ANNUAL REPORT 2020/2021

HORNBACH HOLDING

AG & CO. KGAA GROUP

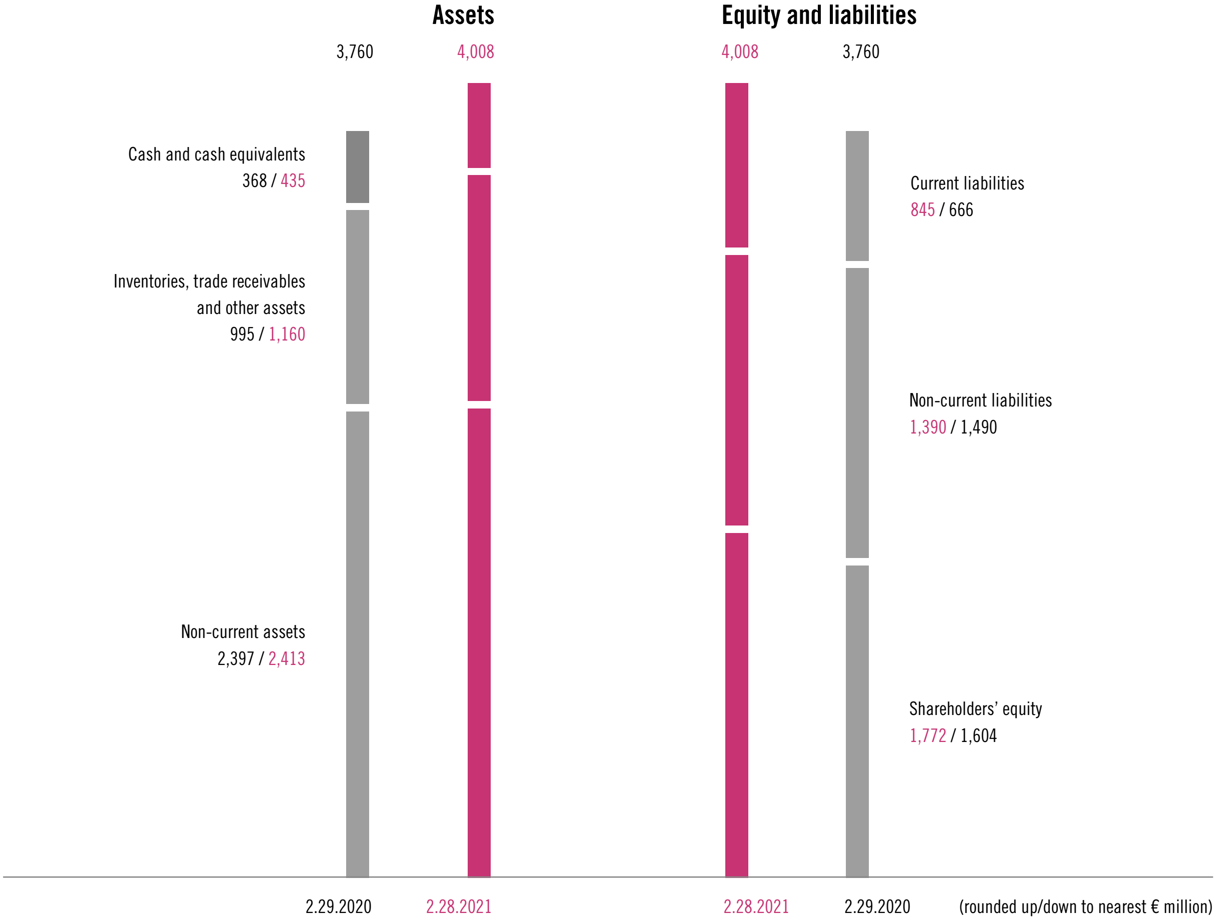
CONTENTS

Key Group, Financial and Operating Data

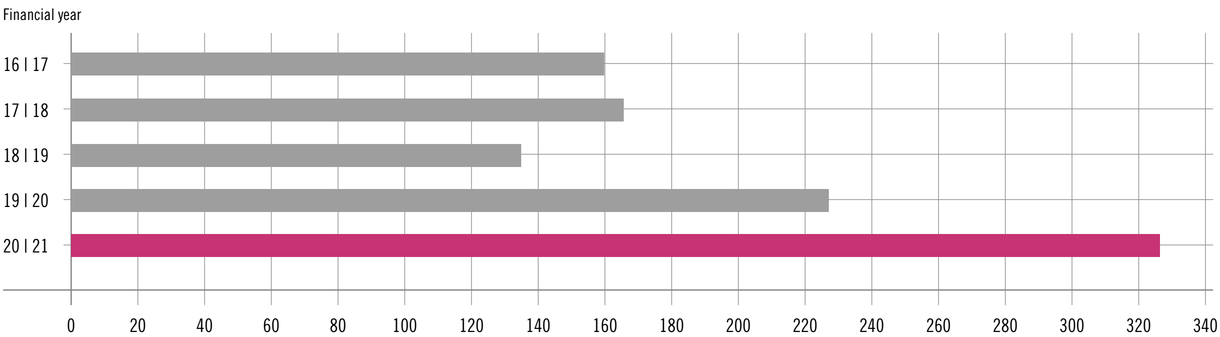
Amounts shown in € million unless otherwise stated	2019/20 on previous year	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
Sales and earnings figures											
Net sales	15.4%	5,456	4,729	4,362	4,141	3,941	3,755	3,572	3,369	3,229	3,204
of which in other European countries	12.7%	2,471	2,193	1,986	1,829	1,679	1,533	1,400	1,334	1,280	1,272
Sales growth as % of net sales		15.4	8.4	5.3	5.1	4.9	5.1	6.0	4.3	0.8	6.2
EBITDA	23.0%	516	420	235	263	254	231	243	236	221	247
as % of net sales		9.5	8.9	5.4	6.3	6.5	6.2	6.8	7.0	6.9	7.7
EBIT	45.9%	312	214	121	161	157	138	165	160	146	169
as % of net sales		5.7	4.5	2.8	3.9	4.0	3.7	4.6	4.8	4.5	5.3
Adjusted EBIT [1]	43.8%	326	227	135	166	160	151	167	164	146	177
as % of net sales		6.0	4.8	3.1	4.0	4.1	4.0	4.7	4.9	4.5	5.5
Earnings before taxes and non-controlling interest	60.1%	266	166	99	132	130	113	140	128	108	132
as % of net sales		4.9	3.5	2.3	3.2	3.3	3.0	3.9	3.8	3.3	4.1
Net income for the year before non-controlling interest	63.3%	201	123	75	96	90	98	107	86	77	95
as % of net sales		3.7	2.6	1.7	2.3	2.3	2.6	3.0	2.6	2.4	3.0
Gross margin as % of net sales		35.2	35.8	36.0	36.6	36.6	37.0	37.3	36.6	36.5	36.6
Store expenses as % of net sales		25.3	26.7	28.2	27.8	27.9	28.5	27.9	27.3	27.7	27.1
Costs of central administration as % of net sales		4.4	4.9	5.2	5.2	4.9	4.9	4.6	4.4	4.5	4.2
Pre-opening expenses as % of net sales		0.1	0.2	0.2	0.1	0.2	0.3	0.4	0.3	0.3	0.2
Cash flow figures											
Cash flow from operating activities	6.8%	347	324	54	182	179	152	156	198	144	142
Investments [2]	17.7%	154	131	196	148	179	156	119	116	149	163
Proceeds from divestments		5	10	5	9	11	3	5	12	6	13
Earnings potential [3]	6.6%	354	332	61	187	185	162	171	207	154	148
as % of net sales		6.5	7.0	1.4	4.5	4.7	4.3	4.8	6.1	4.8	4.6
Dividend distribution		24.0	24.0	24.0	24.0	24.0	12.6	12.6	10.5	10.5	10.5
Balance sheet and financial figures											
Total assets	6.6%	4,008	3,760	3,011	2,668	2,648	2,680	2,433	2,362	2,270	2,267
Non-current assets	0.7%	2,397	2,379	1,757	1,686	1,651	1,561	1,336	1,286	1,268	1,202
Inventories	15.3%	993	861	799	699	662	623	567	539	515	507
Cash and cash equivalents	18.1%	435	368	316	164	190	350	401	429	357	422
Shareholders' equity	10.5%	1,772	1,604	1,507	1,463	1,398	1,334	1,259	1,164	1,097	1,041
as % of total assets		44.2	42.7	50.0	54.8	52.8	49.8	51.7	49.3	48.3	45.9
Return on shareholders' equity based on net income - in %		11.9	7.9	5.1	6.7	6.6	7.5	8.8	7.6	7.2	9.4
Net working capital	16.3%	846	727	678	532	531	464	441	397	406	416
Additions to non-current assets[4]	(71.2)%	241	837	196	148	198	325	121	117	151	163
Inventory turnover rate per year		4.2	3.8	3.9	3.9	3.9	4.1	4.2	4.1	4.0	4.1
Other information											
Employees - annual average -converted into full-time equivalents	4.4%	18,720	17,935	17,053	16,223	15,751	15,283	14,663	14,064	13,289	12,778
Number of shares		16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000
Earnings per share in € [5]		10.33	6.56	4.08	5.11	4.84	5.04	5.64	4.55	4.06	4.77

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

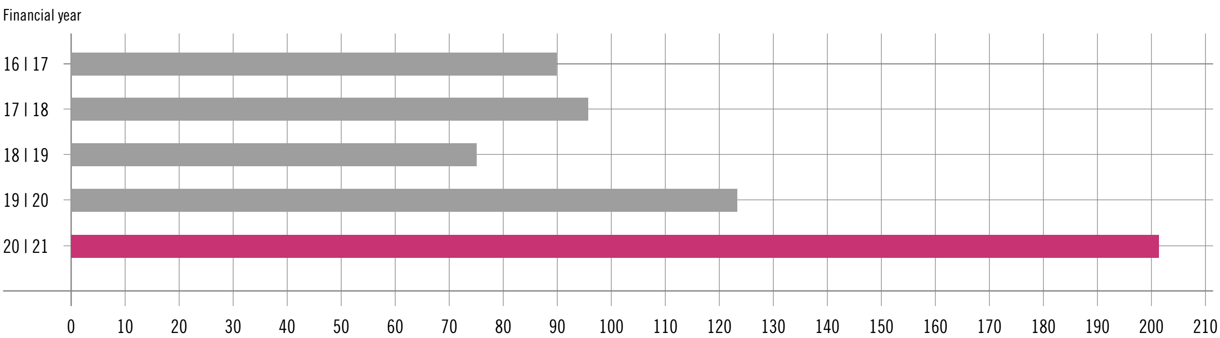
Structure of consolidated balance sheet
(€ million)

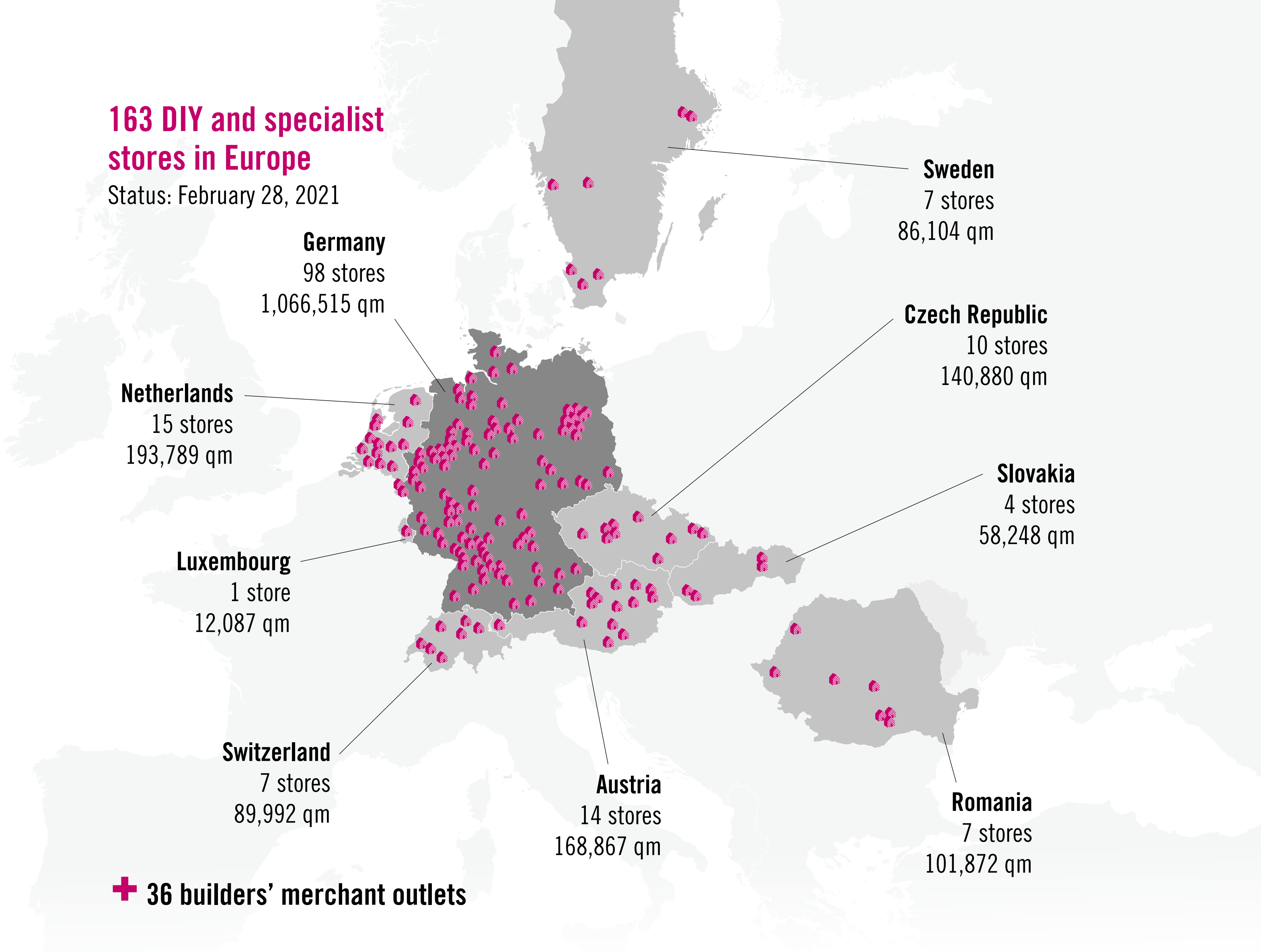


Adjusted EBIT
(€ million)



Net income for the year
(€ million)





Company Profile

HORNBACH is one of the leading DIY retail groups in Germany and Europe, with 161 DIY stores and garden centers, 2 specialist stores, 36 builders' merchant outlets as well as online shops in nine European countries. HORNBACH's megastores and online shops offer DIY enthusiasts and professionals a broad product range of around 200,000 high-quality articles at permanently low prices. HORNBACH supplements its products with a wide range of project-based advice and services.

1877

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

€ 5.5 billion

Consolidated sales rose by 15.4 % in the 2020/21 financial year.

€ 2,698

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

Dividend gem

Since its IPO in 1987, HORNBACH Holding AG & Co. KGaA has each year distributed a dividend at least as high as the year before.

No. 1

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

60%

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

TO OUR SHAREHOLDERS

Letter from the CEO

Albrecht Hornbach

Dear Ladies and Gentlemen,

When I last wrote this letter to our shareholders one year ago, we had only just recovered from the initial shock of the coronavirus. Our 2020/21 financial year had hardly begun when the pandemic arrived in full force in March 2020 and upended our social, business, and cultural life. We only had the first two months of the year under report behind us and were still unable to draw any conclusions as to the impact the pandemic-related measures would have on the HORNBACH Group or as to how the crisis would pan out. For a historic challenge on this scale, even the 144-year history of our company did not offer any blueprints, let alone any quick fixes.

All in all, we have been extremely fortunate. Despite massive restrictions on sales in spring 2020 and the fourth quarter (December 1, 2020 to February 28, 2021), the 2020/21 financial year turned out far better than originally expected and, for good measure, more positive than at most competitors. One main reason for this success was the fact that consumers needed DIY stores more than ever during the pandemic and especially during the periods of lockdown. Thanks above all to the investments we made in the past, we as a company were able to satisfy these needs particularly well. Here are the most important key figures for the HORNBACH Group in the past 2020/21 financial year:

- With sales growth of 15.4 % to € 5,456 million, we exceeded the five-billion mark for the first time, with growth momentum both in our DIY retail business and in our builders' merchant business.
- The HORNBACH Baumarkt AG subgroup increased its net sales by 15.6 % to € 5.1 billion in the 2020/21 financial year. Our group-wide like-for-like sales growth of 14.7 % represents the highest figure for 28 years.
  - Our e-commerce activities received a clear boost, with online sales (including click & collect) more than doubling. The online share of the subgroup's sales rose from around 10 % to almost 17 %.
  - In Germany, our DIY stores and garden centers generated like-for-like growth of 18.6 %. Based on the 2020 calendar year, we outperformed the sector average by more than eight percentage points and expanded our market share, even without opening any new stores, from 11.3 % to 12.0 %.
  - The international HORNBACH locations, harder hit by lockdowns than their German counterparts, particularly in spring 2020, increased their currency-adjusted like-for-like sales by 10.8 %.
- The HORNBACH Baustoff Union GmbH subgroup contributed to the superb performance of the HORNBACH Group with its own sales growth of 12.8 %.
- Thanks to this strong sales growth, the HORNBACH Group significantly increased its operating earnings strength compared with the previous year. EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) showed clearly disproportionate growth compared with sales, rising by 43.8 % to € 326.4 million. The adjusted EBIT margin climbed from 4.8 % to 6.0 %.
- Earnings per share jumped from € 6.56 to € 10.33.

Consumers' withdrawal to their own four walls and the increasing number of people working from home created a historical level of demand for DIY product ranges. Never before has so much renovation work been done, never have so many pools been installed, barbeques bought, or rooms painted. For many people, projects at home and in the garden were a meaningful, at times necessary occupation in a period with few alternative pastimes. That alone provided the whole of the DIY sector with a one-off boom during the pandemic year of 2020. What really drove the outperformance, in some cases dramatic, of HORNBACH's DIY stores and garden centers and the builders' merchant business, however, was the fact that we could satisfy these increased customer needs even in the toughest conditions. More than anything, we owe that to our interconnected retail (ICR) strategy. And to the untiring commitment shown by our employees, who had to adapt to ever new conditions and did an absolutely fantastic job! I would like to extend a special thankyou to all the Group's employees, who now number more than 23,000 and whose great energy and wealth of improvisational talent and endurance enabled us to conclude the 2020/21 financial year on such a successful note.

In spring 2020, we developed hygiene concepts in no time at all to protect our customers and staff. During the 2020/21 financial year, we made additional dispatch centers operational to cope with the sharp rise in online orders. We continually adapted our processes in line with ever new requirements to combat the pandemic, some of which introduced at very short notice. We benefited from the fact that we have operated interconnected retail (ICR) for many years already and learned how to be there for our customers across all channels. Nearly all of our product range is available online, as are very many additional articles. At times when private customers were not permitted to enter stores, we generated a large part of our normal sales with click & collect or by sending products directly to customers. This combination of a proprietary logistics networks and our megastores, which also serve as warehouses and offer good stocking capacities, was a key factor in our success. Not only that, commercial customers, and tradespeople in particular, increasingly turn to our DIY stores as competent partners. The sharp rise in demand drove growth not only in the DIY retail business, but also enabled the HORNBACH Baustoff Union outlets to post a very pleasing sales and earnings performance. Due to the focus on commercial customers in the builders' merchant business, the restrictions on sales to private customers did not have any material impact.

The close dovetailing of stationary stores, online shop, and logistics made the crucial difference in the past financial year. Here, it truly paid off that we were bold enough to invest substantial sums in our ICR strategy in the past. Since 2010, we have invested around € 500 million in digitalizing our business model. That particularly proved its worth during the pandemic in the 2020/21 financial year.

Such was the momentum of our sales and earnings performance in the first two quarters that we were obliged no less than three times to issue upward corrections in our profit expectations in the course of the 2020/21 financial year. That visibly benefited our share price performance. From its previous year's low in March 2020 through to the publication of our half-year results at the end of September 2020, the Holding share trebled to almost € 100, while the Baumarkt share rose three-and-a-half times in value to € 46. After this, the uncertainty caused by the second wave of coronavirus in late 2020 held back both our shares. Had Germany's pandemic policies been more practical and its implementation ordinances more reliable, then that would have benefited the 2020/21 financial year and helped improve prospects for the period after March 1, 2021.

As things stand, the challenges facing the HORNBACH Group in spring 2021 are no less tricky than the situation a year ago and it is definitely no easier to provide an outlook. The uncertainties are still great. Thanks to the increasing progress made with vaccination programs and the recent decline in incidence rates in Europe, hopes have risen that the pandemic can be successfully contained in the further course of 2021. One aspect we believe will endure is the sustainable shift in consumer behavior: Even as we enter the "new normal", consumers will accord greater importance to their private surroundings, their homes and gardens, than before the pandemic. Trend researchers have even proclaimed the "decade of the home." That should provide a good foundation for our business performance in 2021/22 while fueling demand for construction and home improvement projects in the longer term as well.

Yours faithfully,

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

Report of the Supervisory Board

Dr. John Feldmann

Dear Ladies and Gentlemen,

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

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

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

During the year under report, the company's DIY stores and garden centers were repeatedly subject to a wide variety of access restrictions. The preventative measures taken at stores during periods in which they were open proved to be efficient and document the effectiveness of our hygiene concept. However, customers also made greater use of the option of reserving goods online and collecting them at the store ("click & collect"). The web shop, which is available in all countries in which HORNBACH operates, naturally posted an especially strong performance with direct sales. The integrated supply of goods and services in the stores and at the web shop, a factor that already played a key role in the HORNBACH Group's market success in recent years, proved particularly valuable during the pandemic and met with an increasingly enthusiastic response from customers. At the same time, granting employees on location greater scope to determine the best way to meet the requirements of their customers turned out to be the right decision and produced the desired effect.

Consistent with developments in demand, the HORNBACH Baustoff Union GmbH subgroup further expanded its market position as a regional builders' merchant business with a particular focus on professional customers. It strengthened this position by making smaller-scale acquisitions and stabilized its contribution to group earnings.

With its projects, which are mainly used by the Group as DIY store locations, HORNBACH Immobilien AG made a major stabilizing contribution to the Group's value creation.

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

In the past 2020/21 financial year, we again dealt in great detail with the company's situation, strategic alignment, and medium-term perspectives. We advised the Board of Management of the general partner, HORNBACH Management AG, in its management of the company and monitored its conduct in accordance with the tasks incumbent on us by law, the Articles of Association, and the Code of Procedure. At our meetings, the Board of Management of the general partner (hereinafter "Board of Management") provided us with regular, prompt and extensive written and oral reports on the business performance and economic situation of the company and its subsidiaries. The Supervisory Board, which also held regular meetings without the Board of Management, was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with the Chief Executive Officer, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

The Supervisory Board held a total of four meetings in the 2020/21 financial year. All members attended all meetings of the Supervisory Board and of the committees to which they belonged in the year under report. Attendance at the meetings of the Supervisory Board and its committees amounted to 100 % in each case. Individualized disclosures on meeting attendance by Supervisory Board members can be found in the Corporate Governance Statement. No conflicts of interest arose in the year under report.

At our meetings, we dealt in detail with the business performance and economic situation of the company on the basis of oral and written reports provided by the Board of Management. We also extensively addressed the further strategic development of the company's business, investment and financial policy, and corporate governance and compliance. We informed ourselves in detail about the company's opportunity and risk situation, and the implementation of risk management, and discussed these matters with the Board of Management. The Board of Management also provided regular written and oral reports on the company's current situation, particularly with regard to the impact of the coronavirus pandemic on its retail activities, and on the development in its sales, earnings, and financial position compared with the previous year and the budget. Budget variances were explained and measures discussed.

At the meeting held in May 2020 to approve the annual financial statements, we examined the annual and consolidated financial statements for the past financial year in great detail in the presence of the auditor, as was also the case in May 2021. Furthermore, the Audit Committee also reported on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the corporate governance statement, risk report, and compliance report prepared by the Board of Management were also discussed and approved at these respective meetings. Moreover, we approved the agenda for the Annual General Meeting, including proposed resolutions. In May 2020, we also dealt with the audit of the non-financial group declaration with the participation of auditors from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, as was also the case in May 2021.

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

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Corporate Governance >
Declarations of Conformity

In December 2020, the Group's current business situation, risk report, and compliance report were discussed. At the same meeting, we also assessed the way in which we discharge our duties as the overall Supervisory Board and in our committees and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). This declaration was made permanently available on the company's homepage. HORNBACH Holding AG & Co. KGaA largely complied with and continues to comply with the recommendations of the German Corporate Governance Code with only a few exceptions. Further information about corporate governance at HORNBACH Holding AG & Co. KGaA can be found in the "Corporate Governance Statement" chapter.

At its final meeting in the past 2020/21 financial year, held in February 2021, the Supervisory Board discussed the Group's current business situation as well as the budget for the financial years 2021/22 to 2025/26.

Committees and committee meetings

Directors and Officers
Supervisory Board committees

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

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

In May 2020, the Audit Committee discussed the annual financial statements of HORNBACH Holding AG & Co. KGaA and the consolidated financial statements, management reports, proposed appropriation of profits, and audit reports, including the dependent company report, with the participation of the auditor, as well as the CEO and CFO. Further key focuses of discussion at this meeting also included the risk and compliance reports of the Board of Management, group internal audit reports, reports from the Board of Management on the company's financial situation, an assessment of the quality of the audit, and the candidate to be proposed for election as auditor. At the June meeting the statement for the first quarter was discussed and in September 2020 the half-year financial report was addressed in the presence of the auditors and the key audit focuses were specified for the audit of the consolidated financial statements. In December 2020, the Audit Committee held detailed discussions concerning the statement for the first nine months and also discussed the risk report, the compliance report, and the financial situation. The auditor reported on the current status of the work already begun on the audit of the financial statements. In February 2021, the budget for the financial years 2021/22 to 2025/26 was addressed in detail, as was the internal audit plan for the 2021/22 financial year. All meetings of the committee received reports on the latest status and impact of the coronavirus pandemic and the associated challenges.

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

The Special Committee formed by the Supervisory Board of HORNBACH Holding AG & Co. KGaA in the course of the change in legal form in October 2015 held two meetings in the 2020/21 financial year. The Special Committee performs the tasks of the Supervisory Board pursuant to § 8 (1) Sentence 2 of the Articles of Association. It is responsible in particular for checking and approving invoices submitted by the general partner pursuant to § 8 (3) of the Articles of Association. To this end, the Special Committee met in May and September 2020.

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

Composition of Board of Management of general partner

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

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

The Supervisory Board of HORNBACH Management AG extended the contract with Albrecht Hornbach, Chairman of the Board of Management of HORNBACH Management AG, the general partner of HORNBACH Holding AG & Co. KGaA, and Chairman of the Supervisory Board of HORNBACH Baumarkt AG, for a further five years. Albrecht Hornbach stands for the successful entrepreneurial development of the HORNBACH Group and for the company's strategic orientation and values.

In September 2020, the Supervisory Board of HORNBACH Management AG decided to appoint Karin Dohm as a new member of the Board of Management as of January 1, 2021. Since April 1, 2021, she has succeeded Roland Pelka, the former CFO of HORNBACH Management AG and HORNBACH Baumarkt AG. Karin Dohm is a proven financial expert who, thanks to her consulting and supervisory board activities, has in-depth experience of the retail sector. With Karin Dohm, the company has found an ideal candidate to succeed Roland Pelka, and one who will superbly complement the Board of Management teams. We look forward to working with Karin Dohm and to the contribution she will make to the company’s further development.

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

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

Annual and consolidated financial statements
Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Mannheim (Deloitte), audited the annual financial statements and consolidated financial statements of HORNBACH Holding AG & Co. KGaA as of February 28, 2021, as well as the combined management report and group management report of HORNBACH Holding AG & Co. KGaA for the 2020/21 financial year, and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

Key audit focuses in the 2020/21 financial year included the recoverability of location properties and right-of-use assets for location properties, the measurement of inventories, and the application of IFRS 16 in respect of the consolidated financial statements and the recoverability of financial assets and receivables due from associated companies in respect of the annual financial statements.

The financial statements and audit reports were provided to all Supervisory Board members in good time. They were examined in detail at the meeting of the Audit Committee on May 20, 2021 and at the subsequent meeting of the Supervisory Board held the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Furthermore, Deloitte reported on the preliminary planning for the audit of the financial statements for the 2021/22 financial year. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse Deloitte’s audit findings. We approve the annual and consolidated financial statements of HORNBACH Holding AG & Co. KGaA prepared by the Board of Management as of February 28, 2021. We endorse the appropriation of profits proposed by the Board of Management.

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

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

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

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

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

Bornheim, May 2021

The Supervisory Board

Dr. John Feldmann
Chairman

Corporate Governance Statement

Our actions are guided by the principles of responsible, transparent corporate management and control (corporate governance). HORNBACH has always accorded priority to high-quality corporate governance. It forms the basis for sustainable economic success and helps us to enhance the trust placed in our company by our customers, business partners, investors, employees, and the financial markets. In what follows, you will find the Corporate Governance Statement pursuant to § 289f and § 315d of the German Commercial Code (HGB). The Corporate Governance Statement forms the core of our reporting on corporate governance (cf. Principle 22 of the German Corporate Governance Code dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020). The Corporate Governance Statement forms part of the Combined Management Report pursuant to § 289f and § 315d HGB.[1]

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

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

I. Preliminary remarks

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

1. Management

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

2. Supervisory Board

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

3. Annual General Meeting

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

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

II. Declaration in respect of the DCGK in the version dated February 7, 2017

The company basically complied with the recommendations of the Code in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 since the submission of its previous Declaration of Conformity in December 2019 through to the publication of the DCGK in its version dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020.

No application was made of the recommendations in Points 3.4 (1) Sentence 3, 3.8 (3), 4.1.3 Sentence 2, 4.1.5 Sentence 1, 4.2, 4.3, 5.1.2, and 5.2 (3). These deviations from the recommendations are due to the following considerations:

a) Point 3.4 (1) Sentence 3:

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

b) Point 3.8 (3):

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

c) Point 4.1.3 Sentence 2:

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

d) Point 4.1.5 Sentence 1:

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

e) Point 4.2:

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

f) Point 4.3:

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

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

h) Point 5.2 (3):
The KGaA does not have a Board of Management. The Supervisory Board Chairman nevertheless maintained contact with the general partner and informed the Supervisory Board and would, if necessary, also have convened extraordinary meetings for this purpose.

III. Declaration in respect of the DCGK in the version dated December 16, 2019

1. Future-related section
The company will in future basically comply with the recommendations of the Code in the version dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020 with the exception of the deviations listed below.

No application is made of the following recommendations: A.1, A.2, B.1 to B.5, D.6, E.2, E.3, G.1 to G.13, G.15, and G.16. These deviations from the recommendations are due to the following considerations:

a) Recommendation A.1:
When making appointments to executive positions at the company, the Board of Management should consider diversity. The KGaA does not have a Board of Management.

b) Recommendation A.2:
According to Recommendation A.2, the Board of Management should institute an appropriate compliance management system and disclose the main features of this system. Employees should be given the opportunity to report, in a protected manner, suspected breaches of the law within the company. The KGaA does not have a Board of Management. Irrespective of this, the company has a compliance management system whose main features are disclosed and which also gives employees the opportunity to report, in a protected manner, suspected breaches of the law within the company.

c) Recommendations B.1 to B.5:
In B.1 to B.5, the Code makes several recommendations concerning the composition of the Board of Management, including succession planning. The KGaA does not have a Board of Management. The Supervisory Board does not have the powers to appoint members of the Board of Management at the general partner.

d) Recommendation D.6:
The KGaA does not have a Board of Management. The Supervisory Board Chairman is nevertheless in regular contact with the general partner and discusses with that company's Board of Management issues of strategy, business development, the risk situation, risk management, and compliance at the company.

e) Recommendations E.2 and E.3:
E.2 and E.3 include recommendations concerning the handling of conflicts of interests on the part of members of the Board of Management. The KGaA does not have a Board of Management. Conflicts of interest on the part of members of the Board of Management of the general partner and any sideline activities are dealt with by the general partner.

f) Recommendations G.1 to G.13, G.15 and G.16:
In G.1 to G.13, G.15, and G.16, the DCGK sets out several recommendations concerning the remuneration of the Board of Management. The KGaA does not have a Board of Management and the Supervisory Board does not have the powers to determine the remuneration of members of the Board of Management at the general partner.

2. Past-related section
The company basically complied with the recommendations of the Code in the version dated December 16, 2019 and published in the Federal Official Gazette on March 20, 2020 with the exception of the deviations already stated and substantiated for the future in Section III.1 above.

Furthermore, the company did not comply with the new Recommendation D.1 Clause 2, according to which the Supervisory Board should publish its rules of procedure on the company's website. The Supervisory Board did not deem this necessary and viewed its rules of procedure as an internal matter. In addressing the first Declaration of Conformity with the Code in its version dated December 16, 2019, the Supervisory Board nevertheless decided to comply with the recommendation to publish the rules of procedure and initiated the publication of such.

Bornheim bei Landau, December 2020

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

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

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Corporate Governance >
Declarations of Conformity

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

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

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

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

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Corporate Governance

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

1.2.1 General partner

The general partner of HORNBACH Holding AG & Co. KGaA is HORNBACH Management AG, represented by its Board of Management, which currently consists of two members. The Board of Management of the general partner manages the business of HORNBACH Holding AG & Co. KGaA and represents the company to third parties. Pursuant to the Articles of Association, the authorization of the general partner to manage the business also extends to exceptional management measures not requiring the approval of limited shareholders at the Annual General Meeting.

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

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

1.2.2 Supervisory Board

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

1.2.3 Annual General Meeting

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

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

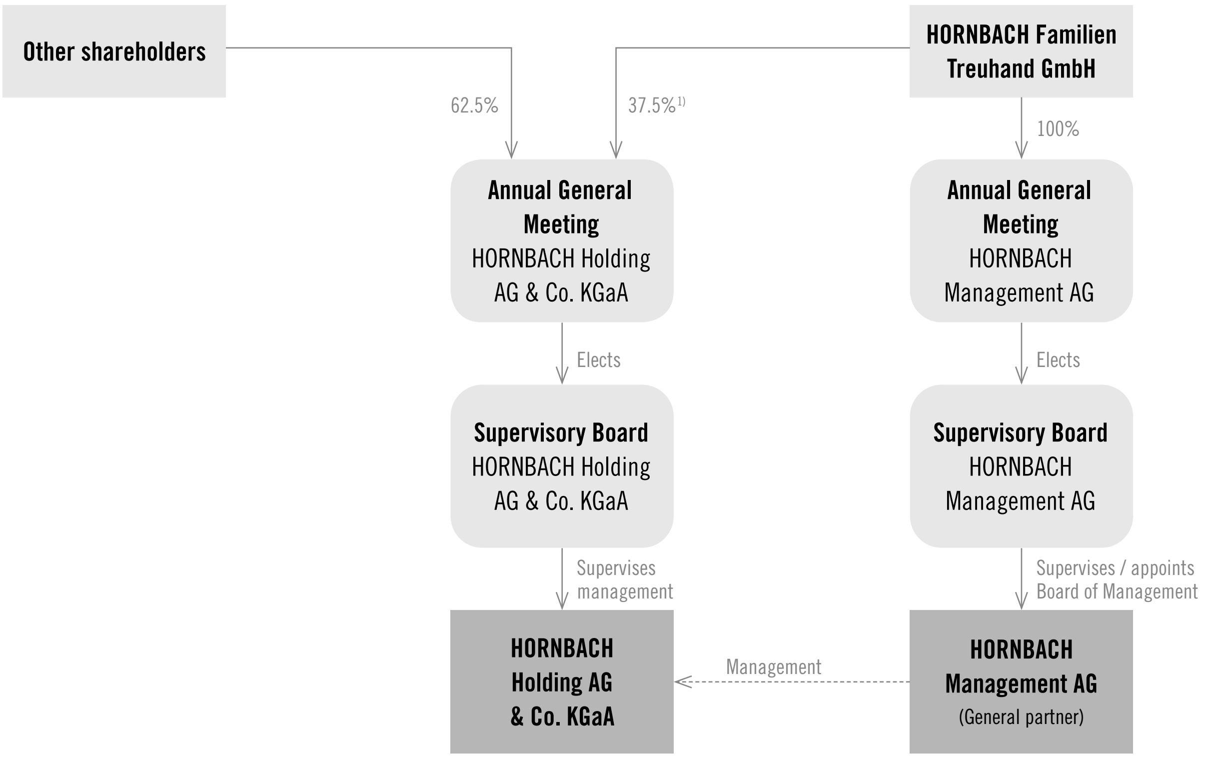
The requirements governing the preparation and execution of the Annual General Meeting are basically analogous to those at stock corporations. Pursuant to the Articles of Association, the meeting is generally chaired by the Supervisory Board Chairman.

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

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

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

Structure of HORNBACH Holding AG & Co. KGaA
Status: February 28, 2021



1 directly and indirectly; no voting rights for specific resolution items, such as the election of the Supervisory Board of HORNBACH Holding AG & Co. KGaA, formal approval of the actions of the general partner and Supervisory Board of the KGaA, election of the auditor: status: February 28, 2021

3. Modus Operandi of Management and Supervisory Board

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

3.1 Supervisory Board

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Corporate Governance >
Supervisory Board

The Supervisory Board of HORNBACH HOLDING AG & Co. KGaA consists of six members. The CVs of the Supervisory Board members have been published on our website.

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

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

Supervisory Board members are solely bound by the company's best interests. They are not dependent on any assignments or instructions. In their decisions, they may not pursue personal interests or exploit business opportunities available to the company for their personal benefit. Supervisory Board members are obliged to immediately disclose any conflicts of interest to the Supervisory Board Chairman, especially any such conflicts arising due to their performing any consultant or directorship function at the general partner, customers, suppliers, lenders or other business partners of the company. Any conflicts of interest on the part of a Supervisory Board member that are material and not only temporary result in the resignation of such member. No conflicts of interest arose in the year under report. Advisory and other service agreements and contracts for work between a Supervisory Board member and the company require approval by the Supervisory Board. The same applies to equivalent contracts with the general partner to the extent that the company is obliged by its Articles of Association to reimburse any resultant expenses. There were no contracts requiring such approval with Supervisory Board members of HORNBACH Holding AG & Co. KGaA in the 2020/21 financial year.

Directors and Officers
Supervisory Board
committees

The Supervisory Board of HORNBACH Holding AG & Co. KGaA has the following committees:

- Nomination Committee
- Audit Committee
- Special Committee

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

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

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

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

The Special Committee is responsible for representation towards the general partner and in particular also for reviewing and approving the invoices submitted by the general partner in connection with its management of the company's business. The Special Committee holds regular meetings.

The committee chairs exchange information with the Supervisory Board Chairman and the Board of Management of the general partner, also outside the meeting framework.

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

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

Taking due account of the recommendations made in Point 5.4.1 of the German Corporate Governance Code (in the version dated February 7, 2017; corresponds to Recommendation C.1 in the version dated December 16, 2019), on December 20, 2017 the Supervisory Board adopted the targets for its composition, including a competence profile for the overall board. The corresponding Supervisory Board resolution also includes the diversity concept for the Supervisory Board. The objective here is to continually develop the specific composition, and thus the expertise and experience, of the Supervisory Board and to achieve a good balance between continuity and renewal. Given the diverse composition thereby envisaged, the concept is intended to ensure that the Supervisory Board can optimally perform its tasks thanks to the resultant variety of viewpoints and perspectives considered.

Pursuant to the competence profile, the Supervisory Board of HORNBACH Holding AG & Co. KGaA must possess the expertise needed to fulfill its supervisory function and to assess and monitor the transactions performed by the company. To this end, the Supervisory Board members must collectively be familiar with the sector in which the company operates. This particularly includes knowledge, skills, and professional expertise in managing a retail, service, and real estate group with activities in the fields of (a) building, acquiring and/or operating large-scale retail stores, especially DIY stores and home improvement centers, with or without garden centers, specialist stores, other specialist retail businesses, and e-commerce; (b) similar or other areas of the retail and wholesale sector; (c) manufacturing and processing products sold at the retail stores;

(d) managing assets and acquiring, managing, and disposing of participating interests in domestic and foreign subsidiaries; (e) performing management and other services for subsidiaries and participating interests; and (f) acquiring, developing, planning, building, using, administering, disposing of and/or otherwise using land, whether built on or not, and leasehold rights. This also includes expertise in the fields of digitalization and technology, as well as in accounting, auditing, financing, and corresponding legal expertise, including expertise in the field of tax law.

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

- Supervisory Board members must be reliable, possess the expertise needed to fulfill their supervisory function and to assess and monitor the transactions performed by HORNBACH Holding AG & Co. KGaA, and must have sufficient time to dedicate to their duties as members of the Supervisory Board.
- The Supervisory Board must collectively have the knowledge, skills, and professional expertise required to properly perform its duties. In particular, expertise in matters relating to the operation of a retail company, asset and investment management, and real estate management must be available in the Supervisory Board, as must management experience, experience in managing and organizing companies, and experience in working in supervisory boards.
- The Supervisory Board must avoid potential conflicts of interest, and will continue to do so in future.
- The Supervisory Board should not include any members who hold directorships or perform advisory functions at any significant competitors.
- The composition of the Supervisory Board accounts for the diversity criterion, in particular with regard to the ages, genders, educational and career backgrounds of its members. The target share of women in the Supervisory Board to be reached by February 28, 2022 may of course be exceeded, but has been set at its existing level of no less than 1/6.
- As a general rule, the Supervisory Board should only include individuals who were no older than 70 at the time of their election.
- As a general rule, the Supervisory Board should only include individuals who have not been members of the Supervisory Board for four full terms already at the time of their election.
- The Supervisory Board should include a suitable number of independent members. The Supervisory Board believes that it is sufficient in this respect if at least half of its members are independent.
- Supervisory Board members who have sat on the Supervisory Board for more than three terms in office are now longer deemed as independent.

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

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

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

The current composition of the Supervisory Board meets the aforementioned composition-related objectives, complies with the diversity concept, and satisfies the competence profile. The members of the Supervisory Board complement one another in terms of their ages, educational, and career backgrounds, experience, and expertise in such a way that the Board as a whole can draw on a highly varied wealth of experience and broad range of skills. The Supervisory Board currently includes four female members (status: May 2021), as a result of which the target of 1/6 set for February 28, 2022, while upholding the current status, has been met (c.f. "Share of Women in Senior Management Positions" in Section 3.3). No members of the Supervisory Board of HORNBACH Holding AG & Co. KGaA hold any directorships or perform advisory functions at significant competitors. The regular periods of membership and regular age limits are laid down in the Code of Procedure of the Supervisory Board and are complied with as such. The Code of Procedure of the Supervisory Board is published on the company's website.

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Corporate Governance >
Supervisory Board

The Supervisory Board currently includes four independent shareholder representatives. These are Dr. John Feldmann, Simone Krah, Simona Scarpaleggia, and Melanie Thomann-Bopp.

3.1.3 Allocation of competences in Supervisory Board of HORNBACH Holding AG & Co. KGaA

Management	Retail	Marketing / services	Technology / digitalization
Dr. John Feldmann Martin Hornbach Simone Krah Simona Scarpaleggia Melanie Thomann-Bopp Dr. Susanne Wulfsberg	Martin Hornbach Simone Krah Simona Scarpaleggia Melanie Thomann-Bopp Dr. Susanne Wulfsberg	Simone Krah Simona Scarpaleggia	Dr. John Feldmann Martin Hornbach Simone Krah Simona Scarpaleggia Melanie Thomann-Bopp

Accounting / auditing	Capital market / financing	Corporate governance / compliance / risk management	Personnel management / communication
Dr. John Feldmann Melanie Thomann-Bopp	Dr. John Feldmann Melanie Thomann-Bopp	Dr. John Feldmann Simona Scarpaleggia Melanie Thomann-Bopp	Dr. John Feldmann Martin Hornbach Simone Krah Simona Scarpaleggia Melanie Thomann-Bopp Dr. Susanne Wulfsberg

Investment management	Real estate management
Dr. John Feldmann Martin Hornbach Melanie Thomann-Bopp	Dr. John Feldmann Martin Hornbach Melanie Thomann-Bopp

3.1.4 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Dr. John Feldmann, Chairman	4/4	100.00
Martin Hornbach, Deputy Chairman	4/4	100.00
Simone Krah	4/4	100.00
Simona Scarpaleggia, since March 24, 2020	4/4	100.00
Melanie Thomann-Bopp	4/4	100.00
Dr. Susanne Wulfsberg	4/4	100.00
Total		100.00

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

Special Committee	Meetings attended	Attendance in %
Melanie Thomann-Bopp	2/2	100.00
Dr. John Feldmann	2/2	100.00
Simone Krah	2/2	100.00
Total		100.00

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

3.2 Composition and modus operandi of the Board of Management of the general partner

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

The Board of Management of the general partner, HORNBACH Management AG, comprised three members at the end of the 2020/21 financial year. Since April 1, 2021, and thus since Roland Pelka stood down from his position to enter retirement, the Board of Management has been reduced to two members once again. His successor, Karin Dohm, has been a member of the Board of Management since January 1, 2021 already. Members of the Board of Management are bound to uphold the company's best interests. Compliance activities to ensure that the company adheres to laws, legal requirements and its own internal guidelines represent a key management task. The Supervisory Board of HORNBACH Management AG has imposed a Code of Procedure on the Board of Management of the general partner governing its management of HORNBACH Holding AG & Co. KGaA. The composition and areas of responsibility of the Board of Management are presented in the "Directors and Officers" chapter in this report.

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

The Board of Management provides the Supervisory Board of HORNBACH Holding AG & Co. KGaA with regular, prompt and extensive information on all matters relevant to the company's and Group's corporate strategy, planning, business performance, financial and earnings position, risk situation and risk management. Furthermore, it presents the group investment, financial and earnings budgets to the Supervisory Board both for the forthcoming financial year and for the medium term (five years). The Chief Executive Officer provides immediate report to the Supervisory Board Chairman of any significant events of material relevance for assessing the situation, development and management of the company. Transactions and measures requiring Supervisory Board approval are submitted in good time.

In their decisions, members of the Board of Management may not pursue personal interests or exploit business opportunities available to the company and/or the general partner for their personal benefit. Members of the Board of Management are obliged to disclose conflicts of interest to the Supervisory Board of the general partner without delay and to inform other members of the Board of Management. Members of the Board of Management may only pursue sideline activities, in particular supervisory Board mandates outside the Group, with the approval of the Supervisory Board Chairman of the general partner. The CVs of the members of the Board of Management have been published on our website.

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Corporate Governance >
Board of Management

3.3 Share of women in senior management positions

HORNBACH Holding AG & Co. KGaA is obliged under the "Act on the Equal Participation of Men and Women in Private-Sector and Public-Sector Management Positions" to set targets for the share of women on its Supervisory Board and the two senior management tiers below the Board of Management (of the general partner). The company set its first targets in this respect in summer 2015. These were to be met by June 30, 2017. In the meantime, the company has reviewed these targets and extended them through to February 28, 2022. Specifically:

3.3.1 Women on the Supervisory Board and Board of Management

At a meeting in July 2015, the Supervisory Board of HORNBACH Holding AG & Co. KGaA had set the target share of women on the Supervisory Board to be reached by June 30, 2017 at no less than 1/6 pursuant to § 111 (5) AktG. At its meeting on May 24, 2017, the Supervisory Board confirmed this target, which was achieved, and extended the target of no less than 1/6, while upholding the current status, through to February 28, 2022. The Supervisory Board currently has four female members (status: May 2021).

As the Supervisory Board is not responsible for personnel-related topics on the Board of Management at the general partner HORNBACH Management AG, it was not able to set any targets for that body. The Board of Management at the general partner currently comprises one woman and one man (status: May 2021).

3.3.2 Women in the management tier below the Board of Management

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

4. Reporting and Auditing of Financial Statements

The HORNBACH Holding AG & Co. KGaA Group prepares its financial reports in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The separate financial statements of HORNBACH Holding AG & Co. KGaA are prepared in accordance with the German Commercial Code (HGB). In line with legal requirements, the auditor is elected by the Annual General Meeting. The Audit Committee prepares the Supervisory Board's proposal to the Annual General Meeting with regard to the auditor to be elected. The auditor is independent and is responsible for the audit of the consolidated and separate financial statements, as well as for the audit review of the Group's half-year financial reports.

HORNBACH Holding AG & Co. KGaA has a risk management system that is continually enhanced and updated to account for changes in conditions. The functionality of the early warning risk management system is checked by the auditors.

5. Transparency

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

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

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Investor Relations and Financial Calendar

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

Members of the Board of Management of the general partner and the Supervisory Board of HORNBACH Holding AG & Co. KGaA, and individuals closely related to such, are required by Article 19 of the Market Abuse Regulation (MAR) to disclose transactions involving shares in the company or related financial instruments. In the year under report, the company was not notified of any 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 overall HORNBACH Group and its employees in Germany and abroad. As well as managing the company responsibly in accordance with the relevant laws, ordinances and other guidelines, we have also compiled internal group guidelines setting out the system of values and management principles we adhere to at the Group. We have published the information referred to below on our website.

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

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.

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

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

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

The Board of Management of the general partner bears overall responsibility for compliance. One core component of HORNBACH's compliance system is the Compliance Committee, which acts as the topmost advisory body for compliance organization. The Chief Compliance Officer is responsible for coordinating group-wide compliance activities. This officer reports to the Board of Management and is responsible for permanently optimizing and further developing the Group's compliance organization and structures. The Chief Compliance Officer is supported by compliance officers operating on a decentralized basis in all of HORNBACH's regions and departments. HORNBACH's compliance system is subject to regular reviews and enhancements. In general, the Chief Compliance Officer holds a meeting with the compliance officers once a year to coordinate compliance-related topics. Due to the coronavirus pandemic, this on-site meeting did not take place at HORNBACH Baumarkt AG in the year under report.

Compliance activities have a particular focus on the risks of “Improper conduct/corruption” and “Cartel law violations”. Compliance Officers are surveyed in a structured manner to assess the development in risks which are already known and the potential materialization of new risks. Meetings between Compliance Officers and the respective managers were mostly held on a virtual basis in the 2020/21 year under report. These meetings discussed any changes in risks already reported, adjusted the relevant assessments where necessary, and included new risks. Suitable measures are laid down to reduce the risks.

Since mid-2017, the compliance system has been supported by an internet-based whistleblower system. This provides employees, service providers, and suppliers worldwide with a further possibility of communicating directly with the Chief Compliance Officer. This way, potential infringements of compliance requirements can be reported, also anonymously if preferred. Two such notifications were received in the year under of report, neither of which was subsequently substantiated.

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

7. Remuneration Report

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

The remuneration report presents the basic features and structure of the remuneration of the Board of Management of the general partner and the Supervisory Board. It forms a constituent component of the Group Management Report and is available on our website at www.hornbach-group.com/remuneration_report/Holding.

8. Directors and Officers

Supervisory Board of HORNBACH Holding AG & Co. KGaA

Dr. John Feldmann
Chairman
Former Executive Board member of BASF SE

Martin Hornbach
Deputy Chairman
Managing Partner
Corivus Gruppe GmbH

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

Simona Scarpaleggia (since March 24, 2020)
Director of Global Initiative "Future of Work" at Ingka Group (IKEA) (until August 31, 2020)
Global CEO of EDGE Strategy AG (since September 1, 2020)

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

Dr. Susanne Wulfsberg
Director of Floggensee Stud, Veterinary Surgeon

Supervisory Board committees

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

Nomination Committee
Dr. John Feldmann Chairman
Simone Krah
Melanie Thomann-Bopp

Special Committee
Melanie Thomann-Bopp
Dr. John Feldmann
Simone Krah

Board of Management of HORNBACH Management AG

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

Members and areas of responsibility

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

Karin Dohm since January 1, 2021
since April 1, 2021 responsible for Finance, Accounting, Tax, Group Controlling, Risk Management, Internal Audit, Legal, Compliance, Group Communications

Roland Pelka until March 31, 2021
Finance, Accounting, Tax, Group Controlling, Risk Management, Internal Audit, Legal, Compliance, Group Communications

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

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

Dr. John Feldmann
Deputy Chairman
Former Executive Board member of BASF SE

Albert Hornbach
SAP Interim Manager

Christoph Hornbach
School Director

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

Steffen Hornbach since November 27, 2020
Former CEO of HORNBACH Baumarkt AG

Joerg Walter Sost
Managing Partner
J.S. Consulting GmbH

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

Dr. Susanne Wulfsberg
Director of Floggensee Stud, Veterinary Surgeon

Non-Financial Group Report

1. Fundamentals of Non-Financial Group Report

1.1 Group structure and business model

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

Group Management Report
Group Fundamentals

HORNBACH Holding AG & Co. KGaA is the parent company of the HORNBACH Group. It does not have any operations itself, but has a number of major subsidiaries. In addition to HORNBACH Baumarkt AG, the largest operating subgroup at which the do-it-yourself (DIY) retail activities across Europe are pooled, the HORNBACH Group also comprises the HORNBACH Baustoff Union GmbH subgroup (regional builders' merchants) and the HORNBACH Immobilien AG subgroup (real estate and location development). At the balance sheet date on February 28, 2021, the Group had a total of 23,279 employees, of which 10,288 outside Germany. In the 2020/21 financial year (March 1, 2020 to February 28, 2021), the HORNBACH Group generated net sales of around € 5.5 billion. The HORNBACH Group was founded in 1877 and is family managed, now in the fifth generation. It has the legal form of a partnership limited by shares (KGaA) and is publicly listed.

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

Our business activities focus on do-it-yourself (DIY) retail with DIY stores and garden centers, as well as on online DIY retail in Germany and eight other European countries. These retail activities, which mainly focus on the needs of private end customers (business-to-consumer: B2C), are managed at HORNBACH Baumarkt AG, which is by far the largest operating subgroup. With its "ProfiService" and product range, HORNBACH also targets tradespeople and other commercial customers. The DIY product range, which comprises around 50,000 articles stocked at the stationary stores and up to around 200,000 articles available online, is structured in five product divisions: hardware / electrical, paint / wallpaper / flooring, construction materials / timber / prefabricated components, sanitary / tiles, and garden.

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

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

The internationalization of procurement provides us with broad-based access to global procurement markets and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier and manufacturer the opportunity to structure the store deliveries as efficiently as possible. Suppliers are able to make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. This way, we provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries.

With net sales of more than € 5.1 billion in the 2020/21 financial year, the HORNBACH Baumarkt AG subgroup contributed 94 % of consolidated sales and employed around 95 % of the HORNBACH Group's workforce[2] at the balance sheet date. The HORNBACH Baustoff Union GmbH (HBU) subgroup accounts for € 338 million, and thus around 6 % of sales, as well as for around 5 % of the Group's employees. HORNBACH Immobilien AG does not have any operating customer business or proprietary employees.

1.2 Materiality analysis

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

In the 2020/21 financial year, the managers responsible for the respective topics at the Group, including representatives of both HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH, reviewed whether their assessment of the non-financial topics within the Group's own business activities or supply chain and at customers which impact on the aspects defined in § 289c HGB had changed to any significant extent compared with their assessment in the previous year. To this end, in an updated materiality matrix the non-financial topics were evaluated in terms of their relevance for our business activities and their implications for the aspects defined in § 289c HGB.

The managers responsible for the respective topics concluded that the material topics presented below are still equally valid. These topics have therefore also been taken as the basis for the 2020/21 Non-Financial Group Report:

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

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

1.3 Risk assessment

Group Management Report
Risk Report

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

[2] The terms "workforce" and "employees" refer to people of all genders.

1.4 Impact of the coronavirus pandemic in the 2020/21 financial year

The 2020/21 financial year (March 1, 2020 to February 28, 2021) was dominated by the coronavirus pandemic. To contain the spread of infections, far-reaching measures to limit social contacts were imposed across large parts of our European network in March 2020. Apart from in Sweden, public life was largely brought to a halt in all of the countries in which HORNBACH operates, with DIY stores also affected in several regions. In the spring, most HORNBACH DIY stores with garden centers remained consistently open to private and commercial customers due to corresponding exemptions. With the onset of the second wave of infections in winter 2020/21, however, significantly more far-reaching restrictions were imposed on sales activities. From mid-December 2020 to the end of February 2021, most HORNBACH stores were required to temporarily close to private customers. Online retail, sales to commercial customers, and click & collect sales remained possible in most regions throughout all of the lockdowns in the 2020/21 financial year. Due to its focus on commercial customers, the builders' merchant business was only affected by closures to private customers in the winter lockdown.

Demand for DIY articles was consistently higher in the 2020/21 financial year than in the previous year. Despite repeated closures of parts of its store network to private customers, HORNBACH was able to report substantial sales growth of 15.6 % to € 5,456 million.

Extensive disinfection and hygiene measures were put in place to protect our customers and employees and to uphold stationary sales activities. In some cases, the flow of customers was restricted, with security firms and additional temporary employees being taken on to assist. Overall, this led to additional costs of around € 18 million.

In those countries affected by strict lockdown measures, HORNBACH received government grants, such as short-time allowances (furloughing), in some cases in the year under report. Group-wide grants came to € 4.3 million in 2020/21, with these being passed on to employees or paid as social security contributions. To acknowledge the commitment shown by its employees during the pandemic, HORNBACH Baumarkt AG paid "coronavirus bonuses" totaling € 13.5 million to employees in all of the countries in which it operates.

Supply chains were only affected to a minor extent by the pandemic. To improve its ability to cope with the jump in orders received in the online business, particularly during lockdown periods, the company extended its end customer supply capacities by establishing additional in-house dispatch centers where required.

Further information can be found in the Group Management Report, Risk Report and Outlook of HORNBACH Holding AG & Co. KGaA.

1.5 Sustainability management

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

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

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Investor Relations > Corporate Governance > HORNBACH Values

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

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

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

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

1.6 Framework

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

2. Material Non-Financial Aspects

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

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

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

2.1 Product range and customer information

2.1.1 Targets and strategy

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

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

2.1.2 Management approach and measures

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

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

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

Non-Financial Group Report
2.5 Employee recruitment
2.6 Employee development

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

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Investor Relations >
Corporate Governance >
HORNBACH Values

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

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

2.1.3 Target achievement status

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

In Kundenmonitor Deutschland (Servicebarometer AG) and equivalent consumer surveys conducted in other European countries in the 2020/21 financial year, the HORNBACH Baumarkt AG subgroup was ranked first in the “Overall satisfaction” shown by customers with DIY and home improvement stores, and that in nearly all regions covered by the respective surveys. Furthermore, HORNBACH’s DIY stores and garden centers were awarded top rankings in most regions for the criteria relating to product range, value for money, specialist advice, and willingness to recommend to others.

2.2 Responsible procurement

2.2.1 Targets and strategy

Non-Financial
Group Report
2.3 Product responsibility

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

www.hornbach-group.com
Investor Relations >
Corporate Governance >
Corporate Social
Responsibility at the
HORNBACH Group

The minimum standards referred to are set out in HORNBACH's CSR Policy and include the prohibition of child and forced labor, as well as compliance with local environmental legislation. These targets and strategic requirements basically apply for all companies within the overall Group.

Furthermore, CSR standards were defined in the year under report for all suppliers to the HORNBACH Group. Since the fall of 2020, this document has been a component of supplier contracts for new suppliers to HORNBACH Baumarkt AG. The CSR standards will also be integrated into any amendments made to contracts with existing suppliers. The management of the HORNBACH Baustoff Union GmbH subgroup has also decided to incorporate the group-wide CSR standards into its supplier contracts.

2.2.2 Management approach and measures

For us, the basic requirements of social responsibility include acknowledgement of international standards as codified in the conventions of the International Labor Organization (ILO). ILO requirements form one basis for the audit catalog used in the factory audits HORNBACH commissions or performs at its own initiative. Timber is a commodity of particularly great importance for the Group's product range. HORNBACH's CSR Policy requires that we exclusively procure FSC[3]-certified tropical timber or timber from sustainable and responsible European production. This is intended to ensure that the social welfare and work safety standards set out in the CSR Policy and the CSR Standards for Suppliers are complied with in the production of the timber. To document the source of the timber used and identify timber products from illegal or disputed sources, HORNBACH works closely with suppliers, particularly in the context of its involvement in the FSC, as well as with environmental protection organizations. Independent tests performed in the recent past, for example, have repeatedly indicated that non-certified charcoal products are often linked to deforestation or precarious social conditions. To account for this, in the 2019/20 financial year HORNBACH Baumarkt AG converted its range of charcoal products and now only sells FSC-certified charcoal and barbecue briquettes. HORNBACH Baustoff Union followed its example in the 2020/21 financial year. Furthermore, when importing natural stones HORNBACH ensures that these come from companies that can document their compliance with international social welfare and work safety standards in regular factory audits.

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

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

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

[3] Forest Stewardship Council

requirements and prepared for their audit activities. Like at the HORNBACH Baumarkt AG subgroup, the key focus of the audit is to check compliance with environmental, social, and anticorruption standards.

2.2.3 Target achievement status

On the level of the HORNBACH Baumarkt AG subgroup, a total of 413 factory audits were conducted, mainly at suppliers of private label products and of products directly imported from non-EU countries, in the 2020/21 financial year (2019/20: 423). In the year under report, there were no cases (2019/20: 0) in which the subgroup was required to terminate the business relationship with the supplier as a result of these audits.

The HORNBACH Baustoff Union GmbH subgroup performed one factory audit at a private label supplier. HBU also did not report any cases in the 2020/21 year under report in which the subgroup was required to terminate the business relationship with its supplier on account of an audit (2019/20: 0).

2.3 Product responsibility

2.3.1 Targets and strategy

Non-Financial Group Report 2.2 Responsible procurement

Product responsibility is one of the bases of our business success. One key aspect of this responsibility involves product quality, a factor which makes a key contribution to customer satisfaction and loyalty. As a sustainable retailer, our aim here is therefore to ensure that all products sold by HORNBACH are of flawless quality. Furthermore, we believe that responsible procurement and sustainable product features (water-saving, energy-saving, etc.), a factor which also includes environmentally compatible packaging and product disposal, play an ever more important role in how customers perceive companies. These therefore constitute further relevant aspects of our product responsibility. In the 2020/21 financial year, we stepped up our efforts to reduce the volume of packaging material. Where this is not possible, we are working on environmentally-friendly alternative solutions. One particular focus in the year under report was on reducing the volume of plastic packaging and packaging material within the actual sales packaging. A further target involves replacing composite packaging consisting of paper-plastic composites with materials comprising only one commodity. Here, we are gradually implementing optimizations in line with the measures taken to revise the respective product ranges.

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

2.3.2 Management approach and measures

Non-Financial Group Report 2.2 Responsible procurement

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

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

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

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

Within the product development process, we are also working on optimizing the packaging for our private label products. In the year under report, HORNBACH Baumarkt AG managed to exploit savings potential, particularly with plastics. It did so on the one hand by leaving out packaging components and on the other by completely revising individual product packaging lines in terms of their materials and layout. Systematic evaluations will be available via the new HORNBACH recycling portal from the coming 2021/22 financial year. This portal will record all waste and resource movements on a daily basis. This new form of transparency facilitates targeted management for each HORNBACH store, every HBU outlet, and all logistics locations.

This portal is now used by more than 200 collection points in six countries. It also serves, for example, to manage the collection of materials by HORNBACH's fleet of "resource liners".

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

2.3.3 Target achievement status

In the 2020/21 financial year, quality management staff at HORNBACH Baumarkt AG and certified independent audit institutes performed 1,086 (2019/20: 1,040) product quality tests (safety, contaminants, suitability for use) and 2,347 (2019/20: 2,139) article acceptance audits. Together, these correspond to 4,037 person-days (2019/20: 3,963) performed by independent audit institutes on behalf of HORNBACH. The number of these tests is dependent in each case on order volumes.

Due to the pandemic, the company made it possible for the first time for individual suppliers to perform their own self-inspections in 2020. To be eligible, business partners had to have enjoyed a long-term and stable relationship with HORNBACH, showed no or only few defects in previous audits, and thus have a good reputation. Inspection forms, documentary photographs, and letters of guarantee have been received from 20 suppliers.

2.4 Employee satisfaction and loyalty

2.4.1 Targets and strategy

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

As a Group with operations across Europe and employees from more than 88 countries, we attach priority to creating a working environment that is free of prejudice. Ethnic origin, gender, age, physical restrictions, and religious affiliation are not important to us. The only qualities that count are specialist competence, ambition, commitment, and team spirit.

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

2.4.2 Management approach and measures

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

Our workforce structure data is presented in summarized form in the following table:

	2020/21	in %	2019/20	in %
Employees (headcount)	**23,279**	-	**21,505**	-
of which in Germany	12,991	56%	12,081	56%
of which outside Germany	10,288	44%	9,424	44%
of which women	9,650	41%	9,030	42%
of which men	13,629	59 %	12,475	58 %
of which aged up to 30 years	6,230	27%	5,504	26%
of which 31-50 years	11,028	47%	10,420	48%
of which over 50 years	6,021	26%	5,581	26%
of which part-time	6,005	26%	6,462	30%
of which with a temporary employment contract	4,815	21%	3,861	18%

Fair remuneration is a component of any trust-based work relationship. HORNBACH ensures that its employees receive pay in line with customary market rates in all of its regions. In the HORNBACH stores in Germany and Sweden, HORNBACH Baumarkt AG voluntarily follows the collectively agreed rates for the retail sector throughout these countries. This collective agreement also applies to employees in HORNBACH's logistics activities. We also draw on a variety of models to enable our employees to participate in the company's success. In the year under report, at least one "coronavirus bonus" was paid to employees in all HORNBACH regions. With this bonus, HORNBACH has shown its thanks and appreciation for the outstanding work performed by its workforce. In paying this bonus, the company in all cases desired and requested its employees to spend the money on products, services, or leisure activities to support regional companies particularly hard hit during the lockdown.

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

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

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

2.4.3 Target achievement status

To measure and manage both employee satisfaction and employee loyalty, we refer to the personnel turnover rate as a quantitative indicator. In the year under report, the personnel turnover rate[4] amounted to 10.8 % (2019/20: 13.8 %). In the financial year under report, no incidents of discrimination were identified in the form of infringements of the German General Equal Treatment Act (AGG).

Non-Financial Group Report
2.6 Employee development

2.5 Employee recruitment

2.5.1 Targets and strategy

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

2.5.2 Management approach and measures

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

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

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

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

Various factors meant that recruiting new employees was a challenge in the year under report. The unemployment rate was very low across large parts of Europe in the period under report. Moreover, the trend towards studying for a university degree is continuing and has exacerbated the already low attractiveness of the retail sector. Providing very good working conditions and development opportunities is therefore one of the key focuses in our efforts to recruit employees for HORNBACH. We witnessed a slight increase in the number of applications received in the past financial year. The great demand for specialists and managers at the Group is apparent, among other aspects, in the year-on-year increase in the number of employees newly hired.

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

[4] Number of (employee) resignations and (employer) terminations as a percentage of average number of employees in financial year.

Our new hire structure data is presented in summarized form in the following table:

	2020/21	in %	2019/20	in %
Newly hired employees	**5,490**		**4,524**	
of which in Germany	2,517	46 %	1,822	40 %
of which outside Germany	2,973	54 %	2,702	60 %
of which women	1,918	35 %	1,598	35 %
of which men	3,572	65 %	2,926	65 %
of which aged up to 30 years	3,142	57 %	2,447	54 %
of which 31-50 years	1,768	32 %	1,479	33 %
of which aged over 50	580	11 %	598	13 %

2.5.3 Target achievement status

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

The figures below include trainees at the HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH subgroups in Germany, Austria, Switzerland, and Luxembourg.

In the 2020/21 financial year, HORNBACH employed 1,055 trainees and participants in dual work-study programs. A group-wide total of 405 trainees completed their training in the year under report; this corresponds to 38.4 %. A total of 275 trainees were accepted for regular employment or for a third year of training; this corresponds to an acceptance rate of 67.9 %.

The structure data for trainees and participants in dual work-study programs at the HORNBACH Group is summarized and compared with the previous year's figures in the following table:

	2020/21	in %	2019/20	in %
Total number of trainees and participants in dual work-study programs	**1,055**	-	**1,039**	-
of which in Germany	792	75.1 %	796	76.6 %
of which outside Germany	263	24.9 %	243	23.4 %
Training completed in year under report	**405**	**38.4**	**370**	**35.6 %**
of which accepted for regular employment or for a third year of training	275	67.9 %	235	63.5 %

2.6 Employee development

2.6.1 Targets and strategy

Given our strategic focus on project customers at our DIY stores and garden centers and on commercial customers at our builders' merchant outlets, we have a great requirement for well-informed employees who are able to competently support our customers in complex construction and renovation projects. High-quality advice and service play a key role in determining the satisfaction of our customers and the Group's business performance and situation. Specialist staff in the stationary business therefore have to be familiar with the products offered within their area of activity and their uses, and must also be promptly trained when new models are introduced.
Where possible, key positions and management positions becoming vacant should be filled with internal candidates. By offering a range of development measures, we aim to act early to prepare suitable employees in a forward-looking manner for future positions.

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

2.6.2 Management approach and measures

Practical knowledge about the products and their applications is communicated in practical and product-based training sessions offered in cooperation with suppliers. In addition, HORNBACH offers its own product and project-based training at on-site events or by video or print media. Furthermore, we work together with Chambers of Industry and Commerce and thus provide our employees with access to certified training programs. These include qualification as a retail specialist, for example. Regular training is available in internal and external seminars across the Group. These employee development measures are managed by the relevant personnel departments at HORNBACH Baumarkt AG and HORNBACH Baustoff Union GmbH. In the year under report, a total of 380 virtual product and other training sessions were held at HORNBACH Baumarkt AG, while 138 employees took part in certified training programs.

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

We prepare upcoming management staff at the HORNBACH Baumarkt AG subgroup for their new tasks with a separate training program. To this end, qualification modules have been developed for all store management positions. HORNBACH offers corresponding development opportunities to employees at its central administration departments and logistics centers as well. These management training sessions were attended by 294 employees. Of the 153 management positions newly filled in the year under report, 114 were occupied with internal employees.

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

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

2.7 Compliance
Corporate Governance
Corporate Governance Report with Corporate Governance Statement

Our compliance-related objectives, measures, and results are presented in the Corporate Governance Report with the Corporate Governance Statement, Chapter 6.2 Compliance, of the HORNBACH Holding AG & Co KGaA Group. This chapter is part of the Non-Financial Group Report.

Bornheim, May 19, 2021

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

Albrecht Hornbach Karin Dohm

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German version of the non-financial report 2020/2021 of HORNBACH Holding AG & Co. KGaA. The following text is a translation of the original German Independent Assurance Report.

Independent Auditor's Limited Assurance Report

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

We have performed a limited assurance engagement on the non-financial report of HORNBACH Holding AG & Co. KGaA according to § 315c HGB ("Handelsgesetzbuch": German Commercial Code), further consisting of the chapter "6.2 Compliance" within the Corporate Governance Report being incorporated by reference for the reporting period from 1 March 2020 to 28 February 2021 (hereafter non-financial report). References in the margins to information in the Group Management Report or on the Group's website were not included within the scope of our assurance engagement. The information to which these references relate is not part of the non-financial report. Our engagement did not include any disclosures for prior years.

A. Management's responsibility
The legal representatives of the Company are responsible for the preparation of the non-financial report in accordance with § 315c HGB.

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

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

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

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

C. Auditor's responsibility

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

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB). This Standard requires that we plan and perform the assurance engagement to obtain limited assurance about whether the non-financial report]of the Company has been prepared, in all material respects, in accordance with § 315c HGB. In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the auditor's professional judgment.
Within the scope of our assurance engagement, which has been conducted between March and May 2021, we performed amongst others the following assurance and other procedures:

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

D. Assurance conclusion

Based on our assurance procedures performed and assurance evidence obtained, nothing has come to our attention that causes us to believe that the non-financial report of HORNBACH Hold-ing AG & Co. KGaA for the period from 1 March 2020 to 28 February 2021 has not been pre-pared, in all material respects, in accordance with § 315c HGB.

E. Intended use of the assurance report

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

F. Engagement terms and liability

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

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

Munich, 19 May 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

The HORNBACH Holding Share

Key figures for the HORNBACH Holding share		2020/21	2019/20	2018/19	2017/18	2016/17
Year-end price[1]	€	78.20	50.90	46.10	70.30	65.85
12-month high[1]	€	99.70	65.30	72.80	82.38	67.41
12-month low[1]	€	33.65	44.00	40.10	63.53	53.80
Shares issued	Number	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000
Market capitalization	€ 000s	1,251,200	814,400	737,600	1,124,800	1,053,600
Earnings per share	€	10.33	6.56	4.08	5.11	4.84
Price / earnings ratio[2]		7.6	7.8	11.3	13.8	13.6
Book value per share	€	92.30	83.67	78.48	76.01	69.02
Price-to-book ratio[3]		0.8	0.6	0.6	0.9	1.0
Cash flow from operating activities per share	€	21.66	20.28	3.38	11.39	11.17
Price / cash flow ratio[4]		3.6	2.5	13.6	6.2	5.9
Dividend per share[5]	€	2.00	1.50	1.50	1.50	1.50
Distribution total[5]	€ 000s	32,000	24,000	24,000	24,000	24,000
Payout ratio[5),6]	%	19.4	22.9	36.7	29.4	31.0
Dividend yield[7]	%	2.6	2.9	3.3	2.1	2.3
Performance including dividend	%	56.6	13.7	(32.3)	8.9	18.6
Performance excluding dividend	%	53.6	10.4	(34.4)	6.8	15.7
Average daily trading volume[1]	Number	39,737	19,539	17,096	17,074	6,367

1) in Xetra trading
2) Year-end price ÷ earnings per share
3) Year-end price ÷ book value per share
4) Year-end price ÷ cash flow from operating activities per share
5) 2020/21: proposal to 2021 Annual General Meeting
6) Dividend per share ÷ earnings per share
7) Dividend per share ÷ year-end price

2020/21 on the stock markets

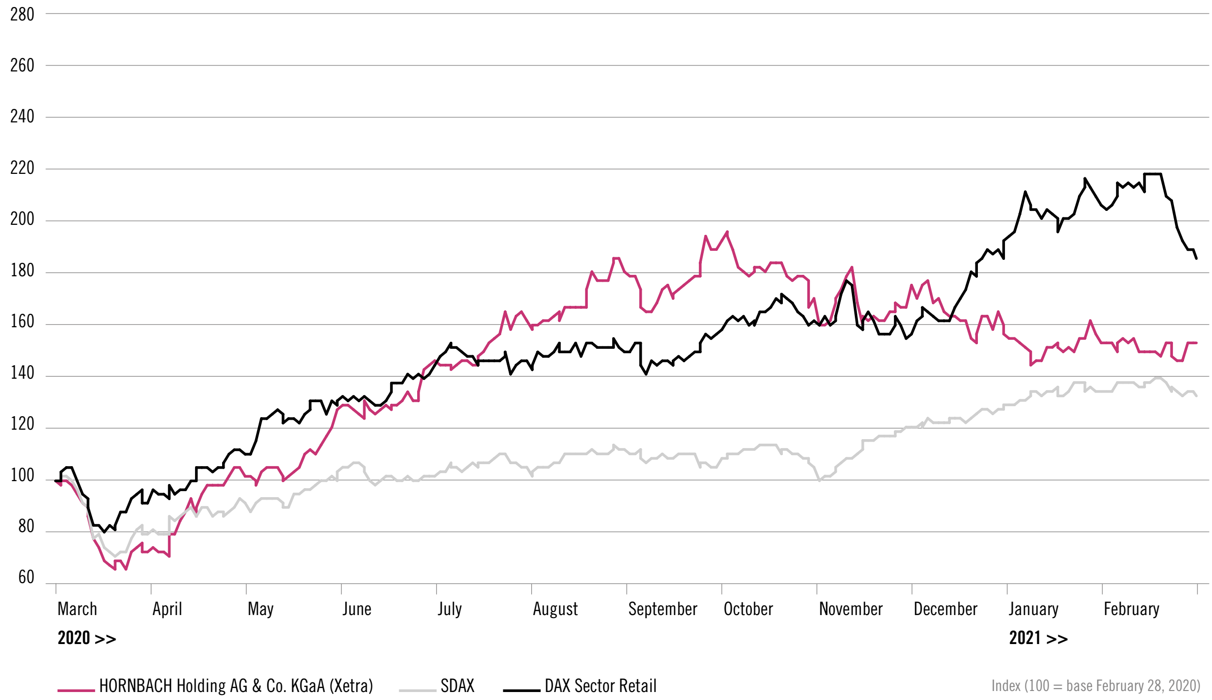
Stock market boom in year of coronavirus

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

HORNBACH Holding share price performance

The HORNBACH Holding share price rose by 53.6 % in the 2020/21 financial year (March 1, 2020 to February 28, 2021). Including the distribution, and assuming reinvestment of the dividend, the increase amounted to 56.6 %. The share thus outperformed the SDAX (+33.4 %). Having outperformed the DAXsector Retail Index (+86.2 %), at times significantly so, during the summer and fall of 2020, the onset of the latest wave of lockdowns across Europe meant that the share price fell short of this index from mid-December through to the end of the financial year.

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



The 2020/21 financial year opened with falling stock prices in the first half of March due to heightened uncertainty concerning the further course of the coronavirus crisis. The HORNBACH Holding share fell to its annual low at € 33.65 on March 18, 2020. Once it became clear that, despite strict contact restrictions, most HORNBACH DIY stores and garden centers would be permitted to remain open in many countries in which HORNBACH operates and that demand for DIY product ranges was growing significantly, the share price began to rise consistently. The (ad-hoc) publications issued to raise the forecast on May 18, 2020, June 9, 2020, and August 10, 2020 confirmed this positive trend, as did the very pleasing quarterly results. The share price reached its annual high at € 99.70 on September 29, 2020.

Given the renewed rise in infection totals, global stock markets posted significant losses in October, a trend which the HORNBACH Holding share was also unable to escape. Lockdown measures were re-imposed in most countries in which HORNBACH operates in the fourth quarter (December 1, 2020 to February 28, 2021), with DIY stores and garden centers far more significantly affected this time than in the spring. The share closed at € 78.20 in Xetra trading on February 28, 2021 (2019/20: € 50.90). The market capitalization stood at € 1,251 million at the end of the financial year (2019/20: € 814 million).

Interesting for value investors

Hornbach Familien-Treuhandgesellschaft mbH, the main shareholder in HORNBACH Holding AG & Co. KGaA, continued to hold 37.5 % of the share capital of the KGaA as of February 28, 2021. The other 62.5 % of the shares are held in particular by international institutional investors. HORNBACH shares are especially interesting to value investors with a long-term focus, as they see the business model as harboring potential for further sustainable growth. At the end of the financial year, M&G plc (UK) and Finda Oy (Finland) each held more than five percent of the voting rights.

Analysts' assessments

As of the balance sheet date on February 28, 2021, the HORNBACH Holding share was regularly covered by four financial analysts (2019/20: five) in research reports. As of the reporting date, all analysts recommended buying the share. The average share price target amounted to € 105, implying upward potential of around 34 % compared with the closing price at the end of our 2020/21 financial year. The current list of banks and research institutes regularly reporting on HORNBACH and their most recent recommendations for the share can be viewed at the HORNBACH Group's website.

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

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 Holding AG & Co. KGaA will propose an increase in the dividend from € 1.50 to € 2.00 per share with dividend entitlement for approval by the Annual General Meeting on July 8, 2021. The distribution total of € 32,000k corresponds to a distribution quota of 19.4 % and a dividend yield of 2.6 % based on the closing price at the end of the 2020/21 financial year.

Financial communications

Our investor relations activities provided shareholders, analysts, the financial media, and the general public with prompt information on the business performance of the HORNBACH Holding AG & Co. KGaA Group in the past financial year. All quarterly statements, annual reports, press releases, and additional financial information were published on the website of the HORNBACH Group. The Annual General Meeting, the annual results press conference, analysts' conferences, and meetings with investors and journalists 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 Holding share	
Type of share	No-par ordinary bearer shares
Stock exchanges	Frankfurt, Xetra
Market segment	Prime Standard
Security identification number	608340
ISIN	DE0006083405
Stock market ticker	HBH
Bloomberg (Xetra)	HBH:GR
Reuters (Xetra)	HBH.DE
Financial year	March 1 to February 28 (29)
Initial public offering	07.03.1987 (preference share of HORNBACH AG)
Number of shares	16,000,000
Share capital	€ 48,000,000

Financial Calendar 2021

May 27, 2021	Annual Results Press Conference 2020/21 Publication of Annual Report
June 25, 2021	Quarterly Statement: 1st Quarter of 2021/22 as of May 31, 2021
July 8, 2021	Annual General Meeting (virtual)
September 30, 2021	Half-Year Financial Report 2021/22 as of August 31, 2021 Analysts' Conference
December 22, 2021	Quarterly Statement: 3rd Quarter of 2021/22 as of November 30, 2021

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COMBINED MANAGEMENT REPORT

Group Fundamentals

1. The Group at a Glance

€ 5.5 bn
consolidated sales

HORNBACH Holding AG & Co. KGaA is the parent company of the HORNBACH Group. It does not have any operations itself, but manages a number of major subsidiaries. Alongside HORNBACH Baumarkt AG, its largest operating subgroup at which the European do-it-yourself (DIY) business with DIY stores and garden centers and DIY online retail are pooled, the HORNBACH Group also comprises two further subgroups – HORNBACH Baustoff Union GmbH (regional builders' merchants) and HORNBACH Immobilien AG (real estate and location development). At the balance sheet date on February 28, 2021, the Group had a total of 23,279 employees, of which 10,288 outside Germany. In the 2020/21 financial year (March 1, 2020 to February 28, 2021), the HORNBACH Group generated net sales of around € 5.5 billion. The HORNBACH Group was founded in 1877 and is still family-managed, now in the fifth generation.

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

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

Notes to Consolidated Financial Statements
Consolidated shareholdings

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

1.1 HORNBACH Baumarkt AG subgroup

163
locations across Europe

At the balance sheet date on February 28, 2021, the HORNBACH Baumarkt AG subgroup operated 161 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 96 locations are in Germany. A further 65 stores are located in the following other European countries: Austria (14), the Netherlands (15), Luxembourg (1), the Czech Republic (10), Switzerland (7), Sweden (7), Slovakia (4), and Romania (7). With total sales areas of around 1.92 million m², the average size of a HORNBACH DIY store with a garden center amounts to around 11,800 m². In all of the countries in which it operates, HORNBACH combines its stationary retail business with its online stores (e-commerce) to act as a multichannel DIY retailer, an approach we also refer to as interconnected retail. Under the management of BODENHAUS GmbH, HORNBACH opened two specialist hard floor stores and an online shop in Germany in the fourth quarter of 2020/21. The HORNBACH Baumarkt AG subgroup generated sales of more than € 5.1 billion in the 2020/21 financial year.

1.2 HORNBACH Baustoff Union GmbH subgroup

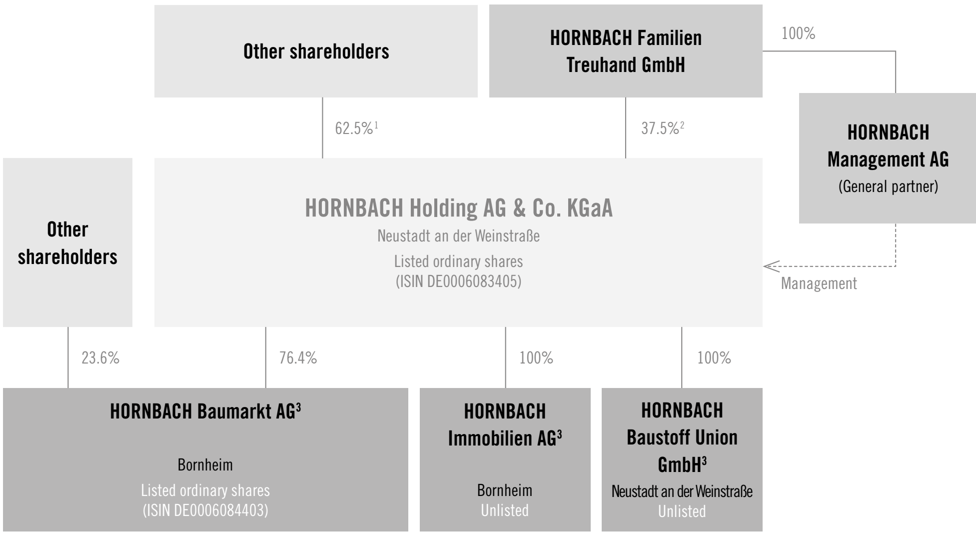
36
builders' merchant outlets

HORNBACH Baustoff Union GmbH is active in the regional builders' merchant business. At the balance sheet date on February 28, 2021, it operated a total of 34 outlets in south-western Germany and two locations close to the border in France. This subgroup generated sales of € 338 million in the 2020/21 financial year.

1.3 HORNBACH Immobilien AG subgroup

The HORNBACH Immobilien AG subgroup mainly develops retail properties for the operating companies in the HORNBACH Holding AG & Co. KGaA Group. The overwhelming share of these properties are let on within the Group on customary market terms. Of the rental income of around € 80 million in the 2020/21 financial year, 98 % resulted from the letting of properties within the overall Group.

Group structure and shareholders of HORNBACH Holding AG & Co. KGaA
Status: February 28, 2021



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

2. Group Business Model

2.1 Retail activities

The business model is predominantly characterized by the retail activities at the **HORNBACH Baumarkt AG subgroup** (hereinafter "HORNBACH"). HORNBACH has decades of experience in operating DIY megastores with garden centers in major regional catchment areas. The company relies on the strengths offered by organic growth. Its portfolio of locations in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. Furthermore, HORNBACH has worked for years now to consistently develop and expand its high-performing online shops in all nine countries in which it is present. The extensive virtual offering enables all customers to select and buy products or obtain advice, and that around the clock.

200,000
articles available at online shop

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

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

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

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

2.2 Real estate activities

The HORNBACH Group has an extensive real estate portfolio. This chiefly consists of retail properties with surfaces totaling 1,918,354 m² that are used as DIY stores with garden centers. Based on sales areas, ownership was structured as follows at the balance sheet date on February 28, 2021:

	No. of stores	Sales area m²	Share %
Property owned			
HORNBACH Baumarkt AG subgroup	53	628,464	32.8
HORNBACH Immobilien AG subgroup	43	516,763	26.9
Subtotal of property owned	**96**	**1,145,227**	**59.7**
Land rented, buildings owned	4	34,968	1.8
Leased	63	738,159	38.5
Total	**163**	**1,918,354**	**100.0**

(Differences due to rounding up or down)

60 %
of sales areas in group ownership

The HORNBACH Group has an overriding strategy of ensuring that – measured in terms of sales areas and also accounting for potential sale and leaseback transactions – it owns at least half of the real estate used for operating purposes. As in the previous year, this share amounted to around 60 % at the balance sheet date on February 28, 2021. The remaining 40 % of sales areas are rented from third parties (38 %). In individual cases (2 %), only the land has been leased. In addition, HORNBACH Immobilien AG and HORNBACH Baumarkt AG both hold a number of purchase options entitling them to acquire further land at first-class locations in Germany and abroad. Moreover, group companies already own pieces of land in Germany and abroad which are also earmarked for use as retail locations.

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

2.3 Hidden reserves in real estate assets

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

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

The property already completed and rented out by the HORNBACH Immobilien AG subgroup is reported at a carrying amount of around € 396 million in the balance sheet as of February 28, 2021. The application of an average multiplier of 13 based on the agreed rental income, as well as an age discount of 0.6 % p.a. in terms of the costs of acquisition, produces a calculated yield value of € 793 million at the balance sheet date (February 29, 2020: € 806 million). The deduction of the carrying amount of the real estate in question, amounting to € 396 million (February 29, 2020: € 409 million) leads to hidden reserves of € 397 million (February 29, 2020: € 397 million).

At the balance sheet date on February 28, 2021, the HORNBACH Baumarkt AG subgroup owned real estate in Germany and abroad used for proprietary purposes as DIY stores with garden centers with a carrying amount of around € 772 million. On the basis of intra-company rental income at usual market rates and a multiplier of 13, as well as an age discount of 0.6 % p.a. in terms of the costs of acquisition, the calculated yield value for the real estate amounts to around € 1,117 million (February 29, 2020: € 1,104 million). Deducting the carrying amount of € 772 million (February 29, 2020: € 773 million) leads to calculated hidden reserves of around € 345 million (February 29, 2020: € 331 million).

Based on this calculation method, the hidden reserves for the real estate used for operating purposes at the overall Group can be estimated at around € 742 million (February 29, 2020: € 728 million).

€ 742 m
hidden reserves in real estate assets

2.4 Reporting segments

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

3. Management System

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

3.1 Key management figures relevant for outlook

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

Group Management Report
Business Report
Earnings Position

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

3.2 Alternative key performance indicators

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

3.2.1 Key performance indicators for earnings position

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

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

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

The **store expense ratio** corresponds to selling and store expenses divided by net sales. Selling and store expenses involve those costs incurred in connection with operating stationary DIY stores with garden centers and online shops. These mainly involve personnel expenses, costs of premises and advertising expenses, as well as depreciation and amortization. Moreover, this item also includes general operating expenses, such as transport costs and expenses for maintenance and upkeep. The **pre-opening expense ratio** is obtained by dividing pre-opening expenses by net sales. Pre-opening expenses relate to those expenses arising at or close to the time of the construction up to the opening of new stationary DIY stores with garden centers. Pre-opening expenses mainly consist of personnel expenses, costs of premises, and administration expenses. The **administration expense ratio** corresponds to the quotient of administration expenses and net sales. General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of stationary DIY stores with garden centers and with the development and operation of online retail (e-business) which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses. As well as purely administrative expenses, these expenses also include project-related expenses, and in particular expenses for digitalization and interconnected retail (please also see information in "3.1 Sales performance" in the Business Report).

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

EBIT is also commented on as an alternative key performance indicator in the presentation of our earnings position (please see Chapter 3.2.5 "Adjusted operating earnings" for information about calculation). As non-operating, unscheduled one-off items may lead EBIT to fluctuate substantially between individual reporting periods, this key figure is not used a key management figure in the company's planning or as the central reporting figure for budget/actual comparisons or annual earnings forecasts.

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

3.2.2 Key performance indicators for financial and asset position

HORNBACH aims to generate a positive value spread (**ROCE premium over WACC**) – expressed as the return on capital employed (ROCE) less weighted average cost of capital (WACC). The ROCE is calculated by dividing operating earnings less allocable taxes (Nopat = Net operating profit after Tax) by capital employed. Here, capital employed is defined as equity plus financial debt less cash and cash equivalents. The WACC expresses the level of return required to cover the costs of capital employed as a percentage, taking due account of the weighting of equity and debt capital. This capital cost rate is usually determined by reference to data available on the market for comparable companies (peer groups) and their equity and debt capital structures. Furthermore, country-specific risk premiums are also included. For the purpose of measuring target achievement, an average WACC is determined by weighting the country-specific WACCs and their respective segment share of the Group's total assets. The aim is to generate a return that is in line with the market. The ROCE premium over WACC is a core component of multiyear variable remuneration for members of the Board of Management (please also see Section 1.1.3 in the Remuneration Report).

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

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

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

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

Business Report

1. Macroeconomic and Sector-Specific Framework

1.1 International framework

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

Table
GDP growth rates

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

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

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

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

1.2 Business framework in Germany

1.2.1 Macroeconomic climate

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

1.2.2 Construction activity and construction trade

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

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

1.2.3 Retail and DIY

Based on figures released by the Association of German Retailers (HDE), net aggregate sales in the German retail sector increased to € 577.4 billion in 2020. Sector sales therefore rose by 5.7 % in nominal terms compared with 2019. Online retail (e-commerce) grew by 20.7 % to € 71.5 billion (2019: € 59.2 billion). Online sales thus accounted for a 12.4 % share of total retail sales in 2020 (2019: 10.8 %).

13.8 %
sales growth at large-scale DIY stores in 2020

According to figures published by the BHB sector association, large-scale DIY stores with sales areas of more than 1,000 m² increased their gross nominal sales by 13.8 % to € 22.14 billion in the 2020 calendar year (2019: € 19.46 billion). On a like-for-like basis, i.e. excluding stores newly opened, closed or subject to substantial conversion measures in the year under report, the sector reported growth of 14.1 %. Gross sales at smaller-scale DIY stores (DIY shops with sales areas of up to 1,000 m²) rose by 6.8 % to € 4.42 billion (2019: € 4.14 billion). The market volume of all DIY and home improvement stores thus grew by 12.6 % to € 26.56 billion in 2020.

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

1.2.4 Regional builders' merchant business

Developments in the builders' merchant segment are significantly influenced by sector trends in the main construction trade in the sales area covered by the HORNBACH Baustoff Union GmbH subgroup, which largely comprises Rhineland-Palatinate, Saarland, and Baden-Württemberg. In 2020, nominal sales in the main construction trade (housing construction, companies with 20 or more employees) increased by 20.1 % in Rhineland-Palatinate and by 14.7 % in Baden-Württemberg, but fell by 15.8 % in Saarland (nationwide figure: plus 11.4 %). New orders grew by 13.4 % in Rhineland-Palatinate, by 10.1 % in Saarland, and by 13.3 % in Baden-Württemberg (national figure: plus 7.6 %).

The builders' merchant market in the sales area covered by HORNBACH Baustoff Union GmbH remains highly contested. Alongside numerous regional and cross-regional builders' merchants, DIY stores have been penetrating the market for commercial customers and private construction clients for some time now, offering new sales formats and services (e.g. drive-in, online business with delivery, tradesmen services, and focus on professional customers and projects). Accompanied by aggressive pricing policies, this trend has increased pressure on prices and squeezed gross margins in the stationary builders' merchant business. Furthermore, the move to greater numbers of industrially produced prefabricated houses is impacting on demand at builders' merchants for building materials used in traditional construction methods.

2. Summary of 2020/21 Business Performance

2.1 Overall assessment of the Group's economic position

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

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

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

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

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

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

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

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

*earlier opening of garden centers in some federal states

Due to its focus on commercial customers, HORNBACH Baustoff Union was affected by restrictions on sales to a lesser extent. In the fourth quarter, however, this subgroup was also required to discontinue sales to private customers from December 16, 2020.

2.1.1 Seasonal and calendar-related factors and other underlying conditions

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

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

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

Overall, weather conditions were favorable for the implementation of DIY projects in the first half of the 2020/21 financial year. In many regions, the spring and summer were predominantly dry and sunny with mostly moderate temperatures. Following a changeable fall, the winter brought above-average volumes of rain, with snow as well in many regions at the end of January and in February.

2.1.2 Asset, financial, and earnings position

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

Net sales at the HORNBACH Group rose by 15.4 % to € 5,456 million, with growth momentum coming both from the DIY retail business and from the builders' merchant business. Net sales at the **HORNBACH Baumarkt AG subgroup** grew by 15.6 % to € 5,117 million, having already increased by 8.1 % to € 4,428 million in the previous year. Our group-wide like-for-like sales growth of 14.7 % was the highest since the company's IPO in 1993. Our online retail business received a distinct boost in the 2020/21 financial year, as ever more customers drew on the advantages of online orders and click & collect during the pandemic. Sales in the e-commerce business (including click & collect) more than doubled (2019/20: plus 18 %). The online share of the subgroup's sales rose from around 10 % to almost 17 %.

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

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

Our DIY stores and garden centers also further improved their productivity in the 2020/21 financial year. Average annual sales at HORNBACH's DIY stores and garden centers increased from € 28.2 million to

€ 31.9 million in the year under report. Surface productivity, i.e. weighted net sales per square meter of sales area, rose from € 2,386 to € 2,698 per m² (plus 13.1 %).

The **HORNBACH Baustoff Union GmbH subgroup** reported sales growth 12.8 % in the 2020/21 financial year. Net sales at the total of 36 outlets (2019/20: 34) thus increased to € 337.7 million (2019/20: € 299.5 million).

Thanks to its strong sales growth, HORNBACH significantly boosted its operating earnings strength compared with the previous year. Additional costs due to the pandemic and one-off payments to employees totaling around € 31 million were countered by government grants, rent reductions, and other Covid-19-related income of around € 6 million. EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) showed clearly disproportionate growth compared with sales, rising by 43.8 % to € 326.4 million (2020/21: € 227.0 million). The adjusted EBIT margin rose from 4.8 % to 6.0 %. Consolidated operating earnings (EBIT) improved by 45.9 % to € 311.9 million (2019/20: € 213.8 million). This figure includes non-operating unscheduled charges on earnings relating in particular to IAS 36 impairments of € 14.5 million (2019/20: € 13.2 million). Consolidated earnings before taxes (EBT) and consolidated net income rounded off this highly positive earnings performance, rising by 60.1 % to € 266.1 million (EBT) and by 63.3 % to € 201.4 million. Earnings per share increased from € 6.56 to € 10.33.

The HORNBACH Group's cash-effective investments rose to € 154.4 million in the 2020/21 year under report (2019/20: € 131.2 million). Of investments, 55 % related to land and buildings, while the remainder was mainly channeled into plant and office equipment new and existing stores.

This very good earnings performance led to an increase in the operating cash flow from € 324.5 million to € 346.5 million. From an operating perspective, this increase was mainly driven by the higher level of net income for the period, which more than offset the opposing development in working capital from minus € 9.0 million to minus € 53.7 million. The free cash flow amounted to € 197.3 million (2019/20: € 202.8 million).

Total assets of the HORNBACH Group grew to € 4,007.9 million as of February 28, 2021 (balance sheet date on February 29, 2020: € 3,760.2 million). At 44.2 %, the equity ratio remained at a satisfactory level (February 29, 2020: 42.7 %).

HORNBACH further reduced its debt in the year under report. Overall, net financial debt decreased from € 1,170.6 million to € 1,084.8 million. Excluding IFRS 16 lease liabilities, net financial debt fell to € 294.8 million as of the balance sheet date (February 29, 2020: € 375.2 million). Given our broad spectrum of financing sources, we still enjoy a good degree of security and flexibility to finance our further growth. At the same time, we have also increased our resilience in coping with the coronavirus crisis.

2.2 Further major developments

2.2.1 Development in HORNBACH's stationary store network

A new DIY store with a garden center was opened in Oradea (Romania) on September 30, 2020. This increased the number of DIY store locations in Romania to seven and the group-wide total to 161. Furthermore, existing stores were converted and expanded within the customary modernization program. Among other measures, further stores were extended to include drive-in and/or construction material collection facilities. On January 11, 2021 and February 4, 2021, HORNBACH opened two specialist hard floor stores within its new "BODENHAUS" sales concept in Berlin and Cologne. Due to pandemic-related restrictions, both stores initially opened only for commercial customers. Private customers nevertheless had the option of purchasing goods via click & collect at the BODENHAUS online shop.

Including the stores newly opened, the HORNBACH Baumarkt AG subgroup operated a total of 163 retail stores as of February 28, 2021 (February 29, 2020: 160), of which 98 (96) in Germany and 65 (64) in other European countries. Total sales areas at the HORNBACH Baumarkt AG subgroup amounted to around 1.92 million m^2 as of February 28, 2021 (February 29, 2020: around 1.89 million m^2).

HORNBACH Baustoff Union took over a location in Gersheim (Saarland) from a former sales partner and turned it into a proprietary outlet as of March 1, 2020. This was followed as of October 1, 2020 by the takeover of a location from a competitor in Sinsheim (Baden-Württemberg). Hornbach Baustoff Union therefore had a total of 36 outlets as of February 28, 2021.

2.2.2 Development in interconnected retail

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

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

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

2.2.3 Changes in the Board of Management and Supervisory Board

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

2.3 Target achievement in 2020/21

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

2.3.1 Targets and results of the HORNBACH Holding AG & Co. KGaA Group in the 2020/21 financial year

	Targets for 2020/21	Results in 2020/21
Expansion of HORNBACH Baumarkt AG subgroup	**DIY stores and garden centers** ■ 1 new store opening	**DIY stores and garden centers:** ■ Oradea (Romania) **Specialist stores (BODENHAUS):** ■ Berlin, Cologne (Germany) ■ BODENHAUS online shop
Expansion of HORNBACH Baustoff Union GmbH subgroup	Opportunities to acquire promising new locations in the region are reviewed on an ongoing basis.	■ Takeover of the Gersheim location (Saarland) from B+B Bliestal Baustoffe GmbH ■ Takeover of the Sinsheim location from Schneider GmbH
Investments	**€ 155 million – € 175 million**	**€ 154 million**
Sales performance		
Net sales	■ Original forecast: at previous year's level ■ Forecast adjusted on 8.10.2020 (ad-hoc): growth of 5 % - 15 % ■ Range narrowed on 9.29.2020 (H1): growth of 8 % - 15 % ■ Forecast adjusted on 11.9.2020 (ad-hoc): growth of 13 % - 17 %	**Plus 15.4 %** to € 5.5 billion
Earnings performance		
Adjusted EBIT	■ Original forecast: slightly below previous year's level ■ Forecast adjusted on 8.10.2020 (ad-hoc): € 230 million – € 330 million ■ Range narrowed on 9.29.2020 (H1): € 270 million - € 330 million ■ Forecast adjusted on 11.9.2020 (ad-hoc): € 290 million – € 360 million ■ Preliminary earnings on 3.23.2021 (Trading Statement): around € 325 million	**Plus 43.8 %** to € 326.4 million

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

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

The earnings performance at HORNBACH Holding AG & Co. KGaA is closely linked to developments on the level of its shareholdings and thus to the level and rate of change in its income from investments. At € 44.8 million, the annual net surplus was slightly higher than the previous year's comparative figure of € 39.8 million. Due the uncertainties surrounding the coronavirus pandemic, the management report for the 2019/20 financial year forecast that the annual net surplus would fall slightly short of the previous year's figure.

3. Earnings Position

3.1 Sales performance

3.1.1 Net sales of the HORNBACH Group

As of the balance sheet date on February 28, 2021, the HORNBACH Holding AG & Co. KGaA Group comprised the HORNBACH Baumarkt AG, HORNBACH Baustoff Union GmbH (HBU), and HORNBACH Immobilien AG subgroups. In the 2020/21 financial year (March 1, 2020 to February 28, 2021), the HORNBACH Group increased its consolidated sales (excluding sales taxes) by 15.4 % to € 5,456 million (2019/20: € 4,729 million).

15.4 %
sales growth at HORNBACH Group in 2020/21 financial year

3.1.2 HORNBACH Baumarkt AG subgroup

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

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

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

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

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

* Excluding currency items

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

18.6 %

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

- **Germany**

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

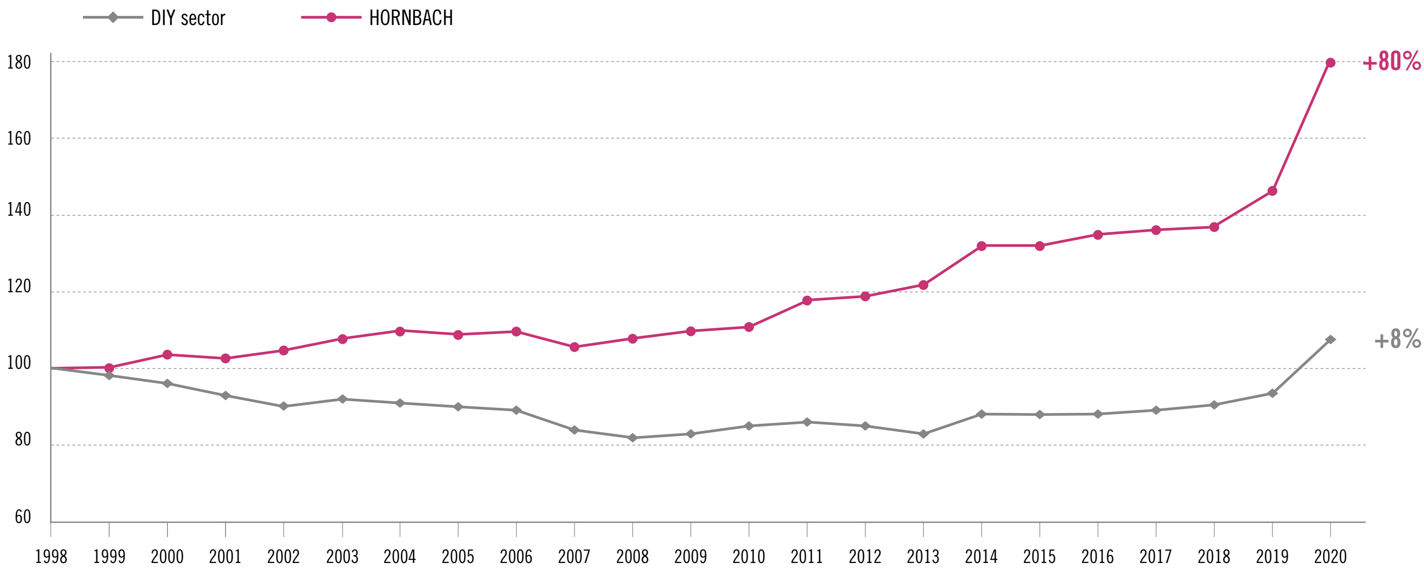
From the second half of March 2020, 28 out of our total of 96 HORNBACH DIY stores and garden centers in Germany were closed to the public due to orders issued by the authorities in the federal states of Bavaria, Lower Saxony, and Saxony. In many areas, sales to private customers were still permitted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

Thanks to exemptions for specific retail segments, which included DIY stores and garden centers, business operations could be upheld at the other 68 German locations (end of March 2020) provided that strict requirements were met in terms of controlling access, hygiene requirements, and distancing rules. The federal state of Lower Saxony generally allowed sales to private customers once again from April 4, 2020 and was followed just over two weeks later by Bavaria and Saxony, meaning that all of HORNBACH's 96 locations in Germany were open once again. Customers raced to catch up on missed purchases in May 2020, paving the way for a very pleasing overall performance in the Germany region in the first quarter. During the second and third quarters, the stores managed to uphold this high pace of growth in the absence of pandemic-related restrictions on sales.

It was a different picture in the fourth quarter: All HORNBACH DIY stores and garden centers in Germany were closed to private customers from mid-December 2020 until the end of the financial year on February 28, 2021. One challenge faced by regional and local managers at our locations related to the pandemic regulations in force in individual federal states, which were in some cases highly heterogeneous. Particularly with regard to click & collect sales and to whether and how commercial customers would be allowed to continue visiting stationary stores, it took some time for the underlying conditions to take shape in a practical manner that met the needs of stationary DIY retailers and their customers. Despite these substantial restrictions due to the pandemic, the impact of large volumes of sales being brought forward in December and of high sales in the online business, via click & collect, and with commercial customers meant that sales for the fourth quarter of 2020/21 as a whole fell only slightly short of the figure for the same quarter in the previous year.

HORNBACH significantly outperformed the average for the do-it-yourself sector in Germany in 2020. In its “DIY Total Store Report”, the GfK determines the sales performance of German DIY stores and garden centers for the calendar year on behalf of the BHB sector association. According to this report, like-for-like sales in the DIY sector showed average like-for-like growth of 14.1 % in the period from January to December 2020. Based on direct comparison, HORNBACH's growth rate of 22.7 % was 860 base points ahead of this figure (previous year: 230 base points). If the 1998 calendar year is taken as an index value of 100 %, by 2020 HORNBACH had increased its like-for-like sales in Germany to 180 %. By contrast, the overall sector only reached an index value of 108 % in 2020.

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



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

HORNBACH's positive sales performance continues to be driven by the great popularity of its DIY stores and garden centers among home improvement enthusiasts and construction professionals in Germany. In Kundenmonitor Deutschland, Germany's most prestigious consumer survey for the country's retail sector, HORNBACH was ranked first in terms of overall satisfaction in 2020. Customers awarded us the best grades in individual criteria including “Value for Money”, “Selection and Product Variety”, “Quality of Merchandise and Products”, and “Quality of Private Label Products”.

In terms of the aggregate gross sales of the DIY store sector in Germany (including online sales at stationary DIY competitors), we slightly expanded our position in the 2020 calendar year without opening any new stationary stores. Based on aggregate sales at all DIY stores and garden centers (2020: € 26.6 billion), our market share grew from 11.3 % to 12.0 %. In the segment of German DIY stores and garden centers with sales areas of more than 1,000 m² (2020: € 22.1 billion), we now have a market share of 14.4 % (2019: 13.7 %).

- **Other European Countries**

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

10.8 %
like-for-like sales growth net of currency items at HORNBACH DIY stores and garden centers outside Germany

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

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

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

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

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

Numerous international consumer surveys, such as Kundenmonitor (Germany, Austria, and Switzerland), or the vote on Retailer of the Year (Germany, Austria, Switzerland, and the Netherlands), document the high level of customer satisfaction with the HORNBACH brand once again in the 2020/21 year under report. Top marks for the assessment criteria of "Overall Satisfaction", "Selection and Product Variety", "Product Quality", and "Value for Money" have shaped the survey results in recent years.

3.1.3 HORNBACH Baustoff Union GmbH subgroup

The HORNBACH Baustoff Union GmbH subgroup also reported substantial sales growth in the 2020/21 financial year. Including sales at the two locations newly acquired, net sales at the total of 36 outlets increased by 12.8 % to € 337.7 million (2019/20: € 299.5 million).

12.8 %
sales growth at HORNBACH Baustoff Union subgroup in 2020/21 financial year

3.1.4 HORNBACH Immobilien AG subgroup

At € 80.4 million, rental income at the HORNBACH Immobilien AG subgroup was at the same level as in the previous year in the 2020/21 financial year. As in the previous year € 78.6 million involved rental income from the rental of properties within the overall Group.

3.2 Earnings performance of the HORNBACH Group

3.2.1 Summary

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

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

Key figure (€ million, unless otherwise stated)	2020/21	2019/20	Change
Net sales	5,456	4,729	15.4 %
of which: in Germany	2,985	2,536	17.7 %
of which in other European countries	2,471	2,193	12.7 %
Like-for-like sales growth	14.7 %	7.7 %	
EBITDA	516.3	419.8	23.0 %
EBIT	311.9	213.8	45.9 %
Adjusted EBIT	326.4	227.0	43.8 %
Consolidated earnings before taxes	266.1	166.2	60.1 %
Consolidated net income	201.4	123.3	63.3 %
EBITDA margin	9.5 %	8.9 %	
EBIT margin	5.7 %	4.5 %	
Adjusted EBIT margin	6.0 %	4.8 %	
Gross margin	35.2 %	35.8 %	
Store expenses as % of net sales	25.3 %	26.7 %	
Pre-opening expenses as % of net sales	0.1 %	0.2 %	
General and administration expenses as % of net sales	4.4 %	4.9 %	
Tax rate	24.3 %	25.8 %	

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

3.2.2 Gross margin

Gross profit rose by 13.5 %, and thus slightly less rapidly than sales, to € 1,922.8 million in the 2020/21 financial year (2019/20: € 1,694.2 million). The gross margin eased from 35.8 % to 35.2 %. This was primarily due to the sharp rise in the share of sales generated at our online shops, which led to a structural change in the product mix within the segment. In an online shopping cart, the share of lower-margin articles is usually higher than in a stationary shopping cart. Thanks to favorable procurement terms, adjustments to retail prices, and positive currency items, we were able to offset part of the negative impact on the margin.

3.2.3 Selling and store, pre-opening and administration expenses

The HORNBACH Group's **selling and store expenses** grew less rapidly than sales, rising by 9.3 % to € 1,378.8 million (2019/20: € 1,261.3 million). The store expense ratio fell from 26.7 % to 25.3 %. The sharper cost growth compared with the previous year (plus 2.6 %) was due on the one hand to additional expenses incurred due to the coronavirus pandemic. From the onset of the pandemic, we had already introduced numerous safety and hygiene measures at our stores to protect customers and employees alike. Above all, these measures included commissioning security firms to manage entry restrictions, procuring disinfectants and face masks, additional cleaning and disinfection measures, and installing perspex screens, distancing cordons and barriers. The resultant expenses amounted to € 17.8 million in the 2020/21 financial year. This way, we were able to safeguard operations at our stores and set standards in terms of the safe organization of retail activities in the pandemic. Furthermore, to acknowledge the personal commitment shown by the employees of HORNBACH Baumarkt AG in extreme work conditions, group-wide coronavirus bonuses of € 13.5 million were paid out, with the greater share of this total being allocated to store personnel expenses.

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

Earnings particularly benefited in the past financial year from the year-on-year decrease in advertising expenses. Due to the pandemic, marketing activities were significantly scaled back, particularly during lockdown periods. Depreciation and amortization remained unchanged.

Selling and store expenses include non-operating charges on earnings of around € 14.5 million (2019/20: € 13.2 million). These mainly involve impairment losses recognized for DIY store properties, advertising-related assets, and tenant fittings (IAS 36 impairments), as well as write-downs of right-of-use assets.

After the opening of one new DIY store with a garden center and two specialist retail stores at the HORNBACH Baumarkt AG subgroup, the **pre-opening expenses** of € 7.2 million were virtually unchanged compared with the previous year (€ 7.3 million). The pre-opening expense ratio amounted to 0.1 % (2019/20: 0.2 %).

Administration expenses rose by 3.3 %, and thus less rapidly than sales, to € 241.3 million (2019/20: € 233.5 million). The administration expense ratio fell from 4.9 % to 4.4 %. This shows that the targeted efficiency enhancements in the interaction between corporate headquarters and the operating regions are taking effect. As an annual average and converted into full-time equivalents, the number of administration employees remained unchanged. Strategic projects were analyzed and prioritized in terms of their customer relevance and economic viability and regularly monitored to assess their target progress and costs.

3.2.4 Other income and expenses

Other income and expenses amounted to € 16.4 million in the year under report (2019/20: € 21.7 million). Among other items, these include income and losses from damages cases and income from the sale of real estate and land no longer required for operations and of non-current assets.

3.2.5 EBITDA, adjusted EBIT, and EBIT

The key operating earnings figures of the HORNBACH Group for the 2020/21 financial year significantly exceeded the comparative figures for the previous year. This was driven above all by strong like-for-like sales growth and a proportionately lower increase in costs. Consolidated earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose by 23.0 % to € 516.3 million (2019/20: € 419.8 million), corresponding to an EBITDA margin of 9.5 % (2019/20: 8.9 %). Consolidated operating earnings excluding non-operating one-off items (adjusted EBIT) increased by 43.8 % to € 326.4 million (2019/20: € 227.0 million). The adjusted EBIT margin stood at 6.0 % (2019/20: 4.8 %). EBIT including non-operating earnings items grew by 45.9 % to € 311.9 million (2019/20: € 213.8 million), producing an EBIT margin of 5.7 % (2019/20: 4.5 %). The non-operating earnings items included in store and pre-opening expenses, as well as in other income and expenses, increased overall from minus € 13.2 million to minus € 14.5 million.

+43.8 %
growth in adjusted EBIT in 2020/21 financial year

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

Notes to Consolidated Financial Statements
Note 10

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

2020/21 in € million 2019/20 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Corporate functions	Consolidation adjustments	HORNBACH Holding AG & Co. KGaA Group
Earnings before interest and taxes (EBIT)	**258.6**	**9.3**	**58.4**	**(5.2)**	**(9.3)**	**311.9**
	163.9	3.9	56.5	(3.6)	(7.0)	213.8
Non-operating earnings items	20.2	(0.3)	(2.6)	0.0	(2.8)	14.5
	17.9	(1.4)	(0.3)	0.0	(3.0)	13.2
Adjusted EBIT	**278.8**	**9.0**	**55.8**	**(5.2)**	**(12.0)**	**326.4**
	181.8	2.6	56.2	(3.6)	(10.0)	227.0

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

3.2.6 Net financial expenses, EBT, and consolidated net income

Net financial expenses rose slightly from minus € 47.6 million in the previous year to minus € 45.8 million in the 2020/21 financial year. Within this line item, the improvement in net interest expenses by € 5.0 million was countered by negative currency items with a net balance of € 3.2 million. Consolidated earnings before taxes (EBT) stood at € 266.1 million (2019/20: € 166.2 million).

Taxes on income rose from € 42.9 million to € 64.7 million. The effective tax rate on Group level eased from 25.8 % to 24.3 %. Consolidated net income including minority interests grew by 63.3 % to € 201.4 million (2019/20: € 123.3 million). The Group-wide return on sales rose from 2.6 % to 3.7 %. Earnings per share are reported at € 10.33 (2019/20: € 6.56).

Notes to Consolidated Financial Statements
Notes 8 and 9

3.3 Earnings performance by segment

+53.3 %
increase in adjusted EBIT at HORNBACH Baumarkt AG subgroup

3.3.1 HORNBACH Baumarkt AG subgroup

The HORNBACH Group's positive earnings performance in the past 2020/21 financial year was largely determined by the earnings situation at the largest subgroup, HORNBACH Baumarkt AG. The subgroup's **adjusted EBIT**, i.e. operating earnings before non-operating one-off items, rose by 53.3 % to € 278.8 million (2019/20: € 181.8 million). The adjusted EBIT margin rose to 5.4 % (2019/20: 4.1 %), its highest value since the conversion to IFRS accounting in the 2001/02 financial year.

Non-operating charges on earnings, which chiefly relate to IAS 36 impairments, rose from € 17.9 million to € 20.2 million in the 2020/21 year under report. One reason for this increase was the change in the WACC. Due to the coronavirus pandemic, the risk-adjusted interest rate has risen noticeably. The amendment in this calculation parameter led to higher impairment requirements on the level of the cash generating units (CGUs), i.e. on store level. As a proportion of EBIT, however, the impairment ratio fell from 10.9 % to 7.8 %. Consolidated operating earnings before interest and taxes (**EBIT**) including one-off non-operating earnings items jumped from € 163.9 million to € 258.6 million (plus 57.8 %). The EBIT margin climbed from 3.7 % to 5.1 %.

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

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

The reporting segments within the HORNBACH Baumarkt AG subgroup performed as follows in the 2020/21 financial year:

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

- Rental income in the **Real Estate segment**, 98 % of which comprises internal rental income, showed a marginal increase of 0.7 % to € 282.5 million in the year under report (2019/20: € 280.7 million). The measures to achieve greater cost transparency and more efficient cost management in the Real Estate segment led to a further reduction in general operating expenses from € 6.4 million to € 2.5 million (minus 60.4 %). Depreciation and amortization decreased by 0.8 % to € 182.2 million (2019/20: € 183.7 million).

Depreciation and amortization include non-operating earnings items of € 18.9 million (2019/20: € 17.5 million). These mostly relate to impairment losses on right-of-use assets for six DIY store properties let from third parties (IAS 36 impairments). Real estate expenses decreased by 3.2 % to € 185.5 million (2019/20: € 191.7 million). Earnings from rental activities improved by 9.0 % to € 97.1 million in the 2020/21 financial year (2019/20: € 89.0 million). In the year under report, there were once again no material real estate disposal gains. Real estate earnings grew by 9.1 % to € 97.0 million (2019/20: € 88.9 million). Earnings before interest, taxes, depreciation, amortization, and write-ups (EBITDA) rose from € 271.2 million to € 277.6 million in the period under report (March 1, 2020 to February 28, 2021). EBIT in the Real Estate segment increased by 8.0 % to € 94.3 million (2019/20: € 87.3 million). EBIT adjusted to exclude non-operating one-off items (adjusted EBIT) rose by 8.0 % to € 113.2 million (2019/20: € 104.8 million). Due to slightly lower interest (net balance: plus € 0.3 million) and positive currency items (net balance: plus € 0.9 million), net financial expenses improved to minus € 41.0 million (2019/20: € 42.2 million). Earnings before taxes (EBT) advanced by 18.1 % to € 53.3 million (2019/20: € 45.2 million).

3.3.2 HORNBACH Baustoff Union GmbH subgroup

At the HORNBACH Baustoff Union GmbH subgroup, EBIT adjusted for non-operating one-off items amounted to € 9.0 million in the 2020/21 financial year (2019/20: € 2.6 million). The adjusted EBIT margin increased to 2.7 % (2019/20: 0.9 %). EBIT rose to € 9.3 million (2019/2020: € 3.9 million). Unlike adjusted EBIT, this key figure includes impairment losses and write-ups due to IAS 36, as well as accounting gains from the sale of properties no longer required for operations.

3.3.3 HORNBACH Immobilien AG subgroup

Adjusted for one-off items, EBIT at the HORNBACH Immobilien AG subgroup amounted to € 55.8 million in the 2020/21 financial year (2019/20: € 56.2 million). In the year under report, the sale of land and real estate not required, compensation for right-of-use assets, and write-ups generated non-operating income of € 2.6 million (2019/20: € 0.3 million). Including one-off items, EBIT at this subgroup grew to € 58.4 million (2019/20: € 56.5 million).

3.4 Earnings performance by geographical regions

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

EBITDA in **Germany** grew from € 178.9 million to € 223.1 million. The domestic share of the Group's EBITDA remained at the previous year's level of 43 %. EBIT for the Germany region increased from € 60.2 million to € 106.2 million. As a result, we improved the EBIT margin from 2.4 % to 3.6 %. Non-operating charges on earnings increased from € 4.4 million to € 8.4 million in the 2020/21 financial year, EBIT for the Germany region adjusted for non-operating earnings items grew from € 64.6 million to € 114.6 million in the 2020/21 financial year. The adjusted EBIT margin in Germany therefore rose from 2.6 % to 3.8 %. The domestic share of adjusted operating earnings climbed from 28 % to 35 %.

Other European Countries generated EBITDA of € 293.2 million (2019/20: € 241.2 million) and thus, as in the previous year, around 57 % of EBITDA at the HORNBACH Holding AG & Co. KGaA Group. We increased our EBIT outside Germany to € 205.7 million (2019/20: € 154.0 million). The EBIT margin for Other European Countries stood at 8.3 % (2019/20: 7.0 %). Non-operating charges on earnings decreased from € 8.7 million to € 6.1 million. Adjusted EBIT outside Germany grew to € 211.8 million (2019/20: € 162.6 million), while the adjusted EBIT margin reached 8.6 % (2019/20: 7.4 %). The share of adjusted consolidated operating earnings contributed by the Other European Countries fell from 72 % to 65 %.

€ 2.00
dividend proposal for 2020/21 financial year

3.5 Dividend proposal

The general partner and the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose a dividend of € 2.00 per no-par ordinary bearer share with dividend entitlement in the KGaA (2019/20: € 1.50), for approval by the virtual Annual General Meeting planned to be held on July 8, 2021. This corresponds to an increase of 33.3 % and a payout ratio of 19.4 %.

4. Financial Position

4.1 Principles and objectives of financial management

Financing measures are coordinated by Group Treasury at HORNBACH Baumarkt AG in close liaison with the group company financing the respective measure. Central organization of financial management enables the HORNBACH Group to maintain a uniform presence on financial markets and provide centralized liquidity management for the overall Group. HORNBACH Baumarkt AG grants financial assistance in the form of guarantees and letters of comfort only for subsidiaries within the subgroup. Formal undertakings to companies outside the HORNBACH Baumarkt AG subgroup are provided either by HORNBACH Holding AG & Co. KGaA or by HORNBACH Immobilien AG.

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

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

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

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

4.2 Financial debt

The HORNBACH Holding AG & Co. KGaA Group had financial debt of € 1,519.8 million at the balance sheet date on February 28, 2021 (2019/20: € 1,538.8 million). Net financial debt fell from € 1,170.6 million to € 1,084.8 million. Cash and cash equivalents increased from € 368.3 million in the previous year to € 435.0 million in the year under report.

The current financial debt (up to 1 year) of € 221.1 million (2019/20: € 150.3 million) comprises the portion of loans maturing in the short term, at € 127.3 million (2019/20: € 59.5 million), current lease liabilities of € 86.2 million (2019/20: € 82.4 million), current account liabilities and short-term time loans of € 2.5 million (2019/20: € 3.4 million), interest deferrals of € 4.5 million (2019/20: € 4.6 million), and the measurement of derivative financial instruments, at € 0.5 million (2019/20: € 0.3 million). The significant increase in current financial debt is mainly due to the reclassification to this line item of the promissory note bond due to mature at HORNBACH Immobilien AG in June 2021.

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

Type of financing € million	Liabilities broken down into remaining terms < 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	2.28.2021 Total	2.29.2020 Total
Short-term bank debt[1]	7.0						7.0	8.0
Mortgage loans	11.8	19.7	12.6	12.3	2.8	5.7	64.9	77.1
Other loans[2) 3)]	115.6	0.1	177.7		116.8		410.1	411.4
Bonds[3]						247.2	247.2	246.6
Negative fair values of derivative financial instruments	0.5						0.5	0.3
Lease liabilities	86.2	84.5	86.1	86.8	89.5	357.0	790.1	795.3
Total financial debt	**221.1**	**104.2**	**276.5**	**99.1**	**209.1**	**609.8**	**1,519.8**	**1,538.8**
Cash and cash equivalents							435.0	368.3
Net financial debt							**1,084.8**	**1,170.6**

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

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

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

- the corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until October 25, 2026 and an interest rate of 3.25 %
- two promissory note bonds at HORNBACH Baumarkt AG with volumes of € 126 million and € 74 million and terms until February 22, 2024 and February 23, 2026
- two promissory note bonds at HORNBACH Holding B.V. with volumes of € 52 million and € 43 million and terms until September 13, 2023 and September 15, 2025
- the promissory note bond of € 70 million at HORNBACH Immobilien AG with a term until June 30, 2021
- a short-term loan of CHF 50 million (€ 45.5 million) at HORNBACH Baumarkt (Schweiz) AG with a term until May 20, 2021
- Group-wide financing facilities of € 64.9 million secured by land charges (2019/20: € 77.1 million). Land charges of € 176.0 million have been registered as security for these financing facilities (2019/20: € 194.7 million).

4.2.1 Credit lines

€ 414 m
free credit lines

At the balance sheet date on February 28, 2021, the HORNBACH Holding AG & Co. KGaA Group had free credit lines amounting to € 414.0 million (2019/20: € 412.6 million) on customary market terms. These include an as yet unused syndicated credit line of € 350 million at HORNBACH Baumarkt AG, which has a term running until December 22, 2024. To ensure the maximum possible degree of flexibility, all major group companies have either credit lines denominated in local currencies or the possibility, if required, of acceding to the syndicated credit line. The companies in the HORNBACH Baustoff Union subgroup have credit lines at local banks.

4.2.2 Covenants

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

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

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

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

Notes to consolidated financial statements
Note 23: Financial debt

The HORNBACH Holding AG & Co. KGaA Group is subject to a relevant restriction that limits the possibilities of using subsidiaries' assets to settle other subsidiaries' liabilities. This relates to liquid funds of € 334.6 million at HORNBACH Baumarkt AG and its subsidiaries (2019/20: € 302.2 million). Apart from an allowance of € 50 million, these funds must remain within the HORNBACH Baumarkt AG subgroup and may not be used to settle liabilities outside the HORNBACH Baumarkt AG subgroup.

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

Key figure	Definition		2.28.2021	2.29.2020
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	1,084.8	1,170.6
Debt ratio	Net financial debt / EBITDA		2.1	2.8
Interest cover (*)	EBITDA / Gross interest expenses		11.7	8.5

(Differences due to rounding up or down to nearest € million)
(*) Until the previous year, adjusted EBITDA was used to calculate the interest cover ratio. This involved excluding changes in non-current provisions and gains/losses on the disposal of non-current assets as reported in the cash flow statement. Since the 2020/21 financial year, the calculation has been based on EBITDA without adjustments; the previous year's figure has been correspondingly adjusted.

4.3 Cash and cash equivalents

Cash and cash equivalents totaled € 435.0 million at the balance sheet date (2019/20: € 368.3 million). In the past financial year, liquidity was mainly held in the form of time, overnight, and notice deposits on the money market with a maximum investment horizon or notice period of three months, as well as in money market investments. To increase security, maximum deposit limits per bank have been defined.

4.4 Cash flow statement and investments

€ 154 m
investments

The HORNBACH Holding AG & Co. KGaA Group invested a total of € 154.4 million in the 2020/21 financial year (2019/20: € 131.2 million), mainly in land, buildings, and plant and office equipment at existing DIY stores with garden centers, and at DIY stores with garden centers under construction. The funds of € 154.4 million (2019/20: € 131.2 million) required for cash-effective investments were fully covered in the year under report by the cash flow of € 346.5 million from operating activities (2019/20: € 324.5 million). Around 55 % of total investments were channeled into new real estate, including properties under construction and buybacks of stores previously let, while around 45 % were invested largely in replacing and expanding plant and office equipment.

Cash flow statement (abridged) € million	2020/21	2019/20
Cash flow from operating activities	346.5	324.5
of which: funds from operations[1]	400.2	333.5
of which change in working capital[2]	(53.7)	(9.0)
Cash flow from investing activities	(149.2)	(121.6)
Cash flow from financing activities	(129.0)	(152.1)
Cash-effective change in cash and cash equivalents	**68.3**	**50.8**

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

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

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

The inflow of funds from operating activities rose to € 346.5 million in the 2020/21 financial year, up from € 324.5 million in the previous year. Funds from operations increased to € 400.2 million (2019/20: € 333.5 million). This growth was due above all to strong like-for-like sales growth accompanied by proportionately lower cost growth. The outflow of funds due to the change in the net balance of other non-cash income and expenses increased from € 4.6 million to € 7.7 million. The change in working capital resulted in an outflow of funds of € 53.7 million (2019/20: minus € 9.0 million). This was mainly due to the increase in inventories for the spring season in the subsequent year, a development that was only partly offset by an increase in trade payables.

The outflow of funds for investing activities rose from € 121.6 million to € 149.2 million. Cash-effective investments in non-current assets increased to € 154.4 million (2019/20: € 131.2 million). The proceeds from disposals of non-current assets and of non-current assets held for sale fell to € 5.2 million (2019/20: € 9.6 million). As in the previous year, short-term finance planning did not give rise to any movements in financial fund investments in the period under report.

The outflow of funds from financing activities totaled € 129.0 million in the 2020/21 financial year, compared with an outflow of € 152.1 million in the previous year. Scheduled repayments of € 14.1 million for non-current financial debt (2019/20: € 285.4 million) were countered by taking up new long-term loans of € 0.2 million (2019/20: € 248.1 million). The repayment of current and non-current lease liabilities led to an outflow of € 85.9 million (2019/20: € 84.2 million). At € 29.1 million, the dividends paid to shareholders remained at the previous year's level.

4.5 Rating

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

BB/stable
rating of HORNBACH Baumarkt AG Group

5. Asset Position

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

€ million	2.28.2021	2.29.2020	Change
Non-current assets	2,413.1	2,397.1	0.7 %
Current assets	1,594.8	1,363.1	17.0 %
Assets	**4,007.9**	**3,760.2**	**6.6 %**
Shareholders' equity	1,772.0	1,604.2	10.5 %
Non-current liabilities	1,390.4	1,489.9	(6.7)%
Current liabilities	845.5	666.1	26.9 %
Equity and liabilities	**4,007.9**	**3,760.2**	**6.6 %**

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

The Group's total assets showed significant year-on-year growth to € 4,007.9 million (plus 6.6 %). The equity of the Group as stated in the balance sheet amounted to € 1,772.0 million at the end of the financial year (2019/20: € 1,604.2 million). The equity ratio rose from 42.7 % in the previous year to 44.2 % at the end of the 2020/21 financial year.

5.1 Non-current and current assets

Non-current assets, which account for around 60 % (2019/20: 64 %) of total assets, amounted to € 2,413.1 million at the balance sheet date (2019/20: € 2,397.1 million). They mainly comprise property, plant and equipment and investment property of € 1,662.8 million (2019/20: € 1,621.7 million) and right-of-use assets for leased properties of € 716.7 million (2019/20: € 741.3 million). The additions of € 87.0 million to right-of-use assets for leased properties and additions of € 148.3 million to property, plant and equipment were countered by depreciation of € 201.5 million and disposals of assets of around € 6.8 million. Adjustments to account for exchange rate movements led to an overall decrease of € 10.2 million in property, plant and equipment and investment property.

The other non-current receivables and assets of € 4.0 million (2019/20: € 4.7 million) mainly involve the fair value of the interest-currency swap, deferrals of credit line expenses, and non-current lease receivables. Furthermore, the Group has deferred tax claims of € 12.2 million (2019/20: € 13.1 million). The decrease chiefly resulted from adjustments made to temporary measurement differences for finance leases and the recognition of provisions.

Current assets grew by 17.0 % from € 1,363.1 million to € 1,594.8 million, or around 40 % of total assets (2019/20: 36 %). Mainly due to the significant rise in customer demand due to the pandemic and resultant further year-on-year increase in stocking measures in the fourth quarter of 2020/21 in preparation for the 2021 spring season, inventories rose from € 861.3 million to € 992.9 million. Despite the increase in inventories, the inventory turnover rate could be increased to 4.2 (2019/20: 3.8). Cash and cash equivalents rose year-on-year by € 66.7 million from € 368.3 million in the previous year to € 434.9 million in the year under report. Current receivables, contract assets, and other assets (including income tax receivables) increased by € 29.9 million to € 153.3 million. This was mainly due to the increase in other current assets. The tax refund claims included in this line item rose from € 6.3 million in the previous year to € 20.3 million in the year under report. Furthermore, recourse claims in connection with expected returns grew to € 11.6 million at the end of the financial year (2019/20: € 4.3 million).

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

Key figure	Definition		2.28.2021	2.29.2020
Equity ratio	Equity / Total assets	%	44.2	42.7
Return on equity	Annual net income before minority interests / Average equity	%	11.9	7.9
Return on total capital	NOPAT[1)]/ Average total capital[2)]	%	7.8	6.1
Debt / equity ratio (gearing)	Net debt / Equity	%	61.2	73.0
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land [3)]	€ million	241.4	837.0
Net working capital	Current assets [4)] less trade payables	€ million	845.5	726.8
Inventory turnover rate	Cost of goods sold / Average inventories		4.2	3.8

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

5.2 Non-current and current liabilities

Liabilities, including provisions, amounted to € 2,235.9 million at the balance sheet date (2019/20: € 2,156.0 million). Non-current liabilities fell by € 99.5 million from € 1,489.9 million to € 1,390.4 million. As well as the bond of € 247.2 million (2019/20: € 246.6 million), non-current financial debt chiefly comprises long-term loan liabilities of € 347.7 million (2019/20: € 428.9 million) and IFRS 16 lease liabilities of € 703.9 million (2019/20: € 712.9 million). Provisions for pensions fell to € 19.3 million in the year under report, down from € 24.9 million in the previous year. The deferred tax liabilities included in non-current liabilities decreased from € 34.1 million to € 31.7 million.

Notes to Consolidated Financial Statements
Note 23: Financial debt

Current liabilities increased from € 666.1 million to € 845.5 million, while current financial debt rose from € 67.9 million to € 134.9 million. This significant increase was chiefly due to the reclassification to current financial debt of the promissory note bond of € 70 million due to mature at HORNBACH Immobilien AG in June 2021. Current lease liabilities pursuant to IFRS 16 came to € 86.2 million (2019/20: € 82.4 million). Trade payables, contract liabilities, and other liabilities amounted to € 454.4 million at the balance sheet date, as against € 384.2 million in the previous year. Primarily as a result of higher provisions for bonuses, other provisions and deferred liabilities rose from € 105.1 million in the previous year to € 134.7 million.

The net debt of the HORNBACH Holding AG & Co. KGaA Group, i.e. financial debt less cash and cash equivalents, fell from € 1,170.6 million to € 1,084.8 million. Excluding lease liabilities, net debt fell from € 375.2 million to € 294.8 million.

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

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

As in previous years, in the 2020/21 financial year HORNBACH Holding AG & Co. KGaA performed important services on behalf of its subsidiaries within the overall Group. The Chief Financial Officer of HORNBACH Management AG simultaneously holds this function for HORNBACH Holding AG & Co. KGaA and HORNBACH Baumarkt AG. The employees responsible for financial market communications (investor relations) and public relations are located at HORNBACH Holding AG & Co. KGaA and also work on behalf of its HORNBACH Baumarkt AG subsidiary. A control and profit transfer agreement is in place between HORNBACH Holding AG & Co. KGaA and its wholly-owned subsidiary HORNBACH Immobilien AG.

Group Management Report
Business Report
Macroeconomic and
Sector-Specific Framework

6.1 Business framework

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

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

€ 000s	2020/21	2019/20
Sales	819	925
Other operating income	17	42
Cost of services rendered	474	539
Gross profit	**362**	**428**
Personnel expenses	925	852
Depreciation and amortization	22	20
Other operating expenses	4,589	3,139
Income from investments	58,770	52,383
Interest result	1,468	1,179
Taxes	10,262	10,190
Earnings after taxes	**44,802**	**39,789**
Other taxes	1	1
Annual net surplus	**44,801**	**39,788**
Allocation to other revenue reserves	12,801	15,788
Net profit	**32,000**	**24,000**

(Differences due to rounding up or down)

6.2 Business performance of shareholdings

The retail and real estate activities and the business performance of the HORNBACH Baumarkt AG, HORNBACH Baustoff Union GmbH, and HORNBACH Immobilien AG subgroups in the 2020/21 reporting period are presented in detail in the Group Management Report.

Group Management Report
Business Report

6.3 Earnings, financial, and asset position

6.3.1 Earnings performance

The sales of € 819k (2019/20: € 925k) mainly result from the charging on of material and personnel expenses to affiliated companies.

At € 0.9 million, personnel expenses were slightly higher in the 2020/21 financial year than in the previous year. The remuneration paid by HORNBACH Management AG to the Board of Management is charged on together with other management-related expenses to HORNBACH Holding AG & Co. KGaA and recognized under other operating expenses. Other operating expenses rose from € 3.1 million to € 4.6 million.

At minus € 5.2 million, earnings before interest and income from investments (net balance of gross profit less personnel expenses, depreciation and amortization, and other expenses) fell short of the previous year's figure (minus € 3.6 million).

Income from investments rose year-on-year by € 6.4 million from € 52.4 million to € 58.8 million. This was due to the increase in the income of € 36.9 million transferred from HORNBACH Immobilien AG (2019/20: € 35.9 million) and the higher income of € 21.9 million from the investment in HORNBACH Baumarkt AG (2019/20: € 16.5 million).

At € 1.5 million, the positive interest result was slightly higher than the previous year's level (2019/20: € 1.2 million).

Net income tax expenses, which comprise current and deferred taxes, amounted to € 10.3 million in the 2020/21 financial year (2019/20: € 10.2 million). At € 44.8 million, the annual net surplus at HORNBACH Holding AG & Co. KGaA was higher than in the previous year (2019/20: € 39.8 million).

6.3.2 Asset position

Total assets amounted to € 374.5 million as of February 28, 2021 (2019/20: € 354.6 million). Non-current assets increased by € 4.3 million from € 262.4 million to € 266.7 million. The increase in receivables and other assets from € 52.5 million to € 65.0 million was mainly due to higher income from investments.

Deferred tax assets amounted to € 0.6 million (2019/20: € 1.1 million). Shareholders' equity at HORNBACH Holding AG & Co. KGaA grew from € 344.8 million to € 365.6 million at the balance sheet date on February 28, 2021. Primarily due to lower non-period taxes and higher tax prepayments, provisions for income taxes fell from € 7.8 million in the previous year to € 6.9 million in the year under report.

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

Assets	2.28.2021 € 000s	2.29.2020 € 000s
Non-current assets	**266,741**	**262,462**
Receivables and other assets	65,007	52,493
Securities	88	91
Cash holdings and credit balances at banks	41,647	38,215
Current assets	**106,742**	**90,799**
Deferred expenses and accrued income	391	253
Deferred tax assets	646	1,085
Total assets	**374,520**	**354,599**
Equity and liabilities		
Shareholders' equity	365,574	344,773
Provisions	7,756	8,645
Liabilities	1,190	1,181
Total equity and liabilities	**374,520**	**354,599**

6.3.3 Financial position

Group Management Report
Business Report
Financial Position

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

Primarily due to higher receivables from group financing, cash and cash equivalents rose year-on-year by € 3.4 million to € 41.6 million in the 2020/21 financial year.

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

The earnings, financial, and asset position of HORNBACH Holding AG & Co. KGaA remained satisfactorily stable in the 2020/21 financial year. At € 44.8 million, the annual net surplus was ahead of the previous year's figure of € 39.8 million. At 97.6 % (2019/20: 97.2 %), the equity ratio remained very high. Overall, the company's economic position is good.

6.5 Proposed appropriation of net profit

HORNBACH Holding AG & Co. KGaA concluded the 2020/21 financial year with an annual net surplus of € 44,800,752.96. Following the allocation of € 12,800,752.96 to other revenue reserves, the Board of Management of the general partner proposes to appropriate the net profit of € 32,000,000.00 as follows:

- € 2.00 dividend per share with a nominal value of € 3.00 on 16,000,000 ordinary shares
- Dividend distribution: € 32,000,000.00.

Risk Report

1. Risk Management at the Group

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

2. Risk Policy Principles

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

3. Organization and Process

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

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

Company risk assessment categories in ascending order

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

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

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

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

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

4. Internal Control and Risk Management System in respect of the Group Financial Reporting Process (pursuant to § 289 (4) and § 315 (4) HGB)

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

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

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

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

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

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

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

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

Overview of overall risks*

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

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

5. Financial Risks

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

5.1 Exchange rate risks

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

Furthermore, the increasingly international business activities of the Group result in rising foreign currency requirements both for handling international merchandise procurement and for financing objects of investment in foreign currencies. Any change in the exchange rate between the respective national currency and the procurement currencies (chiefly EUR and USD) could have a direct negative impact on earnings. Open foreign currency positions in USD are largely secured by hedging transactions (USD fixed-term and time deposits). Where possible, investments are externally financed on a long-term basis in the functional currency of the respective country company (natural hedging). Open foreign currency positions arising at the

Group in EUR, which mainly relate to intragroup deliveries and services invoiced in EUR and intragroup EUR loans, are not hedged.

5.2 Liquidity risks

The acquisition of land, investments in DIY megastores with garden centers and procurement of large quantities of merchandise require high volumes of liquidity to be permanently available. The financing of the company's further expansion is secured by the inflow of funds from the operating cash flow, as well as by bilateral bank loans and credit lines, a syndicated credit line of € 350 million at HORNBACH Baumarkt AG with a term running until December 22, 2024, a short-term loan of CHF 50 million (€ 45.5 million) at HORNBACH Baumarkt (Schweiz) AG with a term running until May 20, 2021, a promissory note bond of € 70 million at HORNBACH Immobilien AG with a term until June 30, 2021, two promissory note bonds at HORNBACH Holding B.V. with a total volume of € 95 million and terms running until 2023 and 2025, two promissory note bonds at HORNBACH Baumarkt AG with a total volume of € 200 million and terms running until 2024 and 2026, and the € 250 million corporate bond issued by HORNBACH Baumarkt AG in October 2019, whose term runs until October 25, 2026.

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

Alongside general covenants, such as pari passu, negative pledge, and cross default covenants, specific financial covenants were also agreed for the syndicated credit line at HORNBACH Baumarkt AG. These require compliance with an equity ratio, adjusted to exclude IFRS 16-related items, of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBACH Baumarkt AG subgroup. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries of HORNBACH Baumarkt AG. Comparable maximum limits were agreed for the promissory note bonds at HORNBACH Baumarkt AG and HORNBACH Holding B.V. Apart from this, these bonds are only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. Maximum limits for financial facilities secured by land charges similar to those applicable to the syndicated credit line were agreed for the corporate bond at HORNBACH Baumarkt AG. Apart from this, the bond is only subject to general covenants, such as pari passu, negative pledge, and cross acceleration covenants. As of February 28, 2021, the adjusted equity ratio at the HORNBACH Baumarkt AG subgroup amounted to 44.0 % (2019/20: 45.7 %) and interest cover came to 13.8 (2019/20: 11.6).

In connection with the promissory note bond at HORNBACH Immobilien AG, this subgroup is required to ensure that a specified level of unencumbered property, plant and equipment is maintained at the HORNBACH Immobilien AG subgroup. Compliance with these covenants is monitored on an ongoing basis.

All covenants were complied with at all times during the 2020/21 financial year.

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

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

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 are distributed among several financial institutions to counter the risk of bank deposit default. This approach was also maintained in the 2020/21 financial year. The company’s retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced. Default risks in the builders’ merchant business are managed using active debtor management procedures governing the application of creditworthiness-based limits for customer loans. Further detailed information about financial risks and sensitivity analyses can be found in the notes to the consolidated financial statements.

6. External Risks

6.1 Macroeconomic and sector-specific risks

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

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

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

6.2 Natural hazards

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

6.3 Risks due to the coronavirus pandemic

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

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

7. Operating Risks

7.1 Location and turnover risks

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

7.2 Procurement risks

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

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

8. Legal Risks

8.1 Legislative and regulatory risks

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

8.2 Risks relating to legal disputes

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

9. Management and Organizational Risks

9.1 IT risks

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

9.2 Personnel risks

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

10. Overall Assessment of Risk Situation

There were no risks to the continued existence of the HORNBACH Holding AG & Co. KGaA Group in the 2020/21 financial year. From a current perspective, there are also no discernible risks that could endanger the continued existence of the company in future or sustainably impair its earnings, financial or net asset position over several years.

Opportunity Report

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

1. Sector-Specific Opportunities

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

1.1 Construction activity

Construction work on existing buildings (the refurbishment, modernization, and renovation market) is a prominent factor in the business performance of DIY and garden stores, with more than half of all housing construction investments in Europe relating to this market segment. In Germany, sales in the modernization market have exceeded new construction volumes since 1998. Based on calculations compiled by the German Institute for Economic Research (DIW), two thirds of the housing construction volumes of around € 255 billion in 2020 involved construction work on existing buildings. The growth drivers outlined below indicate fundamental development opportunities and should benefit the business performance of the DIY sector in the long term.

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

- Increasing momentum can also be expected from the **renovation of buildings to improve their energy efficiency.** Given the long-term increase in energy costs and climate protection, this is becoming an ever more important factor – one promoted not least by numerous laws, directives, ordinances and subsidies on European and national levels. In Germany, for example, costs incurred for energy refurbishments of own-use residential properties have been partly deductible for tax purposes since January 1, 2020. At the same time, the Kreditanstalt für Wiederaufbau (KfW) has increased its subsidies for refurbishing old residential buildings. In October 2020, the EU Commission announced an investment package of € 250 billion to promote measures to enhance the energy performance of buildings.

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

1.2 Consumer trends

Consumers' changing lifestyles and patterns of consumption due to megatrends such as connectivity, individualization, security, new work, or neo-ecology are creating opportunities for developing new business models and differentiation from competitors. By offering suitable concepts, new technologies, and innovative products, HORNBACH can benefit from new market opportunities here.

Online retail has reported by far the strongest growth rates within the overall retail sector, with DIY product ranges showing an above-average performance. Experts expect online sales with typical DIY store product groups in Germany to grow by around 14 % in 2021, while the market volume of all DIY and home improvement stores might show a single-digit percentage reduction following its lockdown-driven boom in 2020. In interconnected retail, it will increasingly be about handling customers' online orders as conveniently and quickly as possible, while at the same time turning store shopping into an inspiring experience by offering individual advice and events. This approach requires investments in a high-performance IT infrastructure and logistics, as well as in further developing the stationary store network and the advice and services provided.

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

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

1.3 Competition and consolidation

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

€ 51 bn
core DIY market in 2020

Germany is the largest DIY market in Europe. However, DIY and home improvement stores in Germany have so far only exhausted part of their customer potential. In Germany, this distribution channel only covers around half of the core DIY market, which has a market volume of around € 51 billion. The other half of the market is accounted for by specialist retailers (e.g. specialist tile, interior decoration, lighting, or sanitary stores), builders' merchants, and timber merchants. In other European countries, DIY stores account for a higher share of the market, in some cases considerably so. Not only that, there is growing competition from pure players that are continually gaining market share in the DIY segment and stepping up the competitive pressure. Given these factors, further consolidation can be expected. Above all, this can be expected to benefit those companies that combine high-performing stationary retail with e-commerce in a multichannel retail business.

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

2. Strategic Opportunities

Our aim is to continually expand HORNBACH’s position in the European DIY market by means of organic growth. Our sales and profitability are to be sustainably increased by expanding an internationally successful retail format. On the one hand, this involves focusing on the strategic enhancement of our concept and expanding our store network at locations offering above-average growth potential in Germany and abroad. On the other hand, we intend to further promote our online retail activities in Germany and other European countries to sustainably boost our competitive position as an omni-channel retailer. Our solid financial resources, public corporate rating, and the flexibility available to us in refinancing the business on the capital market will enable us to invest considerable sums in differentiating HORNBACH’s format in future as well.

2.1 Focus on project customers

The corporate strategy focuses on project customers. With this approach, which is reflected in its product range, service, and pricing policies, HORNBACH is increasingly able to differentiate itself from its competitors. One unshakable component of our uniform strategy across the Group is our reliable permanent low price policy. We guarantee our customers the best market price, and that at all times, across the whole of the product range, and both compared with stationary competitors and with other online shops. Our stationary and online prices are always identical. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. That is why HORNBACH does not offer any temporary discount campaigns.

2.2 Sustainable products

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

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

2.3 Accessing new customer groups

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

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

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

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

2.4 Digitalization of business model

Interconnected retail

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

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

The aim here is to offer customers what they happen to be looking for and need for their construction or renovation projects, and that at every point of their customer journeys. One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. This way, our customers can inform themselves online about products, prices, and availability, and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Furthermore, customers can have articles delivered directly to their homes by mail order or opt for our "click & collect" service. From just two hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBACH store. This service is a real timesaver, especially for our commercial customers. With a product range of up to around 200,000 articles, the online shop also offers significantly greater selection than is possible on limited sales space. Not only that, by working with various configurators customers can have customized products prepared for them. Since 2020, HORNBACH has also offered online video advice, a service that has been very well received given the restrictions on contact due to the pandemic.

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

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

Digital processes

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

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

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

Customer relationship management

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

New business fields

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

2.5 Internationalization

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

2.6 Private labels

We are tapping additional earnings potential by increasingly developing private labels in partnership with suppliers. These enable us to offer attractive value for money to customers while at the same time differentiating ourselves from competitors. Further benefits include our independence from manufacturers' brands in terms of innovation and quality, brand management, product lifecycle management, and not least a higher gross margin. HORNBACH currently has a portfolio of around 50 private label brands which accounted for a 24.6 % share of sales in the 2020/21 financial year. In the medium term, it is planned to raise the share of private label products to around 30 %.

3. Assessment of Opportunities from Coronavirus Pandemic

The general strategic opportunities facing our company and outlined in Sections 2.1 to 2.6 are thought to have become even more valid since the outbreak of the coronavirus pandemic in the spring of 2020 than in the past. Consumer behavior has since changed sustainably. People are spending far more time at home, increasingly working from home, and looking for meaningful occupations in their own four walls or gardens during the pandemic. This has led to higher demand for construction and DIY project product ranges compared with before the pandemic. Thanks to its interconnected retail (ICR), HORNBACH is able to benefit more extensively from this growth in potential demand than are most of its competitors.

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

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

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

Outlook

1. Macroeconomic and Sector-Specific Framework

One crucial factor for the business prospects of the HORNBACH Group is the future development in consumer demand and in construction and renovation activity in the countries in which we operate. Private consumer spending is decisively influenced by developments in employment totals, inflation, and disposable incomes. Not only that, exceptional weather conditions can severely impact on consumer behavior and on our seasonal business, even though this factor cannot be accounted for in our advanced planning. Furthermore, exogenous shocks and crises, such as those triggered by the coronavirus pandemic since spring 2020 and whose duration is still unforeseeable, can significantly impact on our company's business performance.

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

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

1.1 Business framework in Europe

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

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

The construction industry has been affected to a comparatively limited extent by the restrictions imposed to contain the coronavirus. In its forecast dated November 2020, the Euroconstruct research and consulting network expected European construction volumes to grow by 4.1% in the 2021 calendar year, compared with minus 7.8% in the previous year.

1.2 Business framework in Germany

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

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

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

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

2. Forecast Business Performance in 2021/22

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

2.1 Expansion and investments

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

The volume of gross investments budgeted at the HORNBACH Group for the 2021/22 financial year should exceed the previous year's figure (€ 154.4 million). The overwhelming share of these funds is to be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure.

2.2 Sales performance

By analogy with developments at the largest operating subgroup, HORNBACH Baumarkt AG, on the level of the HORNBACH Holding AG & Co. KGaA Group, we expect consolidated sales in the 2021/22 financial year to approximately match the figure reported for the 2020/21 financial year (€ 5,456 million).

2.3 Earnings scenario

In our base scenario for the 2021/22 financial year, and due not least to the budgeted investments and planned expansion, our overall expectation is that the EBIT adjusted to exclude non-operating earnings items at HORNBACH Holding AG & Co. KGaA will fall short of the figure reported for the 2020/21 financial year (€ 326.4 million) in the one-year forecast period but nevertheless significantly exceed the figure of € 227.0 million reported for the pre-coronavirus 2019/20 financial year.

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

The earnings performance of HORNBACH Holding AG & Co. KGaA in the forecast period is closely linked to the respective outlooks on the level of its subsidiaries HORNBACH Baumarkt AG and HORNBACH Immobilien AG. The forecast development in earnings at the HORNBACH Baumarkt AG and HORNBACH Immobilien AG subgroups can be expected to impact accordingly on the level and rate of change in income from investments. In our base scenario, we expect the annual net surplus for the 2021/22 financial year to fall slightly short of the figure for the 2020/21 financial year (€ 44.8 million).

Remuneration Report

The remuneration report presents the basic features of the remuneration system for the Board of Management of the general partner (HORNBACH Management AG), the Supervisory Board of the general partner (HORNBACH Management AG), and the Supervisory Board of HORNBACH Holding AG & Co. KGaA, as well as the remuneration of individual members of the Board of Management and Supervisory Board in the 2020/21 financial year under report.

1. Remuneration of Board of Management of HORNBACH Management AG

1.1 Basic features of remuneration system

The Supervisory Board of HORNBACH Management AG adopted a new remuneration system for the members of the Board of Management of HORNBACH Management AG on December 18, 2019. The new remuneration system has been in effect for members of the Board of Management since March 1, 2020. The remuneration of the Board of Management is regularly reviewed by the Supervisory Board.

1.1.1 Overview

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

1.1.2 Fixed remuneration components

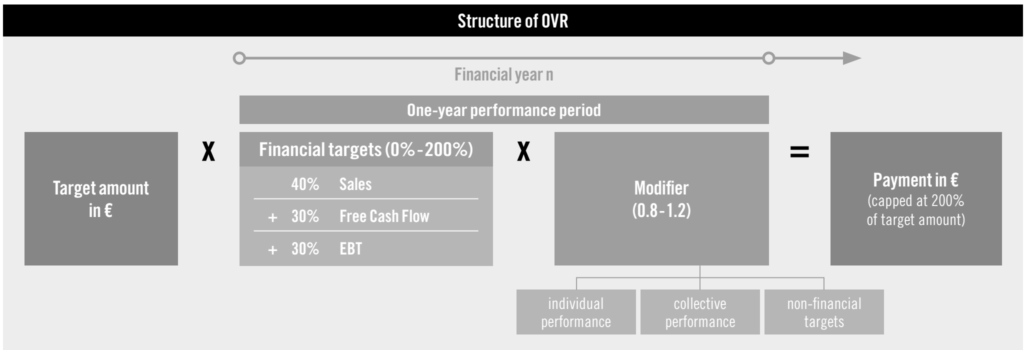
Members of the Board of Management receive a fixed annual salary in twelve monthly instalments. Ancillary benefits are also granted: In particular, these include the provision of a company car that can also be used privately, allowances for private health insurance, voluntary retirement insurance or alternatively contributions to a private life insurance policy, and accident insurance (fatality and invalidity). Divergent rules apply in some cases for members of the Board of Management who are simultaneously members of the Board of Management of HORNBACH Baumarkt AG and are already entitled to the respective ancillary benefit due to their employment relationship at that company. Moreover, members of the Board of Management are covered by the D&O insurance policy taken out by HORNBACH Holding AG & Co. KGaA. In addition, HORNBACH Management AG provides members of its Board of Management with coverage in a defined contribution company pension scheme. This commitment involves payment of half-yearly pension contributions amounting to 12.5 % of fixed gross annual salary.

1.1.3 Variable remuneration components

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

One-year variable remuneration (OVR)

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



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

The figures reported in the approved and audited consolidated financial statements of HORNBACH Holding AG & Co. KGaA for the respective financial year are taken as the basis for reference.

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

To supplement the financial performance criteria, the Supervisory Board of HORNBACH Management AG stipulates criteria for the modifier, generally before the beginning of the respective financial year. By way of the modifier, the Supervisory Board can assess the performance of the individual member of the Board of Management, the performance of the overall Board of Management, and the achievement of non-financial targets, such as stakeholder and ESG (Environment, Social, Governance) targets, referring in each case to HORNBACH Management AG and HORNBACH Holding AG & Co. KGaA respectively.

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

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

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

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

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

The key financial performance criteria for MVR are the relative total shareholder return ("TSR") of HORNBACH Holding AG & Co. KGaA compared with the TSRs of companies listed in the SDAX throughout the entire performance period (except Hornbach Holding AG & Co. KGaA with ISIN DE0006083405), which is weighted at 25 %, and the return premium (expressed by the return on capital employed, "ROCE") less the weighted average cost of capital ("WACC") ("ROCE premium over WACC") of the Group during the four-year performance period, which is weighted at 75 %. This on the one hand creates long-term incentives to generate an adequate return for shareholders, also by comparison with the market. On the other hand, the remuneration system for members of the Board of Management presents and promotes all aspects of sustainably profitable value creation resulting from their entrepreneurial actions.

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

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

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

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

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

1.2 Maximum remuneration

The total remuneration to be granted for a financial year (total of all remuneration components expended for the respective financial year, including fixed annual salary, variable remuneration components, company pension scheme, and ancillary benefits) for members of the Board of Management – irrespective of whether they are paid in that financial year or at a later point in time – has a maximum cap (“maximum remuneration”). Maximum remuneration amounts to € 2,040,000 for the Chairman, and € 520,000 for regular members of the Board of Management. If remuneration exceeds the maximum, the MVR payment amount is reduced for the respective grant year.

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

1.3 Remuneration upon premature termination of employment contracts

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

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

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

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

Total remuneration of the Board of Management of the general partner HORNBACH Management AG for performing its duties on behalf of the HORNBACH Holding AG & Co. KGaA Group in the 2020/21 financial year amounted to € 3,903k (2019/20: € 1,963k). Of this, € 1,317k was fixed remuneration (2019/20: € 966k) and € 2,586k (2019/20: € 997k) involved performance-related components.

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

Incumbent members	Non-performance-related components € 000s	Performance-related components (OVR) € 000s	Components with long-term incentive effect (MVR) € 000s	**Total remuneration 2020/21 € 000s**	Total remuneration 2019/20 [4] € 000s
Albrecht Hornbach	578	265	425	1,268	947
Roland Pelka[1)2)]	642	810	888	2,340	1,016
Karin Dohm[2)3)]	97	102	96	295	0
Total	**1,317**	**1,177**	**1,409**	**3,903**	**1,963**

[1)] In addition to the remuneration components for the 2020/21 financial year, the remuneration of Roland Pelka also includes variable remuneration components for the 2021/22 financial year.
[2)] Total remuneration also includes remuneration borne by HORNBACH Baumarkt AG.
[3)] Member of the Board of Management since January 1, 2021
[4)] Conversion of the remuneration system in FY 2020/21; total remuneration in 2019/20 not comparable

1.4.2 Pension commitments

Service costs totaling € 296k were expensed pursuant to IFRS for members of the Board of Management in the 2020/21 financial year (2019/20: € 210k). The following overview presents the service cost and the present value of the pension obligations attributable to individual members of the Board of Management.

Incumbent members	**Service cost 2020/2021 € 000s**	Service cost 2019/2020 € 000s	Amount of pension provision February 28, 2021 [2)] € 000s
Albrecht Hornbach	120	90	1,021
Roland Pelka	153	120	8,334
Karin Dohm[1)]	23	0	28
Total	**296**	**210**	**9,383**

[1)] Member of the Board of Management since January 1, 2021
[2)] The obligation also includes voluntary payments by the members themselves.

2. Remuneration of the Supervisory Board

2.1 Remuneration system for members of Supervisory Board of HORNBACH Holding AG & Co. KGaA

Supervisory Board remuneration is governed by § 17 of the Articles of Association of HORNBACH Holding AG & Co. KGaA. Pursuant to § 113 (3) AktG, the remuneration system was confirmed by the Annual General Meeting on July 10, 2020.

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

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

2.1.2 Remuneration components

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

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

- Audit Committee: € 22,500.00 for the chairman and € 9,000.00 for each other committee member
- All other committees: € 10,000.00 for the chairman and € 4,000.00 for each other committee member.

The fixed annual basic remuneration and fixed committee remuneration are granted for each financial year and are each due for payment on the day after the Annual General Meeting adopting the annual financial statements for the respective financial year. Remuneration is proportionately reduced on a pro rata temporis basis if a member of the Supervisory Board or a committee is not a member of such for the full financial year or does not chair the respective body for the full financial year.

HORNBACH Holding AG & Co. KGaA reimburses any sales tax incurred on the fixed annual basic remuneration and the fixed committee remuneration to the extent that Supervisory Board members are entitled to charge the company separately for sales tax and exercise this right.

If a member of the Supervisory Board is at the same time a member of the Supervisory Board of the General Partner and receives remuneration from the General Partner for his or her activities, the fixed annual basic remuneration and fixed committee remuneration are reduced by half. The same applies with respect to the additional portion of remuneration paid to the Chairman and Deputy Chairman if the relevant person is at the same time the Chairman or Deputy Chairman of the Supervisory Board of the General Partner.

Furthermore, Supervisory Board members are included in a financial loss liability insurance policy maintained by HORNBACH Holding AG & Co. KGaA at its own expense for its directors and officers.

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

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

2.2 Remuneration of Supervisory Board of HORNBACH Management AG

Supervisory Board remuneration is governed by § 4.7 of the Articles of Association of HORNBACH Management AG. The remuneration of Supervisory Board members comprises fixed annual basic remuneration. The fixed annual basic remuneration amounts to € 50,000.00 for the Chairman of the Supervisory Board, € 40,000.00 for the Deputy Chairman of the Supervisory Board, and € 20,000.00 for each other member of the Supervisory Board. Furthermore, Supervisory Board members also sitting on a Supervisory Board committee receive fixed committee remuneration. Fixed committee remuneration amounts to:

- Audit Committee: € 22,500.00 for the chairman and € 9,000.00 for each other committee member
- Personnel Committee: € 15,000.00 for the chairman and € 6,000.00 for each other committee member
- All other committees: € 10,000.00 for the chairman and € 4,000.00 for each other committee member.

The fixed annual basic remuneration and fixed committee remuneration are granted for each financial year and are each due for payment on the day after the Annual General Meeting adopting the annual financial statements for the respective financial year. Remuneration is proportionately reduced on a pro rata temporis basis if a member of the Supervisory Board or a committee is not a member of such for the full financial year or does not chair the respective body for the full financial year. HORNBACH Management AG reimburses any sales tax incurred on the fixed annual basic remuneration and the fixed committee remuneration to the extent that Supervisory Board members are entitled to charge the company separately for sales tax and exercise this right.

2.3 Remuneration of Supervisory Board members in year under report

The total remuneration of the Supervisory Board of HORNBACH Holding AG & Co. KGaA (pursuant to § 314 (2) No. 6a HGB) for the 2020/21 financial year amounted to € 363k (2019/20: € 354k). Of this, € 234k was basic remuneration (2019/20: € 220k) and € 129k was remuneration for committee activity (2019/20: € 134k). This total remuneration includes remuneration totaling € 161k for positions held on the Supervisory Board of HORNBACH Baumarkt AG (2019/20: € 166k). Of this, € 100k was basic remuneration (2019/20: € 97k) and € 61k was remuneration for committee activity (2019/20: € 69k). Remuneration for the positions held on the Supervisory Board of HORNBACH Holding AG & Co. KGaA amounted to € 202k in the year under report (2019/20: € 188k), of which € 134k was basic remuneration (2019/20: € 123k) and € 68k was remuneration for committee activity (2019/20: € 65k).

The remuneration of the Supervisory Board of HORNBACH Management AG for the 2020/21 financial year amounted to a total of € 215k (2019/20: € 227k). Like in the previous financial year (€ 227k), the remuneration for the 2020/21 financial year (€ 215k) solely comprised basic remuneration.

We present the Supervisory Board remuneration for members of the Supervisory Board of HORNBACH Holding AG & Co. KGaA (and additionally the Supervisory Board remuneration at HORNBACH Baumarkt AG attributable to these members) and of HORNBACH Management AG in individualized form below.

Incumbent members	Financial year	Basic remuneration HORNBACH Holding AG & Co. KGaA € 000s	Basic remuneration HORNBACH Management AG € 000s	Basic remuneration HORNBACH Baumarkt AG € 000s	Total committee remuneration HORNBACH Holding AG & Co. KGaA € 000s	Total committee remuneration HORNBACH Baumarkt AG € 000s	Total € 000s
Dr. Wolfgang Rupf [1)]	**2020/21**	**0**	**50**	**0**	**0**	**0**	**50**
	2019/20	0	50	0	0	0	50
Dr. Susanne Wulfsberg [1) 2)]	**2020/21**	**10**	**20**	**0**	**0**	**0**	**30**
	2019/20	10	20	0	0	0	30
Dr. John Feldmann [1) 2) 3)]	**2020/21**	**25**	**40**	**40**	**11**	**24**	**140**
	2019/20	25	40	40	11	24	140
Erich Harsch [1) 2) 3)]	**2020/21**	**0**	**0**	**0**	**0**	**0**	**0**
	2019/20	8	17	17	3	8	53
Albert Hornbach [1)]	**2020/21**	**0**	**20**	**0**	**0**	**0**	**20**
	2019/20	0	20	0	0	0	20
Christoph Hornbach [1)]	**2020/21**	**0**	**20**	**0**	**0**	**0**	**20**
	2019/20	0	20	0	0	0	20
Georg Hornbach [1)]	**2020/21**	**0**	**20**	**0**	**0**	**0**	**20**
	2019/20	0	20	0	0	0	20
Steffen Hornbach [1)]	**2020/21**	**0**	**5**	**0**	**0**	**0**	**5**
	2019/20	0	0	0	0	0	0
Martin Hornbach [2) 3)]	**2020/21**	**40**	**0**	**20**	**9**	**15**	**84**
	2019/20	40	0	20	9	15	84
Joerg Walter Sost [1)]	**2020/21**	**0**	**20**	**0**	**0**	**0**	**20**
	2019/20	0	20	0	0	0	20
Prof. Dr.-Ing. Jens P. Wulfsberg [1)]	**2020/21**	**0**	**20**	**0**	**0**	**0**	**20**
	2019/20	0	20	0	0	0	20
Simone Krah [2)]	**2020/21**	**20**	**0**	**0**	**17**	**0**	**37**
	2019/20	20	0	0	14	0	34
Simona Scarpaleggia [2) 3)]	**2020/21**	**19**	**0**	**20**	**0**	**0**	**39**
	2019/20	0	0	0	0	0	0
Melanie Thomann-Bopp [2) 3)]	**2020/21**	**20**	**0**	**20**	**31**	**22**	**93**
	2019/20	20	0	20	28	22	90
Total	**2020/21**	**134**	**215**	**100**	**68**	**61**	**578**
	2019/20	123	227	97	65	69	581

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

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

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

3) Member of Supervisory Board of HORNBACH Baumarkt AG

Other Disclosures

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

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

1.1 Composition of share capital

The share capital of HORNBACH Holding AG & Co. KGaA, amounting to € 48,000,000.00, is divided into 16,000,000 ordinary bearer shares with a prorated amount in the share capital of € 3.00 per share. Each no-par ordinary share entitles its holder to one vote at the Annual General Meeting. Reference is made to the relevant requirements of stock corporation law in respect of the further rights and obligations for ordinary shares.

1.2 Direct or indirect shareholdings

Hornbach Familien-Treuhandgesellschaft mbH, based in Annweiler am Trifels, Germany, holds more than 10 % of the voting rights. Its shareholding, and thus its share of voting rights, amounted to an unchanged total of 37.5 % as of February 28, 2021.

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

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

1.4 Change of control

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

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

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

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

3. Dependent Company Report

A report on relationships with associate companies has been compiled for the 2020/21 financial year pursuant to § 312 of the German Stock Corporation Act (AktG). With regard to those transactions requiring report, the report states: "Our company has received adequate counterperformance for all legal transactions executed with the controlling company or any associate of such or at the instigation or on behalf of any of these companies in accordance with the circumstances known to us at the time at which the legal transactions were performed. No measures were taken or omitted at the instigation of or on behalf of the controlling company or any associate of such."

Non-Financial Group Report

www.hornbach-group.com/FinancialReports

The German CSR Directive Implementation act (CSR-RUG) requires listed companies to report once a year on the implications of their business activities on environmental, social, and employee concerns, compliance with human rights, measures to combat corruption and bribery, and material associated risks. HORNBACH Holding AG & Co. KGaA has submitted a non-financial group report for the 2020/21 financial year pursuant to § 315b HGB. This will be published at the same time as the Annual Report as a separate non-financial group report on the company's homepage (www.hornbach-group.com/FinancialReports).

DISCLAIMER

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

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement of HORNBACH Holding AG & Co. KGaA Group

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

	Notes	2020/21 € 000s	2019/20 € 000s	Change %
Sales	1	5,456,182	4,729,218	15.4
Cost of goods sold	2	3,533,432	3,035,007	16.4
Gross profit		**1,922,750**	**1,694,211**	**13.5**
Selling and store expenses	3/10	1,378,807	1,261,284	9.3
Pre-opening expenses	4/10	7,151	7,295	(2.0)
General and administration expenses	5/10	241,332	233,511	3.3
Other income and expenses	6/10	16,429	21,681	(24.2)
Earnings before interest and taxes (EBIT)		**311,889**	**213,802**	**45.9**
Other interest and similar income		809	979	(17.4)
Other interest and similar expenses		44,114	49,237	(10.4)
Other financial result		(2,465)	693	>-100
Net financial expenses	**7**	**(45,770)**	**(47,565)**	**(3.8)**
Consolidated earnings before taxes		**266,118**	**166,238**	**60.1**
Taxes on income	8	64,674	42,897	50.8
Consolidated net income		**201,444**	**123,341**	**63.3**
of which: income attributable to shareholders of HORNBACH Holding AG & Co. KGaA		165,236	104,956	57.4
of which: non-controlling interest		36,207	18,385	96.9
Basic/diluted earnings per share (€)	**9**	**10.33**	**6.56**	**57.5**

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

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

	Notes	2020/21 € 000s	2019/20 € 000s
Consolidated net income		**201,444**	**123,341**
Actuarial gains and losses on defined benefit plans	24/25	6,577	(8,954)
Deferred taxes on actuarial gains and losses on defined benefit plans		(1,122)	1,421
Other comprehensive income that will not be recycled at a later date		**5,455**	**(7,533)**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity [1]	32/33	(128)	(135)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		353	382
Exchange differences arising on the translation of foreign subsidiaries		(9,987)	9,432
Deferred taxes on gains and losses recognized directly in equity	8	(46)	(51)
Other comprehensive income that will possibly be recycled at a later date		**(9,808)**	**9,629**
Total comprehensive income		**197,090**	**125,437**
of which: attributable to shareholders of HORNBACH HOLDING AG & Co. KGaA		162,031	106,296
of which: attributable to non-controlling interests		35,059	19,141

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

Balance Sheet of the HORNBACH Holding AG & Co. KGaA Group

as of February 28, 2021

Assets	Notes	2.28.2021 € 000s	2.29.2020 € 000s
Non-current assets			
Intangible assets	11	17,309	16,089
Property, plant, and equipment	12	1,636,942	1,595,341
Investment property	12	25,843	26,370
Right-of-use assets	13	716,690	741,301
Financial assets	14	112	112
Other non-current receivables and assets	15	3,955	4,726
Deferred tax assets	16	12,215	13,127
		2,413,066	**2,397,066**
Current assets			
Inventories	17	992,909	861,253
Trade receivables	18	40,992	39,299
Contract assets	18	1,231	1,566
Other current assets	18	111,057	82,507
Income tax receivables	27	11,284	8,697
Cash and cash equivalents	19	434,958	368,286
Non-current assets held for sale	20	2,359	1,502
		1,594,790	**1,363,111**
		4,007,856	**3,760,177**

Equity and liabilities	Notes	2.28.2021 € 000s	2.29.2020 € 000s
Shareholders' equity	21		
Share capital		48,000	48,000
Capital reserve		130,373	130,373
Revenue reserves		1,298,433	1,160,387
Equity of shareholders of HORNBACH HOLDING AG & Co. KGaA		**1,476,806**	**1,338,760**
Non-controlling interests		295,195	265,446
		1,772,002	**1,604,206**
Non-current liabilities			
Non-current financial debt	23	594,841	675,644
Non-current lease liabilities	23	703,876	712,920
Provisions for pensions	24	19,349	24,867
Deferred tax liabilities	16	31,716	34,109
Other non-current liabilities	25/28	40,575	42,336
		1,390,357	**1,489,876**
Current liabilities			
Current financial debt	23	134,883	67,871
Current lease liabilities	23	86,198	82,401
Trade payables	26	311,968	266,534
Contract liabilities	26	44,164	34,419
Other current liabilities	26	98,238	83,290
Income tax liabilities	27	35,303	26,484
Other provisions and accrued liabilities	28	134,744	105,095
		845,497	**666,095**
		4,007,856	**3,760,177**

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

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

2020/21 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to shareholders	Non-controlling interests	Total group equity
Balance at March 1, 2020		**48,000**	**130,373**	**(616)**	**24,031**	**1,136,971**	**1,338,760**	**265,446**	**1,604,206**
Consolidated net income						165,236	165,236	36,207	201,444
Actuarial gains and losses on defined benefit plans, net after taxes	24/25					4,232	4,232	1,223	5,455
Measurement of derivative financial instruments (cash flow hedge), net after taxes	32/33			178			178	0	178
Exchange differences arising on the translation of foreign subsidiaries					(7,615)		(7,615)	(2,372)	(9,987)
Total comprehensive income				**178**	**(7,615)**	**169,468**	**162,031**	**35,059**	**197,090**
Dividend distribution	22					(24,000)	(24,000)	(5,118)	(29,118)
Treasury stock transactions	21					15	15	(191)	(175)
Balance at February 28, 2021		**48,000**	**130,373**	**(438)**	**16,416**	**1,282,454**	**1,476,806**	**295,195**	**1,772,002**

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

	Notes	2020/21 € 000s	2019/20 € 000s
Consolidated net income		**201,444**	**123,341**
Depreciation and amortization of property, plant, and equipment and intangible assets	10	100,345	105,992
Depreciation of right-of-use assets	13	106,081	100,615
Change in provisions		1,268	8,648
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(1,179)	(470)
Change in inventories, trade receivables and other assets		(165,081)	(70,252)
Change in trade payables and other liabilities		111,366	61,216
Other non-cash income/expenses		(7,743)	(4,636)
Cash flow from operating activities		**346,501**	**324,454**
Proceeds from disposal of non-current assets and of non-current assets held for sale		5,159	9,637
Payments for investments in property, plant, and equipment		(148,275)	(126,670)
Payments for investments in intangible assets		(6,101)	(4,486)
Payments for acquisitions of shareholdings and other business units		0	(90)
Cash flow from investing activities		**(149,217)**	**(121,609)**
Dividends paid	22	(29,118)	(29,118)
Proceeds from taking up long-term debt	23	182	248,080
Repayment of long-term debt	23	(14,138)	(285,379)
Repayment of current and non-current lease liabilities	23	(85,943)	(84,238)
Payments for transaction costs		0	(1,557)
Change in current financial debt		0	120
Cash flow from financing activities		**(129,018)**	**(152,092)**
Cash-effective change in cash and cash equivalents		68,266	50,753
Change in cash and cash equivalents due to changes in exchange rates		(1,593)	1,265
Cash and cash equivalents at March 1		368,286	316,268
Cash and cash equivalents at balance sheet date		**434,958**	**368,286**

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

The cash flow from operating activities was reduced by income tax payments of € 59,900k (2019/20: € 41,697k) and interest payments of € 44,934k (2019/20: € 48,498k) and increased by interest received of € 809k (2019/20: € 979k). Of interest payments, € 26,018k (2019/20: € 26,778k) involved interest paid on leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

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

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

Basis of preparation

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

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

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

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

The general partner HORNBACH Management AG prepared the consolidated financial statements of HORNBACH Holding AG & Co. KGaA and approved them for publication on May 19, 2021. The period in which adjusting events could be accounted for thus expired as of this date.

Changes to accounting policies due to new accounting requirements

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

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

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

Amendment to IFRS 16 "COVID-19-Related Rent Concessions"

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

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

The Group exercised the option to recognize rent concessions through profit or loss. This resulted in the recognition of an amount of € 570k in selling and store expenses, with a corresponding reduction to expenses, in the 2020/21 financial year.

Standards and interpretations not applied prematurely

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

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

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

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

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

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

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

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

Consolidation principles

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

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

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

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

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA is based on an assessment of control-related factors. Control over a subsidiary exists when HORNBACH can directly or indirectly influence the relevant activities of the subsidiary and when it is exposed to variable returns from the subsidiary or is entitled to such. Furthermore, control enables the level of returns to be influenced. HORNBACH generally acquires this right when it holds a majority of the voting rights. Where this is not the case, other contractual arrangements may lead to HORNBACH gaining control. Subsidiaries are fully consolidated in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA on the date on which control is gained. Should any circumstances or facts indicate a change in the control relationship, then a reassessment is performed. Interests in companies not included in the scope of consolidation have been recognized at fair value or, where this cannot be reliably determined, at amortized cost. There were no interests in companies requiring recognition at equity at the balance sheet date.

In addition to HORNBACH Holding AG & Co. KGaA, the consolidated financial statements include 15 domestic and 47 foreign subsidiaries by way of full consolidation.

HORNBACH Holding AG & Co. KGaA is the sole shareholder in HORNBACH Immobilien AG and Hornbach Baustoff Union GmbH and the majority shareholder with a 76.4 % stake in HORNBACH Baumarkt AG (2019/20: 76.4 %). Further information about direct and indirect voting rights has been presented in the "Consolidated shareholdings" overview. The following subsidiaries made full use of the exemption provided for in § 264 (3) of the German Commercial Code (HGB) in the 2020/21 financial year:

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

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

Changes in the scope of consolidation

HORNBACH Baumarkt AG subgroup

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

HORNBACH Immobilien AG subgroup

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

HORNBACH Baustoff Union GmbH subgroup

In the 2020/21 financial year, one location was taken over in a business combination as of October 1, 2020 in order to extend the store network. This did not involve the takeover of a legal entity, but rather exclusively of the business including its assets and individual liabilities. The assets and liabilities thereby acquired were included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA from this time onwards. The property, plant and equipment thereby included chiefly relate to location properties and to plant and operating equipment. No material acquisition-related costs were incurred for the transaction. The purchase price was settled with liquid funds.

The acquisition led to the takeover of the following assets and liabilities:

Fair value (€ 000s)	Additions 2020/21
Property, plant, and equipment	4,190
Inventories	400
Deferred tax assets	29
Total assets	**4,619**
Net assets	**4,619**
Consideration	**5,435**
Goodwill	**816**

The development in the scope of consolidation was as follows:

	2020/21	2019/20
March 1	**61**	**62**
Companies consolidated for the first time	2	1
Companies sold	0	1
Companies merged	0	1
February 28/29	**63**	**61**

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands local currency	Local currency
Germany			
HORNBACH Baumarkt AG, Bornheim	76.4[2][3]	667,927	EUR
HORNBACH Immobilien AG, Bornheim	100[3]	138,661	EUR
HORNBACH International GmbH, Bornheim	76.4[2]	106,019	EUR
HORNBACH Beteiligungen GmbH, Bornheim	76.4[2]	7,809	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	76.4[2]	26	EUR
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	100[3]	70,527	EUR
Union Bauzentrum HORNBACH GmbH, Neustadt/Weinstrasse	100	13,556	EUR
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	100	13,631	EUR
Robert Röhlinger GmbH, Neustadt/Weinstrasse	100	3,141	EUR
HB Reisedienst GmbH, Bornheim	76.4[2]	7,281	EUR
BODENHAUS GmbH, Essingen	76.4[2]	(788)	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	76.4[2]	636	EUR
HORNBACH Forst GmbH, Bornheim	76.4[2]	(547)	EUR
HIAG Immobilien Jota GmbH, Bornheim	100	(229)	EUR
HIAG Grundstücksentwicklungs GmbH, Neustadt/Weinstrasse	100	1,352	EUR
Other countries			
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	76.4[2]	76,756	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	76.4[2]	15,494	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	76.4[2]	2,155	EUR
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	99.8	(378)	EUR
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	99.8	(258)	EUR
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	99.8	(134)	EUR
HM Immobilien My GmbH, Wiener Neudorf, Austria	100	(137)	EUR
HB Immobilien Bad Fischau GmbH, Wiener Neudorf, Austria	100[4]	(254)	EUR

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

Company name and domicile	Shareholding in %	Equity[1] in thousands local currency	Local currency
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	76.4[2]	14,996	EUR
HORNBACH Holding B.V., Amsterdam, Netherlands	76.4[2]	192,542	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	76.4[2]	28,780	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	76.4[2]	(62)	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	76.4[2]	(7)	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	76.4[2]	1,180	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	76.4[2]	1,144	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	76.4[2]	1,525	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	76.4[2]	836	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	76.4[2]	1,680	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	76.4[2]	1,492	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	76.4[2]	716	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	76.4[2]	(90)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	76.4[2]	1,703	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk B.V., Amsterdam, Netherlands	76.4[2]	1,218	EUR
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	100	96	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	76.4[2]	1,420	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	76.4[2]	1,810	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	76.4[2]	1,001	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	76.4[2]	(14)	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	76.4[2]	(1.295)	EUR
HORNBACH Real Estate Rotterdam B.V., Rotterdam, Netherlands	76.4[2]	20	EUR
HORNBACH Real Estate Nijmegen B.V., Nijmegen, Netherlands	100	19	EUR
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	76.4[2]	3,983,016	CZK
HORNBACH Immobilien H.K. s.r.o., Prague, Czech Republic	97.6	773,875	CZK
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	76.4[2]	152,013	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	76.4[2]	101,008	SEK
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	100	80,577	SEK
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	100	44,695	SEK
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	100	669	SEK
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	100	189,953	SEK
HIAG Fastigheter i Botkyrka AB, Gothenburg, Sweden	100	94,808	SEK
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	100	17,152	EUR
HORNBACH Baumarkt SK spol s.r.o., Bratislava, Slowakia	76.4[2]	27,037	EUR
HORNBACH Centrala SRL, Domnesti, Romania	76.4[2]	195,302	RON
HORNBACH Imobiliare SRL, Domnesti, Romania	100	254,666	RON
Etablissement Camille Holtz et Cie S.A., Phalsbourg, France	99.92	774	EUR
Saar-Lor Immobilière S.C.L., Phalsbourg, France	99.97	149	EUR
HORNBACH Asia Ltd., Kowloon, Hong Kong	76.4[2]	13,766	HKD

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

2) Of which: 100 % direct shareholding

3) Of which: 1.6854 % direct shareholding

4) Of which: 0.0033 % direct shareholding

Control and profit and loss transfer agreements have been concluded between HORNBACH Holding AG & Co. KGaA and HORNBACH Immobilien AG and between HORNBACH Baustoff Union GmbH and Robert Röhlinger GmbH, Union Bauzentrum HORNBACH GmbH, and Ruhland-Kallenborn & Co. GmbH.

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

Foreign currency translation

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

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

The most important foreign exchange rates applied are as follows:

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

Accounting policies

General principles

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

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

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

Goodwill

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

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

Intangible assets (except goodwill)

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

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

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

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

Property, plant and equipment and investment property

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

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

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

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

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

Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of non-current non-financial assets

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

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

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

The value in use of a cash generating unit is calculated by reference to the discounted future cash flows expected at the cash generating unit. The assessment period is limited to the rental term of the let property or the expected remaining useful life of a proprietary property. The basis for this is provided by the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future have been extrapolated on the basis of a long-term growth rate of 1.5% (2019/20: 1.0% to 1.5%). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current developments and future expectations as to those procurement terms which significantly determine the expected gross profit (key assumptions).

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium accounts for a risk premium appropriate to a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. The interest rates used for discounting are based on market data. Depending on the countries and activities involved, the discount rates thereby applied ranged from 5.1 % to 13.2 % after taxes (2019/20: 3.5 % to 11.2 %) and from 3.2 % to 13.6 % before taxes (2019/20: 3.9 % to 13.4 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

The fair value less costs to sell (net realizable value) of an individual asset is determined by reference to external surveys, where available.

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

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

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

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

Inventories

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

Taxes

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

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

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

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

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

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

Non-current assets held for sale and disposal groups

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

Pensions and similar obligations

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

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

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

For defined contribution plans, the contributions are recognized in operating earnings upon becoming due for payment. Multiemployer pension plans are recognized by analogy with defined contribution plans.

Provisions and accrued liabilities

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

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

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

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

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

Financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trade payables and other liabilities are recognized at amortized cost. Other liabilities include those refund liabilities which may arise due to expected returns and retrospective price discounts. They are recognized in the amount of the consideration to which the Group is expected not to be entitled and which is thus not included in the transaction price. Trade payables are mostly classified as current. The same applies for other liabilities. In this respect, their carrying amounts basically correspond to their fair values.

Contract liabilities comprise prepayments received for customer orders and liabilities for customer vouchers and are basically measured at amortized cost. Furthermore, the measurement of customer vouchers also accounts for the IFRS 15 requirements concerning expected non-utilization (breakage).

Derivative financial instruments

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

Derivatives which are not integrated into an effective hedging relationship as defined in IAS 39 or IFRS 9 are measured at fair value through profit or loss. The fair values of forward exchange transactions (including the embedded forward exchange transactions) are determined on the basis of market conditions at the balance sheet date. The fair value of interest and interest-currency swaps is determined by the financial institutions with which they were concluded. The financial institutions use customary market valuation models (e.g. discounted cash flow method) that refer to the interest and currency information available on the market. This corresponds to Level 2 input factors in the fair value hierarchy.

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

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

Fair value measurement

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

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

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

Sales

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

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

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

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

Service obligations still to be performed mainly relate to customer orders not yet completed as of the balance sheet date and outstanding customer credits in the form of vouchers. The Group generally expects these service obligations to be fulfilled within the next 12 months. Settlement of outstanding customer credit, by contrast, is at the discretion of the customer and may thus involve a longer period.

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

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

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

Other income

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

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

Expenses

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

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

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

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

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

Discretionary decisions

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

Assumptions and estimates

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

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

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

Estimates and discretionary decisions due to the COVID-19 pandemic

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

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

Segment Reporting

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

Segment delineation

The allocation of segments corresponds to the internal reporting system used by the management of the HORNBACH Holding AG & Co. KGaA Group for managing the company ("management approach"). Based on the management approach, the Group has the following segments: "HORNBACH Baumarkt AG subgroup", "HORNBACH Immobilien AG subgroup", and "HORNBACH Baustoff Union GmbH subgroup". The cornerstone of the HORNBACH Holding AG & Co. KGaA Group is the HORNBACH Baumarkt AG subgroup, which operates DIY megastores with garden centers and online shops in the nine countries in our European network. The retail activities of the HORNBACH Holding AG & Co. KGaA Group are rounded off by the HORNBACH Baustoff Union GmbH subgroup, which operates in the construction materials and builders' merchant business and mainly has business customers. The HORNBACH Immobilien AG subgroup develops retail real estate and lets this out, mostly to operating companies within the HORNBACH Holding AG & Co. KGaA Group. Administration items not allocable to the two aforementioned segments and consolidation items are further subdivided into the "Central Functions" and "Consolidation" categories.

Segment earnings

As the Group's key earnings figure, adjusted EBIT have been taken to represent the segment earnings.

Segment assets and liabilities

Apart from income tax receivables, income tax liabilities and deferred taxes, asset and liability items in the consolidated balance sheet have been directly allocated to the individual segments as far as possible. Remaining assets and liabilities have been allocated as appropriate. Liabilities in the consolidated balance sheet have been increased by liabilities to group companies in the individual segments and allocated to the individual segments in line with their causation. Items allocable to central administration are presented in the "Central Functions" column. Items eliminated between segments are presented in the "Consolidation" column. Investments relate to the non-current assets allocable to the respective segment.

2020/21 in € million 2019/20 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Central Functions	Consolidation adjustments	HORNBACH HOLDING AG & Co. KGaA Group
Segment sales	**5,116.9**	**337.7**	**80.4**	**0.0**	**(78.8)**	**5,456.2**
	4,428.0	299.5	80.4	0.0	(78.7)	4,729.2
Sales to third parties	5,114.5	337.4	0.0	0.0	0.0	5,451.9
	4,423.6	299.3	0.0	0.0	0.0	4,722.8
Sales to affiliated companies	0.0	0.2	0.0	0.0	(0.2)	0.0
	0.0	0.1	0.0	0.0	(0.1)	0.0
Rental income from third parties	2.5	0.1	1.7	0.0	0.0	4.3
	4.5	0.1	1.8	0.0	0.0	6.4
Rental income from affiliated companies	0.0	0.0	78.6	0.0	(78.6)	0.0
	0.0	0.0	78.6	0.0	(78.6)	0.0
EBIT	**258.6**	**9.3**	**58.4**	**(5.2)**	**(9.3)**	**311.9**
	163.9	3.9	56.5	(3.6)	(7.0)	213.8
of which: depreciation and amortization/write-ups	246.0	8.7	16.5	0.0	(66.9)	204.4
	249.9	8.1	17.9	0.0	(69.9)	206.0
Segment earnings (adjusted EBIT)	**278.8**	**9.0**	**55.8**	**(5.2)**	**(12.0)**	**326.4**
	181.8	2.6	56.2	(3.6)	(10.0)	227.0
Segment assets	**3,747.4**	**202.5**	**490.1**	**42.1**	**(497.8)**	**3,984.4**
	3,551.7	186.4	482.6	149.5	(631.9)	3,738.4
of which: credit balances at banks	298.8	9.1	49.2	41.6	0.0	398.8
	260.6	1.5	26.1	38.2	0.0	326.4
Investments [1]	**274.8**	**15.7**	**1.7**	**0.1**	**(50.9)**	**241.4**
	173.8	15.4	22.1	0.0	(41.8)	169.5
Segment liabilities	**2,474.6**	**120.5**	**209.6**	**2.0**	**(638.5)**	**2,168.2**
	2,401.9	112.9	216.4	2.0	(637.8)	2,095.4
of which: financial debt	1,859.8	6.5	166.1	0.0	(512.7)	1,519.8
	1,875.5	6.5	181.2	0.0	(524.4)	1,538.8

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

Reconciliation EBIT <> adjusted EBIT in € million	2020/21	2019/20
EBIT	**311.9**	**213.8**
Impairments of assets (IAS 36)	16.8	14.9
Reversal of impairment losses (IAS 36)	(1.0)	(0.6)
Result of real estate sales/measurement of properties not required for operations	(1.9)	(0.8)
Other	0.6	(0.2)
Segment earnings (adjusted EBIT)	**326.4**	**227.0**

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

Reconciliation in € million	2020/21	2019/20
Segment earnings (adjusted EBIT)	**326.4**	**227.0**
Non-operating items	(14.5)	(13.2)
Net financial expenses	(45.8)	(47.6)
Consolidated earnings before taxes	**266.1**	**166.2**
Segment assets	**3,984.4**	**3,738.4**
Deferred tax assets	12.2	13.1
Income tax receivables	11.3	8.7
Total assets	**4,007.9**	**3,760.2**
Segment liabilities	**2,168.2**	**2,095.4**
Deferred tax liabilities	31.7	34.1
Income tax liabilities	35.9	26.5
Total liabilities	**2,235.9**	**2,156.0**

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, Romania, and France (exclusively builders' merchants).

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

2020/21 in € million 2019/20 in € million	Germany	Other European countries	Reconciliation	HORNBACH HOLDING AG & Co. KGaA Group
Sales	**3,352.0**	**2,471.3**	**(367.1)**	**5,456.2**
	2,860.1	2,192.7	(323.6)	4,729.2
Sales to third parties	2,983.5	2,468.4	0.0	5,451.9
	2,534.9	2,188.0	0.0	4,722.8
Rental income from third parties	1.9	2.4	0.0	4.3
	1.9	4.4	0.0	6.4
Sales to affiliated companies	366.6	0.5	(367.1)	0.0
	323.2	0.3	(323.6)	0.0
EBIT	**106.2**	**205.7**	**0.0**	**311.9**
	60.2	154.0	(0.3)	213.8
Depreciation and amortization/write-ups	**116.9**	**87.5**	**0.0**	**204.4**
	118.7	87.2	0.0	206.0
Segment earnings (adjusted EBIT)	**114.6**	**211.8**	**0.0**	**326.4**
	64.6	162.7	(0.3)	227.0
EBITDA	**223.1**	**293.2**	**0.0**	**516.3**
	178.9	241.2	(0.3)	419.8
Assets	**2,622.4**	**1,817.3**	**(455.3)**	**3,984.4**
	2,398.2	1,748.6	(408.4)	3,738.4
of which: non-current assets[*)]	1,382.5	1,211.2	(193.5)	2,400.2
	1,365.1	1,216.3	(198.2)	2,383.3
Investments[2)]	**139.3**	**102.2**	**0.0**	**241.4**
	78.4	91.1	0.0	169.5

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

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

Notes to Consolidated Income Statement

(1) Sales

Sales mainly involve revenues from contracts with customers in the “HORNBACH Baumarkt AG subgroup” and “HORNBACH Baustoff Union GmbH subgroup” segments. Furthermore, income of € 4,262k (2019/20: € 6,370k) from the letting of real estate has also been reported under sales.

Sales include revenues of € 28,615k which were recognized at the beginning of the period as contract liabilities (2019/20: € 26,403k). Furthermore, these also include retrospective sales of € 3,117k for performance obligations pursuant to IFRS 15 that were satisfied in previous years (2019/20: € 2,107k).

The following table presents the breakdown of sales by segment:

External sales 2020/21 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	HORNBACH HOLDING AG & Co. KGaA Group
of which: Germany	2,654.5	329.4	1.6	2,985.4
of which: Other European Countries	2,462.5	8.2	0.1	2,470.8
	5,116.9	**337.7**	**1.7**	**5,456.2**

External sales 2019/20 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	HORNBACH HOLDING AG & Co. KGaA Group
of which: Germany	2,244.7	290.2	1.6	2,536.5
of which: Other European Countries	2,183.4	9.3	0.0	2,192.7
	4,428.0	299.5	1.6	4,729.2

(2) Cost of goods sold

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

	2020/21 € 000s	2019/20 € 000s
Expenses for auxiliary materials and purchased goods	3,395,141	2,937,208
Expenses for services rendered	138,291	97,799
	3,533,432	**3,035,007**

(3) Selling and store expenses

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

(4) Pre-opening expenses

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

(5) General and administration expenses

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

(6) Other income and expenses

Other income and expenses are structured as follows:

	2020/21 € 000s	2019/20 € 000s
Other income from operating activities		
Income from damages	2,669	14,234
Income from advertising allowances and other reimbursements of suppliers	1,236	1,674
Income from payment differences	1,180	1,385
Income from disposal of non-current assets	1,389	1,297
Miscellaneous other income	17,566	18,934
	24,040	**37,524**
Other income from non-operating activities		
Income from disposal of real estate	908	942
Income from write-ups to property, plant, and equipment and investment property	1,036	328
Other non-operating income	1,005	0
	2,950	**1,270**
Other income	**26,989**	**38,794**

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

	2020/21 € 000s	2019/20 € 000s
Other expenses from operating activities		
Losses due to damages	2,928	8,979
Impairments and defaults on receivables	3,330	3,632
Losses on disposal of non-current assets	545	1,009
Expenses from payment differences	187	146
Miscellaneous other expenses	3,570	3,348
Other expenses	**10,560**	**17,114**
Net income from other income and expenses	**16,429**	**21,681**

(7) Net financial expenses

	2020/21 € 000s	2019/20 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	659	694
Other	150	285
	809	**979**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	16,318	20,455
Interest expenses from lease liabilities, measured at amortized cost	26,018	26,778
Interest expenses on financial instruments used as hedging instruments	353	382
Interest expenses from compounding of provisions	33	230
Other	1,392	1,392
	44,114	**49,237**
Net interest expenses	**(43,305)**	**(48,258)**
Other financial result		
Gains/losses on derivative financial instruments	(2,957)	1,726
Gains and losses from foreign currency exchange	492	(1,033)
	(2,465)	**693**
Net financial expenses	**(45,770)**	**(47,565)**

Other interest income includes interest income of € 150k on tax refund claims (2019/20: € 285k).

In line with IFRS 16 “Leases”, the interest component of the lease instalments, amounting to € 26,018k (2019/20: € 26,778k) is recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 1,956k in the year under report (2019/20: € 2,409k) and has been capitalized as a component of the costs of the property, plant and equipment concerned. The average financing cost rate used to determine the volume of borrowing costs eligible for capitalization amounted to 2.4 % (2019/20: 2.3 %).

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

Gains/losses on derivative financial instruments include gains and losses of € -2,957k on derivative currency instruments (2019/20: € 1,726k).

The gains and losses from foreign currency exchange for the 2020/21 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net income of € 2,421k (2019/20: net expenses of € 393k). Furthermore, this item also includes realized exchange rate gains of € 6,236k (2019/20: € 5,227k) and realized exchange rate losses of € 8,166k (2019/20: € 5,866k). Gains and losses from foreign currency exchange include expenses of € 1,026k (2019/20: expenses of € 48k) from the reclassification of currency items relating to an interest-currency swap within a hedging relationship (cash flow hedge). This reclassification compensates for the currency items relating to the hedged loan.

(8) Taxes on income

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

The German companies included in the HORNBACH Holding AG & Co. KGaA Group are subject to an average trade tax rate of approximately 13.7 % of their trading income (2019/20: approx. 13.6 %). The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. The income tax rates applied to foreign companies range from 8.5 % to 28 % (2019/20: 8.5 % to 28 %).

The actual income tax charge of € 64,674k (2019/20: € 42,897k) is € 15,162k lower (2019/20: € 6,974k) than the expected tax charge of € 79,836k (2019/20: € 49,871k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Holding AG & Co. KGaA (2019/20: 30 %) to the Group's pre-tax earnings of € 266,118k (2019/20: € 166,238k).

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

No deferred tax assets have been reported in the case of losses carried forward amounting to € 47,294k (2019/20: € 51,566k), as future realization of the resultant benefit is not expected. There are no time limits on the utilization of any losses carried forward. Losses carried forward amounting to € 7,013k for which no deferred taxes had been recognized were utilized (2019/20: € 294k).

Taxes on income due in future in connection with planned profit distributions at subsidiaries have been recognized as deferred tax liabilities. A budgeting horizon of one year has been assumed. The distributions for which deferred tax liabilities have been recognized at the HORNBACH Holding AG & Co. KGaA Group are subject to German taxation at 5 %. No deferred tax liabilities have been recognized for retained profits of € 1,338,579k at subsidiaries (2019/20: € 1,205,268k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of tax charge:

	2020/21 € 000s	2019/20 € 000s
Current taxes on income		
Germany	28,251	13,876
Other countries	39,095	34,578
	67,346	**48,454**
Deferred tax expenses/income		
due to changes in temporary differences	(5,240)	(9,736)
due to changes in tax rates	(433)	101
due to losses carried forward	3,002	4,078
	(2,671)	**(5,557)**
Taxes on income	**64,674**	**42,897**

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

	2020/21		2019/20	
	€ 000s	%	€ 000s	%
Expected income tax charge	79,836	100.0	49,871	100.0
Difference between local tax rate and group tax rate	(18,595)	(23.3)	(13,405)	(26.9)
Tax-free income	(1,470)	(1.8)	(871)	(1.7)
Tax reductions/increases due to changes in tax rates	(433)	(0.5)	101	0.2
Tax increases attributable to expenses not deductible for tax purposes	5,485	6.9	4,335	8.7
Tax effects on losses carried forward	(1,501)	(1.9)	1,446	2.9
Non-period current and deferred taxes	1,352	1.7	1,420	2.8
Taxes on income	**64,674**	**81.0**	**42,897**	**86.0**
Effective tax rate in %	24.3		25.8	

The non-period current tax expenses of € 2,049k (2019/20: tax income of € 334k) chiefly results from adjustments to provisions for the external tax audit currently underway for the years 2017 and 2018 (€ 1,304k).

The non-period deferred tax income of € 697k (2019/20: tax expenses of € 1,773k) chiefly result from the recognition of deferred tax assets due to the external tax audit currently underway for the years 2017 and 2018.

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

	2020/21 € 000s	2019/20 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	6,577	(8,954)
Change in deferred taxes	(1,122)	1,421
	5,455	**(7,533)**
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	225	247
Change in deferred taxes	(46)	(51)
	178	**197**
Initial application of IFRS 16		
Changes in value due to first-time application of IFRS 16	0	1,013
Change in deferred taxes	0	(304)
	0	**709**
Exchange differences arising on the translation of foreign subsidiaries	**(9,987)**	**9,432**
Other comprehensive income, net after taxes	**(4,353)**	**2,805**
of which: other comprehensive income before taxes	(3,185)	1,739
of which: change in deferred taxes	(1,168)	1,066

(9) Earnings per share

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

	2020/21	2019/20
Consolidated net income in € attributable to shareholders in HORNBACH Holding AG & Co. KGaA	165,236,467	104,955,885
Number of ordinary shares issued	16,000,000	16,000,000
Earnings per share in €	**10.33**	**6.56**

(10) Other disclosures on the income statement

Non-operating items

The overview below outlines the allocation of those reconciliation items arising between EBIT and the Group's key earnings figure of adjusted EBIT to the individual functional areas:

2020/21 financial year € 000s	Impairments of assets (IAS 36) 1)	Reversal of impairment losses (IAS 36) 1)	Result from sale or valuation of non-operating real estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(16,786)	1,014	0	0	0	(15,772)
Pre-opening expenses	0	0	0	(574)	(1,068)	(1,642)
Other income and expenses	0	0	1,944	0	1,005	2,950
	(16,786)	**1,014**	**1,944**	**(574)**	**(63)**	**(14,464)**

2019/20 financial year € 000s	Impairments of assets (IAS 36) 1)	Reversal of impairment losses (IAS 36) 1)	Result from sale or valuation of non-operating real estate	Result from cancellation of projects	Other	Total
Selling and store expenses	(14,858)	320	0	0	991	(13,547)
Pre-opening expenses	0	0	(132)	(533)	(228)	(893)
Other income and expenses	0	328	942	0	0	1,270
	(14,858)	**648**	**810**	**(533)**	**763**	**(13,170)**

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

Personnel expenses

The individual functional expense items include the following personnel expenses:

	2020/21 € 000s	2019/20 € 000s
Wages and salaries	761,482	696,944
Social security contributions and pension expenses	164,730	153,236
	926,212	**850,180**

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

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

The routine update in the company's strategic planning in the 4th quarter of the period under report accounted for all available information concerning expected economic developments and country-specific state countermeasures relating to the COVID-19 pandemic. The WACC calculation was updated at the same time. The amended parameters included in the impairment test resulted in the identification of an impairment requirement of € 16,786k. Further information about the impairment test can be found in Note 12.

Inventories

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

Trade receivables and other current assets

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

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

Sales

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

Returns

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

Government grants

HORNBACH received government grants in those countries affected by lockdown measures in the financial year under report. Grants totaling € 4,393k were recognized across the Group in the period under report. These grants were passed on to employees or offset against social security contributions. In the income statement, the portion of grants meeting IAS 20 requirements was deducted from the corresponding expenses (net statement).

Personnel expenses

To acknowledge the commitment shown by company employees during the pandemic in the year under report the management decided to pay bonuses. The expenses recognized in the period under report amount to € 13,495k. These outlays were allocated to the respective functional expenses.

Rent reductions

The Group benefited from rent reductions of € 570k for individual locations affected by lockdown measures. In the income statement, these reductions were recognized under selling and store expenses.

Other COVID-19-related income and expenses

The measures required to protect our customers and employees and to uphold stationary sales included commissioning security firms and additional temporary employees, as well as extensive disinfection and hygiene measures. The resultant expenses amounted to € 17,798k at the reporting date. These outlays were allocated to the respective functional expenses.

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

Depreciation and amortization

	2020/21 € 000s	2019/20 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	188,572	191,618
Impairment of intangible assets, property, plant, and equipment, investment property, and right of use assets	17,854	14,989
	206,426	**206,607**

The impairment losses recognized in the 2020/21 financial year relate to intangible assets, land, buildings, plant and office equipment, and right-of-use assets. In the previous year, impairment losses related to intangible assets, land, buildings, outdoor facilities, and plant and office equipment. Reference is also made to the disclosures on intangible assets, property, plant and equipment, and right-of-use assets in Notes 11, 12, and 13 respectively.

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

	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	970	86,078	104,060	191,108
Pre-opening expenses	0	1,084	5	1,089
General and administration expenses	3,916	8,297	2,016	14,229
	4,886	**95,458**	**106,081**	**206,426**

2019/20 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Depreciation of right-of-use assets	Total
Selling and store expenses	926	91,394	98,748	191,068
Pre-opening expenses	0	289	0	289
General and administration expenses	5,073	8,311	1,867	15,251
	5,999	**99,993**	**100,615**	**206,607**

Notes to Consolidated Balance Sheet

(11) Intangible assets

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

€ 000s	Franchises, industrial property rights, and similar rights and values as well as licenses to such rights and values	Goodwill	Assets under construction	Total
Cost				
Balance at March 1, 2019	**106,570**	**4,415**	**1,041**	**112,026**
Additions	2,939	0	1,547	4,486
Disposals	502	0	0	502
Reclassifications	117	0	(104)	13
Foreign currency translation	5	0	0	5
Balance at February 29/March 1, 2020	**109,129**	**4,415**	**2,484**	**116,028**
Additions	4,936	816	349	6,101
Disposals	18,381	0	0	18,381
Reclassifications	2,331	0	(2,327)	4
Foreign currency translation	(1)	0	0	(1)
Balance at February 28, 2021	**98,014**	**5,231**	**506**	**103,751**
Depreciation and amortization				
Balance at March 1, 2019	**93,289**	**1,143**	**0**	**94,432**
Additions	5,999	0	0	5,999
Disposals	504	0	0	504
Foreign currency translation	7	0	0	7
Balance at February 29/March 1, 2020	**98,796**	**1,143**	**0**	**99,939**
Additions	4,070	816	0	4,886
Disposals	18,376	0	0	18,376
Foreign currency translation	(7)	0	0	(7)
Balance at February 28, 2021	**84,483**	**1,959**	**0**	**86,442**
Carrying amount at February 28, 2021	**13,531**	**3,272**	**506**	**17,309**
Carrying amount at February 29, 2020	10,333	3,272	2,484	16,089

Additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values and to assets under construction mainly relate to the acquisition of software licenses and expenses incurred to prepare the software for its intended use. As in the previous year, there are no major restrictions on ownership and disposition rights.

The goodwill relates to two garden centers in the Netherlands, with around 50 % of the respective figure being allocable to each of these. As in the previous year, the mandatory annual impairment test performed on goodwill in the 2020/21 financial year did not identify any impairment requirement. The recoverable amounts of the two cash generating units are based in each case on their value in use.

The pre-tax discount rates used to determine the value in use each amounted to 8.9 % (2019/20: 8.7 % and 4.7 %).

As in the previous year, the changes deemed possible in key assumptions (increase in discount rate or reduction in gross profit) would not result in any impairments at the two locations.

In the 2021/21 financial year, impairment requirements were identified for intangible assets in the "HORNBACH Baustoff Union GmbH Subgroup" segment. These were written down by € 816k. In the previous year, impairment losses of € 766k were recognized in the "HORNBACH Baumarkt AG Subgroup" segment. Furthermore, reference is made to the information on property, plant and equipment in Note 12.

(12) Property, plant and equipment and investment property

Property, plant and equipment developed as follows in the 2019/20 and 2020/21 financial years:

€ 000s	Land, leasehold rights, and buildings, including buildings on third-party land	Right-of-use assets	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost						
Balance at March 1, 2019	**1,919,591**	**187,771**	**51,311**	**709,718**	**34,216**	**2,902,607**
Adjustments due to IFRS 16	0	667,528	0	0	0	667,528
Balance at March 1, 2019 adjusted	**1,919,591**	**855,300**	**51,311**	**709,718**	**34,216**	**3,570,136**
Reclassifications to/from non-current assets held for sale	0	0	(8,293)	0	0	(8,293)
Changes in scope of consolidation	0	0	0	0	(380)	(380)
Additions	54,881	37,426	5,226	51,762	15,563	164,858
Disposals	227	20,895	3,541	25,149	708	50,520
Reclassifications pursuant to IAS 40	166	0	(166)	0	0	0
Reclassifications	9,567	0	0	1,327	(10,907)	(13)
Foreign currency translation	11,517	5,251	(43)	2,448	845	20,018
Balance at February 29/March 1, 2020	**1,995,495**	**877,082**	**44,494**	**740,106**	**38,629**	**3,695,806**
Reclassifications to/from non-current assets held for sale	0	0	(2,359)	0	0	(2,359)
Additions	60,147	87,034	2,050	56,520	29,558	235,309
Disposals	3,904	16,326	490	21,744	580	43,044
Reclassifications pursuant to IAS 40	121	0	(121)	0	0	0
Reclassifications	7,788	0	0	2,283	(10,075)	(4)
Foreign currency translation	(9,362)	(1,541)	(109)	(1,879)	(588)	(13,479)
Balance at February 28, 2021	**2,050,285**	**946,249**	**43,465**	**775,286**	**56,944**	**3,872,229**
Amortization						
Balance at March 1, 2019	**563,825**	**38,765**	**22,102**	**538,975**	**(1)**	**1,163,666**
Reclassifications to/from non-current assets held for sale	0	0	(4,241)	0	0	(4,241)
Additions	43,739	100,615	3,405	52,850	0	200,609
Write-ups	(648)	0	0	0	0	(648)
Disposals	100	4,037	2751	23,116	(4)	30,000
Reclassifications pursuant to IAS 40	384	0	(384)	0	0	0
Reclassifications	103	0	0	(108)	0	(5)
Foreign currency translation	1,141	438	(7)	1,841	0	3,413
Balance at February 29/March 1, 2020	**608,444**	**135,781**	**18,124**	**570,442**	**3**	**1,332,794**
Reclassifications to/from non-current assets held for sale	0	0	0	0	0	0
Additions	42,484	106,081	50	52,924	0	201,539
Write-ups	(2,050)	0	0	0	0	(2,050)
Disposals	3,484	12,060	426	20,233	0	36,203
Reclassifications pursuant to IAS 40	87	0	(87)	0	0	0
Foreign currency translation	(1,597)	(243)	(39)	(1,449)	1	(3,327)
Balance at February 28, 2021	643,884	229,559	17,622	601,684	4	1,492,753
Carrying amount at February 28, 2021	**1,406,401**	**716,690**	**25,843**	**173,602**	**56,940**	**2,379,476**
Carrying amount at February 29, 2020	1,387,051	741,301	26,370	169,664	38,626	2,363,012

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

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

Valuation parameter	min.	max.
Gross profit		
Inside area (€/m²)	4.00 €	7.00 €
Outside area (€/m²)	0.50 €	2.00 €
Administrative costs (% per annual earnings)	1.00 %	1.00 %
Maintenance costs (€/m²)	0.98 €	2.44 €
Real estate interest rate	5.35 %	7.65 %

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

Due to changes in the planning scenarios on the level of individual cash generating units, the impairment tests performed at the "HORNBACH Baumarkt AG Subgroup" in the 2020/21 financial year resulted in the identification of impairment requirements for marketing-oriented and sales promotional plant and office equipment and for right-of-use assets at 9 stores, which each constitute cash generating units. At the "HORNBACH Baustoff Union GmbH Subgroup", impairment requirements were identified for intangible assets and for marketing-oriented and sales promotional plant and office equipment. These items were written down by € 16,786k to their value in use or net realizable value. The recoverable amount for these locations amounts to € 269,388k. The pre-tax discount rates used to determine the values in use ranged between 3.2 % and 12.3 %.

In the previous year, impairment requirements were identified for intangible assets, marketing-oriented and sales promotional plant and office equipment, real estate, and right-of-use assets at 15 stores at the "HORNBACH Baumarkt AG Subgroup" and the "HORNBACH Baustoff Union GmbH Subgroup". These items were written down by € 14,989k to the value in use or net realizable value. The recoverable amount for these locations amounted to € 204,802k.

In the 2020/21 financial year, write-ups of € 1,014k to net realizable value were recognized in the "HORNBACH Baustoff Union GmbH Subgroup" segment. These related to the write-back of impairments recognized in previous years for land (€ 430k), buildings (€ 436k), and outdoor facilities (€ 148k). The recoverable amount comes to € 5,140k. The net realizable value was determined by reference to external property valuations. The values of the respective properties were determined using the capitalized earnings method pursuant to the German Real Estate Valuation Ordinance (ImmoWertV).

In the previous year, write-ups of € 320k were recognized in the "HORNBACH Baustoff Union GmbH Subgroup" segment. These all related to the write-back of impairments recognized in previous years for buildings. The recoverable amount came to € 3,410k.

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

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

	2020/21	2019/20
HORNBACH Baumarkt AG subgroup		
Intangible assets	0	766
Land	1,068	756
Buildings	0	3,427
Right-of-use assets	14,516	8,189
Other equipment, plant, and office equipment	1,269	1,424
	16,853	**14,562**
	0	**0**
HORNBACH Baustoff Union GmbH subgroup		
Intangible assets	816	0
Other equipment, plant, and office equipment	185	427
	1,001	**427**
Total	**17,854**	**14,989**

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

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

Other equipment and plant and office equipment mainly relate to HORNBACH Baumarkt AG, Union Bauzentrum HORNBACH GmbH, Ruhland Kallenborn & Co. GmbH, and Robert Röhlinger GmbH in the case of German consolidated companies and to HORNBACH Baumarkt GmbH, HORNBACH Baumarkt Luxemburg SARL, HORNBACH Baumarkt CS spol s.r.o., HORNBACH Baumarkt SK spol s.r.o., HORNBACH Bouwmarkt (Nederland) B.V., HORNBACH Baumarkt (Schweiz) AG, HORNBACH Byggmarknad AB, HORNBACH Centrala SRL, HORNBACH Asia Ltd. and Etablissement Camille Holtz et Cie. SA in the case of foreign consolidated companies.

Investment property mainly relates to retail properties at various locations in Germany and abroad. The respective rental contracts have basic rental periods of 1 to 15 years and in some cases provide extension options for the lessees. The properties let to third parties are recognized at amortized cost. A useful life of 33 years has been assumed. The fair value of investment property amounts to around € 39.0 million (2019/20: € 35.5 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. Application is also made of the comparative value method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

In the 2020/21 financial year, a write-up of € 1,036k to net realizable value was recognized on a piece of reserve land not yet designated for any specific use in the "HORNBACH Immobilien AG Subgroup" segment. This involved the write-back of impairment losses recognized on land in previous year. The net realizable price was determined on the basis of external property surveys.

Rental income of € 2,205k was generated on properties let to third parties in the year under report (2019/20: € 2,211k). Expenses of € 1,439k were incurred for the maintenance of the properties let to third parties

(2019/20: € 1,279k). Expenses of € 148k were incurred for all other items of investment property (2019/20: € 286k). The real estate acts as security for bank loans in the form of registered land charges amounting to € 176.0 million (2019/20: € 194.7 million).

(13) Leases

Leases developed as follows in the 2020/21 financial year:

2020/21 financial year € 000s	Land, leasehold rights, and buildings, including buildings on third-party land	Other equipment, plant, and office equipment	Total
Carrying amount at March 1, 2019	149,006	0	149,006
Adjustments due to IFRS 16	658,800	8,728	667,528
Carrying amount at March 1, 2019 (adjusted)	**807,806**	**8,728**	**816,535**
Additions	29,481	7,945	37,426
Depreciation and amortization	91,801	8,814	100,615
Disposals	14,783	2,075	16,858
Foreign currency translation	4,814	(1)	4,813
Carrying amount at February 29, 2020	**735,517**	**5,784**	**741,301**
Carrying amount at March 1, 2020	**735,517**	**5,784**	**741,301**
Additions	79,212	7,822	87,034
Depreciation and amortization	98,965	7,116	106,081
Disposals	3,868	398	4,266
Foreign currency translation	(1,300)	2	(1,298)
Carrying amount at February 28, 2021	**710,596**	**6,094**	**716,690**

In terms of land and buildings, the Group predominantly leases retail properties, including land and parking spaces, office buildings, and logistics centers. In the field of other equipment, plant and office equipment, the Group mainly leases physical advertising space, vehicles, and logistics-related plant and office equipment.

The contracts for land and buildings generally have fixed terms of up to 15 years (except for leasehold agreements) and include arrangements for extension and termination options. The provisions governing options and other conditions are individually negotiated for each contract. Alongside conditions which influence the respective term, the contracts also include rental price adjustment clauses linked to the development in consumer price indices. These increase the right-of-use asset and the lease liability as soon as the rate of increase for the consumer price index agreed in the contract is reached.

As of February 28, 2021, the contract portfolio comprises 158 property lease agreements (2019/20: 143). The weighted remaining term of this portfolio amounts to 9.9 years (2019/20: 10.4 years). The weighted remaining term of leases for plant and office equipment amounts to 2.0 years (2019/20: 2.0 years).

As of the reporting date, the Group has entered into several lease arrangements as a lessee in which the assets will only be assigned for use in the future or the respective contracts are still subject to conditions precedent. The resultant (undiscounted) payments for the non-terminable basis lease term amount to € 112,372k. (2019/20: € 138,549k).

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

	2020/21 € 000s	2019/20 € 000s
Sales / other operating income		
Income from operating lease contracts	6,144	8,014
Income from sublease contracts	1,935	2,280
Other income from real estate lease contracts (service charge)	1,463	1,724
Selling and store expenses / pre-opening expenses / general and administration expenses		
Expenses from short-term lease contracts	4,230	3,858
Expenses from leases involving low-value assets	1,379	1,425
Other expenses from real estate lease contracts (service charge)	5,300	4,702
Depreciation and amortization		
Depreciation of right-of-use assets	91,565	92,426
Impairment of right-of-use assets	14,516	8,189
Net financial expenses		
Interest expenses from lease liabilities	26,018	26,778
Financing income on net investment in lease	30	39
Outflow of cash in connection with leases	**130,439**	**126,741**

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

Lease liabilities have the following maturities:

€ 000s	2020/21		2019/20	
	Nominal value	Present value	Nominal value	Present value
Maturity < 1 year	112,486	86,198	107,490	82,401
Maturity 2 - 5 years	419,361	346,858	399,494	325,655
Maturity > 5 years	411,926	357,018	448,215	387,265
	943,773	**790,074**	**955,199**	**795,321**

The receivables of € 18,491k from operating lease contracts (2019/20: € 20,963k) mainly relate to retail properties let to third parties, open space, and office space. The contracts generally have terms of up to 15 years. There are no purchase options on the part of the lessees. In individual cases, the contracts include provisions governing extension options.

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

Rental income from third parties € 000s	Maturities 1 year	2 years	3 years	4 years	5 years	> 5 years	Total
February 28, 2021	5,211	3,162	2,457	1,488	1,173	5,000	18,491
February 29, 2020	6,298	3,340	2,785	2,088	1,167	5,285	20,963

The receivables from finance lease contracts result from a subletting arrangement for a retail property for which the term is consistent with that of the head lease.

	2020/21 € 000s	2019/20 € 000s
Maturity < 1 year	480	480
Maturity 1 - 2 years	480	480
Maturity 2 - 3 years	400	480
Maturity 3 - 4 years	0	400
Nominal amount of lease payments	**1,360**	**1,840**
Gross investment	**1,360**	**1,840**
Financial income not yet realized	36	67
Net investment	**1,324**	**1,773**

(14) Financial assets

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

€ 000s	Investments	Total
Cost		
Balance at February 29/March 1, 2020	**112**	**112**
Balance at February 28, 2021	**112**	**112**
Carrying amount at February 28, 2021	**112**	**112**
Carrying amount at February 29, 2020	112	112

There were no material changes in financial assets in the 2020/21 financial year. Dividends of € 3k were paid in the 2020/21 financial year (2019/20: € 4k).

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

(15) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of accruals and swaps of € 2,601k with a remaining term of more than one year (2019/20: € 2,871k) and non-current lease receivables of € 865k (2019/20: € 1,324k).

(16) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2021		2.29.2020	
	Assets € 000s	Liabilities € 000s	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	7,435	49,869	7,379	49,491
Leases	17,274	570	12,141	134
Inventories	677	4,884	911	4,846
Other assets and liabilities	1,916	2,835	903	3,556
Liabilities	1,268	946	1,251	1,101
Other provisions	11,520	506	13,057	518
Losses carried forward	19	0	3,022	0
	40,109	**59,610**	**38,664**	**59,646**
Set-off	(27,894)	(27,894)	(25,537)	(25,537)
Total	**12,215**	**31,716**	**13,127**	**34,109**

(17) Inventories

	2.28.2021 € 000s	2.29.2020 € 000s
Raw materials and supplies	2,479	2,296
Finished products and merchandise	1,008,333	871,491
Inventories (gross)	**1,010,812**	**873,787**
less valuation allowances	17,903	12,534
Inventories (net)	**992,909**	**861,253**
Carrying amount of inventories measured at net realizable value	48,701	36,412

Expenses of € 3,377,546k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2020/21 financial year (2019/20: € 2,924,767k).

(18) Trade receivables and other current assets

These comprise the following items:

	2.28.2021 € 000s	2.29.2020 € 000s
Trade receivables	40,982	39,291
Receivables from affiliated companies	10	8
Contract assets	1,231	1,566
Positive fair values of derivative financial instruments	666	339
Other receivables and assets	110,391	82,168
	153,280	**123,372**

Trade receivables are initially recognized at fair value or – if they do not include any significant financing component – at their transaction price. The Group holds trade receivables to collect the contractual cash flows and subsequently measures them at amortized cost using the effective interest method and less any impairments. Details of the impairment methods used by the Group can be found in the information provided on the accounting policies applied in the consolidated financial statements and in Note 33.

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

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 41k (2019/20: € 41k) that represents the likely liability risk. Any liability-related issues are generally addressed shortly after the assignment of the receivable. The maximum risk of loss amounted to € 2,373k as of February 28, 2021 (2019/20: € 2,392k) and was based on the total loss of all relevant receivables. This amount was derived by multiplying the balance of receivables thereby assigned with the respective liability quota. The company does not generate any gain or loss at the time at which the receivable is assigned. The expenses recognized in the 2020/21 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 409k (2019/20: € 371k).

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

Other receivables and assets mainly consist of receivables in connection with credit notes for goods and bonus agreements, receivables from credit card companies, pledged funds, and deferred charges and prepaid expenses. This item also includes recourse claims of for expected returns, which due to the lockdown measures in the 4th quarter rose to € 11,642k at the end of the financial year (2019/20: € 4,270k). Furthermore, this item also includes tax refund claims of € 20,398k (2019/20: € 6,341k) Further information about these can be found in Note 27.

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

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

€ 000s	Trade receivables		Other receivables and assets	
	2020/21	2019/20	2020/21	2019/20
Allowances at March 1	**4,581**	**3,863**	**589**	**822**
Utilization	1,197	633	248	124
Reversals	1,078	1,202	142	267
Additions	2,198	2,549	149	153
Foreign currency translation	(5)	4	1	5
Allowances at February 29/28	**4,499**	**4,581**	**349**	**589**

Within the allowances recognized for trade receivables, the risk provision is basically accounted for using the simplified allowance model as follows: A risk provision of € 3,772k depending on the term and in the range 0.56 % - 3.15 % (2019/20: € 2,950k in the range: 0.47 % - 1.86 %) and individual allowances of € 727k recognized due to objective indications or payment difficulties (2019/20: € 1,631k).

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

The complete derecognition of receivables resulted in expenses of € 977k (2019/20: € 867k). The receipt of receivables already derecognized resulted in income of € 153k (2019/20: € 121k).

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

(19) Cash and cash equivalents

	2.28.2021 € 000s	2.29.2020 € 000s
Cash balances at banks	398,840	326,391
Checks and cash on hand	36,118	41,895
	434,958	**368,286**

(20) Non-current assets held for sale

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

In the 2020/21 financial year, one property with a carrying amount of € 2,359k in the "HORNBACH Immobilien AG Subgroup" segment was reclassified out of the "investment property" balance sheet line item.

Furthermore, the piece of land already included in the "HORNBACH Immobilien AG Subgroup" segment at the beginning of the 2020/21 financial year was sold. A profit of € 598k was realized. The disposal gains thereby generated have been recognized under other operating income from non-operating activities.

In the previous year, one property with a carrying amount of € 2,549k in the "HORNBACH Baustoff Union GmbH subgroup" segment was reclassified out of the "investment property" balance sheet line item and sold. A profit of € 226k was realized. A further property with a carrying amount of € 1,502k was reclassified out of the "property, plant and equipment" balance sheet line item at the "HORNBACH Immobilien AG subgroup" segment. Moreover, the piece of land already included in the "HORNBACH Immobilien AG subgroup" segment at the beginning of the 2019/20 financial year was sold. A profit of € 7k was realized. The disposal gains thereby generated were recognized under other operating income from non-operating activities.

As in the previous year, no impairment losses or write-ups were recognized on non-current assets held for sale in the 2020/21 financial year.

(21) Shareholders' equity

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

Share capital

At the balance sheet date on February 28, 2021, the share capital of HORNBACH Holding AG & Co. KGaA amounted to € 48,000,000.00 and was divided into 16,000,000 ordinary shares with a prorated nominal amount in the share capital of € 3.00 per share.

Publication of WpHG voting right notifications

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

Pursuant to § 40 WpHG, HORNBACH Holding AG & Co. KGaA is obliged to publish such notifications immediately, and no later than three trading days after receipt. We received and published a number of such notifications in the reporting period from March 1, 2020 to February 28, 2021. These notifications can be found in the "NEWS" section of the company website at www.hornbach-group.com (filtered by catchword "voting right notification").

Capital reserve

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

Revenue reserves

Revenue reserves include the statutory reserve and "other revenue reserves", as well as accumulated earnings and equity components recognized in equity that are attributable to shareholders.

Minority interests

Shares held by third parties in the equity of consolidated subsidiaries (non-controlling interests) are reported under minority interests.

Within the HORNBACH Holding AG & Co. KGaA Group, material non-controlling interests relate solely to HORNBACH Baumarkt AG. The share of capital and voting rights for the non-controlling interests in HORNBACH Baumarkt AG amounts to 23.65 % (2019/20: 23.65 %). Based in Bornheim (Germany), HORNBACH Baumarkt AG is the parent company of the HORNBACH Baumarkt AG Group. This subgroup constitutes a proprietary segment within the HORNBACH Holding AG & Co. KGaA Group. As the non-controlling interests in HORNBACH Baumarkt AG impact on the inclusion of the entire subgroup in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA, the information below is presented in aggregated form for the HORNBACH Baumarkt AG subgroup. The information is presented prior to the elimination of intercompany transactions with other subsidiaries included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA.

€ 000s	February 28, 2021	February 29, 2020
Sales	5,116,944	4,428,038
Consolidated net income	153,138	78,685
of which: attributable to non-controlling interests	36,111	18,293
Other comprehensive income	(8,431)	6,264
Total comprehensive income	**144,706**	**84,949**
of which: attributable to non-controlling interests	34,989	19,042
Assets	3,765,187	3,564,257
Liabilities	2,510,242	2,432,203
Net assets	**1,254,945**	**1,132,054**
of which: attributable to non-controlling interests	294,219	264,537
Cash flow from operating activities	333,526	327,475
Cash flow from investing activities	(136,925)	(94,853)
Cash flow from financing activities	(162,687)	(174,308)
Cash-effective change in cash and cash equivalents	**33,914**	**58,314**
Dividends paid to non-controlling interests	5,118	5,118

[1] The dividend payments are included in the outflow of cash for financing activities.

Disclosures about capital management

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

The company has entered into covenants towards some providers of debt capital which, among other conditions, require it to maintain an equity ratio of at least 25 %. The equity ratio, interest cover, debt/equity ratio, and company liquidity (cash and cash equivalents plus unutilized committed credit lines) are monitored monthly as part of the company's internal risk management. Further key figures are calculated on a quarterly basis. Should the values fall short of certain target levels, then suitable countermeasures are initiated at an early stage. The covenants were complied with at all times during the 2020/21 financial year. The equity ratio amounted to 44.2 % as of February 28, 2021 (2019/20: 42.7 %).

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

(22) Distributable earnings and dividends
The distributable amounts involve the unappropriated net profit reported in the balance sheet of HORNBACH Holding AG & Co. KGaA prepared in accordance with German commercial law.

HORNBACH Holding AG & Co. KGaA concluded the 2020/21 financial year with an annual net surplus of € 44,800,752.96. Following the allocation of € 12,800,752.96 to other revenue reserves, the unappropriated net profit amounts to € 32,000,000.00.

The Board of Management of the general partner HORNBACH Management AG and the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose to the Annual General Meeting that the unappropriated net profit be appropriated as follows:

	€
Dividend of € 2.00 for 16,000,000 shares	32,000,000.00
	32,000,000.00

The Annual General Meeting held on July 10, 2020 approved a dividend of € 1.50 in the 2020/21 financial year. The total amount distributed thus amounted to € 24,000k (2019/20: € 24,000k).

(23) Financial debt

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

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2021 Total
Bonds			247,154	247,154
Liabilities to banks	134,388	342,010	5,677	482,075
Lease liabilities	86,198	346,858	357,018	790,074
Negative fair values of derivative financial instruments	495			495
Total	**221,081**	**688,868**	**609,849**	**1,519,797**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.29.2020 Total
Bonds			246,646	246,646
Liabilities to banks	67,546	304,015	124,983	496,544
Lease liabilities	82,401	325,655	387,265	795,321
Negative fair values of derivative financial instruments	325			325
Total	**150,272**	**629,670**	**758,894**	**1,538,836**

The HORNBACH Holding AG & Co. KGaA Group had current financial debt amounting to € 221.1 million at the balance sheet date on February 28, 2021 (2019/20: € 150.3 million). This consists of the portion of loans and bonds maturing in the short term, amounting to € 127.3 million (2019/20: € 59.5 million), lease liabilities of € 86.2 million (2019/20: € 82.4 million), current account liabilities and short-term time loans of € 2.5 million (2019/20: € 3.4 million), interest deferrals of € 4.5 million (2019/20: € 4.6 million), and liabilities of € 0.5 million relating to the measurement of derivative financial instruments (2019/20: € 0.3 million). The significant increase in current financial debt is chiefly due to the promissory note bond due to mature at HORNBACH Immobilien AG in June 2021 and its resultant statement under non-current financial debt.

The interest of € 2.8 million accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2019/20: € 2.8 million).

The Group has the following material financing facilities:

Borrower	Instrument	Amount		Start of term	Maturity	Interest
HORNBACH Immobilien AG	Promissory note bond	70 million	EUR	6.30.2015	6.30.2021	Fixed*
HORNBACH Holding B.V.	Promissory note bond	52 million	EUR	9.13.2018	9.13.2023	Fixed*
HORNBACH Holding B.V.	Promissory note bond	43 million	EUR	9.13.2018	9.15.2025	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	126 million	EUR	2.22.2019	2.22.2024	Fixed*
HORNBACH Baumarkt AG	Promissory note bond	74 million	EUR	2.22.2019	2.23.2026	Fixed*
HORNBACH Baumarkt AG	Corporate bond	250 million	EUR	10.25.2019	10.26.2026	Fixed****
HORNBACH Baumarkt (Schweiz) AG	Bilateral loan	50 million	CHF	05.22.2020***	05.20.2021	Variable **

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

** 3-month CHF LIBOR + margin

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

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

Alongside the aforementioned unsecured financing facilities, the Group has further non-current liabilities, generally secured by mortgages, to banks. Liabilities to banks, originally of a non-current nature, are structured as follows:

2020/21 financial year	Currency	Interest agreement in % (including swap)	Maturity	**Amount 2.28.2021 € 000s**
Loans	EUR	0.85 to 2.00	2021 to 2026	364,613
Mortgage loans	EUR	3.71 to 4.97	2022 to 2023	23,644
	CZK	2.19 to 5.22	2023 to 2026	24,053
	SEK	1.50 to 4.97	2024 to 2028	17,212
				429,522

2019/20 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.29.2020 € 000s
Loans	EUR	1.13 to 3.80	2021 to 2026	364,289
Mortgage loans	EUR	3.71 to 4.97	2022 to 2023	28,015
	CZK	2.19 to 5.22	2020 to 2026	29,991
	SEK	1.50 to 4.97	2024 to 2028	19,113
				441,408

The overwhelming majority of non-current liabilities to banks have fixed interest rates. The only long-term loan with a floating rate at the end of the financial year has an interest rate based on a short-term Euribor plus a bank margin of 1.60 percentage points (2019/20: 1.60). Interest swaps are generally concluded to secure the interest rate on long-term loans with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

As of February 28, 2021, the HORNBACH Holding AG & Co. KGaA Group had total credit lines of € 424.3 million (2019/20: € 422.6 million) on customary market terms. Unutilized credit lines amounted to € 414.0 million (2019/20: € 412.6 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits.

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

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

AG, they also require compliance with specific financial ratios. These key financial ratios are based on consolidated figures at the HORNBACH Baumarkt AG subgroup and require interest cover of at least 2.25 times and an equity ratio of at least 25 %. Maximum limits for financing facilities secured by land charges and financing facilities taken up by subsidiaries were also agreed. Comparable maximum limits were also agreed for the promissory note bonds at the HORNBACH Baumarkt AG subgroup.

The corporate bond at HORNBACH Baumarkt AG is also subject to a comparable limit on financing facilities secured by land charges. The conditions governing the promissory note bond at HORNBACH Immobilien AG require the maintenance of a specified volume of unencumbered property, plant and equipment. The interest cover, equity ratio, agreed financing limits, unencumbered property, plant and equipment, and company liquidity (cash and cash equivalents, plus unutilized committed credit lines) are regularly monitored within the internal risk management framework. Should the values fall short of certain target levels, then countermeasures are initiated at an early stage. All covenants were complied with at all times in the year under report.

Land charges of € 176.0 million have been provided as security for liabilities to banks (2019/20: € 194.7 million).

The HORNBACH Holding AG & Co. KGaA Group is subject to a relevant restriction that limits the possibilities of using subsidiaries' assets to settle subsidiaries' liabilities. This relates to liquid funds of € 334.6 million at HORNBACH Baumarkt AG and its subsidiaries (2019/20: € 302.2 million). Apart from an allowance of € 50 million, these funds must remain within the HORNBACH Baumarkt AG subgroup and may not be used to settle liabilities at companies outside the subgroup.

The transition of future lease payments for leases has been presented in Note 13 “Leases”.

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

Reconciliation pursuant to IAS 7 in € 000s	3.1.2020	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.28.2021
				Foreign currency translation	Changes in fair values	Other changes	
Bonds	246,647	(8,125)	8,125	0	0	507	247,154
Liabilities to banks	496,544	(22,201)	8,245	(1,530)	0	1,018	482,075
Liabilities in connection with finance leases	795,321	(111,923)	25,980	(2,021)	0	82,717	790,074
Financial and similar liabilities	**1,538,512**	**(142,249)**	**42,350**	**(3,551)**	**0**	**84,242**	**1,519,303**
Positive fair values of derivative financial instruments from financing activities	2,010	353	(353)	106	(821)	3	1,297
Derivative financial assets	**2,010**	**353**	**(353)**	**106**	**(821)**	**3**	**1,297**

Reconciliation according IAS 7 in € 000s	1.3.2019	Impact of IFRS 16 application	Cash-effective changes	of which: interest included in cash flow from operating activities	Non-cash changes			2.29.2020
					Foreign currency translation	Changes in fair values	Other changes	
Bonds	249,459	n/a	(13,164)	9,688	0	0	665	246,647
Liabilities to banks	525,944	n/a	(44,744)	9,296	3,487	0	2,560	496,544
Liabilities in connection with finance leases	164,017	689,916	(111,049)	26,811	5,511	0	20,114	795,321
Financial and similar liabilities	**939,420**	**689,916**	**(168,956)**	**45,795**	**8,998**	**0**	**23,339**	**1,538,512**
Positive fair values of derivative financial instruments from financing activities	1,830	n/a	(382)	382	(32)	201	12	2,010
Derivative financial assets	**1,830**		**(382)**	**382**	**(32)**	**201**	**12**	**2,010**

(24) Pensions and similar obligations

As a result of legal requirements in individual countries and individual commitments made to its directors and officers, the HORNBACH Holding AG & Co. KGaA Group has obligations relating to defined benefit and defined contribution pension plans.

Defined contribution plans

Apart from payment of contributions, the defined contribution plans do not involve any further obligations on the part of the HORNBACH Holding AG & Co. KGaA Group. The total of all defined contribution pension expenses amounted to € 67,134k in the 2020/21 financial year (2019/20: € 63,634k). Of this total, an amount of € 37,260k involved the employer's share of contributions to the state pension scheme in Germany (2019/20: € 35,182k).

Multiemployer defined benefit plans

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

Defined benefit plans

- **Switzerland**

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

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

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

- **Germany**

  HORNBACH Baumarkt AG, HORNBACH Immobilien AG and HORNBACH Baustoff Union GmbH have undertaken to provide members of their Boards of Management or their managing directors with a securities-financed pension plan. This model offers the opportunity to increase pension claims, while the companies simultaneously guarantee a minimum return of 2 % p.a. for members of their Boards of Management. Pension assets and voluntary additional contributions by members of the Boards of Management or managing directors are held in a fiduciary capacity and invested in diversified funds by Allianz Treuhand GmbH, Frankfurt am Main. The funds are invested in line with a capital investment concept jointly defined by the companies and Allianz Treuhand GmbH. Where amendments to the capital investment concept do not contravene the fiduciary objective, the companies themselves may have such amendments made. The risk that the trust assets do not generate the minimum return of 2 % p.a. is borne by the companies.

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

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

Pensions and similar obligations are structured as follows:

	2020/21 **€ 000s**	2019/20 € 000s
Present value of pension obligation	93,555	96,763
less fair value of plan assets	(74,207)	(71,897)
Pension commitments as reported in balance sheet	**19,349**	**24,867**
of which: pension provisions	19,349	24,867

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

	2.28.2021 **%**	2.29.2020 %
Debt securities	58.4	77.5
Shares	9.3	6.4
Real estate	14.3	12.6
Other	17.9	3.5
	100.0	**100.0**

Change in pension obligation

	2020/21 € 000s	2019/20 € 000s
Present value of pension obligation at the beginning of the period	96,763	78,422
Current service cost of employer	6,019	4,961
Past service cost	(269)	(402)
Employee contributions	3,623	3,884
Interest cost	(69)	942
Payments from the plan	(1,934)	(3,322)
Actuarial gains/losses due to:		
Changes in demographic assumptions	(5,280)	(4,979)
Changes in financial assumptions	(2,625)	14,151
Experience adjustments	1,672	(153)
Insurance premiums	(1,664)	(1,359)
Foreign currency translation	(2,681)	4,354
Transfers	0	264
Present value of pension obligation at the end of the period	**93,555**	**96,763**

Change in plan assets

	2020/21 € 000s	2019/20 € 000s
Plan assets at beginning of period	71,897	64,095
Employer contributions	4,631	4,029
Employee contributions	3,623	3,884
Payments from the plan	(1,923)	(3,312)
Interest income	(55)	821
Return on plan assets (excluding income recognized in net interest expenses)	(505)	435
Insurance premiums	(1,664)	(1,359)
Foreign currency translation	(1,797)	3,303
Plan assets at the end of the period	**74,207**	**71,897**

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

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

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

	2020/21 € 000s	2019/20 € 000s
Current service cost of employer	6,019	4,961
Past service cost	(269)	(402)
Interest cost	(69)	942
Interest income	55	(821)
Effects recognized in P&L	**5,736**	**4,680**
Actuarial gains/losses due to:		
Changes in demographic assumptions	5,280	4,979
Changes in financial assumptions	2,625	(14,151)
Experience adjustments	(1,672)	153
Return on plan assets (excluding income recognized in net interest expenses)	(505)	435
Effects recognized in OCI	**5,729**	**(8,584)**
Costs for defined benefit plans	**7**	**13,264**

The amounts recognized through profit or loss are included in the income statement in the personnel expenses for the following functional areas and in net financial expenses:

	2020/21 € 000s	2019/20 € 000s
Selling and store expenses	4,105	3,191
Pre-opening expenses	14	0
General and administration expenses	1,632	1,369
Net interest expenses	(14)	120
	5,736	**4,680**

Actuarial assumptions

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

	2.28.2021		2.29.2020	
	Weighted average	Range	Weighted average	Range
Discount interest rate	0.1 %	(0.1)% to 0.8 %	0.0 %	(0.1 %) to 0.3 %
Future salary increases	1.8 %	1.5 % to 3.0 %	1.8 %	1.5 % to 3.0 %
Future pension increases	0.4 %	0.0 % to 2.0 %	0.4 %	0.0 % to 2.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the “Heubeck Richttafeln 2018 G”. Swiss plans are governed by the “BVG 2015 Generationentafel”.

Sensitivity analysis

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

Change in present value of pension obligation

€ 000s	2.28.2021		2.29.2020	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,825)	3,054	(3,488)	3,776
Future rate of pension increase (0.10 basis points change)	671	n/a	803	n/a
Mortality (+ 1 year)	1,347	n/a	1,532	n/a

Future cash flows

Payments of contributions amounting to € 4,591k are expected for the 2021/22 financial year.

Expected payments	2.28.2021 € 000s
2021/2022	10,400
2022/2023	6,423
2023/2024	2,569
2024/2025	2,441
2025/2026	2,541
2026 to 2030	17,148

Expected payments	2.29.2020 € 000s
2020/2021	1,200
2021/2022	7,241
2022/2023	4,461
2023/2024	931
2024/2025	1,075
2025 to 2029	10,194

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 38,264k (2019/20: € 38,638k). These include provisions of € 16,097k (2019/20: € 15,684k) for contractually assumed structural maintenance obligations and personnel provisions of € 19,545k (2019/20: € 20,629k). The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The personnel provisions mainly relate to provisions recognized due to statutory requirements in Austria for employees in the event of their leaving the company (severance payments) and to anniversary bonus claims and part-time early retirement obligations. Further information about the severance payment obligation can be found at the end of this chapter.

The development in provisions is presented in Note 28.

Severance payments

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

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

Change in pension obligation and costs of plan

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

	2020/21 € 000s	2019/20 € 000s
Current service cost of employer	320	328
Interest cost	30	96
Effects recognized in P&L	**350**	**425**
Actuarial gains/losses due to:		
Changes in financial assumptions	838	(740)
Experience adjustments	11	422
Effects recognized in OCI	**849**	**(318)**
Total costs for the plan	**(499)**	**742**

The average remaining term of the obligation amounts to 13.0 years (2019/20: 14.2 years).

Actuarial assumptions and sensitivity analysis

	2.28.2021	2.29.2020
Discount interest rate	0.3 %	0.5 %
Future salary increases	1.8 %	3.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The biometric calculation has been based on “AVÖ 2018 P – Rechnungsgrundlage für die Pensionsversicherungen”. The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in the present value of the pension obligation

€ 000s	2.28.2021		2.29.2020	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	(366)	402	(453)	501
Future rate of salary increase (0.25 basis points change)	558	(184)	236	(227)

(26) Trade payables and other current liabilities

	2.28.2021 € 000s	2.29.2020 € 000s
Trade payables	311,529	266,213
Liabilities to affiliated companies	438	321
of which: to shareholders	438	321
Contract liabilities	44,164	34,419
Other liabilities	98,238	83,290
of which: other taxation	26,633	30,058
of which: social security contributions	6,434	5,591
	454,369	**384,244**

Trade payables, contract liabilities, and other current liabilities have remaining terms of less than one year. Trade payables are secured by reservations of title to the customary extent. Contract liabilities include prepayments received for customer orders and customer credit balances for vouchers.

Other taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions particularly include contributions yet to be remitted to the social security funds. In addition to the aforementioned items, other liabilities mainly include deposits and pledged funds, and amounts due for outstanding invoices. Other liabilities include refund liabilities of € 18,705k (2020/21: € 7,589k), which mainly relate to expected returns.

(27) Income tax receivables and liabilities

The receivables and liabilities relating to taxes on income involve current tax liabilities / receivables and taxes for previous financial years. Current income tax liabilities are offset against corresponding income tax refund claims, provided that they relate to the same tax jurisdiction and are identical as far as their type and their due date are concerned. Of the tax liabilities of € 35,303k for current income taxes, an amount of € 14,479k relates to Germany and € 20,824k to other countries.

The income tax receivables of € 11.3 million (2019/20: € 8.7 million) mainly result from deductions for capital gains tax on the dividend from HORNBACH Baumarkt AG, as well as from prepayments of corporate income tax.

Reference is made to the information about deferred taxes included in Note 16 with regard to the deferred tax assets and liabilities recognized under non-current assets and non-current liabilities.

(28) Other provisions and accrued liabilities

Other provisions and accrued liabilities developed as follows in the 2020/21 financial year:

€ 000s	Opening balance at 3.1.2020	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2021	of which: non-current
Other provisions								
Personnel	20,629	2,907	0	2,021	(185)	(13)	19,545	19,545
Miscellaneous	19,727	1,567	639	2,701	17	(62)	20,178	18,719
	40,356	**4,473**	**639**	**4,722**	**(167)**	**(75)**	**39,722**	**38,264**
Accrued liabilities								
Other taxes	1,355	536	106	859	0	32	1,604	0
Personnel	77,623	71,265	2,226	95,010	0	(21)	99,122	0
Miscellaneous	24,400	20,023	2,667	30,918	0	(67)	32,561	0
	103,378	**91,824**	**4,999**	**126,787**	**0**	**(56)**	**133,286**	**0**
	143,733	**96,297**	**5,638**	**131,509**	**(167)**	**(131)**	**173,008**	**38,264**

Reference is made to Note 26 with regard to details of non-current provisions.

The accrued liabilities for personnel obligations primarily relate to outstanding vacation entitlements, vacation pay, Christmas bonuses, contributions to employer's liability insurance associations, and employee bonuses. Miscellaneous accrued liabilities relate in particular to utility expenses (gas, water, electricity), property duties, advertising expenses, as well as to year-end expenses and legal advisory expenses.

Other Disclosures

(29) Guarantees and other commitments

As in the previous year, there were no guarantees or other commitments as of February 28, 2021.

(30) Other financial obligations

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2021 Total
Purchase obligations for investments	121.0	0.0	0.0	121.0
Software rental / licenses	13.7	11.3	0.0	25.0
Other financial obligations	2.7	0.3	0.0	3.0
	137.4	**11.6**	**0.0**	**149.0**

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.29.2020 Total
Purchase obligations for investments	109.0	0.0	0.0	109.0
Software rental / licenses	10.2	11.6	0.0	21.8
Other financial obligations	2.9	0.2	0.0	3.1
	122.1	**11.8**	**0.0**	**133.9**

The other financial obligations mainly comprise maintenance and service charges.

(31) Legal disputes

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

(32) Supplementary disclosures on financial instruments

The following tables show the carrying amounts and the fair values of individual financial assets and liabilities pursuant to IFRS 9 as of February 28, 2021:

€ 000s	Category	Carrying amount 2.28.2021	Fair value 2.28.2021	Carrying amount 2.29.2020	Fair value 2.29.2020
Assets					
Financial assets	FVtOCI	112	112	112	112
Trade receivables	AC	38,602	38,602	37,534	37,534
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	2,390	2,390	1,765	1,765
Contract assets	AC	1,231	1,231	1,566	1,566
Other current and non-current assets					
Derivatives with hedge relationship	n/a	1,297	1,297	2,010	2,010
Derivatives without hedge relationship	FVtPL	666	666	339	339
Other assets	AC	79,929	79,929	63,899	63,899
Cash and cash equivalents	AC	434,958	434,958	368,286	368,286
Equity and liabilities					
Financial debt					
Bonds	AC	247,154	268,038	246,646	261,213
Liabilities to banks	AC	482,075	497,898	496,544	494,990
Lease liabilities	n/a	790,074	n/a	795,321	n/a
Derivatives without hedge relationship	FVtPL	495	495	325	325
Trade payables	AC	311,968	311,968	266,534	266,534
Contract liabilities	AC	44,164	44,164	34,419	34,419
Other current and non-current liabilities	AC	22,715	22,715	15,850	15,850
Accrued liabilities	AC	32,561	32,561	24,400	24,400

The interest of € 2,846k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2019/20: € 2,842k).

The following items are outside the scope of IFRS 7: other current and non-current assets of € 33,119k (2019/20: € 20,985k), other current and non-current liabilities of € 107,239k (2019/20: € 101,549k), and accrued liabilities of € 100,725k (2019/20: € 78,978k).

Aggregate totals by measurement category € 000s	Carrying amount 2.28.2021	Carrying amount 2.29.2020
Amortized cost (AC) financial assets	554,720	471,285
FVtOCI	112	112
FVtPL	3,056	2,104
Amortized cost (AC) financial liabilities	1,140,638	1,084,393
FVtPL	495	325

Cash and cash equivalents, trade receivables, other assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date. Available for sale financial assets include shareholdings recognized at cost due to the lack of an available fair value.

The derivative financial instruments within hedges recognized in the balance sheet mainly involve interest hedges (interest swaps). Derivative financial instruments outside of hedges include foreign currency items for outstanding orders and measurement items for outstanding forward exchange transactions. Their fair value measurement has been based on customary valuation models (e.g. discounted cash flow method) by reference to interest and foreign exchange curves available on the market and with congruent terms, and thus corresponding to Level 2 input factors in the fair value hierarchy. The fair values of fixed-interest liabilities to banks and of lease contracts have been measured by analogy. The credit risk for the aforementioned financial instruments has been accounted for by reference to risk premiums available on the market. The fair value of the publicly listed corporate bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

The assessment as to whether a transfer between different levels of the fair value hierarchy has arisen for financial assets and liabilities measured at fair value is performed at the end of the reporting period. No reclassifications were made in the period under report.

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet or the notes:

€ 000s	Category	2.28.2021	2.29.2020
Assets			
Valuation based on level 2 input data			
Derivatives with hedge relationship	n.a.	1,297	2,010
Derivatives without hedge relationship	FVtPL	666	339
Liabilities			
Valuation based on level 1 input data			
Bonds	AC	268,038	261,213
Valuation based on level 2 input data			
Liabilities to banks	AC	497,898	494,990
Derivatives without hedge relationship	FVtPL	495	325

Net result by measurement category	2020/21 € 000s	2019/20 € 000s
Amortized cost (AC) financial assets	(3,141)	(1,522)
Amortized cost (AC) financial liabilities	3,568	468
FVtPL	(2,957)	1,726

The net results of the "FVtPL" measurement category are attributable to derivative financial instruments. The net results of the "Amortized cost (AC)" measurement categories for financial assets and financial liabilities involve foreign currency translation items, the results of disposals, and write-downs.

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap and forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions. In the following table, the economic netting volume is presented for derivatives with hedge relationships (swap) and without hedge relationships (forward exchange).

2.28.2021 € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	666	0	666	(85)	0	581
Derivatives with hedge relationship	1,297	0	1,297	0	0	1,297
Equity and liabilities						
Derivatives without hedge relationship	495	0	495	85	0	409
Derivatives with hedge relationship	0	0	0	0	0	0

In the previous year, the Group did not have any forward exchange transactions that were eligible for netting.

(33) Risk management and financial derivatives

Risk management principles

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

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

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

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

Market 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 Holding AG & Co. KGaA Group consist of foreign currency risks and interest rate risks. The company does not face any other price risks.

Foreign currency risks

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

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

Foreign currency loans whose foreign currency risk is hedged by cash flow hedges do not result in any foreign currency risk. These items have therefore not been accounted for in the sensitivity analysis.

The foreign currency risks faced by the HORNBACH Holding AG & Co. KGaA Group in its business operations mainly relate to the purchase of goods in the Far East using US dollars and from intragroup supplies and services, which are basically handled in euros. The US dollar currency risk is hedged with fixed deposits denominated in US dollars and forward exchange transactions.

Including hedging measures, the Group had the following main foreign currency items open as of the balance sheet date:

000s	2.28.2021	2.29.2020
EUR	(89,362)	(76,214)
USD	(19,113)	2,309
CZK	(969)	(857)
SEK	(5)	(67)

The above EUR currency position results from the following currency pairs: RON/EUR € -52,426k (2019/20: € -27,702k), SEK/EUR € -31,109k (2019/20: € -29,700k), CZK/EUR € -4,922k (2019/20: € -1,828k), and CHF/EUR € -905k (2019/20: € -16,985k).

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

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

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 6,248k lower (2019/20 € 7,735k). 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 € 6,248k higher (2019/20: € 7,735k). The hypothetical impact on earnings of € 6,248k (2019/20: € 7,735k) is the result of the following sensitivities: EUR/RON € 5,124k (2019/20: € 2,804k), EUR/SEK € 3,029k (2019/20: € 2,979k), EUR/CHF € 94k (2019/20: € 1,635k), EUR/CZK € -50k (2019/20: € 96k), and EUR/USD € -1,948k (2019/20: € 221k).

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 (2019/20: € 250,000k), two promissory note bonds amounting to € 95,000k at HORNBACH Holding B.V. (2019/20: € 95,000k), and two promissory note bonds amounting to € 200,000k at HORNBACH Baumarkt AG (2019/20: € 200,000k). Furthermore, the Group still held an unsecured promissory note bond of € 70,000k (2019/20: € 70,000k). Moreover, the Group also has short-term and long-term EUR loans amounting to € 23,915k (2019/20: € 28,184k), long-term CZK loans amounting to € 24,053k (2019/20: € 29,991k), long-term SEK loans amounting to € 17,421k (2019/20: € 19,338k), and a short-term CHF loan of € 45,512k (2019/20: € 47,108k). The principal long-term financial liabilities with floating interest rates have been converted into fixed-interest financial liabilities using derivative financial instruments. Moreover, the Group had current liabilities to banks of € 2,500k as of the balance sheet date (2019/20: € 3,447k).

The sensitivity analysis provided below is based on the following assumptions:

In the case of fixed-interest primary financial instruments, changes in market interest rates only impact on profit and loss or equity when such instruments are measured at fair value. Primary financial instruments measured at amortized cost are therefore not subject to any interest rate risk as defined in IFRS 7. The same applies to financial liabilities which originally had floating interest rates, but which have been converted into fixed-interest financial liabilities by means of cash flow hedges.

Changes in the market interest rates of interest derivatives designated to hedge primary financial instruments with floating interest rates within the framework of a cash flow hedge impact on the hedging reserve within equity and have therefore been accounted for in the equity-related sensitivity analysis.

Changes in the market interest rates of primary financial instruments with floating interest rates impact on the income statement and have therefore been accounted for in the sensitivity analysis.

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

If the market interest rate had been **100 base points higher** at the balance sheet date, and all other variables had remained unchanged, then consolidated earnings before taxes would have been € 3,214k higher (2019/20: € 2,592k) and equity before deferred taxes would have been € 215k higher (2019/20: € 326k). 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 € 321k lower (2019/20: € 259k) and equity before deferred taxes would have been € 5k lower (2019/20: € 33k).

Credit risk

Credit risk or default risk involves the risk that a contractual party is unable to comply in part or in full with the obligations entered into upon the conclusion of a financial instrument. The credit risk of the Group is strictly limited to the extent that financial assets and derivative financial instruments are as far as possible only concluded with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

Impairment of financial assets

The Group has the following types of financial assets that are subject to the expected credit loss model:

- Trade receivables and contract assets
- Other financial assets measured at amortized cost

Trade receivables and contract assets

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

The expected loss rates are derived on the basis of an average distribution of receivables over a 36-month period prior to February 29, 2020 and March 1, 2019 respectively and of historic default rates in this period. Gross receivables that are more than 360 days overdue are deemed to have defaulted. Due account is taken of current macroeconomic expectations by including country-specific ratings. Historic default rates basically provide the best approximation of the defaults expected in future, provided that the respective country rating has not changed. Changes in country ratings are accounted for by adjusting the historic default rates.

To account for the implications of the coronavirus pandemic, the expected default rates applicable in the simplified allowance model for trade receivables are regularly analyzed and adjusted.

The development in the allowances recognized for trade receivables and contract assets can be found in Note 18.

Contract assets relate to tradesman services not yet invoiced and basically have the same risk characteristics as trade receivables. The expected loss rates for trade receivables in the respective countries are therefore viewed as providing an appropriate approximation of the loss rates for contract assets and for determining expected credit losses.

Trade receivables and contract assets are derecognized when, based on appropriate assessment, there is no prospect of recoverability. Indicators that, based on appropriate assessment, there is no prospect of recoverability particularly include filing for or opening insolvency proceedings. Impairment losses on trade receivables and contract assets are recognized on a net basis as impairment losses within operating earnings. Amounts received in subsequent periods for items previously written down are recognized in the same line item.

Other financial assets measured at amortized cost

The general allowance model is used to determine risk allowances. In determining the probability of default, reference is made to internal and external credit assessments that include both qualitative and quantitative information. An assessment is performed as of each balance sheet date to determine whether the credit risk has significantly increased. If the credit risk has not significantly increased since initial recognition, the probability of default is determined on the basis of a 12-month period. Reference is otherwise made to the entire remaining lifetime.

To assess whether the credit risk has significantly increased, the default risk for the financial assets as of the balance sheet date is compared with the default risk upon initial recognition. Alongside country-specific factors, the assessment also accounts in particular for the following indicators:

- Credit rating of the debtor based on internal assessments and, if applicable, external rating agencies
- Actual or expected material negative change in the business, financial, or economic position of the debtor that could materially affect its ability to settle its obligations.

Furthermore, unless refuted by information to the contrary, it is assumed that the credit risk has significantly increased if a debtor is more than 30 days overdue with a contractually agreed payment.

In determining a default event, a financial asset is classified as being of impaired creditworthiness if an objective event, such as one of the following, occurs:

- The contractually agreed payment is more than 90 days overdue and no information supporting an alternative default criterion is available
- Significant financial difficulties at the debtor
- Breach of contract
- The debtor is likely to enter insolvency or other restructuring proceedings.

All debt instruments measured at amortized cost are assessed as “involving low default risk” if an investment grade rating is available from at least one of the major rating agencies. The Group excludes these financial instruments from application of the three-level risk allowance model. Instead, these assets are always allocated to Level 1 of the risk allowance model and an allowance corresponding to the 12-month expected credit losses is recognized. Other instruments for which no external rating is available are assessed as “involving low default risk” when the risk of non-fulfillment is low and the issuer is at all times in a position to meet its contractual payment obligations at short notice.

The development in allowances recognized for other financial assets is presented in Note 18.

Liquidity risk

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

€ 000s	Carrying amount 2.28.2021	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	247,154	8,125	32,500	258,125
Liabilities to banks	482,075	137,594	359,755	6,164
Lease liabilities	790,074	112,486	419,361	411,926
Trade payables	311,968	311,968	0	0
Contract liabilities	44,164	44,164	0	0
Other current and non-current liabilities	22,715	21,264	1,452	0
Accrued liabilities	32,561	32,561	0	0
	1,930,712	**668,162**	**813,067**	**676,215**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	495	25,912	0	0
	495	**25,912**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	666	12,281	0	0
Interest derivatives in connection with cash flow hedges	1,297	0	0	0
	1,964	**12,281**	**0**	**0**
		706,355	**813,067**	**676,215**

€ 000s	Carrying amount 2.29.2020	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	246,646	8,125	32,500	266,250
Liabilities to banks	496,544	71,713	326,870	128,211
Liabilities in connection with finance leases	795,321	107,490	399,494	448,215
Trade payables	266,534	266,534	0	0
Contract liabilities	34,419	34,419	0	0
Other current and non-current liabilities	15,850	13,019	2,831	0
Accrued liabilities	24,400	24,400	0	0
	1,879,714	525,700	761,695	842,676
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	325	325	0	0
	325	**325**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	339	29,005	0	0
Interest derivatives in connection with cash flow hedges	2,010	7	0	0
	2,349	**29,012**	**0**	**0**
		555,038	**761,695**	**842,676**

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

The interest of € 2,846k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2019/20: € 2,842k). The corresponding outflows of cash have been recognized in the bond line item.

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

Hedging measures

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

Cash flow hedge – interest rate risk

Payer interest swaps are concluded to secure the interest rates on major long-term financial liabilities with floating interest rates. These enable the variable interest rates on the loans to be converted into fixed interest rates. In individual cases where long-term loans are concluded in currencies other than the functional currency of the respective group company, the foreign currency risk is hedged with currency or interest-currency swaps. Creditworthiness risks are not hedged.

The HORNBACH Holding AG & Co. KGaA Group meets IAS 39 hedge accounting requirements in that it already documents the relationship between the derivative financial instrument used as a hedge and the underlying transaction, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also involves assessing the effectiveness of the hedging instruments deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

A Swedish subsidiary took up a long-term EUR mortgage loan in the 2012/13 financial year. This loan of € 30 million has a term running until June 30, 2022. The interest rate is based on the 3-month Euribor, plus a fixed bank margin. To secure the interest and exchange rates, an interest-currency swap consistent with the loan structure was concluded (loan interest rate, including EUR-SEK interest currency swap of 4.42 %). This swap enables the floating-rate EUR payment installments to be secured as fixed-interest SEK payment installments.

As of February 28, 2021 the Group also had an interest-currency swap with a nominal value of € 13,000k (2019/20: € 15,000k) enabling a euro loan with a floating interest rate to be converted into a fixed-interest SEK loan. At the end of the 2020/21 financial year, the fair value of this interest-currency swap amounted to € 1,297k (2019/20: € 2,010k). This item has been reported under other assets.

The interest-currency swap met hedge accounting requirements as of February 28, 2021. A hedge ratio of 1:1 has been determined for this hedge, as the characteristics of the hedging instrument are congruent with those of the hedged item. Ineffectivenesses may nevertheless arise in the calculation of value changes in the hedging instrument and the hedged item, as the currency basis and forward points were not excluded upon designation of the hedging instrument.

HORNBACH expects a prospective economic relationship between the hedged item and the hedging instrument, as the risk of the hedging instrument corresponds to the hedged risk. Fair value changes are recognized in the hedging reserve in equity up to recognition of the results of the hedged transaction.

As of the balance sheet date and based on historic experience values the HORNBACH Group expects the underlying transaction currently designated as a cash flow hedge to materialize. The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.28.2021 in € 000s	Nominal value at 2.29.2020 in € 000s	Reference rate
6.29.2012	6.30.2022	13,000	15,000	3-month Euribor

The hedging instruments which the Group has designated in hedging relationships had the following implications for the balance sheet as of February 28, 2021:

€ 000s	2.28.2021	2.29.2020
Balance sheet item	Derivatives with hedge relationship	Derivatives with hedge relationship
Carrying amount of assets	1,297	2,010
Carrying amount of liabilities	0	0
Change in fair value of hedges held as of the reporting date	(713)	180
Nominal amount	13,000	15,000

The aforementioned hedging relationships had the following implications for the income statement or other comprehensive income (OCI):

€ 000s	2020/21	2019/20
Change in fair value of the underlying transaction	(178)	(180)
Cash flow hedge reserve for existing hedges	(438)	180
Amount reclassified from OCI due to maturity of underlying transaction	353	0

Other hedging measures – foreign currency risk

The HORNBACH Holding AG & Co. KGaA Group also deploys hedging measures which do not meet IAS 39 hedge accounting requirements, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line its risk management principles. For example, the HORNBACH Holding AG & Co. KGaA Group hedges the foreign currency risks involved in select (planned) transactions, including the embedded foreign currency derivatives potentially resulting from the transactions, such as those involved in the purchase of merchandise in the Far East using US dollars, by concluding forward exchange transactions or making fixed deposit investments denominated in foreign currencies in the form of macro hedges.

The fair value of forward exchange transactions, including embedded forward exchange transactions, amounts to € 172k (2019/20: € 14k). Of this total, € 666k has been recognized under other assets (2019/20: € 339k) and € -495k under financial debt (2019/20: € -325k).

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

Derivatives

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

2.28.2021	Forward exchange transactions	Embedded forward exchange transactions	Interest rate and currency swap	Total
Nominal value in € 000s	45,000	46,547	13,000	104,547
Fair value in € 000s (before deferred taxes)	(262)	434	1,297	1,469

2.29.2020	Forward exchange transactions	Embedded forward exchange transactions	Interest rate and currency swap	Total
Nominal value in € 000s	26,000	37,211	15,000	78,211
Fair value in € 000s (before deferred taxes)	311	(297)	2,010	2,024

(34) Other disclosures

Employees

The average number of employees was as follows:

	2020/21	2019/20
Salaried employees	20,595	19,453
Trainees	1,041	1,024
	21,636	**20,477**
of which: part-time employees	6,625	6,112

In terms of geographical regions, 11,885 of the average workforce were employed in Germany during the 2020/21 financial year (2019/20: 11,472) and 9,751 in Other European Countries (2019/20: 9,005).

Auditor's fee

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

	2020/21 € 000s	2019/20 € 000s
Audit services [1]	1,077	807
Other confirmation services [2]	19	54
	1,096	**861**

The fees comprise the following elements:

[1] Half-year, annual, and consolidated financial statements, dependent company report, annual financial statements of subsidiaries

[2] Agreed investigation activities in respect of sales, Management AG settlements, and Board of Management bonuses and, in the previous year, issuance of a comfort letter

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

Information on the German Corporate Governance Code

The annual Declaration of Conformity with the German Corporate Governance Code required by § 161 of the German Stock Corporation Act (AktG) was submitted by the Board of Management of HORNBACH Management AG and the Supervisory Board of HORNBACH Holding AG & Co. KGaA in December 2020 and made available to shareholders on the company's homepage.

(35) Related party disclosures

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

The associated companies are:

HORNBACH Familien-Treuhandgesellschaft mbH, Annweiler am Trifels (ultimate controlling party)
Administrative support was provided to HORNBACH Familien-Treuhandgesellschaft mbH in the past financial year. The services thereby performed in the 2020/21 financial year were valued at customary market prices of € 4k (2019/20: € 3k).

HORNBACH Management AG, Annweiler am Trifels (General Partner)
Pursuant to the Articles of Association of HORNBACH Holding AG & Co. KGaA, HORNBACH Management AG is reimbursed for all expenses directly attributable to its management activities. Furthermore, the company receives a return of 5 % of the share capital (general partner compensation).

The expenses incurred at HORNBACH Holding AG & Co. KGaA for the management activities performed by HORNBACH Management AG amounted to € 2,930k.

Income	€ 000s
Other services	
Other services to HORNBACH Management AG	1
	1

Expenses	€ 000s
General partner compensation to HORNBACH Management AG	13
Management allocation to HORNBACH Management AG	2,930
	2,943

Liabilities	€ 000s
Liabilities to HORNBACH Management AG	
Trade payables	438
	438

Some of the companies included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA make use of Kurhaus Trifels Seminarhotel GmbH, Annweiler am Trifels, for seminars and conferences. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. Services of € 0k were performed by the seminar hotel in the 2020/21 financial year (2019/20: € 12k). These services were invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 28, 2021.

Related parties also include members of the management in key positions (Board of Management and Supervisory Board). The members of the Board of Management and the Supervisory Board and disclosures on their remuneration are presented in Note 37.

(36) Events after the balance sheet date

Events of material significance for assessing the earnings, financial, and asset position of HORNBACH Holding AG & Co. KGaA and the HORNBACH Group occurred between the balance sheet date on February 28, 2021 and the date on which these financial statements were prepared.

Impact of the coronavirus pandemic on the DIY retail business at the Group

Within the HORNBACH Group, the HORNBACH Baumarkt AG subgroup was primarily affected by restrictions on sales activities due to the coronavirus pandemic. The builders' merchant outlets operated by the HORNBACH Baustoff Union GmbH (HBU) subgroup remained open for its main customer group of commercial customers from the professional main and secondary construction trades, also during the lockdown measures. Private customers at HBU's builders' merchant outlets were subject to restrictions on stationary sales similar to those in the DIY retail business. However, this factor was not material for the Group's business performance. The developments in the pandemic after the balance sheet date through to the completion of this report did not have any impact on the HORNBACH Immobilien AG subgroup, as no changes arose in group-internal rental payments.

With regard to the coronavirus pandemic, no fundamental improvement was yet in sight after the balance sheet date. Politicians responded to a renewed drastic rise in incidence rates across Europe in March and April 2021, which was triggered by rising numbers of infections with more infectious variants of the virus, by extending or tightening up the pandemic-related restrictions in some of the countries in which operate.

Upon the editorial deadline for this report, stationary operations were restricted at a majority of the 163 retail locations at the HORNBACH Baumarkt AG subgroup. The only countries in which there were no significant restrictions on sales were Luxemburg (1 store), Romania (7), Sweden (7), and Switzerland (7). In the other countries in which we operate, stationary sales to private customers were not permitted or limited to specific product ranges, such as our garden centers, or only possible following prior arrangement of an appointment (click & meet). In terms of potential retail activities, all the rules in the various countries and states basically permitted sales to commercial customers, click & collect for all customers, and online retail, which was consistently possible in all countries in which we operate.

This situation, in which stationary operations in the DIY sector were highly restricted, with regional variations in the rules applicable, was countered by persistently high demand from customers across all potential distribution channels. Due to the restrictions on contact, consumers still had to spend significantly more time at home than usual. Where possible, many employees also worked from home. Given that alternative leisure options, such as vacations, cultural events, restaurants, and sports events, were largely restricted until further notice, consumers generally remained willing to spend substantial sums on home improvement and renovation projects, as well as on repair work.

This pleasing DIY trend was significantly influenced by changeable weather conditions. In Europe, the spring months of March and April 2021 offered a program of sharp contrasts. While March proved mild, with low volumes of precipitation and a great deal of sunshine in many areas, April was significantly too cold over large stretches of the month. This contrast in weather conditions had a corresponding impact on our sales performance in spring 2021.

Against this backdrop, in March 2021 sales at the DIY subgroup rose by 29 % on a like-for-like basis and net of currency items. The arctic air in April 2021 placed a significant chill on our garden business. In the second month of the financial year, the subgroup witnessed a slight reduction in its like-for-like sales net of currency items. For the two-month period of March to April 2021, net sales rose by 10 % on a like-for-like basis and net of currency items. Due account should also be taken of significant base effects due to the first lockdown in spring 2020 (see comments on Summary of 2020/21 Business Performance in Business Report).

Germany

At the beginning of March 2021, all indications pointed to restrictions being eased at our DIY stores and garden centers in many areas. In parts of Germany, only the garden division was freely accessible at first. Click & collect was possible for other ranges. From March 7, 2021, click & meet was also possible. Increasing numbers of federal states permitted the regular opening of DIY stores and garden centers to private customers as suppliers of basic needs or depending on specified incidence rates. Since the second half of March, the coronavirus situation deteriorated significantly due to exponentially rising new infections and incidence rates. After Easter, several federal states made the opening of DIY stores to end consumers dependent on the development in the seven-day incidence rate on district and city level. In some cases, consumers were required to present evidence of a negative test to be permitted to shop at stationary stores. From April 12, 2021, DIY stores in Bavaria were no longer permitted to open on an unrestricted basis as suppliers of basic needs and had to convert to click & meet, in some cases with a requirement for customers to present evidence of a negative coronavirus test.

On April 13, the Federal Cabinet approved the draft legislation for a uniform nationwide “emergency brake”. Germany's new Protection against Infection Act, which took effect on April 23, 2021, provides for far-reaching restrictions, also for DIY retailers, as soon as the seven-day incidence rate reaches 100.

When the “emergency brake” takes effect, and provided that individual federal states do not introduce stricter measures, at incidence rates of between 100 and 150 private customers are permitted to shop at DIY stores following prior arrangement of an appointment (click & meet) and with a negative coronavirus test result. Above an incidence rate of 150, end consumers are only permitted to collect ordered goods (click & collect). The federal emergency brake excluded segments including garden centers and wholesalers from the restrictions. Based on our understanding, this means that DIY store garden centers are permitted to remain open and commercial customers can shop at DIY stores and garden centers. Regardless of the incidence rate, click & collect and online sales are possible for all customers without restriction.

Thanks to the pleasing performance at the partially open HORNBACH stores and the e-commerce business (click & collect, online retail), the loss of sales due to closure measures was more than offset in the two-month period of March to April 2021. Cumulative like-for-like sales in the Germany region were 5 % up on the previous year's figure. Due to the “emergency brake”, however, further developments in the first quarter of 2021/22 are expected to be less favorable compared with the previous year's period.

Other European Countries

In the countries in which we operate outside Germany, the coronavirus-related restrictions applicable to stationary DIY retail at the end of February were extended into spring 2021.

In the **Netherlands** (15 HORNBACH DIY stores with garden centers), private customers were permitted from mid-March 2021 to shop at the entire stationary store following prior arrangement of an appointment (click & meet). The maximum number of customers was nevertheless strictly limited. Alongside this option, click & collect and direct mailing via our online shop were possible without restriction. As the stores in the Netherlands were open as usual in spring 2020, our stores had to contend with a very high basis for comparison in March and April 2021. The restrictions on sales at DIY stores in the Netherlands were lifted once again on April 28, 2021.

In **Austria**, the easing of restrictions in the fourth quarter was followed by the closure to end consumers of six of the 14 stores in the period from Easter to May 2, 2021. The temporary measures at these stores meant that only commercial customers were allowed to visit, while private customers could only shop with click & collect. All stores were open as usual again from May 3, 2021.

In the **Czech Republic**, our ten DIY stores with garden centers were also open to private customers from the end of March through to the completion of this report. However, the stores were not permitted to sell the full range of DIY products. The opening of combined garden centers to private customers brought a significant improvement for this seasonal business. On April 29, 2021, the Czech government decided to reopen all retail stores from May 10, 2021. This meant that DIY stores were once again permitted to sell their full product range.

In **Slovakia**, which was hit particularly hard by the pandemic, our four locations were permitted after many weeks of restrictions on sales to fully reopen their private customer businesses on April 19, 2021. Previously, private customer sales were only permitted at the adjacent garden centers. This easing of restrictions was combined with an obligation on the part of customers to show evidence of a negative coronavirus test.

In **Romania**, our seven stores witnessed an overall deterioration in the coronavirus situation in the course of April 2021. Opening hours had to be adjusted, while different regions had different rules. Some of our stores were subject to weekend closures. Apart from this, there were no material restrictions on stationary sales in the private customer business.

Individual countries in which we operate, such as Switzerland, the Czech Republic, and Slovakia, witnessed an improvement in the pandemic situation in the second half of April 2021.

Overall, despite all the pandemic-related restrictions the Other European Countries region reported a solid sales performance in the first two months of the 2021/22 financial year. Cumulative like-for-like sales net of currency items increased by 17 % in the period from March to April 2021.

Other events after the balance sheet date

After nearly 25 years of responsibility on the Board of Management at HORNBACH, CFO **Roland Pelka** retired at the end of March and, with the approval of the Supervisory Board, stood down from his positions as of March 31, 2021. **Karin Dohm** assumed the role of CFO at HORNBACH Baumarkt AG as of April 1, 2021 and has since been responsible for Finance, Accounting, Tax, Controlling, Risk Management, Internal Audit, Legal, Compliance, and Investor Relations. Furthermore, she simultaneously succeeded Roland Pelka as CFO at HORNBACH Management AG.

The consolidated financial statements of HORNBACH Holding AG & Co. KGaA for the 2020/21 financial year were approved for publication by the Board of Management of the general partner HORNBACH Management AG on May 19, 2021.

(37) Supervisory Board and Board of Management

The management of HORNBACH Holding AG & Co. KGaA is performed by the general partner HORNBACH Management AG, represented by its Board of Management Albrecht Hornbach, Karin Dohm (since January 1, 2021), and Roland Pelka (until March 31, 2021). The remuneration paid to the board members is borne by HORNBACH Management AG and is reported as expenses in that company's income statement. Pursuant to § 8 (3) of its Articles of Association, HORNBACH Holding AG & Co. KGaA reimburses all expenses incurred in connection with the remuneration of board members at the general partner. The following persons were members of the Board of Management of HORNBACH Management AG in the period from March 1, 2020 to May 19, 2021:

Albrecht Hornbach DIY Stores and Garden Centers (HORNBACH Baumarkt AG) Builders' Merchants (HORNBACH Baustoff Union GmbH) Real Estate (HORNBACH Immobilien AG)	**Chairman (CEO)** First appointed: October 9, 2015 Appointed until: October 31, 2026
Karin Dohm since April 1 2021: responsible for Finance, Accounting, Tax, Controlling, Risk Management, Internal Audit, Legal, Compliance, Investor Relations	First appointed: January 1, 2021 Appointed until: December 31, 2023
Roland Pelka Finance, Accounting, Tax, Controlling, Risk Management, Internal Audit, Legal, Compliance, Investor Relations	until March 31, 2021

The total remuneration of the Board of Management of HORNBACH Management AG for performing its duties for the Group in the 2020/21 financial year amounts to € 3,903k (2019/20: € 1,963k). Of short-term benefits, € 1,317k (2019/20: € 966k) relates to fixed remuneration and € 1,177k (2019/20: € 997k) to performance-related components. Payments of € 1,409k (2019/20: € 0k) relate to compensation of a long-term incentive nature.

Post-employment benefits of € 296k were incurred for active members of the Board of Management in the 2020/21 financial year (2019/20: € 210k). These involve expenses incurred to endow pension provisions (Note 24).

Further individualized disclosures and information can be found in the Remuneration Report (see “Combined Management Report”).

Members of the Supervisory Board:

Dr. John Feldmann Former Executive Board member at BASF SE	**Chairman** Member since: January 17, 2014 Chairman since: July 6, 2018 Appointed until: end of 2023 AGM
Martin Hornbach Managing Partner Corivus Gruppe GmbH	**Deputy Chairman** Member since: July 10, 2015 Deputy Chairman since: October 9, 2015 Appointed until: end of 2023 AGM
Simone Krah (Managing) President of MMM-Club e.V.	Member since: July 6, 2018 Appointed until: end of 2023 AGM
Simona Scarpaleggia Director of Global Initiative "Future of Work" at Ingka Group (IKEA) (until August 31, 2020) Global CEO of EDGE Strategy AG (since September 1, 2020)	Member since: March 24, 2020 Appointed until: end of 2023 AGM
Melanie Thomann-Bopp Chief Financial Officer (CFO) at Sonova Retail Deutschland GmbH (until April 14, 2021) Commercial Director at Nolte Küchen GmbH & Co. KG and Express Küchen GmbH & Co. KG (since April 15, 2021)	Member since: July 6, 2018 Appointed until: end of 2023 AGM
Dr. Susanne Wulfsberg Director of Floggensee Stud, Veterinary Surgeon	Member since: July 5, 2013 Appointed until: end of 2023 AGM

The total remuneration of the Supervisory Board for the 2020/21 financial year amounted to € 363k (2019/20: € 354k). Of short-term benefits, € 234k (2019/20: € 220k) related to basic remuneration and € 129k (2019/20: € 134k) to committee activities.

Further individualized disclosures and information can be found in the Remuneration Report (see "Combined Management Report").

The total remuneration of the Board of Management and Supervisory Board amounted to € 4,266k (2019/20: € 2,317k).

Mandates in supervisory boards and other control bodies

(Disclosures pursuant to § 285 Number 10 HGB)

Members of the Supervisory Board

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Dr. John Feldmann

a) HORNBACH Baumarkt AG (Deputy Chairman)
HORNBACH Management AG (Deputy Chairman)

Martin Hornbach

a) Corivus AG (Chairman)
HORNBACH Baumarkt AG
b) Corivus Swiss AG (Chairman of Administrative Board)

Simona Scarpaleggia (since March 24, 2020)

a) EDGE Certified Foundation
HORNBACH Baumarkt AG
IKEA Foundation (member until September 15, 2020)
b) ZHdK - Zurich University of the Arts (Advisory Board member)
Economics Faculty of Zurich University (Advisory Board member)
Faculty of International Management at St. Gallen University (Advisory Board member)
Digital Switzerland (Advisory Board member)

Melanie Thomann-Bopp

a) HORNBACH Baumarkt AG
b) Peek & Cloppenburg KG Hamburg (Advisory Board member since July 22, 2020)

Dr. Susanne Wulfsberg

a) HORNBACH Management AG

Members of the Board of Management

a) Membership of statutory supervisory boards
b) Membership of comparable control bodies

Albrecht Hornbach

a) HORNBACH Baumarkt AG (Chairman)
HORNBACH Immobilien AG (Chairman)
b) Deutsche Bundesbank in Rhineland-Palatinate and Saarland
(Member of Advisory Board at Head Office)

Karin Dohm (since January 1, 2021)

a) CECONOMY AG
Deutsche EuroShop AG (Deputy Chairwoman)
HORNBACH Immobilien AG (since April 1, 2021)

Roland Pelka (until March 31, 2021)

a) HORNBACH Immobilien AG (Deputy Chairman, until March 31, 2021)
WASGAU Produktions & Handels AG
b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Neustadt an der Weinstrasse, May 19, 2021

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

Albrecht Hornbach Karin Dohm

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We hereby affirm that, to the best of our knowledge, the consolidated financial statements give a true and fair picture of the assets, liabilities, financial position and results of operations of the Group in accordance with the applicable reporting principles, and the group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Neustadt an der Weinstrasse, May 19, 2021

HORNBACH Holding AG & Co. KGaA
represented by HORNBACH Management AG

Albrecht Hornbach Karin Dohm

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 28 February 2021, and the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 March 2020 to 28 February 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report for the parent and the group of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany, for the financial year from 1 March 2020 to 28 February 2021. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement pursuant to Section 315d German Commercial Code (HGB) combined with the corporate governance statement pursuant to Section 289f HGB nor the content of the consolidated non-financial report pursuant to Sections 315b and 315c HGB, each referred to in the combined management report. In addition, we have not audited the content of the disclosures in the section "2.3 Hidden reserves in real estate assets" in the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 28 February 2021 and of its financial performance for the financial year from 1 March 2020 to 28 February 2021, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the combined management report does not cover the content of the consolidated corporate governance statement pursuant to Section 315d HGB combined with the corporate governance statement pursuant to Section 289f HGB referred to above nor the content of the consolidated non-financial report pursuant to Sections 315b and 315c HGB referred to above nor the content of the disclosures in section "2.3 Hidden reserves in real estate assets".

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014; referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 March 2020 to 28 February 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In the following we present the key audit matters we have determined in the course of our audit:
1. Recoverability of real estate at individual locations and rights of use of real estate at individual locations
2. Measurement of inventories
3. Application of IFRS 16

Our presentation of these key audit matters has been structured as follows:
a) description (including reference to corresponding information in the consolidated financial statements)
b) auditor's response

1. Recoverability of real estate at individual locations and rights of use of real estate at individual locations

a) The consolidated financial statements of HORNBACH Holding AG & Co. KGaA as at 28 February 2021 state "land, land rights and buildings including buildings on third-party land" (so-called real estate at individual locations) of mEUR 1,406.4 and rights of use of "land, land rights and buildings including buildings on third-party land" (so-called "rights of use of real estate at individual locations") of mEUR 710.6. This makes up 52.8 % of total assets. As at 28 February 2021, total impairments of mEUR 15.6 on these assets were recognised as an expense.

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

   The outcome of the measurement is largely dependent on the executive directors' judgement and estimate of the future cash inflows and on the discount rate applied. In addition, the recoverability of the real estate at individual locations and of the rights of use of the real estate at individual locations depends on each individual location and the resulting alternative uses. Therefore, this measurement involves a high degree of uncertainty. In order to determine the net realisable value of real estate at individual locations, the Group consulted external experts. Therefore, this matter was of particular significance in the scope of our audit.

The information provided by the executive directors on the real estate at individual locations, rights of use of individual locations and impairments made is included in the section "Accounting policies", and in the notes "(10) Other disclosures on the statement of profit or loss", "(12) Property, plant and equipment and investment property" and "(13) Leases" in the notes to the consolidated financial statements.

b) During our audit, we obtained an understanding of the corporate planning process and the process applied to design the impairment tests. In addition, we obtained, in particular, an understanding of and assessed the method applied in the impairment test. For the purpose of our risk assessment, we gathered information on and considered the correlation of actual results with budget over the past years.

We compared the expected future cash flows to be considered in the measurement with the corresponding detailed planning and group planning approved by the supervisory board. In view of the assessment of the appropriateness of the assumptions and propositions, processes and measurement methods, we consulted internal experts of our Valuation Services function, who also helped us to assess the method applied in the impairment tests and the parameters used to determine the discount factors including the weighted average cost of capital and calculation schemes. For evaluating the appropriateness of the budgeting, we compared general and industry-specific market expectations and considered comprehensive explanations of the executive directors regarding the impairment tests. As only slight changes in the discount rate may have significant effects on the value in use, we evaluated the underlying parameters for plausibility based on information provided by the executive directors and own market research and checked the calculation of the value in use for accuracy.

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

2. Measurement of inventories

a) The inventories recognised in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA as at 28 February 2021 amount to mEUR 992.9. This makes up 24.8 % of total assets. As at 28 February 2021, write-downs of the inventories amounted to mEUR 17.9.

The inventories are measured at the lower of cost, including ancillary cost and cost deductions, or the net realisable value. Inventories are written down based on estimates made by the executive directors of the saleability of the inventories.

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

As the measurement of the inventories is based on judgement due to the defined approach including its underlying assumptions and as the inventories are of major significance for the Group's assets, liabilities, financial position and financial performance, we identified the measurement of inventories as a key audit matter.

The information on the inventories is provided by the executive directors in the section "Accounting policies" as well as note "(17) Inventories" in the notes to the consolidated financial statements.

b) During our audit, we assessed internal controls over the measurement of inventories and tested the operating effectiveness of the implemented controls relevant to the audit concerning initial and subsequent measurement.

In this context, we evaluated and assessed, in particular, the Group's approach to determining write-downs of inventories. On a sample basis, we verified the appropriateness of the estimates regarding the saleability of the inventories made by the executive directors on the basis of historic information and current selling prices and vouched our sample to supporting evidence. In this context, we also checked the corresponding calculations for accuracy. Moreover, we gained assurance that the write-downs thus determined were recorded accurately.

3. Application of IFRS 16

a) The rights of use to leased objects in the balance sheet as at 28 February 2021 amount to mEUR 716.7 and are recognised as assets in the consolidated balance sheet. They account for 29.7 % of non-current assets and 17.9 % of total assets. In addition, lease liabilities recognised as liabilities in the balance sheet amount to mEUR 790.1.

For computing the recognised values of the rights of use and lease liabilities, the Company uses the existing ERP system.

IFRS 16 requires the executive directors to make estimates and to exercise judgement. This particularly relates to the estimate regarding the exercise of extension options defined in the lease agreements, which affect the term of the lease, possibly the interest rate, the amount of the lease liability and the related effects on the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of cash flows. For these reasons and due to the complexity of the requirements of the standard, we identified the presentation of leases according to IFRS 16 as a key audit matter in the scope of our audit.

The information on the accounting of leases is provided by the executive directors in the section "Accounting policies" as well as note "(13) Leases" in the notes to the consolidated financial statements.

b) During our audit, we assessed, among other things, the appropriateness and implementation of the processes and audit-relevant controls, which were designed by the Group to ensure the complete and exact identification and recording of leases, and tested the operating effectiveness of these processes and controls.

First, we audited the complete recording of the relevant lease agreements and leases. Furthermore, on a sample basis, we compared the rental/lease payments, agreed terms and further measurement-relevant parameters, which are recorded in the system as data sets, with the underlying agreements. On a sample basis we used IT audit tools to analyse the IT system's calculation logic. In this context, we compared the results of the calculations of the ERP system with the results of the audit tools and analysed variances. To this end, we evaluated, in particular, the appropriateness of the estimates regarding the exercise of extension options under the lease agreements, which affect the term of the lease, as well as the appropriateness of the interest rate, of the amount of the lease liability and the related effects on the consolidated balance sheet, consolidated statement of comprehensive income and consolidated statement of cash flows by inspecting selected agreements, and other appropriate evidence and on the basis of enquiries of employees of the Group.

In addition, we evaluated whether the journal entries, which were generated by the system, were properly included in the consolidated financial statements of HORNBACH Holding AG & Co. KGaA and whether the disclosures were complete and accurate.

Other Information

The executive directors and/or the supervisory board are responsible for the other information. The other information comprises the following documents obtained up to the date of this auditor's report:

- the report of the supervisory board,
- the consolidated corporate governance statement pursuant to Section 315d HGB combined with the corporate governance statement pursuant to Section 289f referred to in the combined management report,
- the disclosures in the section "2.3 Hidden reserves in real estate assets" in the combined management report,
- the executive directors' confirmation regarding the consolidated financial statements and the combined management report pursuant to Section 297 (2) Sentence 4 and Section 315 (1) Sentence 5 German Commercial Code (HGB), respectively, and
- all other parts of the annual report,
- but not the consolidated financial statements, not the audited content of the combined management report and not our auditor's report thereon.

In addition, the other information comprises the separate consolidated non-financial report pursuant to Sections 315b and 315c HGB, which is expected to be published subsequently on the website of HORNBACH Holding AG & Co. KGaA by 30 June 2021.

The supervisory board is responsible for the report of the supervisory board. The executive directors and supervisory board are responsible for the declaration related to the German Corporate Governance Code in accordance with Section 161 German Stock Corporation Act (AktG), which is part of the corporate governance statement. In addition, the executive directors are responsible for the other information.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the content of the audited information in the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on

the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Audit of the Electronic Files of the Consolidated Financial Statements and of the Combined Management Report prepared for Publication pursuant to Section 317 (3b) HGB

Audit opinion

In accordance with Section 317 (3b) HGB, we have assessed with reasonable assurance whether the electronic files of the consolidated financial statements and of the combined management report (hereafter referred to as "ESEF files") prepared for publication, contained in the accompanying file, which has the SHA-256 value 9E4753C1CB01DD9504F815CB1B81B98299BA2B0CCB20BA2D215D19155D8D0912, meet, in all material respects, the requirements concerning the electronic reporting format ("ESEF format") pursuant to Section 328 (1) HGB. In accordance with the German legal requirements, this audit only covers the transfer of the consolidated financial statements' and the combined management report's information into the ESEF format, and therefore covers neither the information contained in these electronic files nor any other information contained in the file stated above.

In our opinion, the electronic files of the consolidated financial statements and of the combined management report prepared for publication contained in the accompanying file stated above meet, in all material respects, the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB. Beyond this audit opinion and our audit opinions on the accompanying consolidated financial statements and on the accompanying combined management report for the financial year from 1 March 2020 to 28 February 2021 contained in the above "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report", we do not express any audit opinion on the information contained in these electronic files and on any other information contained in the file stated above.

Basis for the Audit Opinion
We conducted our audit of the electronic files of the consolidated financial statements and of the combined management report contained in the accompanying file stated above in accordance with Section 317 (3b) HGB and on the basis of the IDW Draft Auditing Standard: Audit of the Electronic Files of the Annual Financial Statements and of the Management Report prepared for Publication pursuant to Section 317 (3b) HGB (IDW Draft AuS 410). Our responsibilities in this context are further described in the section "Auditor's Responsibilities for the Audit of the ESEF Files". Our audit firm has applied the Quality Assurance Standard: Quality Assurance Requirements in Audit Practices (IDW QS 1) promulgated by the Institut der Wirtschaftsprüfer (IDW).

Responsibilities of the Executive Directors and the Supervisory Board for the ESEF Files
The executive directors of the parent are responsible for the preparation of the ESEF files based on the electronic files of the consolidated financial statements and of the combined management report according to Section 328 (1) sentence 4 no. 1 HGB and for the tagging of the consolidated financial statements according to Section 328 (1) sentence 4 no. 2 HGB.

In addition, the executive directors of the parent are responsible for such internal control as they have determined necessary to enable the preparation of ESEF files that are free from material violations against the requirements concerning the electronic reporting format pursuant to Section 328 (1) HGB, whether due to fraud or error.

The executive directors of the parent are also responsible for the submission of the ESEF files together with the auditor's report and the accompanying audited consolidated financial statements and the audited combined management report as well as other documents to be filed with the publisher of the Federal Gazette.

The supervisory board is responsible for overseeing the preparation of the ESEF files as part of the financial reporting process.

Auditor's Responsibilities for the Audit of the ESEF Files
Our objectives are to obtain reasonable assurance about whether the ESEF files are free from material violations, whether due to fraud or error, against the requirements pursuant to Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material violations against the requirements pursuant to Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion.

- obtain an understanding of internal control relevant to the audit of the ESEF files in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these controls.
- assess the technical validity of the ESEF files, i.e. whether the file containing the ESEF files meets the requirements of the Delegated Regulation (EU) 2019/815 in the version applicable as of the balance sheet date as to the technical specification of this file.
- evaluate whether the ESEF files enable a XHTML copy of the audited consolidated financial statements and of the audited combined management report whose content is identical with these documents.
- evaluate whether the ESEF files have been tagged using inline XBRL technology (iXBRL) in a way that enables an appropriate and complete machine-readable XBRL copy of the XHTML copy.

Further information pursuant to Article 10 of the EU Audit Regulation
We were elected as group auditor by the general meeting on 10 July 2020. We were engaged by the supervisory board on 10 July 2020. We have been the group auditor of HORNBACH Holding AG & Co. KGaA, Neustadt an der Weinstraße/Germany, since the financial year 2019/2020.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Steffen Schmidt.

Mannheim/Germany, 19 May 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed: Steffen Schmidt	Signed: Patrick Wendlandt
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

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