
June 22, 2018	Quarterly Statement: 1 st Quarter of 2018/19 as of May 31, 2018
July 5, 2018	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 27, 2018	Half-Year Financial Report 2018/19 as of August 31, 2018
December 20, 2018	Quarterly Statement: 3 rd Quarter of 2018/19 as of November 30, 2018

Investor Relations

Axel Müller

Tel: (+49) 0 63 48 / 60 - 24 44

Fax: (+49) 0 63 48 / 60 - 42 99

invest@hornbach.com

Internet: www.hornbach-group.com

COMBINED MANAGEMENT REPORT

Group Fundamentals

1. The Group at a Glance

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

156

locations across Europe

At the balance sheet date on February 28, 2018, the Group operated 156 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 98 locations are in Germany. A further 58 stores are located in the following other European countries: Austria (14), the Netherlands (13), Luxembourg (1), the Czech Republic (10), Switzerland (6), Sweden (5), Slovakia (3), and Romania (6). With total sales areas of more than 1.8 million m², the average size of a HORNBAACH DIY store with a garden center amounts to around 11,700 m². In all of the countries in which it operates, HORNBAACH combines its stationary retail business with its online stores (e-commerce) to act as a multichannel DIY retailer, an approach we also refer to as interconnected retail.

€ 3.9 bn

consolidated sales

In the 2017/18 financial year (March 1, 2017 to February 28, 2018), the HORNBAACH Baumarkt AG Group generated net sales of around € 3.9 billion. This makes HORNBAACH the third-largest retail group in the German DIY sector and the fifth-largest player in Europe. At the balance sheet date on February 28, 2018, the Group had a total of 18,721 employees (2016/17: 18,002), of which 8,201 outside Germany (2016/17: 7,693).



Scope of Consolidation
(Page 95 ff)

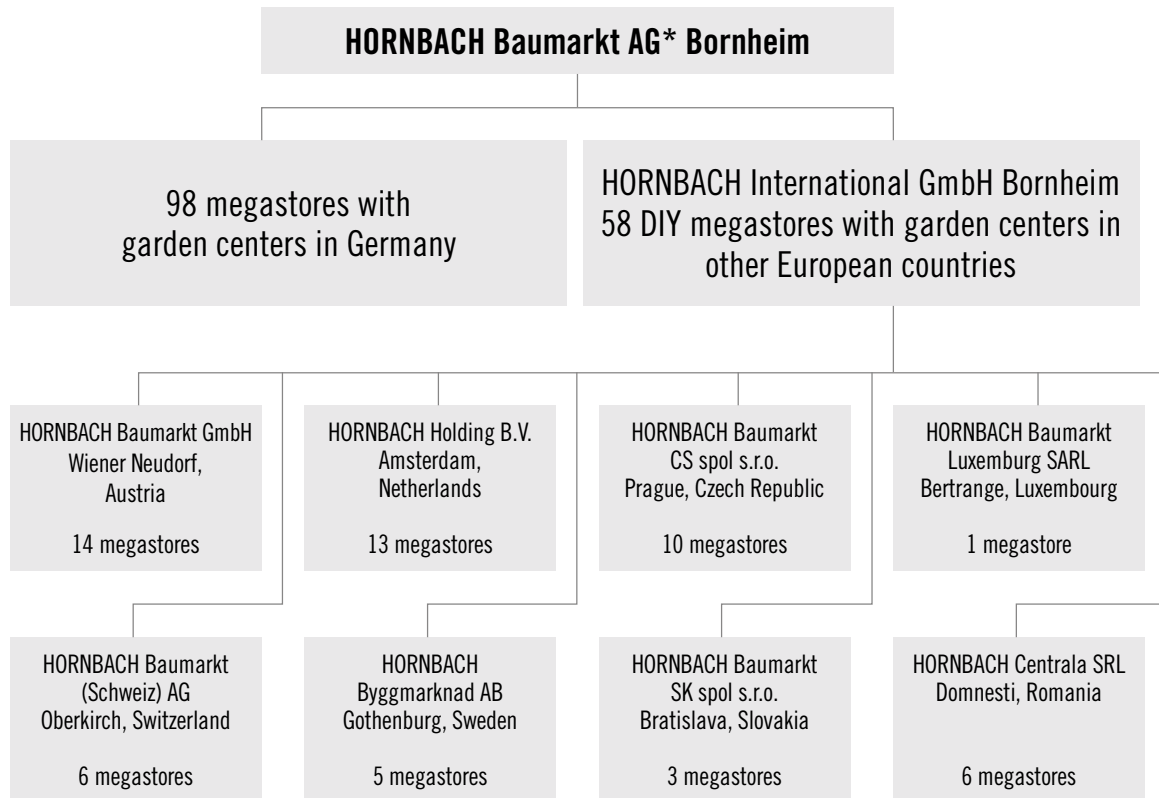
The diagram on Page 35 presents the current group structure and provides an overview of the most important shareholdings of HORNBAACH Baumarkt AG. Full details about the scope of consolidation and consolidated shareholdings are provided in the notes to the consolidated financial statements.

HORNBAACH Baumarkt AG is a listed stock corporation. Its parent company HORNBAACH Holding AG & Co. KGaA holds 76.4% of the total of around 31.8 million ordinary shares in the company (ISIN DE0006084403, Prime Standard). 23.6% of its shares are in free float (status: February 28, 2018). The company was founded in 1877 and is still family-managed, now in the fifth generation.

2. Group Business Model

2.1 Retail activities

HORNBAACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBAACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company is relying not just on its stationary retail business, but is also drawing on the potential harbored by e-commerce. Since January 2018, HORNBAACH's online store – a high-performing virtual DIY store and garden center – has been rolled out to all of the countries in which we have stationary DIY retail operations.



* Plus further shareholdings as presented in the complete overview provided in the notes to the consolidated financial statements. Status: February 28, 2018

HORNBACH has an absolute focus on project customers. On the one hand, those are home improvement enthusiasts and professional customers wishing to implement extensive renovation and construction projects under their own steam in their houses, apartments, or gardens (do-it-yourself). On the other hand, they also include customers wishing to select their products themselves, but then to have all of the work involved in their project, including all services, performed by a competent partner (do-it-for-me). All of the company's stationary and online activities are tailored to these target groups. HORNBACH thus particularly offers its customers a broad and deep product range stocked in sufficiently large quantities and meeting high quality standards, reliable and transparent permanently low prices, and professional advice and project-related services. Thanks not least to its innovative advertising, HORNBACH has successfully established itself as a brand among DIY customers and is regularly awarded the best customer satisfaction results in well-known consumer surveys. The product range at HORNBACH stores encompasses around 50,000 articles on average, with up to 150,000 articles available online. Products are structured in the five following divisions: Hardware/Electrical, Paint/Wallpaper/Flooring, Construction Materials/Timber/Prefabricated Components, Sanitary/Tiles, and Garden.

Key focus on project customers

2.2 Real estate activities

The HORNBACH Baumarkt AG Group has a substantial real estate portfolio. This predominantly relates to retail properties used by the company itself. At the balance sheet date on February 28, 2018, 29% of sales areas were owned by the Group. HORNBACH Immobilien AG and its subsidiaries owned a further 28% of the Group's DIY sales areas. The overriding strategy is for the overall HORNBACH Holding AG & Co. KGaA Group to retain ownership of at least half of the real estate, measured in terms of sales areas, used for operating purposes.

2.3 Reporting segments

The delineation of business segments is consistent with the internal reporting structures used by the Board of Management of the HORNBACH Baumarkt AG Group to manage the company. The "Retail" segment comprises the 156 DIY megastores with garden centers pooled at the HORNBACH Baumarkt AG Group (2016/17: 155) and our e-commerce retail activities. Sales at the HORNBACH Baumarkt AG Group are primarily generated in the Retail segment, i.e. in the operating retail business. The "Real estate" segment comprises the retail properties owned by the HORNBACH Baumarkt AG Group. In this segment, imputed rental payments are charged on at customary market conditions within the Group. In the segment report, the income from this imputed charging on of rental payments is fully consolidated as "Rental income from affiliated companies". Administration and consolidation items not attributable to segments are summarized in the "Headquarters and consolidation" reconciliation column.

3. Management System

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

3.1 Most important key management figures

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

Up to and including the 2017/18 financial year, **operating earnings (EBIT)** have been the central key earnings figure for the Group. EBIT stands for earnings before interest and taxes. In the income statement, EBIT is calculated as gross profit in euros less costs (selling, store, pre-opening, and administration expenses) plus other income and expenses. EBIT also includes earnings items which HORNBACH is unable either to forecast or to influence directly. Non-operating, unscheduled one-off items may therefore lead this key figure to fluctuate substantially between individual reporting periods. This is particularly true in respect of impairment tests. The meaningfulness of the EBIT key figure for group management purposes is therefore severely impaired at times, as in the year under report. From the beginning of the 2018/19 financial year (March 1, 2018 to February 28, 2019), EBIT will be commented on as an alternative key performance figure in the presentation of the earnings position, but will no longer be used as a key management figure in the company's planning or as the central reporting figure for budget/actual comparisons or annual earnings forecasts.



For the internal management of the Group, as well as for the external communication of its current and future earnings performance, the operating business activities relevant for controlling purposes play a particularly important role. The most important key performance figure we use to plan, measure, and manage the Group's operating earnings performance is **adjusted EBIT** (adjusted operating earnings). To calculate this key figure, EBIT is adjusted to exclude non-operating earnings items. Non-operating expenses (e.g. impairment losses on non-current assets, additions to provisions for onerous contracts) are added to EBIT, while non-operating income (e.g. income from disposals of properties, income from write-ups of assets impaired in previous years) are deducted. Adjusted EBIT is therefore particularly useful for management purposes and for comparing the operating earnings performance over time or in forecasts.

3.2 Alternative key performance figures

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

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

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

Selling, store, pre-opening, and administration expenses are key parameters for assessing the Group's earnings strength. We use **cost ratios** calculated as percentages of net sales as alternative key performance figures and also as cost trend indicators. Since the 2016/17 reporting year, allocable non-operating income and expenses have been recognized in the relevant functional expense items (previously: under other income and expenses). To comment on our operating earnings performance, we also report where necessary on functional expense items net of non-operating earnings items.

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

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

The **administration expense ratio** corresponds to the quotient of administration expenses and net sales. General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of stationary DIY stores with garden centers and with the development and operation of online retail (e-commerce) which cannot be directly allocated to such. They mainly consist of

personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses. As well as purely administrative administration expenses, these expenses also include project-related expenses, and in particular expenses relating to the increasing digitization of our business model.

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

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

Net financial debt is an alternative key performance figure used to comment on the financial position. This key figure is calculated as total current and non-current financial debt less cash and cash equivalents and – where applicable – less current financial assets (financial investments). To avoid negative interest on cash investments, starting at the beginning of the 2016/17 financial year the Group channeled part of its cash and cash equivalents into near-liquid short-term financial investments with terms of between more than three months and a maximum of twelve months. These fixed-term deposits were repaid in full as of November 30, 2017. The inclusion of current financial assets in the calculation of net financial debt enhances comparability with the previous reporting period.

3.3 Further key management figures

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

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

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

Business Report

1. Macroeconomic and Sector-Specific Framework

1.1 International framework

The European economy showed stronger growth in the 2017 calendar year than one year earlier. Based on figures released by the European Union statistics authority (Eurostat), gross domestic product (GDP) grew by 2.4% in the European Union as a whole (EU 28) and by 2.3% in the euro area. The nine European countries in which HORNBAACH operates also showed a uniformly positive picture in terms of their economic developments. Based on the data available upon completion of this report, the GDP growth rates achieved in 2017 were ahead of the previous year's figures. Private consumer spending in the EU 28 and euro area countries grew by 2.0% and 1.7% respectively in real terms. At 1.4%, the annual HICP rate of inflation for the euro area in December 2017 was notably higher than in the previous year (+1.1%). This increase was driven above all by higher energy prices.

The European construction sector continues to pursue a course of solid growth. According to estimates compiled by Eurostat, construction output grew by 3.5% in the EU 28 and by 2.4% in the euro area. Based on the assessment of the Euroconstruct Group, European construction volumes in its 19 partner countries grew by 3.5% in 2017, with a growth rate of 3.9% reported for building construction. As in the previous year, the greatest momentum came from new housing construction. By contrast, construction volumes in the modernization market, which plays a more significant role for the DIY retail business than new construction, grew at a significantly lower pace, with growth rates of between one and two percent in the past three years.

Non-food retail volumes grew by 3.7% in the EU 28 and by 2.7% in the euro area in 2017. In terms of the countries in which HORNBAACH operates, the retail sector reported sales growth in all countries except Luxembourg and Switzerland. The figures for Romania, the Czech Republic, and Slovakia were significantly ahead of the European average. The indicators available from sector surveys also point to a successful performance of the DIY store and garden center sector in 2017. In most European countries for which data was available, nominal and like-for-like sales in do-it-yourself (DIY) retail showed positive growth, in some cases substantial, compared with 2016.

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

Percentage change on previous quarter Source: Eurostat (calendar year figures)	1 st Quarter 2017	2 nd Quarter 2017	3 rd Quarter 2017	4 th Quarter 2017	Calendar Year 2017 vs. 2016
Germany	0.9	0.6	0.7	0.6	2.2
Luxembourg	(0.9)	0.9	1.8	(0.1)	2.3
Netherlands	0.7	1.5	0.4	0.8	3.1
Austria	1.2	0.7	0.8	0.8	2.9
Romania	2.0	1.7	2.4	0.6	7.0
Slovakia	0.8	1.0	0.8	0.9	3.4
Sweden	0.4	1.2	0.8	0.9	2.4
Switzerland	0.2	0.5	0.7	0.6	1.0
Czech Republic	1.5	2.4	0.7	0.8	4.4
Euro area (EA 19)	0.6	0.7	0.7	0.6	2.3
EU28	0.6	0.7	0.7	0.6	2.4



Table

GDP growth rates

1.2 Business framework in Germany

1.2.1 Macroeconomic climate

Germany's economic growth gained further momentum in 2017. Based on calculations compiled by the Federal Statistical Office, real-term gross domestic product (GDP) rose by an annual average of 2.2% in 2017 (2016: +1.9%). This upturn was driven both by strong levels of domestic demand, as well as by increased demand for German goods from abroad. Private consumer spending (+1.9%) benefited from the favorable situation on the labor market, although income from employment showed only moderate growth. Real-term disposable incomes increased by 3.9%.

1.2.2 Construction activity and construction trade

The positive macroeconomic framework accompanied by strong demand for real estate and low interest rates provided the construction sector with additional momentum in the past year. Given persistently favorable interest rates, new private housing construction acted as the key growth driver. According to calculations compiled by the German Institute for Economic Research (DIW), housing construction volumes rose by 7.4% in nominal terms in 2017, with clearly disproportionate growth of 12.9% in new construction volumes. By contrast, the market for refurbishment, renovation, and modernization measures at existing buildings, which is more relevant for the DIY store sector, only grew by 4.7%. Overall, the share of construction output attributable to existing buildings fell consistently from 75% in 2011 to 66% in 2017, while new construction volumes rose over the same period from 25% to 34%.

The high level of capacity utilization in the construction industry is reflected in rising prices for construction work, as a result of which the real-term growth rates were significantly lower. The real-term growth rate in the main construction trade came to 3.3% in 2017, while the finishing trade grew by 2.2%. The boom in new construction in Germany seems to have passed its zenith in 2017. Among the indicators supporting this supposition is the 7.3% reduction in the number of building permits issued in this period.

1.2.3 Retail and DIY

Boosted by pleasing economic developments, German retail sales rose further in 2017. Based on figures released by the Association of German Retailers (HDE), net aggregate sales increased to € 512.8 billion. Sector sales therefore grew by 4.1% in nominal terms and by 2.6% in real terms compared with 2016. Online retail (e-commerce) showed further strong growth of 10.2% to € 48.7 billion (2016: € 44.2 billion). Online sales thus accounted for a 9.5% share of total retail sales in 2017 (2016: 9.0%).

The German DIY sector benefited only in part from these positive developments. Based on figures from the BHB sector association, large-scale DIY stores with sales areas of more than 1,000 m² increased their gross nominal sales by 1.1% to € 18.45 billion in the 2017 calendar year (2016: € 18.24 billion). On a like-for-like basis, i.e. excluding stores newly opened, closed or subject to substantial conversion measures in the year under report, the sector reported slight sales growth of 0.7%. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) rose by 2.0% to € 3.92 billion (2016: € 3.84 billion). The market volume of all DIY and home improvement stores thus grew by 1.3% to € 22.37 billion in 2017.

Notably more dynamic more growth was reported for e-commerce with home improvement, construction materials, and garden product ranges. According to figures compiled by market researchers at Teipel Research & Consulting, the online shops of stationary retailers, mail order players, and pure online retailers generated gross sales of € 3.27 billion with DIY products in Germany in 2017 (2016: € 2.87 billion). That represents growth of 14.1% compared with 2016. Key growth drivers here particularly included DIY store chains with stationary operations, which reported disproportionate growth in their online sales of around 25% to more than € 600 million.

2. Summary of 2017/18 Business Performance

2.1 Overall assessment of the Group's economic position

Overall, the macroeconomic framework developed positively in the 2017/18 financial year (March 1, 2017 to February 28, 2018) and benefited business activities in the countries across Europe in which the HORNBACH Baumarkt AG Group operates. The sector-specific competitive climate remained challenging and was influenced more clearly than in the past by increasing digitization and online competition in the DIY retail business. Against this backdrop, the Group can look back on what was overall a positive 2017/18 financial year in which we met our sales and earnings forecasts.

We increased our consolidated (net) sales by 4.9% to € 3,891 million in the 2017/18 financial year. At 3.6%, the Group's like-for-like sales growth net of currency items was ahead of the previous year's level. This growth was driven both by the Germany and the Other European countries regions. In Germany, we increased our like-for-like sales in all quarters and on a cumulative basis slightly exceeded the previous year's figure despite a lower number of business days. We again generated the strongest growth in other European countries, where our like-for-like sales net of currency items once more clearly exceeded the high previous year's figure. As a result, the share of consolidated sales contributed by the international stores rose significantly from 45.0% to 46.8%.

We further boosted the effectiveness of our core operating business. The average HORNBACH DIY store and garden center generated annual sales of € 24.9 million (2016/17: € 24.1 million). Sales area productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,068 to € 2,135 (+3.2%). Online retail, which we dovetail closely with our stationary retail activities, contributed clearly double-digit percentage growth to the Group's overall performance. We significantly stepped up our forward-looking investments in digitization in the 2017/18 financial year. These are intended to sustainably boost our strategic competitive position in the European DIY market with an online presence now available in all HORNBACH regions.

EBIT adjusted for non-operating one-off items – the key indicator of our operating earnings strength – grew by 7.0% to € 110.0 million. This increase was driven above all by pleasing like-for-like sales growth in conjunction with a stable gross margin, improved cost ratios in store operations and pre-opening expenses, and an increase in other income and expenses. These factors more than offset the higher volume of digitization-related expenses.

Consolidated operating earnings grew by 5.1% to € 102.5 million. Operating earnings include non-operating one-off charges on earnings in connection with IAS 36 impairments and provisions for onerous contracts. These items rose from € 5.0 million in the 2016/17 financial year to € 7.7 million in the 2017/18 year under report. Due mainly to a lower tax charge than in the previous year, consolidated net income increased by 11.0% to € 58.7 million.

The equity ratio rose from 51.6% to 52.5% at the balance sheet date and thus remains high. Net financial debt decreased slightly from € 339.9 million to € 321.9 million at the balance sheet date. 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, the Group's economic position in the 2017/18 financial year was satisfactory.

2.2 Major events

2.2.1 Development in HORNBAACH's stationary store network

In April 2017, we opened a new DIY megastore with a garden center in The Hague with sales areas of around 12,300 m². This is the 13th HORNBAACH location in the Netherlands. As planned, we ceased operations at our store in Hanau at the end of October 2017 as the requirements for extending and modernizing the old location, with sales areas of around 5,000 m², could not be met. In November 2017, we launched operations at a new location with sales areas of around 8,000 m² in Halle (Saale). This is our second location in the state of Saxony-Anhalt.

Including stores newly opened and closed in the year under report, we operated a group-wide total of 156 retail stores as of February 28, 2018 (February 28, 2017: 155), of which 98 (98) in Germany and 58 (57) in other European countries. Total sales areas at the HORNBAACH Baumarkt AG Group amounted to more than 1.82 million m² as of February 28, 2018 (February 28, 2017: around 1.81 million m²).

2.2.2 Development in HORNBAACH's online stores

HORNBAACH launched operations in the 2017/18 financial year with the online stores planned for Slovakia (August 2017), Sweden (October 2017), and Romania (January 2018). As planned, the multichannel retail approach was therefore rolled out throughout the Group's European network by the end of the 2017/18 financial year.

2.2.3 Development in infrastructure

We further expanded our logistics network in the 2017/18 financial year. In January 2018, we launched operations at our first logistics center outside Germany, in this case close to Vienna. The new cross-docking center in Enzersdorf an der Fischa will now supply merchandise to the HORNBAACH stores in Austria, Romania, the Czech Republic, and Slovakia. This should considerably shorten the delivery routes and times for the stores in Central and Eastern Europe. As of the balance sheet date on February 28, 2018, HORNBAACH therefore worked with a group-wide total of eight logistics centers to supply its stores.

In the year under report, the logistics center in Vilshofen near Passau was extended with a cross-docking center for mass and bulky goods. The hall of 10,000 m² and outdoor area of 7,000 m² were built on the site of the logistics center opened in 2005. Since February 2018, HORNBAACH has been supplying its stores in Southern Germany and neighboring countries with heavy and bulky goods too large for the usual euro pallets, such as kitchen counters up to six meters long, from this center.

2.3 Target achievement in 2017/18

The HORNBAACH Baumarkt AG Group met the targets it set itself for the 2017/18 financial year. The comparison of the actual with the forecast business performance is summarized in the following table.

2.3.1 Targets and results of the HORNBAACH Baumarkt AG Group in the 2017/18 financial year

	Targets for 2017/18	Results in 2017/18
Expansion	Stationary DIY business: <ul style="list-style-type: none"> ■ 2 new store openings ■ 1 closure HORNBAACH online shops: Launch of operations in Slovakia, Sweden, and Romania	Stationary DIY business: <ul style="list-style-type: none"> ■ The Hague (Netherlands) and Halle (Saale) opened ■ Hanau closed Rollout of online shops in all countries in HORNBAACH's network now completed
Investments	Between € 120 million and € 140 million	€ 129 million
Sales performance		
Consolidated sales	Growth in medium single-digit percentage range	+ 4.9 % to € 3.89 billion
Like-for-like and currency-adjusted sales	<ul style="list-style-type: none"> ■ Group-wide growth in low to medium single-digit percentage range ■ Higher sales growth in Other European countries than in Germany 	<ul style="list-style-type: none"> ■ Group: + 3.6 % ■ Germany: + 1.5 % ■ Other European countries: + 6.1 %
Earnings performance		
EBIT	Slightly up on previous year's figure (2016/17: € 97.5 million)	+ 5.1 % to € 102.5 million
Adjusted EBIT	At around the previous year's level (2016/17: € 102.8 million)	+ 7.0 % to € 110.0 million

Note: For **sales** "at previous year's level" refers to changes of -1 % to +1 %, while "slight" changes involve changes of 2 % to 5 %. To enhance the distinctions within the "slight" category, we use the phrase "in a low single-digit percentage range" to refer to changes of 2 % to 3 % and the phrase "in a medium single-digit percentage range" to refer to changes of 4 % to 5 %. "Significant" corresponds to changes of 6 % upwards. For **earnings figures**, "at previous year's level" refers to changes of -1 % to +1 %. "Slight" corresponds to changes of 2 % to 10 %, while "significant" is equivalent to changes of 11 % upwards.

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

In the separate financial statements of HORNBAACH Baumarkt AG, which are shaped by the business performance of the HORNBAACH DIY stores with garden centers in Germany, our sales forecast for the 2017/18 financial year envisaged sales growth in a low to medium single-digit percentage range. With sales growth of 3.2 % to € 2,514 million, we met this target. Assuming that the volume of earnings transferred from HORNBAACH International GmbH would remain constant, we expected the annual net surplus on the level of HORNBAACH Baumarkt AG in the 2017/18 forecast period to more or less match the previous year's figure. The actual annual net surplus of € 14.0 million fell substantially short of the equivalent figure of € 53.6 million for the 2016/17 financial year. This was due to a marked fall in income from investments mainly resulting from the write-down of the carrying amount of the investment in a Swedish subsidiary of HORNBAACH International GmbH.

3. Earnings Position

Sales and growth by quarter (€ million / %)

Financial year	Q1	Q2	Q3	Q4				
2016/17	1058.9	1003.6	900.9	746.7				
	3710.1							
2017/18	1130.3	+ 6.7%	1042.7	+ 3.9%	936.5	+ 4.0%	781.2	+ 4.6%
	3890.7							+ 4.9%

3.1 Sales performance

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

3.1.1 Seasonal and calendar-related fluctuations

The 2017/18 year under report had an average of 3.2 **business days** fewer than the previous year. The resultant calendar effect was distributed among the quarters as follows:

- 1st quarter (Q1): plus 0.7 business days
- 2nd quarter (Q2): minus 1.4 business days
- 3rd quarter (Q3): minus 0.9 business days
- 4th quarter (Q4): minus 1.6 business days

Weather conditions had an uneven effect on HORNBAACH's European network in the year under report. In Q1 (March to May 2017), weather conditions were overwhelmingly favorable for the DIY retail business in Germany and the eight countries in our Other European countries region, with unusually high temperatures in March and summery weather in May 2017. By contrast, weather conditions were more mixed in Q2 (June to August 2017). In June 2017, periods of very dry weather with record high temperatures were followed by numerous storms with record volumes of rain in some areas. Regional variations were very marked. Stable summer weather suitable for extensive construction and renovation projects was something of an exception in 2017. In Q3 (September to November 2017), large parts of Europe witnessed higher volumes of precipitation than in the previous year, and more than the long-term average. In retrospect, Q4 (December 2017 to February 2018) was also highly changeable. A snowy December with a record number of overcast days was followed by a wet and very mild January. February closed the quarter with a great deal of sunshine and icy temperatures.

3.1.2 Net sales

The HORNBACH Baumarkt AG Group increased its net sales by 4.9% to € 3,891 million in the 2017/18 financial year (2016/17: € 3,710 million). Net sales in the Germany region grew by 1.5% to € 2,071 million in the period under report (2016/17: € 2,040 million). Outside Germany (Other European countries region) and including one newly opened DIY megastore, we reported sales growth of 9.0% to € 1,820 million (2016/17: € 1,670 million). Due to the higher rate of growth compared with Germany, the international stores' share of consolidated sales increased from 45.0% to 46.8%.

3.1.3 Like-for-like sales

The following comments refer to the development in currency-adjusted like-for-like sales at the HORNBACH Baumarkt AG Group, which thus take no account of stores newly opened or closed in the past twelve months. The previous year's figures can be seen in the quarter-by-quarter overview provided in the table.

The Group's like-for-like sales rose by 3.6% in the 2017/18 financial year net of currency items (including currency items: 3.3%). As is apparent in the table below, the first and fourth quarters provided the greatest seasonal growth momentum. From a geographical perspective, both the Germany region and the Other European countries region further increased their like-for-like sales. As in the previous year, the strongest growth momentum came from our store network outside Germany.

Like-for-like sales performance* by quarter

(in percent)

2017/18 financial year 2016/17 financial year	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
Group	5.4	2.6	2.7	3.3	3.6
	4.4	4.5	3.0	(0.7)	3.0
Germany	3.8	0.3	0.5	0.9	1.5
	2.7	2.2	2.2	(2.3)	1.4
Other European countries	7.5	5.3	5.4	6.2	6.1
	6.6	7.7	3.9	1.3	5.1

* excluding currency items

■ Germany

The HORNBACH DIY stores and garden centers in the Germany region increased their like-for-like sales by 1.5% in the 2017/18 financial year, with positive growth rates in all four quarters. It should also be noted that the year under report had around four fewer business days than the previous year.

Based on our calculations, HORNBACH once again outperformed the DIY sector average in Germany in the period covered by our financial year (March 2017 to February 2018). In its "DIY Total Store Report", the GfK determines the sales performance of German DIY stores and garden centers for the calendar year on behalf of the BHB sector association. According to this report, like-for-like sales in the DIY sector showed average like-for-like growth of 0.7% in the period from January to December 2017. Based on a direct comparison, HORNBACH achieved a growth rate of 0.9% over the same period. It should be noted, however, HORNBACH's basis for comparison is significantly higher. If the 1998 calendar year is taken as an index value of 100%, by 2017 HORNBACH had increased its like-for-like sales in Germany to 136%. By contrast, the overall sector only reached 89% in 2017.

This longstanding outperformance of the sector is also increasingly attributable to the significance of our DIY multichannel approach. The aim is to accompany our customers throughout their customer journeys and, at every point along the way, to offer them what they happen to be looking for and need for their construction or renovation projects. Customers can inform themselves about articles, their prices, and availability on our website, for example, and also compare articles. Not only that, they can have their articles delivered directly to their homes by mail order or opt for our "Reserve online and pick up at the store" service. Professional customers in particular see the benefits of being able to collect all articles available at their desired HORNBAACH store no later than two hours after reservation.

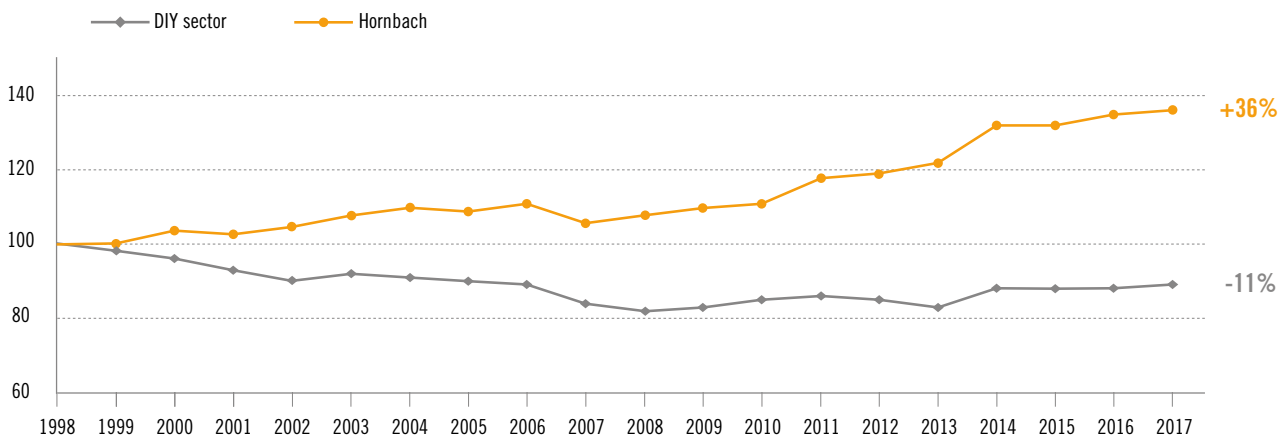
HORNBAACH's positive sales performance continues to be driven by the great popularity of its DIY stores and garden centers among home improvement enthusiasts and construction professionals in Germany. In Kundenmonitor Deutschland, Germany's most prestigious consumer survey for the retail sector, HORNBAACH achieved top rankings once again in 2017. The company was ranked first in twelve and second in fourteen of the total of 46 assessment categories. Customers awarded us the best grades in individual criteria including "Selection and Product Variety", "Product Quality", "Clarity of Specialist Advice", and "Media Assistance with Using the Materials/Tools Bought". When compared with its competitors, HORNBAACH is also viewed by German DIY customers as leading the field in the "Product Range", "Prices", "Specialist Advice", and "Advertising" criteria.

Based on the aggregate gross sales at all DIY stores and garden centers in Germany (including online sales at stationary DIY competitors), we upheld our position in the 2017 calendar year, and that even though we reported less sales area growth than the sector as a whole. Following the opening of our new location in Halle (Saxony-Anhalt) and the closure of our Hanau store, our sales areas in Germany grew by 0.3%, while the total number of stores remained unchanged.

We maintained our market share in Germany at a consistent level. Based on aggregate sales at all DIY stores and garden centers (2017: around € 22.4 billion), our share came to 11.0%. In the segment of German DIY stores and garden centers with sales areas of more than 1,000 m² (2017: € 18.4 billion), we have a market share of 13.4%.

Like-for-like sales performance in Germany

(Index: 1998 = 100 %, calendar year)



■ Other European countries

The development in sales in our international business in the 2017/18 year under report latched seamlessly onto the performance seen in the past two financial years. Growth rates in the Other European countries region were significantly higher than in the Germany region and also beat the previous year's high level. In the eight countries outside Germany, HORNBACH's DIY stores and garden centers increased their like-for-like sales net of currency items by 6.1% in the 2017/18 financial year (2016/17: 5.1%). Including currency items, like-for-like sales grew by 5.6% (2016/17: 4.6%).

HORNBACH further boosted its market position in other European countries in the past financial year, as is apparent when our sales performance is compared with sector developments in individual countries. 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 significantly so, in the 2017 calendar year.

This is now due not only to our established stationary DIY stores and garden centers but increasingly to our e-commerce activities as well. Having successfully launched its online stores in Slovakia, Sweden, and Romania in the 2017/18 financial year, HORNBACH now operates its multichannel DIY retail approach in all of the countries in its network.

Thanks to our retail format, we benefited once again in 2017 from the growth in the European construction sector which was in turn mainly driven by housing construction. As a project partner, HORNBACH enjoys a strong reputation among customers in all of the countries in which it operates, particularly when it comes to larger-scale modernization and renovation projects in their houses, apartments, and gardens. Numerous international consumer surveys, such as Kundenmonitor Österreich and its Swiss counterpart, document the high level of customer satisfaction with the HORNBACH brand once again in the past 2017/18 financial year. Top marks for the assessment criteria of "Overall Satisfaction", "Selection and Product Variety", "Prices Compared with Competitors", "Value for Money", and "Specialist Advice" 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)	2017/18	2016/17	Change
Net sales	3,891	3,710	4.9%
EBITDA	182.7	173.6	5.2%
EBIT	102.5	97.5	5.1%
Adjusted EBIT	110.0	102.8	7.0%
Consolidated earnings before taxes	80.9	79.3	2.0%
Consolidated net income	58.7	52.9	11.0%
EBITDA margin	4.7%	4.7%	
EBIT margin	2.6%	2.6%	
Tax rate	27.5%	33.3%	

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

3.2 Earnings performance

In the 2017/18 financial year, we increased the earnings of the HORNBACH Baumarkt AG Group compared with the previous year and improved our operating earnings strength.

Adjusted EBIT, i.e. operating earnings before non-operating one-off items, showed slightly disproportionate growth compared with sales, rising by 7.0% to € 110.0 million. This increase was largely due to the pleasing level of like-for-like sales growth at HORNBACH's DIY stores with garden centers (currency-adjusted growth of 3.6%) in conjunction with a stable gross margin. Furthermore, our positive earnings performance also benefited from more favorable operating cost ratios for our selling and store and pre-opening expenses, as well as from higher other income and expenses. These factors more than offset the disproportionate rise in administration expenses, which were influenced once again by increased forward-looking expenses for the Group's digitization. Operating earnings (EBIT) including non-operating earnings items grew by 5.1% to € 102.5 million in the year under report. Thanks to a lower tax charge, consolidated net income and earnings per Baumarkt share each rose more than 10% compared with the previous year.

3.2.1 Earnings performance of the HORNBACH Baumarkt AG Group

Consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by 5.2% to € 182.7 million (2016/17: € 173.6 million). At 4.7%, the EBITDA margin (as a percentage of net sales) was at the previous year's level. **EBIT adjusted** for non-operating one-off items increased by 7.0% to € 110.0 million (2016/17: € 102.8 million). The adjusted EBIT margin was reported at a consistent level of 2.8%. Despite higher extraordinary non-operating earnings items, **EBIT** grew by 5.1% to € 102.5 million (2016/17: € 97.5 million). The EBIT margin remained unchanged at 2.6%.

The following table presents the reconciliation of consolidated operating earnings (EBIT) with adjusted EBIT, i.e. EBIT adjusted for non-operating one-off items (please see Note 10).



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

2017/18 in € million 2016/17 in € million	Retail segment	Real estate segment	Headquarters and consolidation	HORNBACH Baumarkt AG Group
Earnings before interest and taxes (EBIT)	40.4	74.3	(12.2)	102.5
	41.1	67.3	(10.9)	97.5
Non-operating earnings items	7.6	(0.1)	0.0	7.5
	5.0	0.3	0.0	5.3
Adjusted EBIT	48.0	74.2	(12.2)	110.0
	46.2	67.6	(10.9)	102.8

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

Net financial expenses deteriorated from minus € 18.2 million in the previous year to minus € 21.6 million in the year under report. This was mainly due to negative currency items, which rose from minus € 0.5 million to minus € 4.8 million. Not only that, the interest result improved only slightly by 4.9% to minus € 16.8 million (2016/17: minus € 17.7 million). As a result of these factors, earnings before taxes rose by 2.0%, and thus less rapidly than sales, to € 80.9 million (2016/17: € 79.3 million).

Consolidated net income, by contrast, showed disproportionate growth of 11.0% to € 58.7 million (2016/17: € 52.9 million). Taxes on income fell significantly from € 26.4 million to € 22.2 million. As a result, the effective tax rate on Group level decreased from 33.3% to 27.5%. The main reason for this was the turnaround in deferred taxes from minus € 4.7 million in the previous year to plus € 2.7 million in the year under report, a development mainly due to write-downs of the deferred taxes on losses carried forward reported in the previous year. The return on sales after taxes rose from 1.4% to 1.5%. Earnings per Baumarkt share are reported at € 1.84 (2016/17: € 1.66).



Notes to Consolidated
Financial Statements
Notes (8) and (9)

3.2.2 Earnings performance of the Retail segment

The Retail segment comprises the operating retail business within the Group. At the balance sheet date on February 28, 2018, we operated a total of 156 DIY retail outlets across Europe (2016/17: 155) and online shops in the nine countries within our European network.

Net sales in this segment increased by 4.9% to € 3,889 million in the 2017/18 financial year (2016/17: € 3,708 million). Key earnings figures developed positively prior to the extraordinary non-operating charges on earnings of € 7.6 million. Including these one-off items, earnings in the Retail segment decreased slightly over the same period.

■ Gross margin:

Gross profit rose by 5.0%, and thus in line with sales, to € 1,448.7 million in the 2017/18 financial year (2016/17: € 1,379.6 million). The gross margin therefore remained unchanged at 37.2%. Positive and negative factors cancelled each other out within this key figure. Gross profit was held back by, among other factors, less favorable procurement terms and increased write-downs. Positive factors related above all to changes in the product mix, margin benefits due to the rising share of sales generated with private labels, and retail price adjustments.

Key earnings figures of the Retail segment

Key figure (€ million, unless otherwise stated)	2017/18	2016/17	Change
Net sales	3,889	3,708	4.9%
of which: in Germany	2,071	2,041	1.5%
of which in other European countries	1,818	1,668	9.0%
Like-for-like sales growth	3.6%	3.0%	
EBITDA	79.9	80.7	(1.0)%
EBIT	40.4	41.1	(1.9)%
Adjusted EBIT	48.0	46.2	3.9%
EBIT margin	1.0%	1.1%	
Adjusted EBIT margin	1.2%	1.2%	
Gross margin	37.2%	37.2%	
Store expenses as % of net sales	31.4%	31.6%	
Pre-opening expenses as % of net sales	0.1%	0.2%	
General and administration expenses as % of net sales	5.0%	4.7%	

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

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

Selling and store expenses in the Retail segment grew slightly less rapidly than sales, rising by 4.5% to € 1,222.6 million (2016/17: € 1,170.3 million). The store expense ratio fell from 31.6% to 31.4%. This was mainly due to the disproportionate rise in operating expenses, while personnel expenses (excluding bonuses), rental and advertising expenses grew less rapidly than sales and utility expenses even showed a slight reduction in absolute terms. Selling and store expenses include non-operating earnings items of around € 7.7 million (2016/17: € 5.0 million). These mainly involve provisions for onerous contracts and impairment losses (IAS 36). Adjusted to exclude these items, the store expense ratio decreased from 31.4% to 31.2% in the 2017/18 financial year.

At € 5.5 million, pre-opening expenses fell slightly short of the previous year's figure of € 5.7 million in the 2017/18 financial year. The pre-opening expense ratio fell from 0.2% to 0.1%. The pre-opening expenses reported for the previous year included one-off non-operating expenses of € 0.3 million. The adjusted pre-opening expense ratio remained unchanged at 0.1%.

Administration expenses grew by 10.2% from € 174.7 million to € 192.6 million. The administration expense ratio rose significantly from 4.7% to 5.0%. This increase was particularly due to forward-looking investments in digitizing our business model, which were significantly stepped up once again in the year under report, as well as to further innovation projects. These mainly involved expenses for operating online retail and the infrastructure, including customer service centers, needed for multichannel retail.

■ **EBITDA, adjusted EBIT, and EBIT:**

At € 79.9 million, EBITDA in the Retail segment in the 2017/18 financial year virtually matched the previous year's figure (2016/17: € 80.7 million). That corresponds to an EBITDA margin of 2.1% (2016/17: 2.2%). Adjusted for non-operating expense items, EBIT in this segment came to € 48.0 million (2016/17: € 46.2 million). The adjusted EBIT margin was unchanged at 1.2%. Operating earnings (EBIT) fell by 1.9% to € 40.4 million (2016/17: € 41.1 million). The EBIT margin amounted to 1.0% (2016/17: 1.1%).

Key earnings figure of the Real estate segment

Key figure (€ million, unless otherwise stated)	2017/18	2016/17	Change
Rental income	172.8	167.6	3.1%
Real estate expenses	99.0	99.3	(0.2)%
Net rental income	73.7	68.4	7.9%
Disposal gains/losses	0.0	0.0	(8.8)%
Net real estate income	73.7	68.3	7.9%
EBITDA	106.0	97.1	9.2%
EBIT	74.3	67.3	10.4%
Adjusted EBIT	74.3	67.6	9.9%

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

3.2.3 Earnings performance of the Real estate segment

All the real estate activities of the HORNBACH Baumarkt AG Group are pooled in the Real estate segment. Its main business activities involve building and subsequently letting DIY store properties within the Group. These either remain in group ownership or are sold following construction to an external investor and then leased back. The respective DIY store properties are charged to the Retail segment on rental and other terms customary to the market. Earnings in the Real estate segment rose sharply compared with the previous year. This earnings growth was chiefly due to higher rental income and unchanged real estate expenses.

■ Earnings from rental activities and real estate earnings:

In line with the Group's expansion, rental income in the Real estate segment, 99 % of which comprises internal rental income, rose by 3.1 % to € 172.8 million in the year under report (2016/17: € 167.6 million), while real estate expenses remained virtually unchanged at € 99.0 million (2016/17: € 99.3 million). Earnings from rental activities increased by 7.9 % to € 73.7 million in the 2017/18 financial year (2016/17: € 68.4 million). Given negligible real estate disposal losses, net real estate income improved by 7.9 % to € 73.7 million (2016/17: € 68.3 million).

■ EBITDA, adjusted EBIT and EBIT:

Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 9.2 % to € 106.0 million in the reporting period from March 1, 2017 to February 28, 2018 (2016/17: € 97.1 million). EBIT adjusted for non-operating one-off items increased by 9.9 % to € 74.3 million (2016/17: € 67.6 million). EBIT in the Real Estate segment rose by 10.4 % to € 74.3 million (2016/17: € 67.3 million).

3.2.4 Earnings performance by geographical regions

The Germany region and the Other European countries region reported disparate earnings performances in the 2017/18 financial year. In Germany, EBIT and adjusted EBIT both fell significantly compared with the previous year. This contrasted with the significant growth in key figures for Other European countries. The significance of the international activities for the Group's earnings performance rose considerably compared with the previous year.

EBITDA in **Germany** fell by 10.1 % to € 51.5 million (2016/17: € 57.3 million). The domestic share of the Group's EBITDA decreased from 33 % to 28 %. EBIT in the Germany region dropped from € 12.2 million to € 3.9 million. This reduction was primarily due to non-operating earnings charges mainly involving provisions for onerous contracts and IAS 36 impairment losses which together amounted to € 7.5 million (2016/17:

€ 4.1 million). In the year under report, these items were charged exclusively to the domestic earnings performance. The domestic share of operating earnings therefore fell from 13 % to 4 %. The EBIT margin for Germany came to 0.2 % (2016/17: € 0.6 %). EBIT for the Germany region adjusted for non-operating earnings items decreased from € 16.3 million to € 11.4 million in the 2017/18 financial year. The adjusted EBIT margin in Germany amounted to 0.6 % (2017/18: 0.8 %).

Other European countries generated EBITDA of € 131.1 million (2016/17: € 116.5 million), and thus accounted for around 72 % of the HORNBACH Baumarkt AG Group's EBITDA in the period under report (2016/17: 67 %). EBIT outside Germany rose by 15.3 % to € 98.5 million (2016/17: € 85.4 million). The international share of EBIT increased from 87 % to 96 %. The EBIT margin for Other European countries came to 5.4 % (2016/17: 5.1 %). Non-operating earnings items, which reduced the previous year's figure by € 1.2 million, were negligible in the 2017/18 financial year. Adjusted EBIT for the Other European countries region amounted to € 98.5 million (2016/17: € 86.7 million). The adjusted EBIT margin outside Germany therefore came to 5.4 % in the 2017/18 financial year (2016/17: 5.2 %).

3.3 Dividend proposal

The Board of Management and Supervisory Board of HORNBACH Baumarkt AG will propose an unchanged dividend of € 0.68 per share with dividend entitlement for approval by the Annual General Meeting on July 5, 2018. Taking due account of the company's performance capacity, HORNBACH will thus uphold its principle of dividend continuity. Subject to the resolution adopted by the Annual General Meeting on the appropriation of unappropriated net profit, the distribution quota (distribution total as a percentage of consolidated net income) would then reach 37 % in the 2017/18 financial year (2016/17: 41 %). The company would thus contribute towards meeting the distribution policy on the level of HORNBACH Holding AG & Co. KGaA, which provides for a target distribution quota of 30 %.

4. Financial Position

4.1 Principles and objectives of financial management

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

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

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

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 re-financed where necessary at the earliest opportunity.

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

4.2 Financial debt

The HORNBACH Baumarkt AG Group had financial debt of € 424.1 million at the balance sheet date on February 28, 2018 (2016/17: € 452.9 million). This reduction was due to debt repayments and the avoidance of new borrowing. Net financial debt also decreased, in this case from € 339.9 million to € 321.9 million. Due in particular to funds being channeled into the Group's expansion, cash and cash equivalents decreased from € 113.0 million in the previous year to € 102.1 million in the year under report. The specific composition of financial debt is presented in the following table.



Notes to Consolidated
Financial Statements
Note (12)

Financial debt of the HORNBACH Baumarkt AG Group

Type of financing € million	Liabilities broken down into remaining terms						2.28.2018 Total	2.28.2017 Total
	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years		
Short-term bank debt ¹⁾	0.4	0.0	0.0	0.0	0.0	0.0	0.4	13.9
Mortgage loans	0.6	0.0	0.0	0.0	0.0	0.0	0.6	3.6
Corporate bonds ²⁾	0.0	248.8	0.0	0.0	0.0	0.0	248.8	248.2
Negative fair values of derivative financial instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.1	1.4
Finance leases	10.3	10.8	11.3	11.7	12.3	117.7	174.1	185.7
Total financial debt	11.4	259.6	11.3	11.7	12.3	117.7	424.1	452.9
Cash and cash equivalents							102.1	113.0
Net financial debt							321.9	339.9

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

¹⁾ Financing facilities with nominal terms of under one year and interest deferrals

²⁾ The costs relating to the taking up of the corporate bond have been spread pro rata temporis over the respective terms.

The current financial debt (up to 1 year) of € 11.4 million (2016/17: € 28.6 million) comprises the portion of long-term financing facilities maturing in the short term, at € 10.9 million (2016/17: € 13.3 million), interest deferrals of € 0.4 million (2016/17: € 0.4 million), the measurement of derivative financial instruments, at € 0.1 million (2016/17: € 1.4 million), and short-term financing facilities of € 0.0 million (2016/17: € 13.5 million).

HORNBACH enjoys great financing flexibility and draws on a wide range of different financing instruments. At the balance sheet date on February 28, 2018, one key financing facility was the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term running until February 15, 2020 and an interest rate of 3.875 %.

Furthermore, the Group now only has one financing facility of € 0.6 million (2016/17: € 3.6 million) which is secured by land charges of € 12.5 million (2016/17: € 36.6 million).

4.2.1 Credit lines

At the balance sheet date on February 28, 2018, the HORNBACH Baumarkt AG Group had free credit lines amounting to € 418.1 million (2016/17: € 321.0 million) on customary market terms. These include an as yet unused syndicated credit line of € 350 million at HORNBACH Baumarkt AG, which was agreed in December 2017 with a term running until December 22, 2022. This new facility serves the premature refinancing on improved conditions of the existing syndicated credit line of € 250 million with a regular term running until April 15, 2019. The remaining deferred costs of the previous credit line now terminated were charged to earnings in the past financial year.

To ensure the maximum possible degree of flexibility, all major group companies have credit lines denominated in local currencies, generally at local banks.

4.2.2 Covenants

No assets have been provided as security for the credit lines or the bond. The relevant contractual arrangements nevertheless require compliance with customary bank covenants, non-compliance with which could

€ 418 m
free credit lines

lead to a premature repayment obligation. These regularly involve pari passu clauses and negative pledge declarations, as well as cross default arrangements for major financing facilities.

In the case of the syndicated credit line at HORNBAACH Baumarkt AG, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBAACH 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. In the case of the aforementioned new syndicated loan agreement, account was taken of the forthcoming IFRS 16 lease accounting amendments and the discontinuation of the "operating lease" classification. Pursuant to the definition in the syndicated loan agreement, lease liabilities classified as "operating leases" under IFRS principles prior to January 1, 2019 will not be viewed as financial liabilities. As a result, these obligations will not be included in the calculation of key financial ratios for the term of the loan facility.

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



Notes to Consolidated
Financial Statements
Note (23)

4.3 Cash and cash equivalents

The Group still accords high priority to maintaining an extensive supply of liquidity in the form of cash and cash equivalents and free credit lines. Given the ongoing policy of expansive interest rates at the ECB, however, it has become increasingly difficult to avoid negative interest rates on deposits which, to be reported under cash and cash equivalents, may not have terms longer than three months.

To ease this investment situation, cash and cash equivalents were reduced further from € 113.0 million in the previous year to € 102.1 million at the balance sheet date. To achieve this, the Group's liquid funds were used to cover investments without drawing on external financing facilities, while existing financing facilities were repaid upon maturity without refinancing. The funds of € 30 million invested in current financial assets in the previous year were released in the past financial year and returned to cash and cash equivalents. In the cash flow statement, this reclassification has been reported as an inflow of funds from investing activities and recognized in the "Cash flow for investments in connection with short-term finance planning" line item.

Key financial figures of the HORNBAACH Baumarkt AG Group

Key figure	Definition		2.28.2018	2.28.2017
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	321.9	339.9
Interest cover	Adjusted* EBITDA / Gross interest expenses		11.0	9.8
Net debt / EBITDA	Net financial debt / Adjusted* EBITDA		1.7	1.9

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

By distributing the company's liquidity broadly and reducing the volume of liquid funds in the aforementioned manner, it has so far been possible to avoid negative investment rates or the "custody fees" prevalent on current accounts without amending the company's security-driven investment strategy.

Within financial management activities, the reduction in liquid funds by € 10.9 million was accompanied by an increase in the syndicated credit line by € 100 million to € 350 million. With this line, which acts exclusively as a backup, the company has maintained the necessary high degree of security for its liquidity.

4.4 Cash flow statement and investments

Cash flow statement (abridged) € million	2017/18	2016/17
Cash flow from operating activities	134.1	115.2
of which: funds from operations ¹⁾	145.3	144.3
of which change in working capital ²⁾	(11.2)	(29.1)
Cash flow from investing activities	(96.2)	(185.4)
Cash flow from financing activities	(47.7)	(100.1)
Cash-effective change in cash and cash equivalents	(9.8)	(170.4)

(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"

€ 129 m
investments

The HORNBACH Baumarkt AG Group invested a total of € 128.7 million in the 2017/18 financial year (2016/17: € 157.0 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 € 128.7 million (2016/17: € 157.0 million) required for cash-effective investments were fully acquired from the cash flow of € 134.1 million from operating activities (2016/17: € 115.2 million). Around 56 % of total investments were channeled into new real estate, including properties under construction, while around 44 % were invested largely in replacing and expanding plant and office equipment. Of total investments, € 43.8 million related to the Retail segment, mainly to replace and expand plant and office equipment (2016/17: € 37.6 million), € 71.1 million related to the Real estate segment and was invested in new real estate, including properties under construction (2016/17: € 94.1 million), and € 13.7 million was invested at head office departments and consolidation (2016/17: € 25.4 million).

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.

€ 134 m
cash flow from operating activities

The inflow of funds from operating activities rose from € 115.2 million in the previous year to € 134.1 million in the 2017/18 financial year. At € 145.3 million, the inflow of funds from operations remained virtually unchanged (2016/17: € 144.3 million). Higher inflows of funds due to like-for-like sales growth and favorable operating cost ratios were countered by a reduction of € 2.3 million due to other non-cash income and expense items (2016/17: inflow of € 6.9 million). The change in working capital resulted in an outflow of funds of € 11.2 million (2016/17: outflow of € 29.1 million). This in turn was mainly due to the expansion-related increase in inventories, which was offset only in part by the increase in trade payables.

The outflow of funds for investing activities decreased from € 185.4 million to € 96.2 million. Here, the reduction in investments by € 28.3 million to € 128.7 million was opposed by proceeds of € 2.4 million from disposals of non-current assets (2016/17: € 1.6 million). Furthermore, cash and cash equivalents of € 30 million with an

original term of more than three months were reclassified as liquid funds in the period under report and recognized as an inflow of funds from financial assets in connection with short-term finance planning. As in the previous year, no DIY stores with garden centers were disposed of within sale and leaseback transactions in the 2017/18 financial year.

The outflow of funds for financing activities totaled € 47.7 million in the 2017/18 financial year, compared with an outflow of € 100.1 million in the previous year. Scheduled repayments of € 3.1 million were made for non-current financial debt but no new long-term borrowing was taken up. Current financial loans and finance lease liabilities decreased by € 23.0 million, having risen by € 5.1 million in the previous year. At € 21.6 million, the dividends paid to shareholders remained at the previous year's level.

4.5 Rating

Since 2004, the creditworthiness of the HORNBACH Baumarkt AG Group has been rated by the leading international rating agencies Standard & Poor's and Moody's Investors Service. 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.

BB+/Ba1

Rating of HORNBACH
Baumarkt AG Group

5. Asset Position

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

€ million	2.28.2018	2.28.2017	Change
Non-current assets	1,173.2	1,131.7	3.7 %
Current assets	824.5	828.2	(0.4) %
Assets	1,997.7	1,959.9	1.9 %
Shareholders' equity	1,048.8	1,010.6	3.8 %
Non-current liabilities	496.3	503.4	(1.4) %
Current liabilities	452.6	445.8	1.5 %
Equity and liabilities	1,997.7	1,959.9	1.9 %

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

Total assets at the Group showed a slight year-on-year increase of € 37.9 million (+1.9%) to € 1,997.7 million. The equity of the Group as stated in the balance sheet amounted to € 1,048.8 million at the end of the financial year (2016/17: € 1,010.6 million). The equity ratio rose from 51.6% in the previous year to 52.5% at the end of the 2017/18 financial year.

5.1 Non-current and current assets

Non-current assets amounted to € 1,173.2 million at the balance sheet date (2016/17: € 1,131.7 million) and thus accounted for around 59% (2016/17: 58%) of total assets. Property, plant and equipment and investment property rose by € 35.8 million (plus 3.2%) from € 1,103.3 million to € 1,139.1 million. Additions of € 120.9 million to property, plant and equipment were countered by depreciation of € 76.2 million, reclassifications of minus € 0.3 million, and disposals of assets amounting to € 2.0 million. Adjustments to account for exchange rate movements led property, plant and equipment and investment property to decrease by € 6.6 million.

Other non-current receivables and assets mainly involve deposits to secure potential claims to purchase price reductions. The change in deferred tax assets was chiefly due to adjustments to temporary measurement differences arising upon the recognition of provisions and for finance leases.

Current assets decreased by 0.4% from € 828.2 million to € 824.5 million, or to around 41% of total assets (2016/17: 42%). Due to the Group's expansion, inventories rose from € 626.1 million to € 657.8 million. By contrast, cash and cash equivalents decreased from € 113.0 million in the previous year to € 102.1 million in the year under report. Despite the increase in inventories, it was possible to maintain the inventory turnover rate at 3.84, and thus almost at the previous year's high level (3.87). Current receivables and other assets (including income tax receivables, excluding current financial assets) increased by € 5.5 million to € 64.6 million. This was mainly due to the increase in other receivables, a factor opposed by lower current income tax receivables.

5.2 Non-current and current liabilities

Liabilities, including provisions, amounted to € 948.9 million at the balance sheet date, as against € 949.2 million in the previous year. Non-current liabilities fell from € 503.4 million to € 496.3 million. This was mainly due to the reduction in non-current financial debt from € 424.3 million to € 412.6 million as a result of the decrease in leasing liabilities pursuant to IAS 17. The Group no longer had any non-current liabilities to banks as of the balance sheet date (2016/17: € 0.6 million). Provisions for pensions fell from € 15.2 million in the previous year to € 10.8 million. Non-current liabilities also include deferred tax liabilities of € 26.0 million (2016/17: € 27.5 million). Opposing developments were shown by other non-current

liabilities, which rose year-on-year from € 36.4 million to € 46.9 million. Current liabilities grew from € 445.8 million to € 452.6 million. Due mainly to lower current liabilities to banks, current financial debt fell from € 28.6 million to € 11.4 million. Trade payables and other liabilities totaled € 341.7 million at the balance sheet date, as against € 327.1 million in the previous year. Other provisions and accrued liabilities rose by € 11.1 million from € 76.7 million to € 87.8 million, a development chiefly due to higher provisions for employee bonuses and other personnel-related provisions for outstanding vacation entitlement, vacation allowances, and Christmas bonuses. The net debt of the HORNBACH Baumarkt AG Group, i.e. financial debt less cash and cash equivalents, fell from € 339.9 million to € 321.9 million.

5.3 Off-balance sheet financing instruments and rental obligations

In addition to the DIY megastores with garden centers owned by the HORNBACH Baumarkt AG Group and 11 DIY stores with garden centers used on the basis of a finance lease agreements (2016/17: 12), there are 43 stores (2016/17: 43) and one logistics center that are let from the associate company HORNBACH Immobilien AG or its subsidiaries, as well as 57 DIY megastores with garden centers that are let from third parties (2016/17: 56). 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 28, 2018, obligations under rental, hiring, leasehold and leasing contracts totaled € 985.0 million (2016/17: € 1,013.1 million).

Key balance sheet figures of the HORNBACH Baumarkt AG Group

Key figure	Definition		2.28.2018	2.28.2017
Equity ratio	Equity / Total assets	%	52.5	51.6
Return on equity	Annual net income / Average equity	%	5.7	5.3
Return on total capital	NOPAT ¹⁾ / Average total capital ²⁾	%	5.3	5.4
Debt / equity ratio (gearing)	Net debt / Equity	%	30.7	33.6
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	128.7	176.1
Net working capital	Inventories and receivables less trade payables	€ million	468.7	470.7
Inventory turnover rate	Cost of goods sold / Average inventories		3.8	3.9

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

²⁾ Average total capital, defined as average equity plus average net debt

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

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

€ 000s	2017/18	2016/17
Sales	2,514,096	2,436,132
Other own work capitalized	622	378
Other operating income	14,090	12,144
Cost of materials	1,702,936	1,649,262
Gross profit	825,872	799,392
Personnel expenses	414,974	395,720
Depreciation and amortization	37,630	34,870
Other operating expenses	370,823	355,521
Operating result	2,445	13,281
Financial result	15,180	44,572
Taxes	2,592	3,280
Earnings after taxes	15,033	54,573
Other taxes	1,004	935
Annual net surplus	14,029	53,638
Withdrawal from (2016/17: allocation to) revenue reserves	7,600	(26,818)
Net profit	21,629	26,820

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

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

6.1 Business framework

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

6.2 Development in the store network

In the 2017/18 reporting year, HORNBACH opened one new DIY store with a garden center in Halle (Saxony-Anhalt). As previously planned, the location in Hanau (Hessen) was closed due to the lack of extension options. We thus operated a total of 98 retail outlets across Germany as of February 28, 2018 (February 28, 2017: 98). Sales areas in Germany totaled around 1,052,000 m² (2016/17: 1,049,000 m²).



6.3 Earnings position

6.3.1 Sales performance

Net sales (excluding sales tax) at HORNBACH Baumarkt AG grew by 3.2% from € 2,436 million to € 2,514 million in the 2017/18 year under report. Sales include an amount of € 378 million for deliveries from HORNBACH logistics centers to our foreign subsidiaries (2016/17: € 349 million). The business performance of HORNBACH Baumarkt AG is largely determined by the development in domestic like-for-like sales, which we have explained in detail in Chapter 3.1.3 "Like-for-like sales".



Group Management Report
Business Report
Earnings Position

6.3.2 Earnings performance

The other operating income reported in the income statement, which mainly consists of income from reversals of provisions and exchange rate gains, increased by € 2.0 million to € 14.1 million (2016/17: € 12.1 million).

Cost of materials rose by 3.3% to € 1,702.9 million (2016/17: € 1,649.3 million). Gross profit totaled € 825.9 million, or 32.8% of net sales, as against € 799.4 million, or 32.8%, in the previous year. Due mainly to the company's growth and to higher bonus provisions, personnel expenses increased as a proportion of net sales, rising by 4.9% from € 395.7 million to € 415.0 million. At € 37.6 million, depreciation and amortization were 7.9% higher than in the previous year (€ 34.9 million).

Other operating expenses increased to € 370.8 million, up from € 355.5 million in the previous year. This was mainly due to increased exchange rate losses, higher external advisory expenses, and increased maintenance expenses.

At € 2.4 million, the operating result was significantly lower than in the previous year (€ 13.3 million). This was mainly due to higher personnel expenses (plus € 19.3 million), an increase in other operating expenses (plus € 15.3 million), and higher depreciation and amortization (plus € 2.8 million).

The financial result (including income from investments) fell by € 29.4 million to € 15.2 million in the year under report (2016/17: € 44.6 million). This reduction was mainly due to the decrease in income from investments from € 55.5 million to € 24.6 million as a result of a lower transfer of profit from HORNBACH International GmbH.

In the 2017/18 financial year, HORNBACH Baumarkt (Schweiz) AG, Switzerland, HORNBACH Baumarkt CS spol s.r.o., Czech Republic, and HORNBACH Baumarkt Luxembourg SARL, Luxembourg, distributed profit totaling € 49.1 million to HORNBACH International GmbH (2016/17: € 54.1 million).

In the 2017/18 year under report, HORNBACH International GmbH was additionally affected by a write-down, with a corresponding charge 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 reduction in the profit transferred to HORNBACH Baumarkt AG.

Interest income and income from loans of financial assets rose from € 2.9 million to € 3.2 million. At € 12.7 million, interest expenses in the year under report were 8.6% lower than the previous year's figure (€ 13.9 million).

In view of the factors outlined above, the annual net surplus decreased from € 53.6 million to € 14.0 million in the 2017/18 financial year.

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

Assets	2.28.2018 € 000s	2.28.2017 € 000s
Intangible assets	13,935	11,276
Property, plant and equipment	291,338	288,492
Financial assets	277,922	223,564
Non-current assets	583,195	523,332
Inventories	416,903	401,122
Receivables and other assets	143,042	165,362
Cash holdings, credit balances at banks, and checks	58,159	93,540
Current assets	618,104	660,024
Deferred expenses and accrued income	5,295	5,422
Deferred tax assets	5,421	4,350
Total assets	1,212,015	1,193,128
Equity and liabilities		
Shareholders' equity	608,639	616,296
Provisions	66,842	57,679
Liabilities	527,300	510,202
Deferred income and accrued expenses	9,234	8,951
Total equity and liabilities	1,212,015	1,193,128

6.4 Asset position

At € 1,212.0 million, total assets as of February 28, 2018 were € 18.9 million, or 1.6%, higher than the previous year's figure (€ 1,193.1 million).

Non-current assets amounted to € 583.2 million, or 48.1% of total assets, at the balance sheet date (2016/17: € 523.3 million / 43.9%). Mainly due to investments of € 37.0 million accompanied by depreciation of € 33.0 million and retirements of € 1.2 million, property, plant and equipment rose to € 291.3 million (2016/17: € 288.5 million).

Financial assets rose from € 223.6 million to € 277.9 million. Of this increase, a net total of € 44.4 million was due to long-term loans to two Dutch group companies, while € 10.0 million was due to an increase in the shareholding in HORNBACH International GmbH.

Current assets amounted to € 618.1 million at the balance sheet date (2016/17: € 660.0 million). Due to the company's growth, inventories rose by 3.9%, or € 15.8 million, to € 416.9 million (2016/17: € 401.1 million). At 4.2, the inventory turnover rate in the 2017/18 financial year was at the same level as in the previous year. Receivables from affiliated companies decreased by € 30.0 million to € 100.0 million (2016/17: € 130.1 million). The reduction in receivables in the 2017/18 financial year was chiefly attributable to the year-on-year decrease in short-term financing of group companies. Due in particular to the granting of long-term loans to two group companies, cash and cash equivalents fell by € 35.4 million to € 58.2 million (2016/17: € 93.5 million).

At € 5.4 million, deferred tax assets were higher than in the previous year (2016/17: € 4.4 million).

At € 608.6 million, shareholders' equity as of February 28, 2018 was 1.2% lower than in the previous year (€ 616.3 million). The equity ratio is reported at 50.2% (2016/17: 51.7%). Provisions increased from € 57.7 million to € 66.8 million at the balance sheet date. This largely resulted from higher provisions for bonuses.

At € 527.3 million, liabilities were € 17.1 million higher at the balance sheet date than the previous year's figure (€ 510.2 million). Due to scheduled repayments, liabilities to banks decreased from € 13.7 million in the previous year to € 0.4 million. At € 174.9 million, trade payables were at the previous year's level. Liabilities to affiliated companies, mainly resulting from group financing, rose from € 33.2 million to € 60.1 million in the 2017/18 financial year.

6.5 Financial position

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

Shareholders' equity (after the planned dividend distribution) covers around 104% of non-current assets. In the 2017/18 financial year, HORNBAACH Baumarkt AG invested a total of € 44.3 million (2016/17: € 58.0 million) in intangible assets, land, buildings, and plant and office equipment. Investments in land and buildings totaled € 12.0 million, while a further sum of € 25.0 million was channeled into replacing and expanding plant and office equipment. Of total investments, € 7.3 million (2016/17: € 6.5 million) related to intangible assets acquired in return for payment. Furthermore, financial assets also rose, with this being largely due to the granting of long-term loans to two group companies and to one capital increase.

6.6 Overall assessment of earnings, asset, and financial position of HORNBAACH Baumarkt AG

Despite a positive sales performance, the operating earnings of HORNBAACH Baumarkt AG fell significantly in the 2017/18 financial year. This was largely due to a disproportionate increase in personnel expenses, depreciation and amortization, and other operating expenses. The sharp reduction in the annual net surplus from € 53.6 million to € 14.0 million largely resulted from the marked fall in earnings transferred from HORNBAACH International GmbH to HORNBAACH Baumarkt AG. This in turn was due to the write-down of € 25.7 million recognized on the carrying amount of the investment in a Swedish subsidiary. Non-current assets and around 45% of current assets are financed on a long-term basis by shareholders' equity (after the planned dividend distribution) and non-current debt capital. Overall, the company's economic position is satisfactory.

6.7 Proposed appropriation of net profit of HORNBAACH Baumarkt AG

HORNBAACH Baumarkt AG concluded the 2017/18 financial year with an annual net surplus of € 14,028,890.30.

Following the withdrawal of € 7,599,869.70 from other revenue reserves, the Board of Management proposes to appropriate the net profit of € 21,628,760.00 as follows:

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



Group Management Report
Business Report
Financial Position

Non-Financial Statement



www.hornbach-group.com/NFS

HORNBACH Baumarkt AG has drawn on the option provided for in § 289b (2) and § 315b (2) HGB of exempting itself from the obligation to extend the combined management report with a combined non-financial statement. HORNBACH Baumarkt AG is included in the group management report of its parent company HORNBACH Holding AG & Co. KGaA. HORNBACH Holding AG & Co. KGaA has submitted a non-financial statement for the 2017/18 financial year pursuant to § 315b HGB. This will be published at the same time as the Annual Report as a separate non-financial group report on the company's homepage (www.hornbach-group.com/NFS).

Events After the Balance Sheet Date

No events that could be of material significance for the assessment of the earnings, financial, or net asset position of HORNBACH Baumarkt AG or of the HORNBACH Baumarkt AG Group occurred between the balance sheet date on February 28, 2018 and the date of preparation of this report.

Risk Report

1. Risk Management at the Group

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

2. Risk Policy Principles

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

3. Organization and Process

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

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

Company risk assessment categories in ascending order

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

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

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

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

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

4. Internal Control and Risk Management System in respect of the Group Financial Reporting Process (pursuant to § 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. 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. However, even suitable functional systems cannot provide absolute assurance concerning the identification and management of risks.

Overview of overall risks*

	Probability of occurrence	Potential implications
Financial risks		
Foreign currency risks	possible	moderate
Liquidity risks	rare	critical
Credit risks	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.

5. Financial Risks

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

5.1 Exchange rate risks

In general, HORNBACH is exposed to exchange rate risks on account of its activities in countries with currencies other than the euro. Specifically, these involve Swiss francs, Czech crowns, Swedish crowns, Romanian leis, and Hong Kong dollars. Any depreciation in a foreign currency against the euro can lead to a reduction in consolidated earnings when translating the separate financial statements of foreign subsidiaries into euros, the Group's currency. These risks are not hedged at the Group. Furthermore, the increasingly international business activities of the Group result in rising foreign currency requirements both for handling international merchandise procurement and for financing objects of investment in foreign currencies. Any change in the exchange rate between the respective national currency and the procurement currencies (chiefly EUR and USD) could have a direct negative impact on earnings. Open foreign currency positions in USD are largely secured by hedging transactions (USD fixed-term and time deposits). Where possible, investments are externally financed on a long-term basis in the functional currency of the respective country company (natural hedging). Open foreign currency positions arising at the Group in EUR, which mainly relate to intragroup deliveries and services invoiced in EUR and intragroup EUR loans, are not hedged.

5.2 Liquidity risks

The acquisition of land, investments in DIY stores with garden centers and procurement of large quantities of merchandise require high volumes of liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 350 million with a term running until December 22, 2022,

and 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 in the form of liquid funds and free credit lines. No security in the form of assets was granted in connection with the bond or the syndicated credit line 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 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 28, 2018, the equity ratio amounted to 52.5 % (2016/17: 51.6 %) and interest cover came to 10.9 (2016/17: 9.8).

Compliance with these covenants is monitored on an ongoing basis. All covenants were complied with at all times during the 2016/17 financial year.

The information required for efficient liquidity management is provided by rolling group financial planning with a twelve-month budgeting horizon, which is updated monthly, as well as by a daily financial forecast. The Group currently faces no risks in connection with any follow-up financing necessary to cover maturing financial liabilities. At present, no liquidity risks are discernible.

5.3 Credit risks

The company limits the risk of any financial loss in connection with financial investments and derivative financial instruments by working exclusively with contractual partners of strong creditworthiness and selecting banks covered by collective deposit security arrangements. Moreover, bank deposits have been distributed among several financial institutions in order to counter the risk of bank deposit default. This approach was also maintained in the 2017/18 financial year. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced.

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



Notes to Consolidated
Financial Statements
Note (34)

6. External Risks

6.1 Macroeconomic and sector-specific risks

The dependency of HORNBACH DIY stores with garden centers on general macroeconomic developments and levels of disposable household income may become apparent in the form of unwillingness on the part of customers to make purchases in periods of low economic growth. Not only that, the economic outlook in Europe

may also turn out weaker than expected due to the influence of negative developments in the global political and economic framework.

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

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

6.2 Natural hazards

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

7. Operating Risks

7.1 Location and turnover risks

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

7.2 Procurement risks

As a retail company, HORNBAACH is dependent on external suppliers and manufacturers. We exercise the utmost caution when selecting our suppliers. Particularly when selecting private label suppliers, we pay attention to their reliability in terms of high product quality and their consistent compliance with safety and social standards at the respective companies. To avoid the loss of major suppliers, the Group has developed an efficient early warning system that monitors suppliers continuously on the basis of various quantitative and qualitative criteria. The implications of any potential supplier loss are further reduced by probing the market for alternative substitutes at an early stage and maintaining a multi-supplier strategy. Should there be any deterioration in the macroeconomic situation, however, then the risk of the Group losing suppliers and being unable to procure such products elsewhere at short notice cannot be 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, HORNBAACH is subject, among other risks, to increasing purchasing prices for articles involving a high share of crude oil, copper or steel as a result of volatile prices on the international commodities markets. Furthermore, higher prices for

products involving energy-intensive manufacturing processes could lead to an increase in overall procurement costs, one which it might not be possible to pass on to customers in full, or only following a certain delay.

8. Legal Risks

8.1 Legislative and regulatory risks

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

8.2 Risks relating to legal disputes

In the course of their business operations, the companies of the HORNBAACH 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, HORNBAACH is not involved in any current or foreseeable court or arbitration proceedings which could significantly impact on the Group's economic situation.

9. Management and Organizational Risks

9.1 IT risks

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

9.2 Personnel risks

The deployment of highly motivated and qualified employees represents one of the foundations for HORNBAACH'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, HORNBAACH is dependent on a variety of external factors, such as overall developments on the labor market or in the sector, and is also subject to the country-specific impact of demographic changes.

10. Overall Assessment of Risk Situation

The assessment of the overall risk situation found that there were no risks to the continued existence of the HORNBACH Baumarkt AG Group in the 2017/18 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position.

Opportunity Report

The European DIY sector will continue to provide HORNBACH with growth opportunities in future as well. These are to be assessed in conjunction with the risks outlined in the Risk Report and the evaluation of the future macroeconomic framework provided in the Outlook. Against this backdrop, the company is consistently enhancing its retail format and corporate strategy, aiming to ensure continuity, reliability and sustainability so as to make optimal use of potential opportunities for future growth.

1. Sector-Specific Opportunities

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

1.1 Modernization market

Construction work on existing buildings (the refurbishment, modernization and renovation market) is a prominent factor in the business performance of DIY and garden stores, with more than half of all housing construction investments relating to this market segment. Robust economic developments in Europe, low interest rates, international and domestic migration, and the need to make up for the shortfall in investment in many areas since the financial crisis – all these factors mean that new construction volumes in the European housing construction market showed a marked temporary revival in the years from 2015 to 2017. Having said this, modernization work on existing buildings is set to remain the driving force for sales in the DIY sector. Euroconstruct, the European research and consulting network, expects construction work on existing buildings to regain significance compared with new housing construction over the next three years.

In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Based on calculations compiled by the German Institute for Economic Research (DIW), two thirds of the housing construction volumes of around € 215 billion in 2017 involved construction work on existing buildings. Declining momentum in the new housing construction market will allow homeowners to perform increasing volumes of refurbishment and modernization work once again in future. Despite lively transaction volumes in the market for second-hand properties, however, the DIW reports that the modernization segment has so far not witnessed any more substantial growth in this respect. Usually, however, homeowners implement far-reaching modernization measures directly upon or shortly after the transfer of ownership. Work on existing buildings is often of a smaller-scale nature and less lucrative for the construction industry than new construction orders. A backlog of modernization work can thus be expected to have accumulated in recent years. As capacities in the new housing construction market are freed up once again, this backlog can be expected to be gradually worked through. The following growth drivers should impact positively on the business performance of the DIY sector:

- The **age structure of real estate** indicates an increasing need for maintenance and modernization. In Germany, for example, more than 80 % of all houses and apartments are more than 30 years old. Almost one in three detached houses in Germany is in need of renovation. Half of the owner-occupied houses built between 1949 and 1960 have not yet been comprehensively renovated and no longer meet current technological standards in terms of energy efficiency. Given that the property will decline in value and attractiveness on the housing market unless renovation measures are undertaken, the need for construction

€ 215 bn
construction work on
existing buildings in 2017

> 80 %
homes in Germany
more than 30 years old

services and materials can be expected to increase. Interest rates, still low by long-term standards, continue to benefit private households' financing opportunities here.

- Increasing momentum can be expected once again from the renovation of buildings to improve their energy efficiency. Given the long-term increase in energy costs and climate protection, this is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. **Energy-efficient construction and renovation** enable a residential property's energy costs to be cut by up to three quarters and the property's operating costs to be sustainably reduced over its lifecycle. Energy-efficiency renovation also makes a major contribution towards cutting CO₂ emissions. Energy efficiency is therefore one of the top themes in the European DIY sector.
- Given demographic developments in Europe, **barrier-free construction** involves the challenge of adapting existing living space and urban infrastructure to enable elderly people to retain their freedom and live independently in their familiar surroundings for as long as possible. Demand for senior citizen-friendly construction solutions, such as barrier-free access to buildings and apartments, the installation of elevators, and doorway-widening and sanitary conversion measures, will therefore continue to rise.

1.2 Consumer trends

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 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), individuality, and emotional flair. Compared with specialist retailers, the DIY store sector still has great potential for development, and 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.

Additional opportunities are presented by consumers' changing lifestyles and patterns of consumption due to the megatrends of digitization and sustainability. Retailers and industrial players are undergoing a process of far-reaching change. Business models are being further developed, or newly developed, to meet the future requirements of consumers and society. By offering suitable concepts, new technologies, and innovative products, the DIY store sector can benefit from new market opportunities here. One example is the substantially expanded range of products and advisory services for "smart homes". According to a study compiled by eco – Association of the Internet Industry and Arthur D. Little, the German smart home market is set to grow by an annual average of around 26 % over the next five years.

Particularly when compared with net-based providers ("pure players"), stationary DIY store operators which also operate online retail channels have the advantage of being able to offer customers a broader and deeper DIY product range, "analog" advisory services, and a shopping experience on location.

26%

annual growth in market for smart home products

1.3 Competition and consolidation

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

Germany is the largest DIY market in Europe. However, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 45 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so. Not only that, there is growing competition from pure players that are continually gaining market share in the DIY segment and stepping up the competitive pressure. Given these factors, further consolidation can be expected. Above all, this can be expected to benefit those companies that combine high-performing stationary retail with e-commerce in a multichannel retail business.

€ 45 bn

core DIY market in 2017

2. Strategic Opportunities

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

2.1 Unmistakable concept

The company's strategy focuses on the project concept. HORNBAACH 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 HORNBAACH'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 HORNBAACH in the long term by offering and guaranteeing the best market price across our entire product range on a permanent basis, with identical prices in our stationary and online stores. Our permanent low price strategy applies not only to prices at stationary competitors, but also for online offerings. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. This is not possible with temporary discount campaigns.

2.2 Focus on sustainability

We believe that HORNBAACH is excellently positioned in the sector as a partner for renovation and modernization projects, also with regard to the increasingly strict legal requirements governing building **energy efficiency**. We will in future as well continue to present complex projects, such as the insulation of facades, the replacement of windows and doors, or smart home concepts, as "Project Shows" at the stores. Via our online stores, we also provide detailed guidelines which explain DIY projects on a step-by-step basis. Our product range offers

customers the opportunity to select low-emission products for their construction and renovation projects and thus to minimize the volume of noxious substances in their homes and living space. Not only that, we also offer energy and water-saving products. Moreover, further sales momentum may also be provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly. Here, we offer an extensive database of subsidy opportunities on our homepage.

Our customers increasingly value products that are sustainable in both ecological and economic terms. A suitable product selection, product certification, and transparent product information and advice are key competitive factors here. Above all the 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.

2.3 Accessing new customer groups

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

2.4 Digitization of business model

Online retail has reported by far the strongest growth rates within the overall retail sector, with DIY product ranges showing an above-average performance in this respect. Experts expect online sales with typical DIY store product groups in Germany to grow by almost 12% to around € 3.6 billion in 2018, while the BHB sector association has forecast sales growth of 1.3% for the DIY store sector.

Over the past nine years, the HORNBAACH Baumarkt AG Group has channeled a substantial triple-digit million euro amount into digitizing its business model and developing its online retail business. These efforts have sustainably boosted our competitive position within the DIY sector and made the entire company fit for the future. Measured in terms of online sales generated by stationary DIY store chains, we believe that we are the German market leader in DIY online retail. Since its launch in Germany in December 2010, we have built up our online store (www.hornbach.de) into a high-performing virtual DIY store and garden center which we combine with our stationary retail business to provide an interconnected retail solution. We have now rolled out our e-commerce activities beyond Germany to Austria, Switzerland, the Netherlands, the Czech Republic, Luxembourg, and, since 2017, Slovakia and Sweden as well. The online store in Romania was launched in

12%

growth expected in online sales with DIY products in Germany in 2018

January 2018. This means that customers in all countries in which HORNBAACH operates now have the opportunity to implement their projects on a cross-channel basis.

One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBAACH 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 HORNBAACH store. This service is a real timesaver, especially for our professional customers. Not only that, our internet presence gives us the opportunity to acquire new customers outside our store network catchment areas and arouse their interest in the HORNBAACH brand. Linking up social media channels offers a further means to intensify customer relationships, for example by enabling customers to share their experience with projects, products, and prices, as well as with service and quality standards. What's more, digitization enables companies to address customers on an increasing personalized basis, a development which may impact positively both on customer satisfaction and on demand levels. Moreover, we expect the digitization of store organization, sales, and the associated dovetailing of these processes with procurement and logistics to have a sustainably positive impact on the Group's sales and earnings performance.

2.5 Internationalization

Our expansion into foreign markets will provide us with additional growth prospects in future as well. These markets offer greater sales potential and higher profitability compared with the saturated German market and enable us to achieve a better distribution of regional market risks. The internationalization of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply all of our stores as efficiently as possible. Suppliers are able to make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. 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 HORNBAACH 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.

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

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

Outlook

1. Macroeconomic and Sector-Specific Framework

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

1.1 Business framework in Europe

According to an assessment issued by the European Commission in January 2018, the level of economic growth in the EU 28 and euro area countries in the 2018 calendar year, estimated at 2.3% in each case, will virtually match the previous year's level. Growth will benefit from an improved situation on labor markets, as well as from a strong global economy and growing volumes of global trade. Sources of risk include more restrictive interest policies, geopolitical conflicts, the potential introduction or extension of global trade barriers, and the uncertainty surrounding the economic outcome of the Brexit negotiations.

The EU Commission's forecasts for the countries in which HORNBAACH operates its DIY stores with garden centers are all at or ahead of the average growth in the EU 28 countries.

In its forecast dated November 2017, the Euroconstruct research and consulting network expects European construction volumes to grow by 2.6% in the 2018 calendar year. Growth rates in the housing and other construction segments can be expected to weaken slightly in the years ahead, and especially in the new construction segment. Euroconstruct has forecast stable growth rates for the modernization segment.

Late winter weather conditions in March presented the DIY store sector with a notably chilly start to the 2018 spring season. The sector can be expected to catch up as the year progresses, with these effects then impacting positively on the annual performance of DIY players.

1.2 Business framework in Germany

The Federal Government expects Germany to generate solid growth of 2.4% in the 2018 calendar year. Early indicators, such as the ZEW Economic Expectations Index and the Ifo Business Climate Index, pointed to positive sentiment among companies and financial market experts at the beginning of the year. According to the Federal Government, the unemployment rate can be expected to fall further in 2018, while income from employment is expected to rise moderately. This will result in higher wage and salary growth, also in real terms. Private consumer spending is expected to increase by 3.6% in nominal terms and by 1.9% in real terms.

According to economic experts, the positive macroeconomic framework and persistently high levels of consumer confidence in Germany will be reflected in further retail sales growth in 2018. For the current year, the Association of German Retailers (HDE) expects nominal net sales to grow by 2.0% to a total of € 523.1 billion. Online retail, which according to the HDE forecast is set to grow by 9.7% to € 53.4 billion, will remain the key growth driver. Online sales would then account for 10.2% of total retail sales.

Above-average growth in HORNBAACH countries

Based on the assessment by the German Institute for Economic Research (DIW), the growth in housing construction is set to continue in the years ahead, with nominal growth of 6.7% forecast by the economic researchers for 2018. Having said this, the weighting of the respective segments can be expected to increasingly shift from new construction towards modernization. The modernization market is forecast to grow by 6.0% in 2018 (2017: 4.7%), while the growth of 8.0% in new construction volumes will fall short of the high levels seen in recent years. For the following year, the DIY expects to see growth of only 4.0% in the new construction segment, as against 7.4% in the modernization market.

This growth in the modernization market in particular can also be expected to benefit trade companies and DIY retailers. The BHB sector association has forecast nominal sales growth of 1.3% for the German DIY sector in 2018. On a like-for-like basis, sales growth is expected to amount to 1.0%. The BHB sees potential for sales growth above all in the private renovation and housing construction markets, as well as in strong private consumer spending due to the robust situation on the labor market with secure jobs and incomes. E-commerce sales with DIY product ranges (home improvement, construction materials, and garden products) are expected to show significantly higher growth momentum. Market researchers expect sales here to grow by 11.6% to more than € 3.6 billion.

Prolonged winter weather, however, meant that the DIY store sector began the year on a subdued note in terms of its sales in the first three months of 2018. Frosty weather in February was followed by similarly chilly weather in March. The first month of spring was even colder than January, with large volumes of snow in some areas. Given these weather conditions, outdoor projects on buildings and in gardens were in many cases postponed to a later date. According to the BHB/GfK, the DIY sector witnessed a 7.4% downturn in like-for-like sales in the first quarter of the calendar year.

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

Based on our assessment, the macroeconomic and sector-specific framework forecast across Europe for 2018 will impact positively on the sales and earnings performance of the HORNBACH Baumarkt AG Group in the 2018/19 financial year. However, any significant macroeconomic disruptions during the forecast period, for example as a result of political or trading policy crises, terrorism, or price shocks on commodity or energy markets, and any resultant noticeable deterioration in consumer confidence would lead to downside risks for our sales and earnings performance.

2. Forecast Business Performance in 2018/19

The statements made concerning the expected business performance of the HORNBACH Baumarkt AG Group in the 2018/19 financial year are based on the medium-term planning, which has a budgeting horizon of five years and is extrapolated annually. The budget for the financial years 2018/19 to 2022/23, into which the annual budget for 2018/19 is integrated, was adopted by the Board of Management at the end of January 2018 and approved by the Supervisory Board at the end of February 2018.

2.1 Expansion

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

Given the challenges facing the sector in the field of e-commerce, in our stationary retail business we will be focusing even more closely than in the past on selective growth at premium locations. That is especially true

+1.3%

sales growth forecast for
German DIY store sector
in 2018

+ 3

new store openings planned
for 2018/19 financial year

for new store openings in Germany. In the coming five years, the number of HORNBAACH DIY stores here will only rise marginally, not least as a result of planned closures for new replacement locations. The key focus of our medium-term expansion and investment activities will be outside Germany.

Three new store openings are planned for the 2018/19 financial year. Operations were launched in the first quarter of the forecast period at DIY megastores with garden centers in Zwolle (Netherlands) and Affoltern (Switzerland). The number of locations in the Netherlands has therefore risen to 14, and that in Switzerland to seven. Our sixth store in Sweden is due to be opened in Borås, most likely in the third quarter of 2018/19.

One DIY store in Germany (Alzey) was closed at the end of April 2018 due to a lack of development perspectives. No further closures are scheduled for the 2018/19 financial year. Overall, the group-wide total number of HORNBAACH DIY stores with garden centers will rise to up to 158 by February 28, 2019 (February 28, 2018: 156), of which 61 in other European countries.

€ 150 -170 m

gross investments planned
for 2018/19 financial year

Investments

Gross investments of between € 150 million and € 170 million have been budgeted at the HORNBAACH Baumarkt AG Group for the 2018/19 financial year. The overwhelming share of these funds will be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure. Around one half of the planned investment budget relates to advance payments for land and buildings, as well as plant and office equipment, for new HORNBAACH DIY stores planned for periods beyond the 2018/19 financial year.

HORNBAACH enjoys great flexibility in its investment financing. 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 2018/19 financial year.

2.2 Sales forecast for the HORNBAACH Baumarkt AG Group

Thanks to our expansion, increased growth at existing stores, and growing online sales due not least to the completion in January 2018 of the online store rollout to all countries in which HORNBAACH operates, we expect consolidated sales in the 2018/19 budget year to exceed the figure for the 2017/18 year under report (€ 3,891 million). Driven by disproportionate organic growth and new store openings, the share of sales in international regions (2017/18: 46.8%) is set to rise further. We expect net sales, including sales at stores newly opened, closed, or significantly extended, to show growth in a medium single-digit percentage range in the 2018/19 financial year.

Given the macroeconomic and sector-specific framework outlined above, we expect the Group's like-for-like sales net of currency items to show growth in a low to medium single-digit percentage range. From a geographical perspective, we expect the like-for-like sales growth in **Germany** to fall short of the Group average once again in the 2018/19 financial year, while the growth rates in like-for-like sales net of currency items in **Other European countries** are expected to exceed the Group average.

Group growth in medium single-digit percentage range in 2018/19

2.3 Earnings performance at the HORNBACH Baumarkt AG Group

2.3.1 Retail segment

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

Based on our expectations, the **gross margin** will decrease slightly in the 2018/19 financial year. The development in the gross margin is being influenced by tough competition in the stationary and online DIY retail businesses. E-commerce is gradually gaining in significance throughout our European network and provides consumers with maximum price transparency. HORNBACH has positioned itself here with a consistently implemented permanent low price policy and offers identical article prices to its customers both online and in its stationary business. Given the different product mix involved, we generate a lower gross margin in online retail compared with our stationary retail business. Not only that, the online retail margin is adversely affected by freight costs that are only partly covered by freight revenues. To stabilize the gross margin in the long term, we intend to continually increase the share of sales generated with private label products, among other measures. Moreover, we are working to further expand the volume of imports so as to benefit from the most best-priced procurement sources available worldwide.

According to our 2018/19 annual budget, **selling and store expenses** are set to rise less rapidly than sales. Due to expected collectively agreed pay rises and shortages of specialists in regional labor markets in the countries in which HORNBACH operates, personnel expenses are expected to increase once again, albeit to a less marked extent than sales. We expect rental and utility expenses to rise less rapidly than sales. Due to marketing measures for new stores and the newly added online stores, advertising expenses are budgeted to grow more rapidly than sales in the 2018/19 budget year. We expect our general operating expenses to rise slightly faster than sales due to increased maintenance measures for land and buildings. Maintaining the substance of stores and while at the same time ensuring they are attractively designed requires an ongoing supply of funds to renovate older properties and modernize sales areas and merchandise presentation.

Despite the planned opening of three new stores, **pre-opening expenses** in 2018/19 are expected to fall short of the previous year's period. This is because a prorated share of the costs for these store openings was already incurred in the 2017/18 financial year.

The 2018/19 budget foresees a significantly disproportionate rise in **administration expenses** compared with sales. This cost growth is once again closely linked to additional expenses incurred for the increasing digitization of our business model and forward-looking strategic projects. A large portion of these outlays involves personnel expenses for the e-business and the extended customer service structures introduced in connection with the international expansion of our online store, as well as costs for technological developments to be viewed in connection with our interconnected retail approach.

Due to the lower gross margin and higher administration expenses, the **adjusted EBIT** (EBIT adjusted for non-operating earnings items) in the Retail segment is expected to decrease slightly in the one-year forecast period (2017/18: € 48.0 million).

2.3.2 Real estate segment

Due to the Group's expansion, we expect **rental income** in the Real estate segment to show further stable growth in a low to medium single-digit percentage range. The **real estate expenses** budgeted for 2018/19 are slightly lower than in the previous year, as a result of which the real estate expense ratio as a percentage of rental income should decrease. This development will be driven above all by lower rental expenses. The budget for the 2018/19 financial year provides for a year-on-year decrease in pre-opening expenses. Overall, we expect **adjusted EBIT** in the Real estate segment to show clearly disproportionate growth compared with rental income in the 2018/19 financial year (2017/18: € 74.3 million).

2.3.3 Headquarters and consolidation segment

Mainly as a result of the increased budgets for developing information technology, central administration expenses are set to rise significantly in the 2018/19 financial year. Development projects such as for article data management, warehouse management, and IT security, as well as for updating office applications, the telephony system, and implementing the requirements of the General Data Protection Regulation, are prerequisites for a sustainable overall IT infrastructure. Furthermore, the budget for the year ahead also includes expenses for fully refurbishing and modernizing the old office buildings at the Bornheim location. These measures are expected to be completed in 2020. This segment is expected to report a significant reduction in its adjusted EBIT (2017/18: minus € 12.2 million).

2.3.4 Earnings forecast for the HORNBACH Baumarkt AG Group

We expect our **adjusted EBIT** (EBIT adjusted to exclude non-operating earnings items) in the one-year 2018/19 forecast period to roughly match the level reported for the 2017/18 financial year (€ 110.0 million).

2.4 Sales and earnings forecast for HORNBACH Baumarkt AG (separate financial statements – HGB)

In the separate financial statements of HORNBACH Baumarkt AG, which will be shaped by 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 2018/19 financial year. Assuming a significantly higher profit transfer from HORNBACH International GmbH compared with the previous year, we expect the annual net surplus on the level of HORNBACH Baumarkt AG to rise significantly in the 2018/19 forecast period compared with the previous 2017/18 financial year.

Adjusted EBIT at around previous year's level in 2018/19

Other Disclosures

1. Disclosures under § 315a (4) and § 289a (4) HGB and Explanatory Report of Board of Management

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

1.1 Composition of share capital

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

1.2 Direct or indirect capital shareholdings

HORNBAACH Holding AG & Co. KGaA, based in Le Quartier Hornbach 19, 67433 Neustadt an der Weinstrasse, Germany, holds more than 10 % of the voting rights. Its shareholding, and thus its share of voting rights, amounted to an unchanged total of 76.4 % as of February 28, 2018.

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

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

1.4 Change of control

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

1.5 Powers of Board of Management to issue shares

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

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

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

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

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

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

2. Corporate Governance Declaration pursuant to § 289f HGB

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

3. Compensation Report

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



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



2017/18 Annual Report
Corporate Governance
Compensation Report

4. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2017/18 financial year pursuant to § 312 of the German Stock Corporation Act (AktG). With regard to those transactions requiring report, the report states: "Our company has received adequate counterperformance for all legal transactions executed with the controlling company or any associate of such or at the instigation or on behalf of any of these companies in accordance with the circumstances known to us at the time at which the legal transactions were performed. No measures were taken or omitted at the instigation of or on behalf of the controlling company or any associate of such."

DISCLAIMER

Our combined management report should be read in conjunction with the audited financial data of the HORNBAACH 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 HORNBAACH'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 HORNBAACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBAACH 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, 2017 to February 28, 2018

	Notes	2017/18 € 000s	2016/17 € 000s	Change %
Sales	1	3,890,704	3,710,097	4.9
Cost of goods sold	2	2,440,777	2,328,851	4.8
Gross profit		1,449,927	1,381,246	5.0
Selling and store expenses	3/10	1,150,778	1,104,263	4.2
Pre-opening expenses	4/10	5,118	6,012	(14.9)
General and administration expenses	5/10	206,654	186,336	10.9
Other income and expenses	6/10	15,111	12,888	17.2
Earnings before interest and taxes (EBIT)		102,489	97,522	5.1
Other interest and similar income		740	904	(18.1)
Other interest and similar expenses		17,562	18,595	(5.6)
Other financial result		(4,784)	(538)	>(100)
Net financial expenses	7	(21,605)	(18,229)	18.5
Consolidated earnings before taxes		80,884	79,293	2.0
Taxes on income	8	22,217	26,429	(15.9)
Consolidated net income		58,667	52,864	11.0
Basic/diluted earnings per share (€)	9	1.84	1.66	10.8

Statement of Comprehensive Income of the HORNBACH Baumarkt AG Group

for the Period from March 1, 2017 to February 28, 2018

	Notes	2017/18 € 000s	2016/17 € 000s
Consolidated net income		58,667	52,864
Actuarial gains and losses on defined benefit plans	24/25	4,042	1,974
Deferred taxes on actuarial gains and losses on defined benefit plans		(780)	(367)
Other comprehensive income that will not be recycled at a later date		3,262	1,607
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity ¹⁾		(1)	(8)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		33	733
Measurement of available for sale financial assets	13/33	883	1,788
Exchange differences arising on the translation of foreign subsidiaries		(2,988)	2,565
Deferred taxes on gains and losses recognized directly in equity	8	(21)	(237)
Other comprehensive income that will be recycled at a later date		(2,094)	4,841
Total comprehensive income		59,835	59,312

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

Balance Sheet of the HORNBACH Baumarkt AG Group

as of February 28, 2018

Assets	Notes	2.28.2018 € 000s	2.28.2017 € 000s
Non-current assets			
Intangible assets	11	18,892	15,235
Property, plant, and equipment	12	1,120,408	1,087,101
Investment property	12	18,692	16,226
Financial assets	13/33	6,543	5,659
Other non-current receivables and assets	14/24	4,151	3,632
Deferred tax assets	15	4,531	3,848
		1,173,217	1,131,701
Current assets			
Inventories	16	657,821	626,086
Current financial assets	17	0	30,009
Trade receivables	18	8,913	8,221
Other current assets	18	53,417	43,129
Income tax receivables	27	2,235	7,706
Cash and cash equivalents	19	102,138	113,033
		824,524	828,184
		1,997,740	1,959,885

Equity and liabilities	Notes	2.28.2018 € 000s	2.28.2017 € 000s
Shareholders' equity	21		
Share capital		95,421	95,421
Capital reserve		143,623	143,623
Revenue reserves		809,759	771,601
		1,048,802	1,010,645
Non-current liabilities			
Non-current financial debt	23	412,637	424,320
Provisions for pensions	24	10,820	15,216
Deferred tax liabilities	15	25,951	27,455
Other non-current liabilities	25/28	46,936	36,410
		496,344	503,401
Current liabilities			
Current financial debt	23	11,435	28,575
Trade payables	26	253,711	244,468
Other current liabilities	26	88,000	82,626
Income tax liabilities	27	11,608	13,441
Other provisions and accrued liabilities	28	87,839	76,729
		452,594	445,839
		1,997,740	1,959,885

Statement of Changes in Equity of the HORNBAACH Baumarkt AG Group

2016/17 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2016		95,421	143,623	(538)	36,767	697,605	972,878
Consolidated net income						52,864	52,864
Actuarial gains and losses on defined benefit plans, net after taxes	24/25					1,607	1,607
Measurement of derivative financial instruments (cash flow hedge), net after taxes				515			515
Measurement of available for sale financial assets, net after taxes	33					1,761	1,761
Foreign currency translation					2,565		2,565
Total comprehensive income				515	2,565	56,232	59,312
Dividend distribution	22					(21,629)	(21,629)
Treasury stock transactions	21					85	85
Balance at February 28, 2017		95,421	143,623	(24)	39,332	732,293	1,010,645

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

Cash Flow Statement of the HORNBACH Baumarkt AG Group

	Notes	2017/18 € 000s	2016/17 € 000s
Consolidated net income		58,667	52,864
Depreciation and amortization of non-current assets	10	80,363	76,122
Change in provisions		9,040	7,760
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(401)	679
Change in inventories, trade receivables and other assets		(40,626)	(17,951)
Change in trade payables and other liabilities		29,394	(11,128)
Other non-cash income/expenses		(2,331)	6,870
Cash flow from operating activities		134,106	115,217
Proceeds from disposal of non-current assets and of non-current assets held for sale		2,438	1,555
Payments for investments in property, plant, and equipment		(120,859)	(150,424)
Payments for investments in intangible assets		(7,824)	(6,578)
Cash flow for investments in connection with short-term finance planning		30,000	(30,000)
Cash flow from investing activities		(96,245)	(185,447)
Dividends paid	22	(21,629)	(21,629)
Repayment of long-term debt	23	(3,111)	(83,659)
Proceeds from group financing activities		0	35
Change in current financial debt and finance lease liabilities		(22,958)	5,128
Cash flow from financing activities		(47,698)	(100,125)
Cash-effective change in cash and cash equivalents		(9,837)	(170,355)
Change in cash and cash equivalents due to changes in exchange rates		(1,059)	390
Cash and cash equivalents at March 1		113,033	282,998
Cash and cash equivalents at balance sheet date		102,138	113,033

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

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

The cash flow from operating activities was reduced by income tax payments of € 21,310k (2016/17: € 11,102k) and interest payments of € 20,011k (2016/17: € 21,279k) and increased by interest received of € 740k (2016/17: € 1,133k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

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

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

Basis of preparation

In line with § 315e (1) of the German Commercial Code (HGB), HORNBACH Baumarkt AG prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. New IFRS are only applied following their endorsement by the European Union. Application has been made of all IFRS and pronouncements of the International Financial Reporting Interpretations Committee (IFRIC) with binding effect for the 2017/18 financial year.

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 14, 2018. 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

Apart from the amendment stated in the table below, none of the new standards or revised standards and interpretations requiring mandatory application for the first time in the 2017/18 financial year had any material implications for the consolidated financial statements of HORNBACH Baumarkt AG.

Standard and Interpretation	Effective date ¹⁾	Effect
Amendments to IAS 7 - Disclosure Initiative	January 1, 2017	Enlargement of notes; adding a reconciliation regarding changes between the opening and closing balances of financial liabilities affected.

¹⁾ Applicable in financial years beginning on or after the date stated

Standards and interpretations not applied prematurely

The IASB and the IFRS IC have issued new standards, revisions to existing standards, and interpretations which only require mandatory application in later financial years and which the HORNBACH Baumarkt AG Group has also not applied prematurely. For all of the standards listed in the following table, the expected implications of first-time application have been described in qualitative and quantitative terms. For all of the standards and interpretations not listed in the table, the HORNBACH Baumarkt AG Group does not expect these to have any material implications.

Standard and Interpretation	Effective date ¹⁾
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Clarifications to IFRS 15
IFRS 16	Leases

¹⁾ Applicable in financial years beginning on or after the date stated

- IFRS 9 "Financial Instruments": This standard issued in July 2014 replaces 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. IFRS 9 has significantly increased the scope of note disclosures resulting from the revision to IFRS 7 "Financial Instruments: Disclosures".

The implications chiefly result from the fact that the new impairment requirements also include expected future losses, whereas IAS 39 only required the recognition of impairments that had already arisen.

Further amendments relate in particular to equity instruments held, which are no longer allocated to the "available-for-sale financial assets" category but must basically be recognized at fair value through profit or loss or in equity. Upon the sale of these instruments, the changes in value previously recognized in equity are no longer reclassified to the income statement. Furthermore, the new IFRS 9 classification regulations also require individual debt instruments to be recognized at fair value through profit or loss.

The amendments relating to hedge accounting will provide relief in assessing the effectiveness of hedge relationships and the designation of underlying and hedge transactions. As IFRS 9 has not amended the general principles underlying the recognition of effective hedges, application of the new hedge accounting regulations will not have any material implications.

Consistent with the transitional provisions, the Group will forego adjusting its previous year's figures and will recognize the accumulated effect of first-time application in revenue reserves as of March 1, 2018.

The Group has compiled an inventory of its financial instruments, allocated these to its business models and determined the relevant IFRS 9 measurement categories. The new classification model will result in minor changes that will not have any material implications for the consolidated financial statements. The amendments relate in particular to all factoring receivables. These will no longer be allocated to the "loans and receivables" category but recognized at fair value through profit or loss. Furthermore, the Group will draw on the option of voluntarily designating instruments into the equity instruments measured at equity category and continue to measure all equity instruments at fair value in equity.

IFRS 9 requires the Group to measure its expected credit losses from all its debt instruments, loans, and trade receivables either on the basis of their 12-month expected credit loss (ECL) or their lifetime ECL. The Group will opt for the simplified approach and recognize the lifetime ECL from all of its trade receivables.

We expect IFRS 9 application to result in a change of less than € 0.5 million in the allowances recognized for trade receivables. This will result in an effect of the same amount in equity.

The allowances recognized for cash and cash equivalents and for other receivables and assets will be based on their 12-month ECL. We do not expect this to have any notable implications.

In applying IFRS 9 for the first time, the Group is exercising the accounting option of continuing to recognize hedges pursuant to IAS 39 rather than IFRS 9.

- IFRS 15 "Revenue from Contracts with Customers": This new standard has reorganized the requirements governing the recognition of revenues. As a result, IFRS 15 replaces all previous relevant standards governing revenue recognition (IAS 18, IAS 11, and IFRIC 13), as well as the relevant interpretations. From now on, companies are required to determine the date or period in which revenues are recognized by reference to a 5-step model. The model is also used to determine the amount of revenues. In general, revenues 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.

The Group has completed its project to determine the implications resulting from first-time application of IFRS 15. The vast share of revenues is generated by way of simple merchandise sale agreements which do not have any long-term characteristics and under which the power of control is transferred to the customer at a specific time. The Group has decided to introduce IFRS 15 using the modified retrospective method. The accumulated effect of first-time application will be recognized in equity as of March 1, 2018. Irrespective of the implications listed below, the Group basically does not expect any material effects compared with previous recognition under IAS 18.

- Due to multiple element arrangements and bonus agreements with customers, in the opening balance sheet as of March 1, 2018 items will be reclassified between assets and contract assets and between liabilities and contract liabilities respectively.
- As a result of IFRS 15, any return rights will in future be recognized on a gross basis. Unlike its previous practice of recognizing a provision in the balance sheet, in future the Group will recognize an asset for expected returns and a refund liability due to customers. In the opening balance sheet as of March 1, 2018, we expect this to lead to a reduction in provisions and an increase in assets and liabilities. Total assets will increase by around € 2.7 million.

- HORNBAACH is affected by the IFRS 15 regulations governing non-utilization of credits (breakage) with regard to the customer vouchers its sells. The new regulation will result in unutilized credits being recognized through profit or loss at an earlier point in time in future. In the opening balance sheet as of March 1, 2018, we expect a reduction of around € 2.4 million in liabilities and an increase of the same amount in equity.
- The option of granting retrospective discounts (permanent low price guarantee) may prospectively lead to an increase in refund liabilities. As the relevant contracts are deemed to have been fulfilled as of the date of first-time application, however, this amendment will exclusively apply to contracts concluded after the date of first-time application. No restatement effects will arise as of March 1, 2018.
- IFRS 16 "Leases": This standard replaces the existing lease accounting requirements and fundamentally alters the treatment of leases at the lessee. The existing review performed to classify a lease as an operating lease or a finance lease is no longer required at the lessee. Apart from short-term and low-value contracts, from now on all lease contracts are to be presented using a methodology similar to that previously applied for finance leases, i.e. alongside a right-of-use asset a corresponding lease liability is also recognized upon initial recognition. Both items are updated as appropriate. When accounting for leases, lessors are still required to perform a review to classify leases as operating or finance leases.

Due to IFRS 16, all leases will basically require recognition in the balance sheet in future. At HORNBAACH, this particularly affects those property rental agreements previously classified as operating leases. Their recognition in the balance sheet will materially increase the volume of non-current assets and financial debt recognized in future. Furthermore, there will also be changes within the income statement. Rental payments for operating lease agreements were previously mainly recognized as expenses within selling and store expenses. In future, the amortization of the right-of-use asset will be recognized, as will interest expenses for the financial debt item. Due to the recognition of amortization on the right-of-use asset rather than the current recognition of rental expenses, the application of IFRS 16 will significantly increase EBIT. Similarly, the future recognition of interest expenses will significantly lower net financial expenses.

The Group intends to apply IFRS 16 using the modified retrospective method. Accumulated restatement effects will be recognized as an adjustment to revenue reserves in the opening balance sheet as of March 1, 2019. The comparative information does not require adjustment. Furthermore, the Group currently intends to draw on the simplification provisions for short-term and low-value leases.

To determine the implications of first-time application, a group-wide inventory of the contracts thereby affected is currently being conducted within the implementation project. This process has been completed for material contracts in which the Group acts as lessee. These contracts mainly involve property rental agreements.

Based on current information, the property agreements at the Group in which HORNBAACH acts as lessee are expected to increase non-current assets and financial debt by around € 1.1 billion each.

This estimate is based on application of a uniform incremental borrowing rate of interest. Furthermore, the exercising of extension options has been based on current economic and company-specific conditions which may change as of the date of first-time application. It is currently not possible to assess any more far-reaching implications for the consolidated financial statements, as the inventory of contracts for lease

arrangements involving plant and office equipment and intermediary lease arrangements is not yet complete. The same applies for potential write-downs resulting from application of IFRS 16.C8 (c) as of the date of first-time application as the future economic framework is not known.

Consolidation principles

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

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

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

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

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

Scope of consolidation

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

In addition to HORNBACH Baumarkt AG, the consolidated financial statements include 6 domestic and 30 foreign subsidiaries by way of full consolidation. As the sole shareholder in HORNBACH International GmbH, HORNBACH Baumarkt AG holds, either directly or indirectly, 100 % of the voting rights in the consolidated subsidiaries. As in the previous year, all direct and indirect subsidiaries of HORNBACH Baumarkt AG have been included in the consolidated financial statements for the 2017/18 financial year.

Changes in the scope of consolidation

HORNBACH Real Estate Apeldoorn B.V. (Netherlands) and HORNBACH Real Estate Enschede B.V. (Netherlands) were included in the consolidated financial statements for the first time in the 2017/18 financial year. Both companies were founded in the 2017/18 financial year.

The development in the scope of consolidation was as follows:

	2017/18	2016/17
March 1	35	36
Companies consolidated for the first time	2	1
Mergers	0	2
February 28/29	37	35

The changes to the scope of consolidation in the 2017/18 financial year did not have any material implications for the Group's asset, financial, or earnings position.

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	329	EUR
HB Reisedienst GmbH, Bornheim	100	7,285	EUR
HB Services GmbH, Bornheim	100	18	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	100	141	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	100	(36)	EUR
Other countries			
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	100 ⁴⁾	2,626,342	CZK
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	100	75,336	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	100	11,238	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	100	768	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	100	9,603	EUR
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	100	125,283	CHF
HORNBACH Byggmärknad AB, Gothenburg, Sweden	100	75,349	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	100	667	SEK
HORNBACH Holding B.V., Amsterdam, Netherlands	100	119,675	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	100	14,221	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	100	20	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	100	20	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	100	1,905	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	100	1,411	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	100	1,235	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	100	1,888	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	100	245	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	100	12	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	100	(1,124)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	100	948	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	100	914	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	100	1,480	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	100	825	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	100	1,456	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	100	1,456	EUR

HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	100	733	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	100	(12)	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	100	27,171	EUR
HORNBACH Centrala SRL, Domnesti, Romania	100 ³⁾	101,258	RON
HORNBACH Asia Ltd., Kowloon, Hong Kong	100	6,394	HKD

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

²⁾ Of which: 100% direct shareholding.

³⁾ Of which: 1.6854% direct shareholding.

⁴⁾ Of which: 0.0033% direct shareholding.

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

Foreign currency translation

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

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

The most important foreign exchange rates applied are as follows:

Country	Rate on reporting date		Average rate	
	2.28.2018	2.28.2017	2017/18	2016/17
RON Romania	4.6630	4.5202	4.59266	4.49100
SEK Sweden	10.0923	9.5675	9.69801	9.49182
CHF Switzerland	1.1520	1.0648	1.12731	1.08530
CZK Czech Republic	25.4180	27.0210	26.05696	27.03226
USD USA	1.2214	1.0597	1.15673	1.10080
HKD Hong Kong	9.5595	8.2252	9.02700	8.54064

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
Current financial assets	At amortized cost
Trade receivables	At amortized cost
Other current 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 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 % (2016/17: 1.0 % to 1.5 %). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current procurement terms and future expectations as to such terms.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBACH Baumarkt AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. To this extent, the value in use is basically determined by reference to Level 3 input data. The interest rates used for discounting are based on market data. Depending on the countries and activities involved, the discount rates thereby applied ranged from 4.9 % to 9.4 % after taxes (2016/17: 4.6 % to 10.0 %) and from 6.2 % to 11.1 % before taxes (2016/17: 5,8 % to 11.9 %). 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 lease contract if shorter. Application is made of the same method of depreciation applicable to comparable assets acquired or manufactured. Moreover, an equivalent financial liability is capitalized 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 requirement, 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 HORNBAACH. 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. This is assessed by reference to the strategic five-year planning. Recognized and unrecognized deferred tax assets are reviewed at each balance sheet date to ascertain whether any adjustment in their current values is required.

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

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

Non-current assets held for sale and disposal groups

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

Pensions and similar obligations

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

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

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

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

Provisions and accrued liabilities

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

Provisions for pending losses and onerous contracts are recognized if the contractual obligations are higher than the expected economic benefits. When determining the amount of provision, reference is made to the assumptions in the strategic five-year plan. Where contracts have longer terms, the plan assumptions are extended to the earliest possible contract termination date and referred to in measuring the provision.

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

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

In the case of accrued liabilities, the date and level of the respective 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

The HORNBAACH 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.

Current financial assets mainly relate to fixed-term deposits which cannot be allocated to cash and cash equivalents. These are recognized at amortized cost or at present value, if lower. Value reductions are stated to account for all identifiable risks.

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

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

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

Trade payables and other liabilities are recognized at amortized cost. Trade payables are mostly classified as current. The same applies for other liabilities. In this respect, their carrying amounts basically correspond to their fair values.

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 23 and 30.

Assumptions and estimates

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

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11 & 12), the recognition and measurement of provisions (Notes 24, 25 & 28), the calculation of the recoverable amount to determine the amount of any impairments of non-current non-financial assets (Notes 10, 11 & 12), the determination of the net realizable price for inventories (Note 16), and the

ability to obtain future tax relief (Notes 8, 15 & 27). Further information about the accounting policies relating to the respective topic can be found in the aforementioned notes.

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

Segment Reporting

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

Segment delineation

The allocation of business fields (segments) corresponds to the internal reporting system used by the Board of Management of the HORNBACH Baumarkt AG Group for managing the company. The "Retail" segment includes the 156 (2016/17: 155) DIY megastores and garden centers grouped together in the HORNBACH Baumarkt AG Group and the online shops in the nine European countries in which we operate. The "Real estate" segment includes the retail properties owned by the HORNBACH Baumarkt AG Group, which are let and charged to the respective DIY stores with garden centers within the Group at normal market conditions. The "Headquarters and consolidation" reconciliation column includes administration and consolidation items not attributable to the individual segments.

Segment earnings

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

Segment assets and liabilities

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

2017/18 in € million 2016/17 in € million	Retail	Real estate	Headquarters and consolidation	HORNBACH Baumarkt AG Group
Segment sales	3,889.4	172.8	(171.5)	3,890.7
	3,708.5	167.6	(166.0)	3,710.1
Sales to third parties	3,889.4	0.0	0.0	3,889.4
	3,708.5	0.0	0.0	3,708.5
Rental income from third parties	0.0	1.3	0.0	1.3
	0.0	1.6	0.0	1.6
Rental income from affiliated companies	0.0	171.5	(171.5)	0.0
	0.0	166.0	(166.0)	0.0
Segment earnings (EBIT)	40.4	74.3	(12.2)	102.5
	41.1	67.3	(10.9)	97.5
of which: depreciation and amortization/write-ups	39.5	31.7	9.0	80.2
	39.5	29.8	6.8	76.1
Segment assets	929.0	972.3	89.7	1,991.0
	893.7	937.2	117.4	1,948.3
of which: credit balances at banks	52.5	0.0	29.0	81.6
	58.6	0.0	32.4	91.0
Investments ¹⁾	43.8	71.1	13.7	128.7
	37.6	113.1	25.4	176.1
Segment liabilities	409.9	208.5	292.9	911.4
	405.6	215.1	287.6	908.3
of which: financial debt	0.0	175.1	249.0	424.1
	13.5	189.7	249.6	452.9

¹⁾ Investments in the "Real estate" segment include additions resulting from the capitalization of finance leases amounting to € 0.0 million (2016/17: € 19.0 million).

Reconciliation in € million	2017/18	2016/17
Segment earnings (EBIT) before "Headquarters and consolidation"	114.7	108.4
Headquarters	(12.2)	(10.9)
Net financial expenses	(21.6)	(18.2)
Consolidated earnings before taxes	80.9	79.3
Segment assets	1,991.0	1,948.3
Deferred tax assets	4.5	3.8
Income tax receivables	2.2	7.7
Total assets	1,997.7	1,959.9
Segment liabilities	911.4	908.3
Deferred tax liabilities	26.0	27.5
Income tax liabilities	11.6	13.4
Total liabilities	949.0	949.2

Geographical information

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

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

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

2017/18 in € million 2016/17 in € million	Germany	Other European countries	Reconciliation	HORNBACH Baumarkt AG Group
Sales	2,418.1	1,819.7	(347.1)	3,890.7
	2,361.0	1,669.9	(320.8)	3,710.1
Sales to third parties	2,071.3	1,818.1	0.0	3,889.4
	2,040.5	1,668.0	0.0	3,708.5
Sales to affiliated companies	346.7	0.4	(347.1)	0.0
	320.4	0.4	(320.8)	0.0
Rental income from third parties	0.1	1.2	0.0	1.3
	0.0	1.6	0.0	1.6
EBIT	3.9	98.5	0.1	102.5
	12.2	85.4	(0.1)	97.5
Depreciation and amortization/write-ups	47.6	32.6	0.0	80.2
	45.1	31.0	0.0	76.1
EBITDA	51.5	131.1	0.1	182.7
	57.3	116.5	(0.1)	173.6
Assets	1,412.6	1,008.6	(430.2)	1,991.0
	1,408.9	917.1	(377.7)	1,948.3
of which: non-current assets ^{*)}	519.3	640.4	(0.1)	1,159.5
	522.7	596.9	(0.1)	1,119.5
Investments¹⁾	54.8	73.9	0.0	128.7
	58.4	117.7	0.0	176.1

^{*)} These involve property, plant and equipment, investment property, intangible assets, and non-current deferrals and accruals.

¹⁾ Investments include additions resulting from the capitalization of finance leases amounting to € 0.0 million (2016/17: € 19.0 million).

Notes to Consolidated Income Statement

(1) Sales

Sales mainly involve revenues in the Retail segment. Furthermore, revenues of € 1,298k (2016/17: € 1,626k) 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:

	2017/18 € 000s	2016/17 € 000s
Expenses for auxiliary materials and purchased goods	2,375,587	2,270,314
Expenses for services rendered	65,190	58,537
	2,440,777	2,328,851

(3) Selling and store expenses

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

(4) Pre-opening expenses

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

(5) General and administration expenses

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

(6) Other income and expenses

Other income and expenses are structured as follows:

	2017/18 € 000s	2016/17 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	1,565	2,193
Income from allocations within the HORNBAACH HOLDING Group	1,770	1,692
Income from disposal of non-current assets	876	859
Income from damages	1,555	1,472
Income from payment differences	1,267	899
Miscellaneous other income	14,794	13,103
	21,827	20,218
Other income from non-operating activities		
Income from write-ups to property, plant, and equipment and investment property	121	0
	121	0
Other income	21,948	20,218

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

	2017/18 € 000s	2016/17 € 000s
Other expenses from operating activities		
Losses due to damages	2,273	2,041
Impairments and defaults on receivables	1,440	1,161
Losses on disposal of non-current assets	422	1,473
Expenses from payment differences	40	471
Miscellaneous other expenses	2,663	2,185
Other expenses	6,837	7,330
Net income from other income and expenses	15,111	12,888

(7) Net financial expenses

	2017/18 € 000s	2016/17 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	473	483
Other	267	421
of which: from affiliated companies	75	150
	740	904
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	16,365	16,720
Interest expenses on financial instruments used as hedging instruments	33	733
Interest expenses from compounding of provisions	180	196
Other	984	946
of which: to affiliated companies	45	50
	17,562	18,595
Net interest expenses	(16,822)	(17,691)
Other financial result		
Gains/losses on derivative financial instruments	1,195	(1,055)
Gains and losses from foreign currency exchange	(5,978)	517
	(4,783)	(538)
Net financial expenses	(21,605)	(18,229)

Other interest income includes interest income of € 192k on tax refund claims (2016/17: € 271k).

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 € 7,764k (2016/17: € 8,173k) 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 € 2,637k in the year under report (2016/17: € 2,880k) 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 4.2 % (2016/17: 4.2 %).

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

Gains/losses on derivative financial instruments include gains and losses of € 1,195k on derivative currency instruments (2016/17: € -1,055k).

The gains and losses from foreign currency exchange for the 2017/18 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 1,827k (2016/17: € 1,840k). Furthermore, this item also includes realized exchange rate gains of € 5,670k (2016/17: € 8,692k) and realized exchange rate losses of € 9,821k (2016/17: € 6,335k).

(8) Taxes on income

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

The German companies included in the HORNBACH Baumarkt AG Group are subject to an average trade tax rate of approximately 14.7 % of their trading income (2016/17: 14.7 %). 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 28 % (2016/17: 16 % to 29 %).

The actual income tax charge of € 22,217k (2016/17: € 26,429k) is € 2,048k lower (2016/17: € 2,641k higher) than the expected tax charge of € 24,265k (2016/17: € 23,788k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Baumarkt AG (2016/17: 30 %) to the Group's pre-tax earnings of € 80,884k (2016/17: € 79,293k).

Deferred tax assets have been stated for losses carried forward amounting to € 4,764k (2016/17: € 4,737k). HORNBACH Baumarkt AG expects it to be possible to offset the tax losses arising and carried forward in individual countries against future earnings in full.

No deferred tax assets have been reported in the case of losses carried forward amounting to € 35,330k (2016/17: € 30,623k), as future realization of the resultant benefit is not expected. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated. Losses carried forward amounting to € 8k for which no deferred taxes had been recognized were utilized (2016/17: € 2,908k).

In the previous year, deferred tax assets of € 6,237k were derecognized in connection with losses carried forward whose utilization was no longer deemed likely.

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 € 351,644k at subsidiaries (2016/17: € 323,634k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of the tax charge:

	2017/18 € 000s	2016/17 € 000s
Current taxes on income		
Germany	3,716	3,373
Other countries	21,233	18,312
	24,949	21,685
Deferred tax expenses/income		
due to changes in temporary differences	(2,713)	(2,318)
due to changes in tax rates	(47)	(4)
due to losses carried forward	28	7,066
	(2,732)	4,744
Taxes on income	22,217	26,429

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

	2017/18		2016/17	
	€ 000s	%	€ 000s	%
Expected income tax charge	24,265	100	23,788	100
Difference between local tax rate and group tax rate	(8,179)	(34)	(7,398)	(31)
Tax-free income	(249)	(1)	(413)	(2)
Tax reductions/increases due to changes in tax rates	(47)	0	(4)	0
Tax increases attributable to expenses not deductible for tax purposes	4,603	19	3,850	16
Tax effects on losses carried forward	1,339	6	(133)	(1)
Non-period current and deferred taxes	485	2	6,739	28
Taxes on income	22,217	91.6	26,429	111.1
Effective tax rate in %	27.5		33.3	

The non-period current tax expenses of € 694k (2016/17: € 338k) chiefly result from changes in provisions for past assessments (tax expenses of € 714k).

The non-period deferred tax income of € 209k (2016/17: tax expenses of € 6,401k) chiefly result from the capitalization of deferred tax assets due to a change in the tax rate in Switzerland. The previous year's figure largely resulted from the derecognition of deferred tax assets on losses carried forward in Sweden.

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

	2017/18 € 000s	2016/17 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	4,042	1,974
Change in deferred taxes	(780)	(367)
	3,262	1,607
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	32	725
Change in deferred taxes	(8)	(210)
	24	515
Measurement of available for sale financial assets		
Changes in fair value of available for sale financial assets before taxes	883	1,788
Change in deferred taxes	(13)	(27)
	870	1,761
Exchange differences arising on the translation of foreign subsidiaries	(2,988)	2,565
Other comprehensive income, net after taxes	1,168	6,448
of which: other comprehensive income before taxes	1,969	7,052
of which: change in deferred taxes	(801)	(604)

(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.

	2017/18	2016/17
Weighted number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG (in €)	58,666,925	52,863,504
Earnings per share in €	1.84	1.66

(10) Other disclosures on the income statement**Non-operating items**

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

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

2016/17 financial year € 000s	Impairment of assets (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Income from reversal of provisions for onerous contracts	Result from cancellation of projects	Total
Selling and store expenses	(1,338)	0	(3,664)	0	0	(5,003)
Pre-opening expenses	0	0	0	0	(312)	(312)
	(1,338)	0	(3,664)	0	(312)	(5,315)

Personnel expenses

The individual expense items include the following personnel expenses:

	2017/18 € 000s	2016/17 € 000s
Wages and salaries	573,671	541,558
Social security contributions and pension expenses	126,635	118,620
	700,306	660,178

Depreciation and amortization

	2017/18 € 000s	2016/17 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	80,013	74,784
Impairment of property, plant, and equipment, intangible assets and investment property	350	1,338
	80,363	76,122

The impairment losses recognized in the 2017/18 financial year relate to buildings. In the previous year, impairment losses related to 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:

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

2016/17 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	204	66,820	67,024
Pre-opening expenses	0	20	20
General and administration expenses	2,457	6,620	9,078
	2,662	73,461	76,122

Notes to Consolidated Balance Sheet

(11) Intangible assets

€ 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, 2016	85,350	3,271	2,818	91,439
Additions	2,678	0	3,901	6,579
Disposals	247	0	939	1,186
Reclassifications	233	0	(21)	212
Foreign currency translation	2	0	0	2
Balance at February 28/March 1, 2017	88,016	3,271	5,759	97,046
Additions	5,911	0	1,913	7,824
Disposals	495	0	0	495
Reclassifications	5,226	0	(5,245)	(19)
Foreign currency translation	(2)	0	0	(2)
Balance at February 28, 2018	98,656	3,271	2,427	104,354
Amortization				
Balance at March 1, 2016	79,394	0	0	79,394
Additions	2,662	0	0	2,662
Disposals	247	0	0	247
Foreign currency translation	2	0	0	2
Balance at February 28/March 1, 2017	81,811	0	0	81,811
Additions	4,143	0	0	4,143
Disposals	490	0	0	490
Foreign currency translation	(2)	0	0	(2)
Balance at February 28, 2018	85,462	0	0	85,462
Carrying amount at February 28, 2018	13,194	3,271	2,427	18,892
Carrying amount at February 28, 2017	6,205	3,271	5,759	15,235

The development in intangible assets in the 2016/17 and 2017/18 financial years was as follows:

- 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 2017/18 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 2017/18 financial year amounted to 9.1% and 6.6% (2016/17: 9.3% and 6.2%).
- As in the previous year, the changes deemed possible in key assumptions (increase in discount rate or reduction in gross profit) would not result in any impairments at the two locations.

(12) Property, plant and equipment and investment property

The development in property, plant and equipment in the 2016/17 and 2017/18 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, 2016	1,049,255	18,464	595,884	29,580	1,693,183
Changes in scope of consolidation	8,189	0	0	0	8,189
Additions	98,870	1,390	37,273	23,773	161,306
Disposals	24	0	27,554	101	27,679
Reclassifications	17,934	0	6,683	(24,829)	(212)
Foreign currency translation	2,537	0	165	31	2,733
Balance at February 28/March 1, 2017	1,176,761	19,854	612,451	28,454	1,837,520
Reclassifications to/from non-current assets held for sale	0	(754)	0	0	(754)
Additions	28,036	2,770	43,516	46,537	120,859
Disposals	101	0	25,738	827	26,666
Reclassifications	16,509	0	5,736	(22,226)	19
Foreign currency translation	(5,760)	0	(2,291)	(227)	(8,278)
Balance at February 28, 2018	1,215,445	21,870	633,674	51,711	1,922,700
Depreciation					
Balance at March 1, 2016	228,032	3,569	454,993	0	686,594
Additions	31,033	59	42,369	0	73,461
Disposals	24	0	26,361	0	26,385
Reclassifications	(29)	0	29	0	0
Foreign currency translation	300	0	223	0	523
Balance at February 28/March 1, 2017	259,312	3,628	471,253	0	734,193
Reclassifications to/from non-current assets held for sale	0	(432)	0	0	(432)
Additions	33,600	(18)	42,638	0	76,220
Write-ups	(121)	0	0	0	(121)
Disposals	67	0	24,567	0	24,634
Reclassifications	14	0	(14)	0	0
Foreign currency translation	361	0	(1,987)	0	(1,626)
Balance at February 28, 2018	293,099	3,178	487,323	0	783,600
Carrying amount at February 28, 2018	922,346	18,692	146,351	51,711	1,139,100
Carrying amount at February 28, 2017	917,449	16,226	141,198	28,454	1,103,327

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

Where the carrying amount of the cash generating unit exceeded its value in use, the net realizable values of any real estate attributable to the CGUs were also determined by reference to external real estate surveys. Values were determined using the capitalized earnings method pursuant to the German Real Estate Valuation

Ordinance (ImmoWertV). No write-down requirements were identified on real estate in the 2017/18 financial year.

As a result of the impairment test, an impairment requirement was identified in the 2017/18 financial year for one building at a store in the Germany region which constitutes a cash generating unit. This item was written down by € 350k to its value in use. This was determined using the discounted cash flow method and based on Level 3 input data. The discount rate used to calculate the value in use amounted to 9.8% before tax. The recoverable amount for the location amounts to € 2,706k.

In the previous year, impairment requirements were identified for marketing-oriented and sales promotional plant and office equipment and on real estate at three stores in the Germany region, which each constitute cash generating units, and at two stores in Austria. These items were written down by € 1,338k to their net realizable values. The recoverable amount for these locations amounted to € 28,773k.

As in the previous year, no impairment losses to net realizable value were recognized for items of investment property in the 2017/18 financial year.

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

€ 000s	2017/18	2016/17
Retail segment		
Other equipment, plant, and office equipment	0	1,338
	0	1,338
Real estate segment		
Buildings	350	0
	350	0
Total	350	1,338

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 Byggmärnad 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 € 21.2 million (2016/17: € 18.5 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 € 759k was generated on properties let to third parties in the year under report (2016/17: € 1,545k). Expenses of € 406k were incurred for the maintenance of the properties let to third parties (2016/17: € 469k). Expenses of € 28k were incurred for all other items of investment property (2016/17: € 35k).

The real estate acts as security for bank loans in the form of registered land charges amounting to € 12.5 million (2016/17: € 36.6 million).

As in the previous year, contractual amendments and new rental contracts were negotiated for several existing locations in the 2017/18 financial year. The existing lease agreements were exclusively classified as operating leases. The net carrying amount of finance leases included in the "Land, leasehold rights and buildings, and buildings on third-party land" asset class at the balance sheet date totals € 161,756k (2016/17: € 176,385k).

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

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

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

2016/17 financial year € 000s	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years
Nominal value of the minimum lease payments	18,004	70,806	157,475
Discounting	(7,772)	(26,362)	(26,417)
Present value	10,232	44,444	131,057

(13) Financial assets

The development in financial assets in the 2016/17 and 2017/18 financial years was as follows:

€ 000s	Investments	Total
Cost		
Balance at March 1, 2016	3,871	3,871
Measurement of available for sale financial assets	1,788	1,788
Balance at February 28/March 1, 2017	5,659	5,659
Measurement of available for sale financial assets	884	884
Balance at February 28, 2018	6,543	6,543
Carrying amount at February 28, 2018	6,543	6,543
Carrying amount at February 28, 2017	5,659	5,659

Financial assets include a ten-percent shareholding in HORNBAACH 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 the information about financial instruments in Note (33). The other financial assets of € 1k (2016/17: € 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 € 2,259k (2016/17: € 2,254k) 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 3 years.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2018		2.28.2017	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	567	31,401	528	31,248
Finance leases	1,935	0	1,275	0
Inventories	684	3,783	639	4,341
Other provisions	10,606	26	9,027	35
Liabilities	34	379	411	458
Other assets and liabilities	507	936	660	899
Losses carried forward	772	0	834	0
	15,105	36,525	13,374	36,981
Set-off	(10,574)	(10,574)	(9,526)	(9,526)
Total	4,531	25,951	3,848	27,455

(16) Inventories

	2.28.2018 € 000s	2.28.2017 € 000s
Auxiliary materials and supplies	1,850	1,693
Unfinished products, unfinished services	1,460	1,439
Finished products and merchandise	664,130	631,966
Inventories (gross)	667,440	635,098
less valuation allowances	9,619	9,012
Inventories (net)	657,821	626,086
Carrying amount of inventories measured at net realizable value	33,644	28,748

Expenses of € 2,365,968k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2017/18 financial year (2016/17: € 2,261,303k).

(17) Current financial assets

In the previous year, this item included short-term deposits not allocated to cash and cash equivalents.

(18) Trade receivables and other current assets

This item comprises the following items:

	2.28.2018 € 000s	2.28.2017 € 000s
Trade receivables	7,957	6,767
Receivables from affiliated companies	957	1,454
Positive fair values of derivative financial instruments	578	29
Other receivables and assets	52,838	43,100
	62,330	51,350

Trade receivables include receivables of € 1,485k (2016/17: € 1,414k) assigned within factoring agreements that have not been derecognized as all of the credit risk remains at the HORNBAACH Baumarkt AG Group. A corresponding liability has been recognized in the same amount. Given the short-term nature of the relevant receivables and the corresponding liability, their fair values are basically equivalent to their carrying amounts.

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBAACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBAACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 26k (2016/17: € 22k) 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 € 1,669k as of February 28, 2018 (2016/17: € 1,499k) 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 2017/18 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 244k (2016/17: € 278k).

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

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

The following 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.

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

2.28.2017 € 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	6,767	2,832	2,523	229	308	0
Receivables from affiliated companies	1,454	1,454				
Positive fair values of derivative financial instruments	29	29				
Other receivables and assets	31,316	28,738	1,112	99	130	85
	39,566	33,054	3,635	328	438	85

There were no indications of impairment at the balance sheet date for financial assets that were neither impaired nor overdue.

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

€ 000s	Trade receivables		Other receivables and assets	
	2017/18	2016/17	2017/18	2016/17
Allowances at March 1	689	516	1,976	2,003
Utilization	89	46	58	81
Reversals	190	178	107	215
Additions	610	397	443	269
Foreign currency translation	(5)	0	(3)	0
Allowances at February 28	1,015	689	2,251	1,976

The complete retirement of receivables resulted in expenses of € 474k (2016/17: € 572k). The receipt of receivables already derecognized resulted in income of € 32k (2016/17: € 231k).

(19) Cash and cash equivalents

	2.28.2018 € 000s	2.28.2017 € 000s
Cash balances at banks	81,551	90,977
Checks and cash on hand	20,586	22,057
	102,138	113,033

(20) Non-current assets held for sale

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

In the 2017/18 financial year, one piece of land was reclassified at € 321k out of the "investment property" balance sheet line item and sold at its carrying amount. The piece of land was previously allocated to the "Real estate" segment.

In the previous year, no items were reclassified into the "non-current assets held for sale" category.

(21) Shareholders' equity

The development in the shareholders' equity of the HORNBACH Baumarkt AG Group is shown in the statement of changes in group equity for the 2016/17 and 2017/18 financial years.

Share capital

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

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

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

On the basis of a resolution adopted by the Board of Management on September 4, 2017, 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 46,800 shares were acquired via the stock exchange at an average price of € 35.42 and subsequently assigned to employees. An amount of € 57k 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 (€ 10.20) was 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 their share of voting rights has reached, exceeded, or fallen short of specific disclosure thresholds within four trading days. These thresholds amount to 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, and 75%. Similar disclosure obligations are set out in § 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 did not receive or publish any such notifications in the reporting period from March 1, 2017 to February 28, 2018. When applicable, these notifications can be found in the "NEWS" section of the company website at www.hornbach-group.com (filtered by catchword "voting right notification").

Capital reserve

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

Revenue reserves

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

Disclosures concerning capital management

The capital management practiced by HORNBAACH 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 2017/18 financial year. The equity ratio amounted to 52.5 % as of February 28, 2018 (2016/17: 51.6 %).

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

(22) Distributable earnings and dividends

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

HORNBAACH Baumarkt AG concluded the 2017/18 financial year with an annual net surplus of € 14,028,890.30.

Following the withdrawal of € 7,599,869.70 from other revenue reserves, the unappropriated net profit amounts to € 21,628,760.00.

The Board of Management and the Supervisory Board of HORNBAACH Baumarkt AG will propose to the Annual General Meeting that the unappropriated net profit of HORNBAACH Baumarkt AG reported as of February 28, 2018 be appropriated as follows:

	€
Dividend of € 0.68 on 31,807,000 shares	21,628,760.00
	21,628,760.00

By resolution of the Annual General Meeting held on July 6, 2017, a dividend of € 0.68 (2016/17: € 0.68) per share was distributed on a total of 31,807,000 (2016/17: 31,807,000) individual shares in the 2017/18 financial year. The total amount distributed thus amounted to € 21,629k (2016/17: € 21,629k).

(23) Financial debt

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

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

€ 000s	Maturities			Carrying amount 2.28.2017 Total
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	
Bonds	0	248,231	0	248,231
Liabilities to banks	16,966	587	0	17,553
Liabilities in connection with finance leases	10,232	44,444	131,057	185,733
Negative fair values of derivative financial instruments	1,378	0	0	1,378
Total	28,575	293,262	131,057	452,895

The HORNBACH Baumarkt AG Group had current financial debt amounting to € 11.4 million at the balance sheet date on February 28, 2018 (2016/17: € 28.6 million). This consists of the portion of long-term financing facilities maturing in the short term, amounting to € 10.9 million (2016/17: € 13.3 million), in the previous year of current financing facilities of € 13.5 million, of liabilities of € 0.1 million relating to the measurement of derivative financial instruments (2016/17: € 1.4 million), and of interest deferrals of € 0.4 million (2016/17: € 0.4 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. The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2016/17: € 372k).

Alongside the aforementioned bond, 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:

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

2016/17 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2017 € 000s
Mortgage loans	EUR	5.57	2017	1,864
	CZK	5.08	2018	1,760
				3,624

The non-current liability to a bank remaining in the year under report has a fixed interest rate.

As of February 28, 2018, the HORNBAACH Baumarkt AG Group had total credit lines of € 422.6 million (2016/17: € 339.1 million) on customary market terms. Unutilized credit lines amounted to € 418.1 million (2016/17: € 321.0 million). Furthermore, HORNBAACH Baumarkt AG has a credit line for import credits amounting to USD 40.0 million (2016/17: USD 40.0 million). Of this, an amount of USD 9.9 million had been drawn down as of the balance sheet date (2016/17: USD 8.0 million).

The credit lines at the HORNBAACH Baumarkt AG Group include a syndicated credit line of € 350 million at HORNBAACH Baumarkt AG that was agreed on December 22, 2017 and has a five-year term. The credit line may also be drawn down in foreign currencies, particularly CHF, SEK and CZK, up to an amount of € 25 million. Furthermore, supplementary bilateral loan agreements of up to € 70 million may also be concluded within the credit framework (also in foreign currencies). Upon utilization of the credit line, the interest is based on the 3-month or 6-month Euribor, or the equivalent lbor, plus an interest margin. The applicable interest margin is determined by reference to the company rating granted to HORNBAACH 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 € 12.5 million have been provided as security for liabilities to banks (2016/17: € 36.6 million).

No assets have been provided as security for the credit lines 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, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBAACH 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".

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

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

(24) Pensions and similar obligations

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

Defined contribution plans

Apart from payment of contributions, the defined contribution plans do not involve any further obligations on the part of the HORNBACH Baumarkt AG Group. The total of all defined contribution pension expenses amounted to € 53,754k in the 2017/18 financial year (2016/17: € 50,312k). Of this total, an amount of € 29,845k involved the employer's share of contributions to the state pension scheme in Germany (2016/17: € 29,025k).

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 € 3,827k in the 2018/19 financial year.

Defined benefit plans

■ Switzerland

The HORNBAACH 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 840 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 HORNBAACH Baumarkt AG. The pension plan must be fully covered on the basis of a statistical evaluation performed in accordance with BVG provisions. In the event of a shortfall, the pension authority is required to take measures such as setting additional employer and employee contributions or payments.

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

■ Germany

Since the 2011/12 financial year, HORNBAACH 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 HORNBAACH Baumarkt AG and Allianz Treuhand GmbH. Provided that amendments to the capital investment concept do not contravene the fiduciary objective, HORNBAACH Baumarkt AG is itself entitled to have such amendments made. The risk that the trust assets do not generate the minimum return of 2 % p.a. is borne by HORNBAACH Baumarkt AG.

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

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

Pensions and similar obligations are structured as follows:

	2017/18 € 000s	2016/17 € 000s
Present value of pension obligation	65,768	69,593
less fair value of plan assets	(54,948)	(54,377)
Pension commitments as reported in balance sheet	10,820	15,216
of which: pension provisions	10,820	15,216

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

	2.28,2018 %	2.28,2017 %
Debt securities	76.8	79.8
Shares	5.1	4.2
Real estate	11.7	11.2
Other	6.5	4.9
	100.0	100.0

Change in pension obligation

	2017/18 € 000s	2016/17 € 000s
Present value of pension obligation at the beginning of the period	69,593	62,643
Current service cost of employer	4,578	5,328
Employee contributions	2,831	2,709
Payments from the plan	(2,152)	(1,000)
Interest cost	384	502
Remeasurement effects because of:		
Changes in demographic assumptions	0	(2,170)
Changes in financial assumptions	(5,005)	1,537
From experience adjustments	1,216	(246)
Insurance premiums	(1,168)	(1,138)
Foreign currency translation	(4,509)	1,428
Present value of pension obligation at the end of the period	65,768	69,593

Change in plan assets

	2017/18 € 000s	2016/17 € 000s
Plan assets at beginning of period	54,377	48,073
Employer contributions	3,551	3,752
Employee contributions	2,831	2,709
Payments from the plan	(2,152)	(1,000)
Interest income	318	424
Return on plan assets (excluding interest income)	486	584
Insurance premiums	(1,168)	(1,138)
Foreign currency translation	(3,294)	974
Plan assets at the end of the period	54,948	54,377

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.

	2017/18 € 000s	2016/17 € 000s
Current service cost of employer	4,578	5,328
Interest cost	384	502
Interest income	(318)	(424)
Effects recognized in P&L	4,645	5,407
Remeasurement effects because of:		
Changes in demographic assumptions	0	2,170
Changes in financial assumptions	5,005	(1,537)
From experience adjustments	(1,216)	246
Return on plan assets (excluding interest income)	486	584
Effects recognized in OCI	4,276	1,463
Costs for defined benefit plans	369	3,944

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:

	2017/18 € 000s	2016/17 € 000s
Selling and store expenses	3,293	4,039
Pre-opening expenses	48	0
General and administration expenses	1,237	1,290
Net financial expenses (net interest expenses)	67	79
	4,645	5,407

Actuarial assumptions

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

	2.28.2018		2.28.2017	
	Weighted average	Range	Weighted average	Range
Discount interest rate	1.1 %	1.0 % to 1.6 %	0.7 %	0.5 % to 1.6 %
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 2015 Generationentafel".

Sensitivity analysis

The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in present value of pension obligation:

€ 000s	2.28.2018		2.28.2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,348)	2,546	(2,741)	2,982
Rate of pension increase (0.10 basis points change)	714	n/a	912	n/a
Mortality (+ 1 year)	984	n/a	1,203	n/a

Future cash flows

Payments of contributions amounting to € 3,471k are expected for the 2018/19 financial year.

Expected payments	2.28.2018 € 000s
2018/19	408
2019/20	433
2020/21	496
2021/22	6,213
2022/23	4,027
2023 to 2027	5,192

Expected payments	2.28.2017 € 000s
2017/18	375
2018/19	508
2019/20	519
2020/21	594
2021/22	5,869
2022 to 2026	8,468

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 38,029k (2016/17: € 28,087k). These include provisions of € 14,650k (2016/17: € 12,732k) for contractually assumed structural maintenance obligations and personnel provisions of € 11,573k (2016/17: € 10,043k). The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The personnel provisions mainly relate to provisions recognized due to statutory requirements in Austria for employees in the event of their leaving the company (severance payments) and to anniversary bonus claims and part-time early retirement obligations. Further information about the severance payment obligation can be found below. Furthermore, this line item also includes provisions for onerous lease arrangements and a provision for the storage of business documents. The lease arrangements for which provisions were recognized have non-terminable remaining terms of between 2 and 13 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

The development in provisions is presented in Note (28).

Other non-current liabilities also include accruals of € 7,755k (2016/17: € 8,172k). These mainly relate to incentive payments received in connection with extensions or amendments to real estate rental agreements classified as operating leases. The accruals are being written back in instalments over the non-terminable rental period. Furthermore, this item also includes accruals relating to graduated rental agreements.

Severance payments

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

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

Change in pension obligation and costs of plan

	2017/18 € 000s	2016/17 € 000s
Present value of pension obligation at the beginning of the period	5,649	6,061
Current service cost of employer	327	360
Payments from the plan	(170)	(358)
Interest cost	97	98
Remeasurement effects because of:		
Changes in demographic assumptions	0	38
Changes in financial assumptions	548	(448)
From experience adjustments	(315)	(102)
Present value of pension obligation at the end of the period	6,137	5,649

	2017/18 € 000s	2016/17 € 000s
Current service cost of employer	327	360
Interest cost	97	98
Effects recognized in P&L	425	458
Remeasurement effects because of:		
Changes in demographic assumptions	0	(38)
Changes in financial assumptions	(548)	448
From experience adjustments	315	102
Effects recognized in OCI	(234)	512
Total costs for the plan	658	(54)

The average remaining term of the obligation amounts to 13.5 years (2016/17: 14.5 years).

Actuarial assumptions and sensitivity analysis

	2.28.2018	2.28.2017
Discount interest rate	1.6 %	1.7 %
Future salary increases	3.0 %	2.3 %

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	2.28.2018		2.28.2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	-390	429	-380	420
Rate of salary increase (0.25 basis points change)	203	-195	222	-213

(26) Trade payables and other current liabilities

	2.28.2018 € 000s	2.28.2017 € 000s
Trade payables and advance payments received for orders	269,806	260,262
Liabilities to affiliated companies	472	34
Other liabilities	71,433	66,798
of which: other taxation	23,433	23,008
of which: social security contributions	4,277	4,064
	341,711	327,094

Trade payables and other current 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.

(27) Income tax receivables and liabilities

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes for previous financial years. Current income tax provisions are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Tax provisions for current income taxes mainly relate to corporate income tax (including the solidarity surcharge) and to trade tax.

The income tax receivables mainly relate to prepayments of trade tax. The previous year's figure included a refund claim for corporate tax credits amounting to € 1.7 million which arose due to the "German act on fiscal measures accompanying the introduction of the European Company and amending further tax legislation (SEStEG)" and the 2010 Annual Tax Act. This claim was settled in the current financial year.

Reference is made to the information about deferred taxes included in Note 15 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(28) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2017/18 financial year:

€ 000s	Opening balance at 3.1.2017	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2018	of which: non-current
Other provisions								
Personnel	10,043	1,367	39	2,819	97	20	11,573	11,573
Miscellaneous	26,246	6,582	1,420	14,741	16	(135)	32,866	26,457
	36,289	7,948	1,460	17,559	113	(115)	44,438	38,029
Accrued liabilities								
Other taxes	1,176	679	61	425	0	(28)	834	0
Personnel	46,133	44,343	793	57,679	0	(238)	58,438	0
Miscellaneous	21,218	16,793	2,802	20,690	0	(157)	22,157	0
	68,527	61,815	3,656	78,794	0	(422)	81,430	0
	104,816	69,763	5,115	96,354	113	(538)	125,868	38,029

Miscellaneous other current provisions mainly relate to provisions for onerous contracts, at € 2,565k (2016/17: € 3,914k), for customers' expected utilization of their rights of return, recognized at € 1,500k (2016/17: € 1,554k), and for litigation risks, at € 621k (2016/17: € 730k).

Reference is made to Note 25 with regard to details of non-current provisions.

The accrued liabilities for personnel obligations primarily relate to outstanding vacation entitlements, employee bonuses, vacation pay, Christmas bonuses, and contributions to employer's liability insurance associations.

Miscellaneous accrued liabilities relate in particular to the costs of gas, water, electricity, property duties and advertising, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(29) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2018.

(30) Other financial obligations

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

€ million	Maturities			2.28.2017 Total
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	
Purchase obligations for investments	90.3	25.3	0.0	115.6
Obligations under rental, leasehold and leasing contracts	152.2	457.4	403.5	1,013.1
Other financial obligations	13.2	0.0	0.0	13.2
	255.7	482.7	403.5	1,141.9

HORNBACH Baumarkt AG had agreed a credit line of up to € 50 million with HORNBACH Immobilien AG within the framework of its expansion strategy. The agreement dated June 24, 2013 with a 5-year term was prematurely rescinded as of August 31, 2017. No funds were drawn down under this agreement.

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 amount to 15 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 151,918k, excluding ancillary expenses, was recognized in the 2017/18 financial year as rental expenses in connection with operating lease agreements (2016/17: € 151,685k).

(31) 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			Total
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	
February 28, 2018	3,689	3,662	351	7,702
February 28, 2017	3,134	4,688	194	8,016

Rental income results from the letting of retail real estate. The rental contracts mostly have terms of between 5 and 15 years.

Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

(32) Legal disputes

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

(33) Supplementary disclosures on financial instruments

The following tables show the carrying amounts of the financial instruments in each IAS 39 measurement category, and their fair values broken down by balance sheet category:

€ 000s	Category	Carrying amount 2.28.2018	Fair value 2.28.2018	Carrying amount 2.28.2017	Fair value 2.28.2017
Assets					
Financial assets	AfS	6,543	6,543	5,659	5,659
Current financial assets	LaR	0	0	30,009	30,009
Trade receivables	LaR	8,913	8,913	8,221	8,221
Other current and non-current assets					
Derivatives without hedge relationship	FAHfT	578	578	29	29
Other assets	LaR	37,367	37,367	33,994	33,994
Cash and cash equivalents	LaR	102,138	102,138	113,033	113,033
Equity and liabilities					
Financial debt					
Bonds	FLAC	248,844	266,080	248,231	272,310
Liabilities to banks	FLAC	1,001	1,013	17,553	17,641
Liabilities in connection with finance leases	n.a.	174,115	200,354	185,733	215,260
Derivatives with hedge relationship	n.a.	0	0	48	48
Derivatives without hedge relationship	FLHfT	113	113	1,329	1,329
Trade payables	FLAC	253,711	253,711	244,468	244,468
Other current and non-current liabilities	FLAC	29,584	29,584	25,538	25,538
Accrued liabilities	FLAC	22,156	22,156	21,218	21,218

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2016/17: € 372k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 19,623k (2016/17: € 12,738k), other current and non-current liabilities of € 105,352k (2016/17: € 93,498k), and accrued liabilities of € 59,272k (2016/17: € 47,310k).

Aggregate totals by measurement category	Category	Carrying amount 2.28.2018	Carrying amount 2.28.2017
€ 000s			
Loans and receivables	LaR	148,418	185,257
Available-for-sale financial assets	AfS	6,543	5,659
Financial assets held for trading	FAHfT	578	29
Financial liabilities measured at amortized cost	FLAC	555,297	557,008
Financial liabilities held for trading	FLHfT	113	1,329

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

Available for sale financial assets include shareholdings recognized at cost due to the lack of an available fair value. One exception relates to a ten-percent company shareholding in HORNBAACH Immobilien H.K. s.r.o., Czech Republic. This company lets out several DIY store properties and is not publicly listed. Its fair value has largely been determined by reference to Level 3 input data. To calculate the fair value, application was made of the discounted cash flow method. To this end, the cash flows resulting from company-specific planning were discounted by a risk-adjusted interest rate (WACC). In the 2017/18 financial year, the discount rate amounted to 5.7 % after taxes (2016/17: 5.6 %). 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	2017/18	2016/17
As of March 1	5,658	3,870
Change in valuation (OCI)	883	1,788
Balance at February 28	6,541	5,658

The increase in the amount recognized for the investment is chiefly due to the reduction in financial debt and the change in the CZK/EUR exchange rate.

The changes in fair value resulting from changes in the most important input factors at the respective reporting date are presented in the following sensitivity analysis.

€ 000s	2.28.2018		2.28.2017	
	Increase	Decrease	Increase	Decrease
Rent (5 % change)	903	(903)	853	(853)
Discount rate (50 basis point change)	(1,038)	1,288	(990)	1,232

Derivative financial instruments include foreign currency items for outstanding orders and measurement items for outstanding forward exchange transactions. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of finance leases have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk premiums available on the market.

The fair value of the publicly listed 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		2.28.2018	2.28.2017
Assets			
Valuation based on level 2 input data			
Derivatives without hedge relationship	FAHfT	578	29
Valuation based on level 3 input data			
Financial assets	AfS	6,541	5,658
Liabilities			
Valuation based on level 1 input data			
Bonds	FLAC	266,080	272,310
Valuation based on level 2 input data			
Liabilities to banks	FLAC	1,013	17,641
Liabilities in connection with finance leases	n.a.	200,354	215,260
Derivatives with hedge relationship	n.a.	0	48
Derivatives without hedge relationship	FLHfT	113	1,329

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

Net result by measurement category	2017/18 € 000s	2016/17 € 000s
Loans and receivables (LaR)	(6,177)	878
Financial instruments held for trading (FAHfT and FLHfT)	85	(1,055)
Financial liabilities measured at amortized cost (FLAC)	812	34

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", and "financial liabilities measured at amortized cost" involve foreign currency translation items, the results of disposals and write-downs. Furthermore, in the 2017/18 financial year measurement changes of € 883k relating to "available-for-sale financial assets" were recognized directly in equity (2016/17: € 1,788k).

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions. The Group currently does not have any forward exchange transactions that are eligible for netting. In the previous year, the Group had forward exchange transactions of € 29k that were eligible for netting.

(34) Risk management and financial derivatives

Risk management principles

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

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

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

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

Market risks

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

Foreign currency risks

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

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

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

€ 000s	2.28.2018	2.28.2017
EUR	(69,489)	(47,083)
USD	3,214	17,324
CZK	(518)	(627)

The above EUR currency position results from the following currency pairs: CHF/EUR € -29,332k (2016/17: € 5,991k), RON/EUR € -16,764k (2016/17: € -18,758k), SEK/EUR € -15,622k (2016/17: € -23,201k), CZK/EUR € -7,769k (2016/17: € -10,116k), and USD/EUR € 0k (2016/17: € -999k).

The most important exchange rates have been presented under "Foreign currency translation".

In the sensitivity analysis provided below for foreign currency risks, it has been assumed that the foreign currency holdings as of the balance sheet date are representative of the financial year as a whole.

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 7,340k lower (2016/17: € 6,206k). Conversely, if the euro had **depreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 7,340k higher (2016/17: € 6,206k). The hypothetical impact on earnings of € +7,340k (2016/17: € +6,206k) is the result of the following sensitivities: EUR/CHF € 2,998k (2016/17: € -589k), EUR/RON € 1,702k (2016/17: € 1,888k), EUR/SEK € 1,614k (2016/17: € 2,327k), EUR/CZK € 706k (2016/17: € 948k), and EUR/USD € 320k (2016/17: € 1,632k).

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. Furthermore, the Group also had CZK loans amounting to € 624k (2016/17: € 1,760k). At the end of the 2017/18 financial year, the Group did not have any short-term or long-term euro loans (2016/17: € 1,864k) or current liabilities to banks (2016/17: € 13,541k).

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

If the market interest rate had been **100 base points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 814k higher (2016/17: € 774k) and equity before deferred taxes would have been € 0k higher (2016/17: € 5k). Due to the low level of interest rates currently, a parallel shift in the interest rate curve by 100 base points downwards in some cases produces negative interest rates. This severely limits the meaningfulness of any such simulation. For the current financial year, the company has therefore rather simulated the hypothetical impact on earnings of a shift in the interest rate curve by 10 base points downwards. If the market interest rate had been **10 base points lower** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 82k lower (2016/17: € 78k) and equity before deferred taxes would have been € 0k lower (2016/17: € 0k).

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 as far as possible only concluded with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

Liquidity risk

The following tables show the contractually agreed (undiscounted) outflows of cash for primary and derivative financial liabilities:

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

€ 000s	Carrying amount 2.28.2017	Cash outflows		
		< 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	248,231	9,688	269,401	0
Liabilities to banks	17,553	16,651	598	0
Liabilities in connection with finance leases	185,733	18,004	70,806	157,475
Trade payables	244,468	244,468	0	0
Other current and non-current liabilities	25,538	25,386	152	0
Accrued liabilities	21,218	21,218	0	0
	742,741	335,414	340,957	157,475
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	1,329	10,749	0	0
Interest derivatives in connection with cash flow hedges	48	48	0	0
	1,378	10,796	0	0
Derivative financial assets				
Foreign currency derivatives without hedge relationship	29	5,627	0	0
	29	5,627	0	0
		351,837	340,957	157,475

All financial liabilities held at the balance sheet date have been included. No account has been taken of budget figures for future new liabilities. Furthermore, the presentation includes financial assets that will lead to an outflow of cash. Floating-rate interest payments were calculated on the basis of interest rates valid at the balance sheet date. Liabilities denominated in foreign currencies were translated at the relevant reporting date rate.

The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2016/17: € 372k). The corresponding outflows of cash have been recognized in the bond line item.

With regard to the management of liquidity risk, reference is made to Note (23) and to the disclosures on the financial situation in the management report.

Hedging measures

Hedging transactions serve to hedge the interest rate and foreign currency risks associated with an underlying transaction (hedged item).

Cash flow hedge – interest rate risk

The interest swaps reported as of the end of the 2016/17 financial year expired on schedule as of September 30, 2017.

Other hedging measures – foreign currency risks

The HORNBACH Baumarkt AG Group also deploys hedging measures which do not meet the hedge accounting requirements set out in IAS 39, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line with its risk management principles. For example, the HORNBACH Baumarkt AG Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded

foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by concluding forward exchange transactions or making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including embedded forward exchange transactions, amounts to € 465k (2016/17: € -1,300k). Of this total, € 578k has been recognized under other assets (2016/17: € 29k) and € -113k under financial debt (2016/17: € -1,329k).

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

Derivatives

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

2.28.2018	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	4,000	29,469	0	33,469
Fair value in € 000s (before deferred taxes)	65	400	0	465

2.28.2017	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Total
Nominal value in € 000s	17,000	37,182	1,864	56,046
Fair value in € 000s (before deferred taxes)	(64)	(1,236)	(48)	(1,348)

(35) Sundry disclosures**Employees**

The average number of employees was as follows:

	2017/18	2016/17
Salaried employees	17,608	16,997
Trainees	858	836
	18,466	17,833
of which: part-time employees	5,313	4,981

In terms of geographical regions, 10,440 of the average workforce were employed in Germany during the 2017/18 financial year (2016/17: 10,280) and 8,026 in other European countries (2016/17: 7,553).

Auditor's fee

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

	2017/18 € 000s	2016/17 € 000s
Auditing of financial statements	589	508
Other certification services	7	7
Tax advisory services	27	44
Other services	0	6
	624	565

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

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management and Supervisory Board of HORNBAACH Baumarkt AG in December 2017 and made available to shareholders on the company's homepage.

(36) Related party disclosures

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

The associated companies are:

Hornbach Familien-Treuhandgesellschaft mbH
HORNBAACH Management AG

Parent company

HORNBAACH Holding AG & Co. KGaA

Associates

HORNBAACH Immobilien AG
HORNBAACH 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.
Saar-Lor Immobilière S.C.I.
HORNBAACH 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
HORNBAACH Real Estate Nederland B.V.
HORNBAACH Immobilien HK s.r.o.
HORNBAACH Immobilien SK-BW s.r.o.
HORNBAACH Immobiliare SRL
HB Immobilien Bad Fischau GmbH

The following principal transactions were performed with associates:

	2017/18 € 000s	2016/17 € 000s
Rent and ancillary costs for rented DIY stores with garden centers and other real estate	76,903	76,290
Interest charge for group financing	45	50
Interest income for group financing	75	150
Allocations paid for administration expenses	925	897
Allocations received for administration expenses	2,552	2,292
Supplies and deliveries to HORNBAACH Holding AG & Co. KGaA and its subsidiaries	176	195
Supplies and deliveries by HORNBAACH Holding AG & Co. KGaA and its subsidiaries	317	680

At February 28, 2018, there were receivables of € 957k (2016/17: € 1,454k) and liabilities of € 472k (2016/17: € 34k) due to HORNBAACH Holding AG & Co. KGaA and its subsidiaries. All transactions are undertaken at normal market prices and with customary delivery conditions.

HORNBAACH Holding AG & Co. KGaA has provided guarantee declarations for liabilities at the HORNBAACH Baumarkt AG Group amounting to € 9,012k (2016/17: € 10,022k). Guarantee fees of € 45k (2016/17: € 50k) were recognized as expenses at the HORNBAACH Baumarkt AG Group in this respect during the year under report.

Some of the companies included in the consolidated financial statements of HORNBAACH Baumarkt AG make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler am Trifels, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 6k were performed by the seminar hotel in the 2017/18 financial year (2016/17: € 13k). These services were invoiced at customary rates. As in the previous year, liabilities of € 0k were outstanding at the balance sheet date on February 28, 2018.

(37) Events after the balance sheet date

The consolidated financial statements of HORNBAACH Baumarkt AG for the 2017/18 financial year were approved for publication by the Board of Management on May 14, 2018.

(38) Supervisory Board and Board of Management**Members of the Board of Management:****Steffen Hornbach**

Strategic Development, Operative Store Management,
Sales and Services

Chairman (CEO)

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

Roland Pelka

Finance, Accounting, Tax, Controlling, Risk Management,
Loss Prevention, Group Communications

Deputy Chairman

First appointed: October 1, 1996
Dep. Chairman since December 16, 2008
Appointed until: September 30, 2021

Susanne Jäger

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

First appointed: December 1, 2006
Appointed until: November 30, 2021

Wolfgang Ketzler

Labor Director

Personnel, Real Estate, Construction, Technical
Procurement, Internal Audit, Legal, Compliance

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

Karsten Kühn

Marketing, Market Research, Internal Communications

First appointed: October 1, 2014
Appointed until: September 30, 2019

Ingo Leiner

Logistics

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

Dr. Andreas Schobert

Technology

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

Compensation of the Board of Management for the 2017/18 financial year totals € 5,535k (2016/17: € 5,687k). Of this, € 2,828k (2016/17: € 2,805k) relates to fixed compensation and € 2,707k (2016/17: € 2,882k) to performance-related components. Post-employment benefits (pension provision endowment) of € 663k were incurred for active Board members in the 2017/18 financial year (2016/17: € 663k).

Pension provisions for former members of the Board of Management amounted to € 1,246k in the 2017/18 financial year (2016/17: € 1,268k).

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 2020/21 financial year, individualized disclosure of the compensation of members of the Board of Management has been waived.

Members of the Supervisory Board:

As representatives of the shareholders

Albrecht Hornbach

CEO
HORNBACH Management AG

Chairman

Member since: April 25, 2002
Chairman since: March 1, 2009
Appointed until: end of 2018 AGM

Dr. Wolfgang Rupf

Managing Partner, Rupf Industries GmbH,
Rupf Engineering GmbH, and Rupf ATG Casting GmbH

Further Deputy Chairman

Member since: August 27, 1998
Appointed until: end of 2018 AGM

Dr. John Feldmann

Supervisory Board Chairman of KION Group AG
Former Executive Board member at BASF SE

Member since: July 4, 2013
Appointed until: end of 2018 AGM

Erich Harsch

CEO
dm-drogerie markt GmbH & Co. KG

Member since: July 4, 2013
Appointed until: end of 2018 AGM

Georg Hornbach

Head of Controlling Department and
Head of Finance and Procurement Department
Universtitätsklinikum Köln

Member since: July 9, 2015
Appointed until: end of 2018 AGM

Martin Hornbach

Managing Partner
Corivus Gruppe GmbH

Member since: July 13, 2006
Appointed until: end of 2018 AGM

Joerg Walter Sost

Managing Partner
J.S. Consulting GmbH

Member since: March 1, 2012
Appointed until: end of 2018 AGM

Prof. Dr.-Ing. Jens P. Wulfsberg

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

Member since: September 1, 2005
Appointed until: end of 2018 AGM

As representatives of the employees

Kay Strelow

Section Manager,
Berlin-Marzahn Store

Monika Di Silvestre (since April 5, 2017)

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

Mohamed Elaouch

Section Manager, Mainz Store

Martin Fischer

Professional Customer Advisor, Kempten Store

Christian Garrecht

Operative Head of Workplace Safety
and Fire Prevention

Kerstin Holfert

Section Manager, Dresden Store

Hans Kroha († April 5, 2017)

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

Brigitte Mauer

Section Manager, Tübingen Store

Michael Reiland

Sales Director at HORNBACH Compact

Deputy Chairman

for trade unions

Member since: July 10, 2008

Appointed until: end of 2018 AGM

for trade unions

Member since: April 5, 2017

Appointed until: end of 2018 AGM

for salaried employees

Member since: July 4, 2013

Appointed until: end of 2018 AGM

for salaried employees

Member since: July 4, 2013

Appointed until: end of 2018 AGM

for salaried employees

Member since: July 4, 2013

Appointed until: end of 2018 AGM

for salaried employees

Member since: July 4, 2013

Appointed until: end of 2018 AGM

for trade unions

Member from July 4, 2013 until April 5, 2017

for salaried employees

Member since: July 4, 2013

Appointed until: end of 2018 AGM

for senior employees

Member since: July 4, 2013

Appointed until: end of 2018 AGM

The total compensation of the Supervisory Board for the 2017/18 financial year amounted to € 515k (2016/17: € 515k). Of this sum, € 390k (2016/17: € 390k) related to basic compensation and € 125k (2016/17: € 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) HORNBAACH Immobilien AG (Chairman)
- b) Rheinland-Pfalz Bank (Member of Advisory Board until December 2017)

Dr. Wolfgang Rupf

- a) HORNBAACH Holding AG & Co. KGaA (Chairman)
HORNBAACH Management AG (Chairman)
IVA Valuation & Advisory AG (Deputy Chairman)
- b) Inception Exploration Ltd. (Member of Board)

Monika Di Silvestre (since April 5, 2017)

- a) WASGAU Produktions & Handels AG

Dr. John Feldmann

- a) HORNBAACH Holding AG & Co. KGaA
HORNBAACH Management AG
KION Group AG (Chairman)

Erich Harsch

- a) HORNBAACH Holding AG & Co. KGaA
HORNBAACH Management AG
- b) dm drogerie markt GmbH, Wals/Austria (since February 2018)

Georg Hornbach

- a) HORNBAACH Management AG
- b) Evangelisches Klinikum Köln Weyertal GmbH (Supervisory Board member since February 2018)

Martin Hornbach

- a) Corivus AG (Chairman)
HORNBAACH Holding AG & Co. KGaA (Deputy Chairman)
- b) Corivus Swiss AG (Chairman of Administrative Board)

Hans Kroha († April 5, 2017)

- a) WASGAU Produktions & Handels AG

Joerg Walter Sost

- a) DUOPLAST AG (Chairman since May 2017)
HORNBAACH Holding AG & Co. KGaA
HORNBAACH Management AG
- b) Atreus GmbH (Member of Advisory Board)
Bürger GmbH (Chairman of Advisory Board)
DUOPLAST Holding GmbH (Chairman of Advisory Board)
ECF GmbH (Chairman of Advisory Board)
Leuna Tenside Holding GmbH (Chairman of Advisory Board since March 2017)
Norafin Industries GmbH (Chairman of Advisory Board)
VR Equitypartner GmbH (Chairman of Advisory Board)
Weisshaar GmbH (Member of Advisory Board until March 2017)
ZT Management Holding GmbH (Member of Advisory Board until January 2018)

Prof. Dr.-Ing. Jens P. Wulfsberg

- a) HORNBAACH Management AG

Members of the Board of Management

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

Steffen Hornbach

- a) HORNBAACH Immobilien AG (until August 2017)

Roland Pelka

- a) HORNBAACH Immobilien AG (Deputy Chairman)
WASGAU Produktions & Handels AG
- b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Susanne Jäger

- a) VR Bank Südliche Weinstraße-Wasgau eG

Wolfger Ketzler

- a) HORNBAACH Immobilien AG (since August 2017)
Med 360° AG (Chairman)

Bornheim bei Landau/Pfalz, May 14, 2018

HORNBACH Baumarkt AG
The Board of Management

Steffen Hornbach

Roland Pelka

Susanne Jäger

Wolfger Ketzler

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

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

Bornheim bei Landau/Pfalz, May 14, 2018

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

To HORNBACH Baumarkt AG, Bornheim bei Landau/Pfalz

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

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Baumarkt AG, Bornheim bei Landau/Pfalz, and its subsidiaries (the Group), comprising the balance sheet as of February 28, 2018, income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the financial year from March 1, 2017 to February 28, 2018, and the notes to the consolidated financial statements, including the summary of significant accounting policies. Furthermore we audited the combined management report for the financial year from March 1, 2017 to February 28, 2018.

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

- the accompanying consolidated financial statements comply in all material respects with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB (Handelsgesetzbuch - German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets and financial position of the Group as of February 28, 2018, and of its financial performance for the financial year from March 1, 2017 to February 28, 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter "EU-APrVO") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany - IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in ac-

cordance with these requirements. In addition, in accordance with Article 10 (2) Point f) EU-APrVO, we declare that we have not provided any non-audit services prohibited under Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from March 1, 2017 to February 28, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon we do not provide a separate audit opinion on these matters.

Measurement of inventories

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

THE RISK FOR FINANCIAL REPORTING

Inventories of € 657.8 million have been recognized in the balance sheet as of February 28, 2018. This figure includes impairments of € 9.6 million.

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

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

OUR AUDIT APPROACH

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

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

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

OUR CONCLUSIONS

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

The recoverability in the value of location properties

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

THE RISK FOR FINANCIAL REPORTING

The HORNBACH Baumarkt AG Group assesses the recoverability in the value of property, plant and equipment on the level of individual stores, each of which constitutes a cash generating unit (CGU). Within property, plant and equipment, the carrying amount of "Land, leasehold rights, and buildings on third-party land" (so-called "location properties") amounts to € 922.3 million. This line item thus accounts for 82.3 % of property, plant and equipment and 46.2 % of total assets and is therefore of considerable significant for the Group's net asset position. In the 2017/18 financial year, the Group recognized impairments totaling € 0.4 million on these assets.

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

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

OUR AUDIT APPROACH

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

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

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

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

OUR CONCLUSIONS

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

Other Information

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

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of the Board of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The company's legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, financial position, and financial performance of the Group. In addition, the Board of Management is responsible for such internal controls as they have deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such precautions and measures (systems) as they have considered necessary to enable the

preparation of a combined management report that is in accordance with applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and EU-APrVO and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or aggregately, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements and in the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of precautions and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.
- conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on

the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that they give a true and fair view of the assets, financial position, and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with (German) law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the company's legal representatives as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independent requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless laws or other regulations preclude public disclosure of the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 EU-APrVO

We were elected as auditor of the consolidated financial statements by the Annual General Meeting on July 6, 2017. We were engaged by the Supervisory Board on December 12, 2017. We have been the auditor of the consolidated financial statements of HORNBACH Baumarkt AG without interruption since the 1997/98 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (long-form audit report).

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

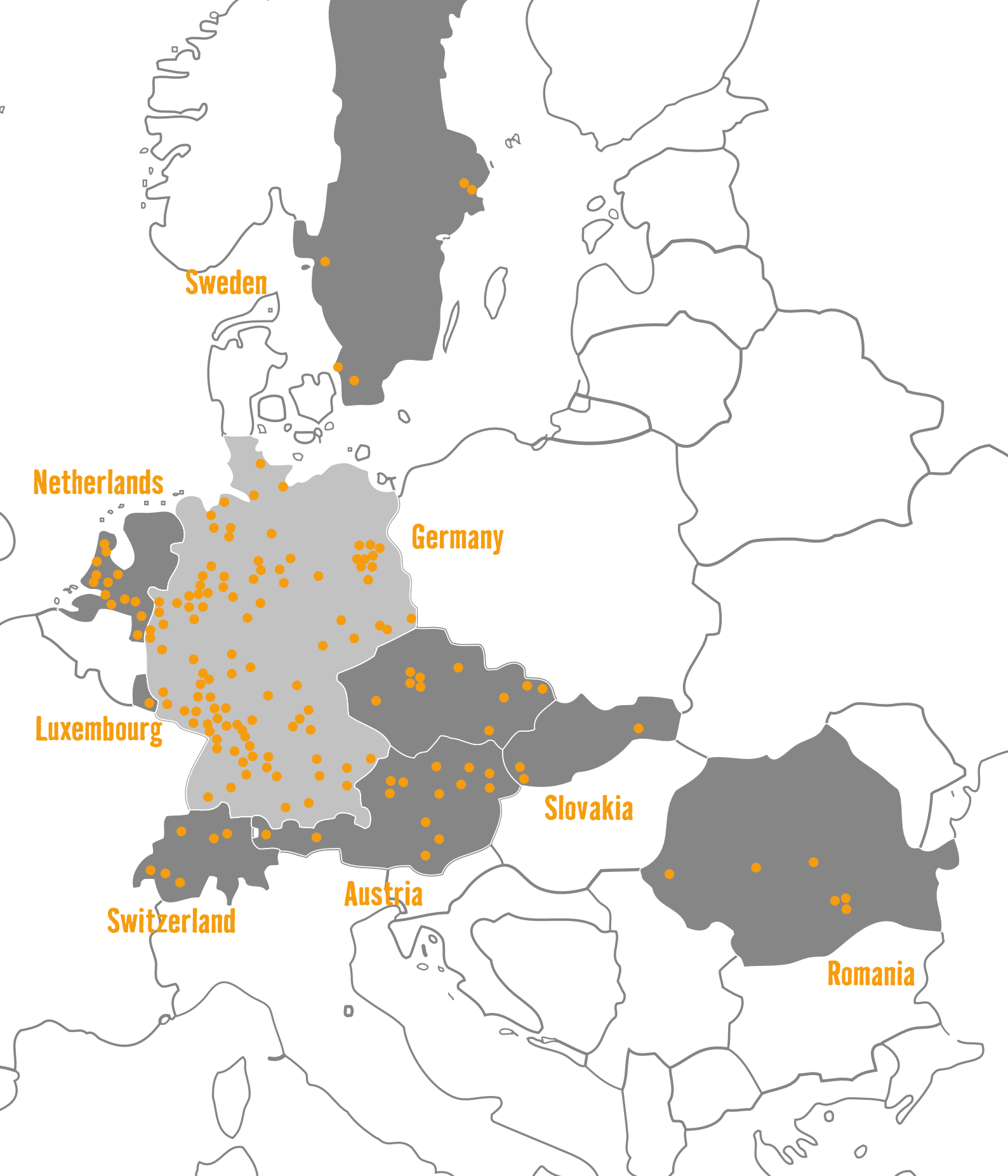
Auditor Responsible

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

Frankfurt am Main, May 14, 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Bertram
Wirtschaftsprüfer
(German public auditor)

Palm
Wirtschaftsprüfer
(German public auditor)



LOCATIONS



Germany

Baden-Württemberg

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

Bavaria

Altötting
Bamberg
Erlangen
Fürth
Ingolstadt
Kempten
Munich-Freiham
Munich-Fröttmaning
Neu-Ulm
Nuremberg
Passau
Schwabach
Straubing
Würzburg

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

Brandenburg

Fredersdorf-Vogelsdorf
Ludwigsfelde
Marquardt
Velten

Bremen

Bremen, Duckwitzstraße
Bremen, Weserpark
Bremerhaven

Hamburg

Hamburg-Eidelstedt

Hesse

Darmstadt
Frankfurt, Hanauer Landstr.
Frankfurt-Niedereschbach
Hanau²
Lohfelden
Wiesbaden-Biebrich
Wiesbaden-Mainz-Kastel

Lower Saxony

Braunschweig
Garbsen

Hannover-Linden

Isernhagen-Altwarmbüchen
Lüneburg
Oldenburg
Osnabrück
Wilhelmshaven
Wolfsburg

North Rhine-Westphalia

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Datteln
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Essen
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Domnești

Sibiu
Timișoara

Sweden

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Botkyrka
Helsingborg
Gothenburg
Sundbyberg

Switzerland

Biel/Bienne
Etoy
Galgenen
Luzern-Littau
Riddes
Villeneuve

Slovakia

Bratislava-Devínska Nová Ves
Bratislava-Ružinov
Kosice

Czech Republic

Brno
Hradec Kralové
Olomouc
Ostrava-Svinov
Ostrava-Vítkovice
Plzeň
Prague-Černý Most
Prague-Čestlice
Prague-Řepy
Prague-Velká Chuchle

¹ Newly opened in 2017/18 financial year

² Closed in 2017/18 financial year

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HORNBACH Baumarkt AG
Hornbachstraße
76878 Bornheim bei Landau/Pfalz
Telephone +49 (0) 6348/60-00
Fax +49 (0) 6348/60-4000
info@hornbach.com
www.hornbach.com

Investor Relations
Telephone +49 (0) 6348/60-2444
invest@hornbach.com
www.hornbach-gruppe.com

Design Concept and Photography
Schröder & Schröder GmbH & Co. KG
Böttcherstraße 27
49124 Georgsmarienhütte
mail@adrian-schroeder.de
www.adrian-schroeder.de

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