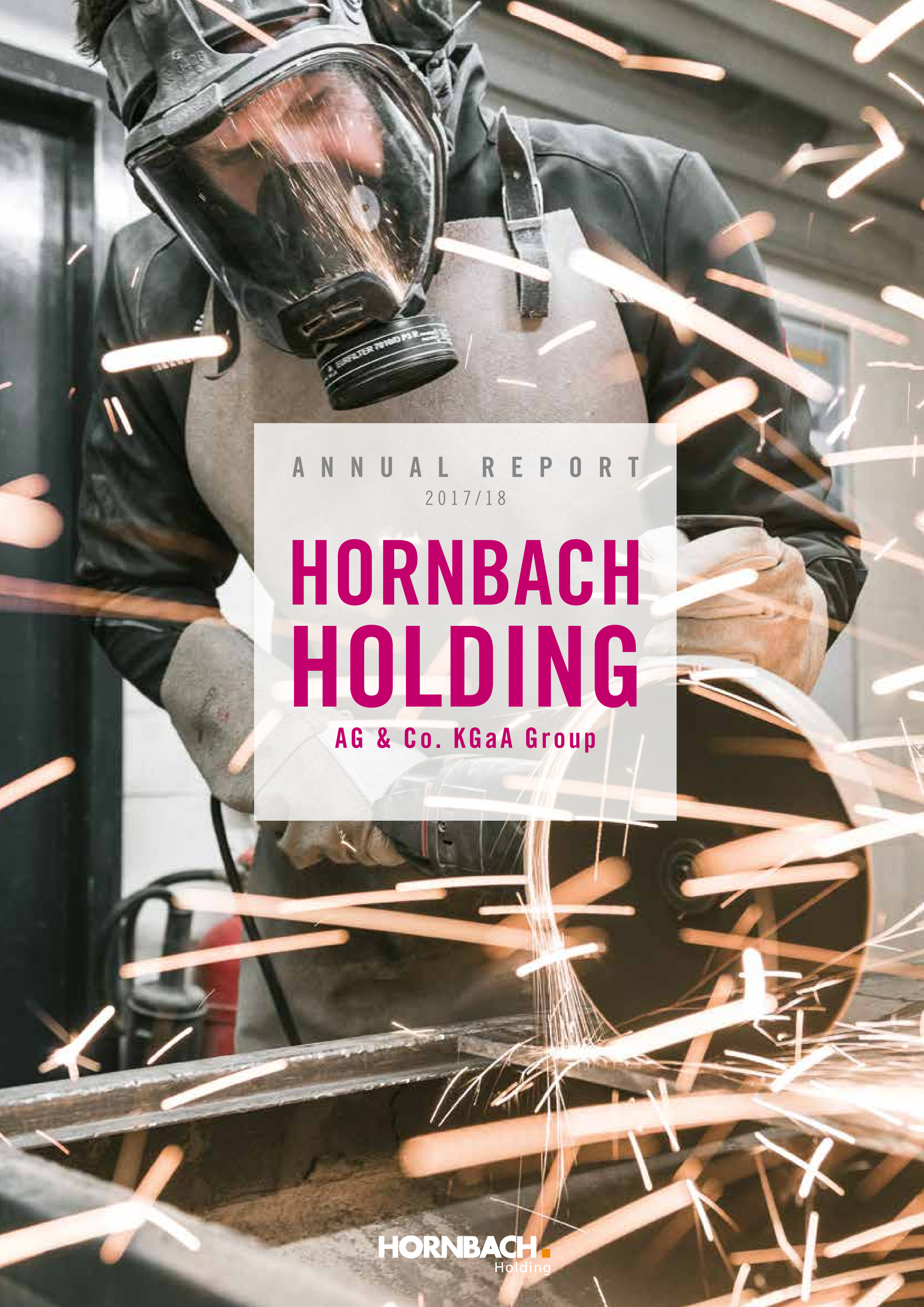


ANNUAL REPORT
2017/18

HORNBACH HOLDING

AG & Co. KGaA Group

HORNBACH Holding

CONTENT

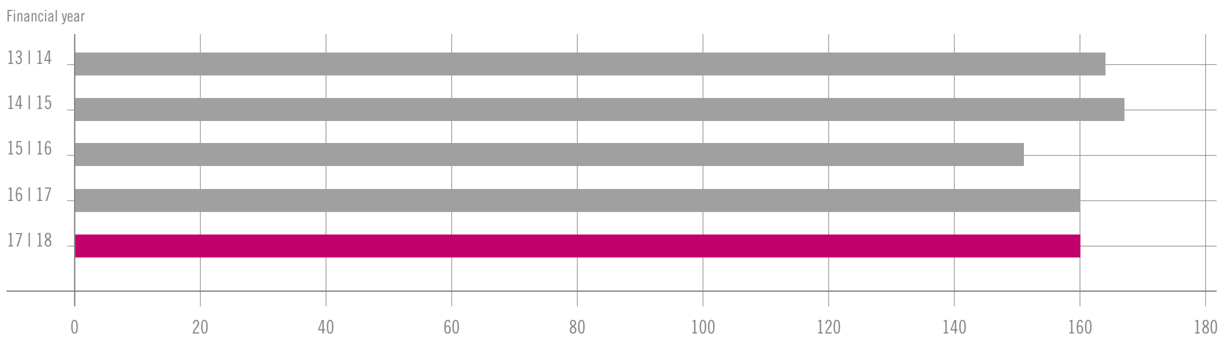
Key Group, Financial and Operating Data

Amounts shown in € million unless otherwise stated	Change financial year 2017/18 on previous year	IFRS 2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10	2008/09
Sales and earnings figures											
Net sales	5.1%	4,141	3,941	3,755	3,572	3,369	3,229	3,204	3,017	2,853	2,752
of which in other European countries	9.0%	1,829	1,679	1,533	1,400	1,334	1,280	1,272	1,195	1,109	1,065
Sales growth as % of net sales		5.1	4.9	5.1	6.0	4.3	0.8	6.2	5.7	3.7	5.1
EBITDA	3.3%	263	254	231	243	236	221	247	229	222	251
as % of net sales		6.3	6.5	6.2	6.8	7.0	6.9	7.7	7.6	7.8	9.1
EBIT	2.8%	161	157	138	165	160	146	169	159	152	179
as % of net sales		3.9	4.0	3.7	4.6	4.8	4.5	5.3	5.3	5.3	6.5
Adjusted EBIT [1]	3.7%	166	160	151	167	164	146	177	160	153	134
as % of net sales		4.0	4.1	4.0	4.7	4.9	4.5	5.5	5.3	5.3	4.9
Earnings before taxes and non-controlling interest	1.2%	132	130	113	140	128	108	132	127	116	144
as % of net sales		3.2	3.3	3.0	3.9	3.8	3.3	4.1	4.2	4.1	5.2
Net income for the year before non-controlling interest	6.5%	96	90	98	107	86	77	95	99	82	113
as % of net sales		2.3	2.3	2.6	3.0	2.6	2.4	3.0	3.3	2.9	4.1
Gross margin as % of net sales		36.6	36.6	37.0	37.3	36.6	36.5	36.6	36.6	36.1	36.0
Store expenses as % of net sales		27.8	27.9	28.5	27.9	27.3	27.7	27.1	27.4	27.7	27.3
Costs of central administration as % of net sales		5.2	4.9	4.9	4.6	4.4	4.5	4.2	4.1	4.0	4.2
Pre-opening expenses as % of net sales		0.1	0.2	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.3
Cash flow figures											
Cash flow from operating activities	1.9%	182	179	152	156	198	144	142	182	184	144
Investments [2]	(17.3)%	148	179	156	119	116	149	163	113	97	130
Proceeds from divestments		9	11	3	5	12	6	13	48	9	83
Earnings potential [3]	1.4%	187	185	162	171	207	154	148	187	188	153
as % of net sales		4.5	4.7	4.3	4.8	6.1	4.8	4.6	6.2	6.6	5.6
Dividend distribution		24.0	24.0	12.6	12.6	10.5	10.5	10.5	10.5	8.9	8.9
Balance sheet and financial figures											
Total assets	0.7%	2,668	2,648	2,680	2,433	2,362	2,270	2,267	2,233	2,033	1,996
Non-current assets	2.1%	1,686	1,651	1,561	1,336	1,286	1,268	1,202	1,125	1,070	1,010
Inventories	5.6%	699	662	623	567	539	515	507	489	451	516
Cash and cash equivalents	(13.7)%	164	190	350	401	429	357	422	474	335	275
Shareholders' equity [4]	4.7%	1,463	1,398	1,334	1,259	1,164	1,097	1,041	962	861	780
as % of total assets		54.8	52.8	49.8	51.7	49.3	48.3	45.9	43.1	42.4	39.1
Return on shareholders' equity based on net income - in %		6.7	6.6	7.5	8.8	7.6	7.2	9.4	10.9	10.0	15.4
Net working capital	0.2%	532	531	464	441	397	406	416	375	368	398
Additions to non-current assets	(25.3)%	148	198	325	121	117	151	163	113	103	131
Inventory turnover rate per year		3.9	3.9	4.1	4.2	4.1	4.0	4.1	4.1	3.8	3.5
Other information											
Employees - annual average - converted into full-time equivalents	3.0%	16,223	15,751	15,283	14,663	14,064	13,289	12,778	12,066	11,881	11,542
Number of shares [4]		16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000	8,000,000	8,000,000	8,000,000
Earnings per share in € [4)5)]		5.11	4.84	5.04	5.64	4.55	4.06	4.77	10.14	8.32	11.41

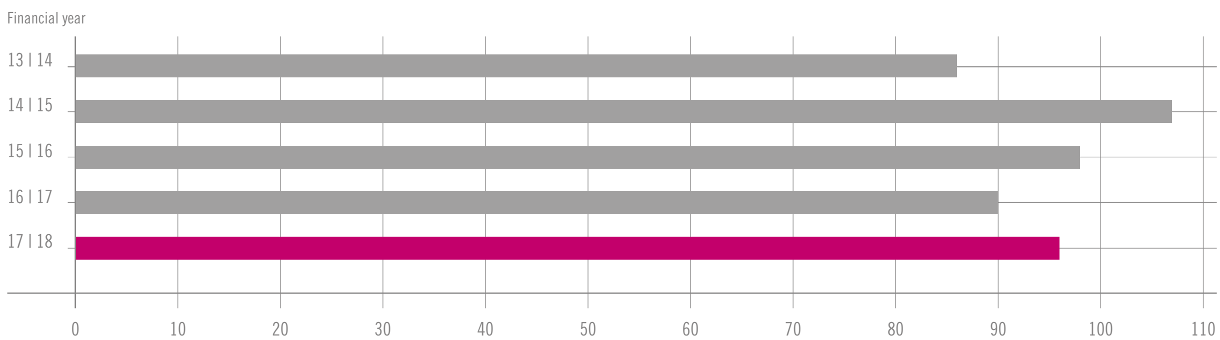
1) Adjusted for non-operating earnings items
2) Excluding investment in short-term financial deposits (2016/17 financial year: € 30 million)
3) Cash flow from operating activities plus pre-opening expenses
4) Starting in the 2011/12 financial year: change in number of shares following issue of bonus shares as of July 29, 2011
5) Until the 2014/15 financial year: average earnings per share in € (ordinary and preference shares of HORNBACH HOLDING AG)

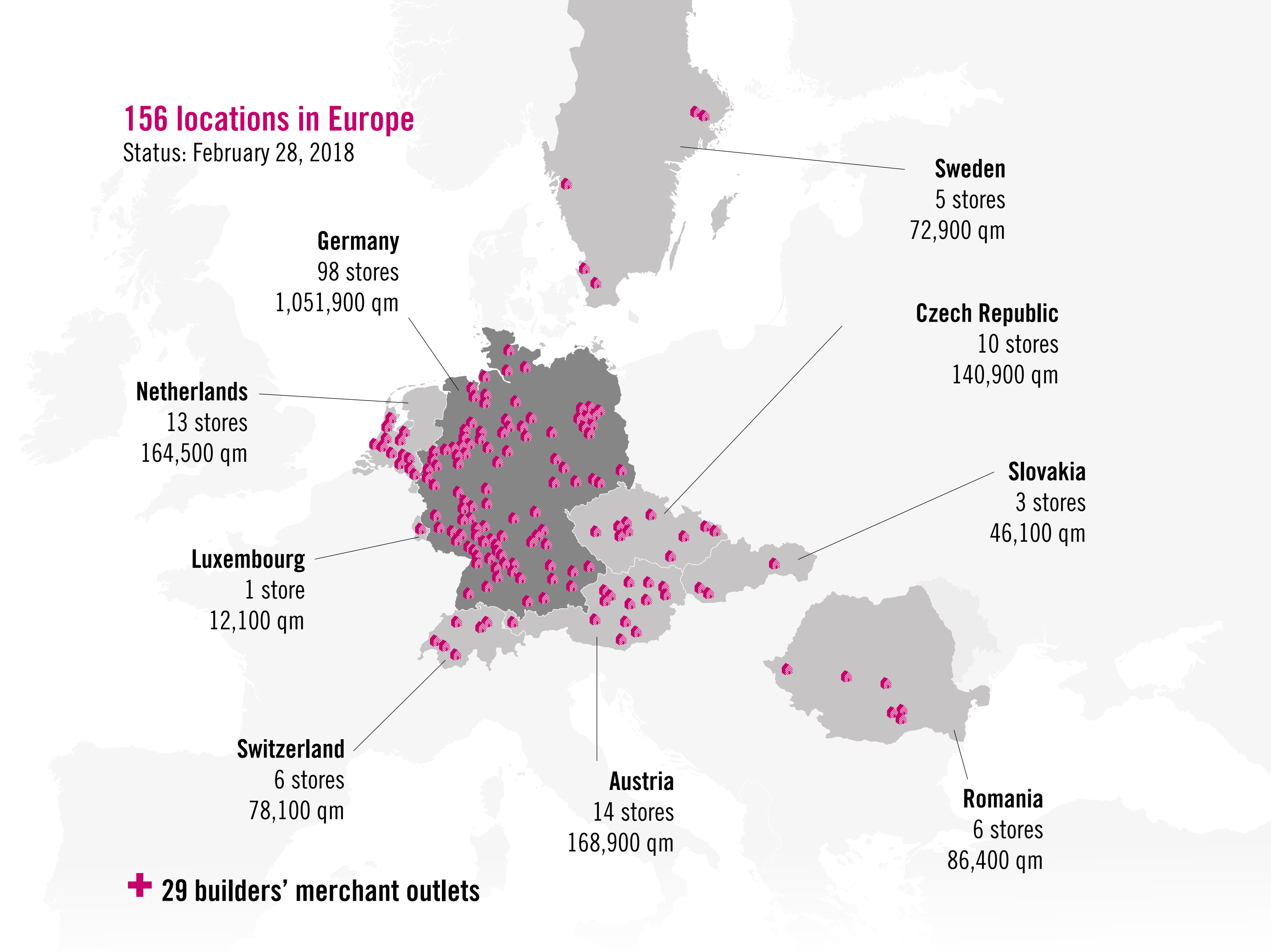
Structure of consolidated balance sheet
(€ million)

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 156 DIY stores and garden centers in nine European countries and 29 builders' merchant outlets in Germany. HORNBACH's megastores and online shops offer DIY enthusiasts and professionals a broad product range of around 150,000 high-quality articles at permanently low prices. 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.

€ 4.1 billion

Consolidated sales rise by 5.1 % to more than € 4.1 billion in 2017/18 financial year.

€ 2,135

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.

57%

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

TO OUR SHAREHOLDERS

Letter from the CEO

Albrecht Hornbach

Dear Shareholders,

The HORNBACH Group met its sales and earnings targets in the past 2017/18 financial year:

- With growth of 5.1 %, consolidated sales exceeded the four billion mark for the first time and reached € 4,141 million. The momentum for this growth came both from the DIY retail business (plus 4.9 %) and from the builders' merchant business (plus 8.3 %).
- On a like-for-like, currency-adjusted basis, net sales at HORNBACH's DIY stores and garden centers grew by 3.6 % in the 2017/18 financial year, having already risen by 3.0 % in the previous year. Both the Germany region and the Other European countries region contributed to this growth. In Germany, we cumulatively increased our like-for-like sales by 1.5 %, and that despite a lower number of business days. Once again, our strongest growth momentum came from other European countries, where our like-for-like sales net of currency items rose by 6.1 %.
- We also met our expectations in terms of earnings. Adjusted EBIT, which indicates our operating earnings strength, grew by 3.7 % to € 165.6 million. Consolidated net income before minority interests rose by 6.5 % to € 95.7 million. Earnings per ordinary share in the KGaA improved from € 4.84 to € 5.11.

To an outside observer, that might all sound anything but spectacular, as if we had simply "done our job". Behind these figures, however, we find a far more complex picture.

Given the ever greater role played by the internet, DIY retail is being transformed. Particularly in saturated markets such as Germany, the rising share of e-commerce sales is intensifying competition. We are making substantial investments in digitizing our business and dovetailing our stationary stores and online retail activities. We are convinced that this is not just an option. It is rather a necessity to enable us to satisfy the evolving and ever more sophisticated expectations of consumers in the digital age. For HORNBACH, implementing a multichannel strategy means having technology on a par with leading online pure players so that we can then exploit our own unassailable advantage – the ability to offer a stationary shopping experience with professional specialist advice at excellently located and generously dimensioned stores. We use the stream of income from our successful stores to finance the high costs needed to upgrade our technology. And after all of this, we can still present robust results.

Since launching our online store in Germany in the 2010/11 financial year, we have channeled around € 275 million into digitizing our business model at the HORNBACH Baumarkt AG subgroup. In the year under report alone, these investments came to more than € 60 million. We can only afford this because our stationary business is successful and profitable. In the past three financial years, we consistently maintained the HORNBACH Group's EBIT margin adjusted for non-operating one-off items at around 4 % – and that figure includes substantial year-by-year growth in our digitization-related spending which was due in particular to the rollout of online stores outside Germany.

We might wish to ask how our earnings strength would have developed over the past nine years in a HORNBACH world without any e-commerce or digitization expenses. Based on a pro forma calculation, we would then have achieved an EBIT margin of 5.4 % in the 2017/18 financial year. That means we have now reached at least the level we were at before we launched our online store. Unsurprisingly, however, we do not operate in a parallel world. We can only make well-informed entrepreneurial decisions. We chose to implement multi-channel retail and are investing enormous sums to sustainably strengthen our market position and safeguard our long-term success.

We are on the right track. Of Germany's top ten DIY store operators, we generated by far the highest growth in the past year. We also extended our lead as the most productive DIY player among the top ten. Our net sales of € 2,135 per square meter of sales area put us around 60% ahead of the relevant average figure for the competition. Customers also seem to like our concept. Across Europe, prestigious consumer surveys have awarded us top grades in categories such as product range, price and advice.

Having said this, success is not just a matter of economic calculation. These days, it is not enough just to do business. We have to show that our business activities are consistent with socially accepted values, and this will be even more the case in future. Trust from all our stakeholders is absolutely crucial for our company's ability to flourish in future. In the 2017/18 financial year, we compiled a non-financial group report for the first time. We had to give consideration on the one hand to those factors which significantly influence our company's success and on the other to those activities which have significant implications for our surroundings – i.e. for our employees, the environment, and society at large.

For a retail company like HORNBACH, responsibility for our product range and private label products, and the ways in which they are produced, plays a key role. On the other hand, our success also crucially depends on the commitment and qualification of our employees, numbering more than 19,000, and especially of those who are most in contact with customers in their daily activities. If we did not offer fair pay, provide needs-based training and development, and do our best to motivate all our employees, then we would not be competitive. Here, I would like to thank all our employees for their dedication and for the enthusiasm with which they are helping to shape our company's future in what is a particularly exciting phase of our digital transformation.

I hope that you – our shareholders – will continue to accompany us on our way in future as well. On behalf of the Board of Management, I would like to thank you for the trust you placed in the HORNBACH Group in the 2017/18 financial year.

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

Report of the Supervisory Board

Dr. Wolfgang Rupf

Dear Ladies and Gentlemen,

In the past 2017/18 financial year we 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 requirements of the 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 was involved in decisions of major significance for the company. Moreover, as Supervisory Board Chairman I was in regular contact with the Board of Management, and especially with its Chairman, outside the framework of meetings to discuss significant issues and also to hold a number of working meetings.

Meetings of the Supervisory Board

In the 2017/18 financial year, the Supervisory Board and the Audit Committee held a total of four and five meetings respectively. All members attended more than half the meetings of the Supervisory Board and of the committees to which they belonged in the year under report. Dr. John Feldmann submitted his apologies and was unable to attend two meetings of the Audit Committee. In the run-up to the meetings, he nevertheless examined the documents in detail and participated in all resolutions by way of voice messages. Due to one meeting being scheduled in a manner diverging from previous practice, one clash of appointments could not be averted in good time. Average attendance at the meetings of the Supervisory Board and its committees amounted to around 92 % and 88 % respectively. Individualized disclosure of the meeting attendance by Supervisory Board members can be found in the Corporate Governance Report. No conflicts of interest arose in the year under report.

At our meetings, we 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 strategic enhancement of the company's business, investment and financial policy and corporate governance. 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, and in particular on the development in its sales, earnings and financial position compared with the previous year and the budget. Budget variances were discussed and substantiated.

At the meeting held in May 2017 to approve the annual financial statements, we examined the annual and consolidated financial statements in great detail in the presence of the auditor, as was also the case in May 2018. Furthermore, the Audit Committee also reported on its work and the findings of its audit. All questions raised by Supervisory Board members were answered in detail by the auditors. The report of the Supervisory Board, the joint corporate governance report of the Board of Management and the Supervisory Board, the risk report, and the compliance report were also discussed and approved at this meeting. The agenda for the Annual General Meeting, including the proposed resolutions, was approved. Furthermore, at its meeting in May 2017 the Supervisory Board also set the target for the share of women on the Supervisory Board to be achieved by February 28, 2022. In May 2018, the Supervisory Board also dealt with the audit of the non-financial group declaration in the presence of auditors from Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft.

At the meeting held directly before the Annual General Meeting in July 2017, the Board of Management reported on the current situation of the Group and on the developments then apparent for the current year. Further topics included meeting dates up to and including the 2018/19 financial year and various matters relating to corporate governance.

In December 2017, the Group's current business situation was discussed, as were the risk and compliance reports. Moreover, the Supervisory Board adopted amendments to its Code of Procedure and, following in-depth discussions, laid down its objectives for the composition of the Supervisory Board and a competence profile for the overall board. The same meeting dealt with the efficiency review of supervisory board activities and adopted the updated Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (AktG). This was made permanently available on the company's homepage. HORNBACH Holding AG & Co. KGaA has largely complied with and continues to comply with the recommendations of the German Corporate Governance Code with only a few exceptions. Further information about corporate governance at HORNBACH Holding AG & Co. KGaA can be found in the joint report of the Board of Management and Supervisory Board in the "Corporate Governance" chapter.

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

Corporate Governance
Corporate Governance Declaration

At its final meeting in the past 2017/18 financial year, held in February 2018, the Supervisory Board discussed the Group's current business situation, and discussed and adopted the budget for the financial years 2018/19 to 2022/23. Furthermore, it adopted a diversity concept and endorsed the proposal to have the non-financial group declaration for the 2017/18 financial year subject to a limited assurance audit by Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft.

Committees and committee meetings

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.

Directors and Officers
Supervisory Board committees

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

In May 2017, 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, in the presence of the auditor and the Chief Executive and Financial Officers. Key focuses of 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 position, and the candidate to be proposed for election as auditor.

At the June meeting the statement for the first quarter was discussed and in September 2017 the half-year financial report was addressed in the presence of the auditors.

In December 2017, key focuses for the audit of the consolidated financial statements were determined together with the auditors. At the same meeting, the Committee dealt with the statement on the first nine months, as well as the risk report, compliance report, and the company's financial position.

In February 2018, the budget for the financial years 2018/19 to 2022/23 was addressed in detail and approved. The internal audit plan for the 2018/19 financial year was adopted at the same meeting. The Committee also dealt extensively with the non-financial group declaration requiring compilation for the first time and recommended that this should be audited by an external auditor.

The Audit Committee Chairman 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 2017/18 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 2017.

The Nomination Committee held one meeting in the past financial year. At this, it elected Martin Hornbach as Committee Chairman and discussed the Supervisory Board's candidates for the regular elections to the Supervisory Board due to take place at the Annual General Meeting in July 2018. In selecting candidates, the Committee took due account of the composition-related objectives adopted by the Supervisory Board on December 20, 2017 and aims to meet the competence profile adopted by the Supervisory Board for the board as a whole. Outside this meeting, the members of the Nomination Committee also dealt in detail with the future composition of the Supervisory Board.

Annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (KPMG), audited the annual financial statements and the consolidated financial statements of HORNBACH Holding AG & Co. KGaA as of February 28, 2018, as well as the combined management report and group management report of HORNBACH Holding AG & Co. KGaA for the 2017/18 financial year and provided them each with an unqualified audit opinion. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

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

Key focuses of the audit in the 2017/18 financial year included the measurement of inventories and ongoing value of stores in respect of the consolidated financial statements and the measurement of financial assets 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 18, 2018 and at the subsequent meeting of the Supervisory Board held the same day to approve the financial statements. The auditor took part in these discussions. He reported on the principal audit findings and was available to provide further information and to answer questions. Based on the findings of the preliminary audit performed by the Audit Committee and of our own examination of the documents provided by the Board of Management and the auditor, we do not raise any objections and endorse KPMG's audit findings. We approve the annual and consolidated financial statements of HORNBACH Holding AG & Co. KGaA prepared by the Board of Management as of February 28, 2018. We endorse the appropriation of profits proposed by the Board of Management.

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

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

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

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

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

Neustadt an der Weinstrasse, May 2018

The Supervisory Board

Dr. Wolfgang Rupf
Chairman

Directors and Officers

Supervisory Board of HORNBACH Holding AG & Co. KGaA

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

Martin Hornbach
Deputy Chairman
Managing Partner
Corivus Gruppe GmbH

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

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

Joerg Walter Sost
Managing Partner
J. S. Consulting GmbH

Dr. Susanne Wulfsberg
Veterinary Surgeon

Supervisory Board committees

Audit Committee
Dr. Wolfgang Rupf Chairman
Dr. John Feldmann
Martin Hornbach
Joerg Walter Sost
Dr. Susanne Wulfsberg

Nomination Committee
Martin Hornbach Chairman (since February 23, 2018)
Dr. Wolfgang Rupf Chairman (until February 22, 2018)
Joerg Walter Sost

Special Committee
Dr. Wolfgang Rupf
Dr. John Feldmann
Joerg Walter Sost

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)

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

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

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

Dr. Susanne Wulfsberg
Deputy Chairman
Veterinary Surgeon

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

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

Albert Hornbach
SAP Interim Manager

Christoph Hornbach
School Director

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

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

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

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

Corporate Governance Report with Corporate Governance Declaration

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

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

The 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 "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.

II. Future-related section

The company will basically comply in future with the recommendations of the Code in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 with the exception of the deviations listed below. No application will be 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, 5.2 (3), and 5.3.2 (3) Sentence 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 recommends 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) is 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 the principle of 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 makes several recommendations concerning the composition and compensation 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 HORNBACH Management AG or for specifying their contractual terms and conditions.

f) Point 4.3:
In Point 4.3, the Code makes 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 enterprises 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. Within the framework of the amended responsibilities of the Supervisory Board, the Supervisory Board will nevertheless maintain contact with the general partner, inform the Supervisory Board and also convene extraordinary meetings where appropriate.

i) Point 5.3.2 (3) Sentence 3:
In Point 5.3.2 (3) Sentence 3, the Code recommends that the supervisory board chairman should not simultaneously chair the audit committee. Given the expertise and industry experience of the Chairman and the fact that he also holds the same position in the Audit Committee of HORNBACH Baumarkt AG, we deviate from this recommendation.

III. Past-related section

1. Period since submission of previous Declaration of Conformity in December 2016 through to publication of new version of Code on April 24, 2017

The recommendations of the "German Corporate Governance Code" in the version dated May 5, 2015 and published in the Federal Official Gazette on June 12, 2015 were basically complied with in the period since the submission of the previous Declaration of Conformity dated December 2016 through to publication of the new version of the Code on April 24, 2017 with the exception of the deviations listed below. No application was made of the following recommendations included in the old version: Points 3.4 (1) Sentence 3, 3.8 (3), 4.1.5 Sentence 1, 4.2, 4.3, 5.1.2, 5.2 (2), 5.2 (3), 5.4.1 (2) and (3), and 5.4.6 (3) Sentence 1. These deviations from the recommendations were due to the following considerations:

a) Point 3.4 (1) Sentence 3 old version:
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) old version:
In Point 3.8 (3), the previous version of the Code recommended agreeing a specified deductible in any D&O insurance policy taken out for the Supervisory Board. No such deductible was agreed at the expense of Supervisory Board members. This would reduce the attractiveness of Supervisory Board activities, and thus also the company's chances in the competition to attract qualified candidates. The recommendation made in Point 3.8 (3) of the old version was therefore not followed.

c) Point 4.2 old version:
In Point 4.2, the previous version of the Code made several recommendations concerning the composition and compensation 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 HORNBACH Management AG or for specifying their contractual terms and conditions.

d) Point 4.3 old version:
In Point 4.3, the previous version of 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 enterprises 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.

e) Point 5.1.2 old version:
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.

f) Point 5.2 (2) old version:
In Point 5.2 (2), the previous version of the Code recommended that the supervisory board chairman should not simultaneously chair the audit committee. Given the expertise and industry experience of the Chairman and the fact that he also held the same position in the Audit Committee of HORNBACH Baumarkt AG, we deviated from this recommendation.

g) Point 5.2 (3) old version:
The KGaA does not have a Board of Management. Within the framework of the amended responsibilities of the Supervisory Board, the Supervisory Board nevertheless maintained contact with the general partner and informed the Supervisory Board and also convened extraordinary meetings for this purpose where appropriate.

h) Point 5.4.1 (2) and (3) old version and Point 4.1.5 Sentence 1 old version:
According to Point 5.4.1 (2) and (3) of the previous version of the Code, the supervisory board should specify concrete objectives regarding its composition that should be taken into account in the recommendations made by the supervisory board to the competent election bodies and published in the corporate governance report. Furthermore, the supervisory board should specify a regular limit for the length of membership of the supervisory board. Overall, the company deviated from the recommendations made in Point 5.4.1 (2) and (3). In terms of the composition of its Supervisory Board, HORNBACH Holding AG & Co. KGaA accorded priority above all to the knowledge, ability and expert experience of the individual in question. The same criteria applied when the general partner selected candidates for management positions at the company (consistent with Point 4.1.5 Sentence 1 of the previous version of the Code).

i) Point 5.4.6 (3) Sentence 1 old version:
In Point 5.4.6 (3) Sentence 1, the previous version of the Code recommended that the compensation of supervisory board members be reported in the notes to the financial statements or the management report on an individual basis and broken down into its constituent components. Given that the amount of compensation paid to the Supervisory Board is governed by the Articles of Association, we saw no need to disclose individual compensation packages. In response to suggestions received from shareholders, however, account was taken of this recommendation starting with the reporting on the 2016/17 financial year. The 2016/17 Annual Report was published on May 29, 2017.

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

The recommendations of the "German Corporate Governance Code" in the version dated February 7, 2017 and published in the Federal Official Gazette on April 24, 2017 were basically complied with apart from the deviations already listed and substantiated for the future in Section II. Furthermore, the company also did not comply with the recommendations in Point 5.4.1 (2) to (4). Overall, the company deviated from these recommendations. In terms of the composition of its Supervisory Board, HORNBACH Holding AG & Co. KGaA accorded priority above all to the knowledge, ability and expert experience of the individual in question.

Neustadt an der Weinstrasse, December 2017
HORNBACH Holding AG & Co. KGaA

Supervisory Board of HORNBACH Holding AG & Co. KGaA

Board of Management of HORNBACH Management AG

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Declarations of Conformity

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

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 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.

2.1 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).

2.2 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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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.

2.2.1 General partner

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. 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.

2.2.2 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.

2.2.3 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.

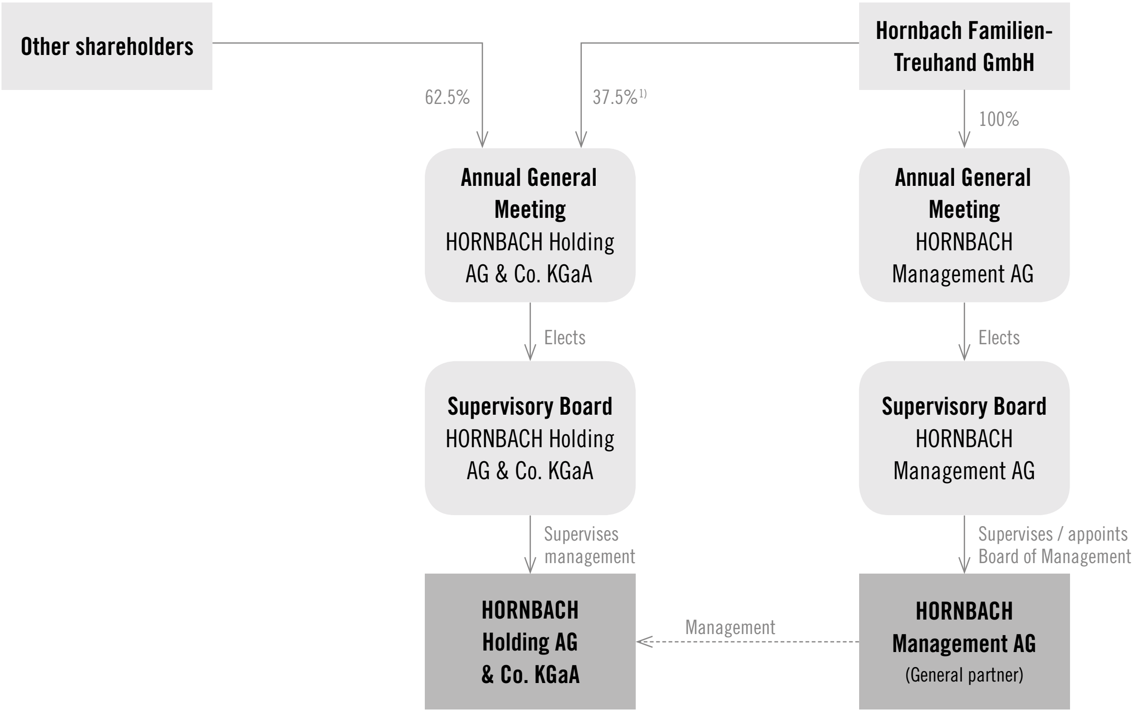
The requirements governing the preparation and execution of the Annual General Meeting are basically analogous to those at stock corporations. Pursuant to the Articles of Association, the meeting is generally chaired by the Supervisory Board Chairman.

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 quarterly reports and on the company's homepage at www.hornbach-group.com.

Structure of HORNBACH Holding AG & Co. KGaA
Status: February 28, 2018



[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, 2018.

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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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. Unless otherwise stipulated by mandatory legal requirements, the Supervisory Board has this number of members.

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.

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 2017/18 financial year.

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

- Nomination Committee
- Audit Committee
- Special Committee

Directors and Officers
Supervisory Board committees

Report of the Supervisory Board
Committees and committee meetings

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

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

Taking due account of the recommendations made in Point 5.4.1 of the German Corporate Governance Code, on December 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, which has set the objective of creating space for younger members without losing experienced members. Given the diverse composition thereby envisaged and the resultant variety of viewpoints and perspectives accounted for, the concept is intended to ensure that the Supervisory Board can optimally perform its tasks.

Pursuant to the competence profile, the Supervisory Board of HORNBACH 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 digitization and technology, as well as in accounting, auditing, financing, and corresponding legal expertise, including expertise in the field of tax law.

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

- Supervisory Board members must be reliable, possess the expertise needed to fulfill their supervisory function and to assess and monitor the transactions performed by HORNBACH 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.

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 one female member (status: May 2018), 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 2.3). The original target of no less than 1/6 was met as of June 30, 2017 and extended. 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. Only Dr. Rupf was a member of the Supervisory Board for more than four terms in office prior to his most recent election, if account is taken of his activity in the Supervisory Board of Hornbach Holding Aktiengesellschaft prior to its conversion into HORNBACH Holding AG & Co. KGaA.

The Supervisory Board currently includes three independent members: These are Dr. John Feldmann, Erich Harsch, and Joerg Walter Sost.

3.1.3 Individualized disclosure of meeting attendance

Supervisory Board	Meetings attended	Attendance in %
Dr. Wolfgang Rupf, Chairman	4/4	100.00
Martin Hornbach, Deputy Chairman	4/4	100.00
Dr. John Feldmann	3/4	75.00
Erich Harsch	4/4	100.00
Joerg Walter Sost	4/4	100.00
Dr. Susanne Wulfsberg	3/4	75.00
Total		91.67

Audit Committee	Meetings attended	Attendance in %
Dr. Wolfgang Rupf, Chairman	5/5	100.00
Dr. John Feldmann	3/5	60.00
Martin Hornbach	5/5	100.00
Joerg Walter Sost	5/5	100.00
Dr. Susanne Wulfsberg	4/5	80.00
Total		88.00

Nomination Committee	Meetings attended	Attendance in %
Martin Hornbach, Chairman	1/1	100.00
Dr. Wolfgang Rupf	1/1	100.00
Joerg Walter Sost	1/1	100.00
Total		100.00

Special Committee	Meetings attended	Attendance in %
Dr. Wolfgang Rupf	2/2	100.00
Dr. John Feldmann	2/2	100.00
Joerg Walter Sost	2/2	100.00
Total		100.00

3.2 Composition and modus operandi of Board of Management

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, comprises two members. 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.

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Board of Management

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 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.

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 actually achieved, and extended the target of no less than 1/6, while upholding the current status, through to February 28, 2022.

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.

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 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 actually 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 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. HORNBACH Holding AG & Co. KGaA 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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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 own-account transactions by directors or individuals closely related to such.

6. Relevant Corporate Governance Practices

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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.

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.

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

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

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

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

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

Notifications received via the whistleblower system are assessed by the Chief Compliance Officer on an ongoing basis. Where there is legitimate reason to suspect a compliance-related infringement, the Group Internal Audit department investigates the matter. Where compliance infringements are actually detected, the company initiates labor law, criminal law, and civil law proceedings. In the year under report, there was a low single-digit number of confirmed compliance infringements at the HORNBACH Holding AG & Co. KGaA Group.

Compensation Report

The compensation report presents the basic features and structure of the compensation of the Board of Management of the general partner (HORNBACH Management AG) and the Supervisory Board of HORNBACH Holding AG & Co. KGaA. It is a constituent component of the group management report.

1. Compensation of Board of Management of HORNBACH Management AG

1.1 Compensation system

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

- **Fixed annual salary:**
  Members of the Board of Management receive a fixed annual salary laid down in their individual contracts. This is paid monthly in twelve equal portions at the end of each calendar month. Fixed salaries are graded differently for the Chairman and the regular Board member.

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

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

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

- **Internal ratio of compensation components:**
  No specific ratio of fixed salary to variable compensation components has been stipulated. In particular, apart from the cap at a maximum of 150 % of the fixed salary, no specific relationship has been determined for the amount of fixed annual salary compared with the amount of annual variable compensation. The structure of annual variable compensation ensures that the overwhelming share of such compensation (75 %) is based on long-term factors, complying with the predominantly multiyear nature called for in the relevant legislation. In individual cases, the compensation system may be adapted by the full Supervisory Board, taking account of legal requirements, to the extent deemed necessary to account for the duties and performance of the respective member of the Board of Management.

1.2 Retirement and pension commitments

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

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

1.3 Additional benefits

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

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

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

Total compensation 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 2017/18 financial year amounted to € 1,972k (2016/17: € 1,979k). Of this, € 956k was fixed compensation (2016/17: € 956k) and € 1,016k (2016/17: € 1,023k) involved performance-related components.

Post-employment benefits of € 210k were incurred for active members of the Board in the 2017/18 financial year. These involve expenses to endow pension provisions. There are corresponding value credits.

Given the company's size and its market position, we believe that the total compensation of the Board of Management is appropriate.

The compensation of the Board of Management is presented on an individualized basis below. The total compensation paid to members of the Board of Management of HORNBACH Management AG is broken down into fixed compensation components (basic compensation plus ancillary benefits) and variable compensation components.

The individual retirement provision figures for members of the Board of Management of HORNBACH Management AG are presented separately.

1.5 Total compensation of members of Board of Management of HORNBACH Management AG

Incumbent members	Financial year	Basic compensation € 000s	Total ancillary benefits € 000s	Variable compensation € 000s	Total € 000s
Albrecht Hornbach	**2017/18**	**419**	**31**	**490**	**940**
	2016/17	419	31	483	933
Roland Pelka	**2017/18**	**480**	**26**	**526**	**1,032**
	2016/17	480	26	540	1,046
Total	**2017/18**	**899**	**57**	**1,016**	**1,972**
	2016/17	899	57	1,023	1,979

(Differences due to figures being rounded up or down)

1.6 Retirement provision for members of Board of Management of HORNBACH Management AG

Incumbent members	Service cost in 2017/18 € 000s	Service cost in 2016/17 € 000s	Amount of pension provision February 28, 2018* € 000s
Albrecht Hornbach	90	90	676
Roland Pelka	120	120	5,387
Total	**210**	**210**	**6,063**

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

2. Compensation of Supervisory Board of HORNBACH Holding AG & Co. KGaA

Supervisory Board compensation is governed by § 17 of the Articles of Association of HORNBACH Holding AG & Co. KGaA. As well as reimbursement of expenses, each Supervisory Board member receives fixed compensation of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed compensation.

Supervisory Board members also sitting on a Supervisory Board committee receive additional fixed committee compensation of € 9,000 for the Audit Committee and of € 4,000 for each other committee. This compensation is retrospectively payable together with fixed compensation. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the committee compensation.

Should a member of the Supervisory Board also be a member of the Supervisory Board of the general partner and receive compensation for his or her activities there, the compensation paid under § 17 (1) Sentences 1, 3, and 4 of the company's Articles of Association is reduced by half. The same applies for the additional share of compensation for the Chairman and Deputy Chairman pursuant to § 17 (1) Sentence 2 to the extent that the person in question is also Chairman or Deputy Chairman of the Supervisory Board of the general partner. The compensation of the Supervisory Board for the 2017/18 financial year totals € 361k. Of this total, € 225k is basic compensation and € 136k for committee activity. The total compensation for the Supervisory Board of HORNBACH Holding AG & Co. KGaA includes compensation components amounting to € 206k in total for positions held on the Supervisory Board of HORNBACH Baumarkt AG (basic: € 120k; committee: € 86k).

3. Compensation of Supervisory Board of HORNBACH Management AG

Supervisory Board compensation is governed by the Articles of Association of HORNBACH Management AG. As well as reimbursement of expenses, each Supervisory Board member receives fixed compensation of € 20,000 retrospectively payable on the day after the Annual General Meeting acknowledging the annual financial statements for the financial year. The Chairman receives two-and-a-half times and the Deputy Chairman twice the fixed compensation. Supervisory Board members also sitting on a committee receive additional fixed committee compensation of € 9,000 for the Audit Committee, € 6,000 for the Personnel Committee, and € 4,000 for each other committee. This compensation is retrospectively payable together with fixed compensation. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the committee compensation. The compensation of the Supervisory Board for the 2017/18 financial year totals € 321k. Of this, € 230k is basic compensation and € 91k for committee activity.

4. Individualized Presentation of Supervisory Board Compensation

The Supervisory Board compensation paid to members of the Supervisory Boards of HORNBACH Holding AG & Co. KGaA and HORNBACH Management AG is presented in individualized form below. Total compensation of the Supervisory Board members is broken down into basic compensation and total committee compensation.

Total compensation for functions on the Supervisory Boards of HORNBACH Baumarkt AG, HORNBACH Holding AG & Co. KGaA, and HORNBACH Management AG amounted to € 682k in the 2017/18 financial year. Of this, € 455k was basic compensation and € 227k for committee activity.

Total compensation for Supervisory Board positions at the HORNBACH Management AG Group

Incumbent members	Financial year	Basic compensation HORNBACH Holding AG & Co. KGaA € 000s	Basic compensation HORNBACH Management AG € 000s	Total committee compensation HORNBACH Holding AG & Co. KGaA KGaA € 000s	Total committee compensation HORNBACH Management AG € 000s	Total € 000s
Dr. Wolfgang Rupf [1) 2) 3)]	**2017/18**	**65**	**50**	**56**	**37**	**208**
	2016/17	65	50	59	37	211
Dr. Susanne Wulfsberg [1) 2)]	**2017/18**	**10**	**40**	**5**	**15**	**70**
	2016/17	10	40	5	15	70
Dr. John Feldmann [1) 2) 3)]	**2017/18**	**30**	**20**	**15**	**9**	**74**
	2016/17	30	20	15	9	74
Erich Harsch [1) 2) 3)]	**2017/18**	**30**	**20**	**15**	**0**	**65**
	2016/17	30	20	15	0	65
Albert Hornbach [1)]	**2017/18**	**0**	**20**	**0**	**0**	**20**
	2016/17	0	20	0	0	20
Christoph Hornbach [1)]	**2017/18**	**0**	**20**	**0**	**6**	**26**
	2016/17	0	20	0	6	26
Georg Hornbach [1)]	**2017/18**	**0**	**20**	**0**	**9**	**29**
	2016/17	20	20	0	9	49
Martin Hornbach [2) 3)]	**2017/18**	**60**	**0**	**22**	**0**	**82**
	2016/17	60	0	22	0	82
Joerg Walter Sost [1) 2) 3)]	**2017/18**	**30**	**20**	**23**	**15**	**88**
	2016/17	30	20	23	16	89
Prof. Dr.-Ing. Jens P. Wulfsberg [1)]	**2017/18**	**0**	**20**	**0**	**0**	**20**
	2016/17	20	20	0	0	40
Total	**2017/18**	**225**	**230**	**136**	**91**	**682**
	2016/17	265	230	139	92	726

(Differences due to figures being rounded up or down)
[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; compensation for this function included in compensation at KGaA.

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). As of the balance sheet date on February 28, 2018, the Group had a total of 19,614 employees, of which 8,234 outside Germany. In the 2017/18 financial year (March 1, 2017 to February 28, 2018), the HORNBACH Group generated net sales of € 4.14 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 focus on the needs of private end customers (business-to-consumer: B2C), are managed at HORNBACH Baumarkt AG, which is by the largest operating subgroup. In addition, HORNBACH is also active in the regional builders' merchant business via its HORNBACH Baustoff Union GmbH subsidiary, which chiefly focuses on specialist retail with commercial customers (business-to-business: B2B). 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 B2B supply chain 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 € 3,891 billion in the 2017/18 financial year, the HORNBACH Baumarkt AG subgroup contributed 94 % of consolidated sales and employed around 95 % of the HORNBACH Group's total workforce at the balance sheet date. The HORNBACH Baustoff Union GmbH (HBU) subgroup accounts for € 248 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

Non-financial topics within the Group's own business activities or supply chain and at customers which impact on the aspects defined in § 289c of the German Commercial Code (HGB) were identified by surveying internal and external stakeholders and then compared with the assessments compiled by the managers responsible for the various topics at the Group. Within a materiality matrix, these 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 findings were agreed with the Board of Management in order to ensure consistent and comprehensive reporting for the overall Group.

Pursuant to § 289c 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).

Our business success is intrinsically linked to the trust our customers place in us and how satisfied they are with us. Their consumption and purchasing behavior in turn has a material impact on CSR aspects. Against this backdrop, seven material topics were identified for this non-financial group report:

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

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. This investigation accounted for the probability of occurrence and the scope of negative implications for the aspects. No risks requiring report were identified at the HORNBACH Holding AG & Co. KGaA Group. These (potential) risks were classified for the first time within our group-wide risk management in the current year and will be regularly reviewed and updated in future.

1.4 Sustainability management

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We base all of our group-wide entrepreneurial actions on the 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.

The strategies, targets, and management approaches for those non-financial topics deemed material 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, employee development and retention, and compliance (anticorruption measures) are managed by the member of the Board of Management responsible for personnel (labor director), who is responsible for personnel, real estate, construction, technical procurement, internal audit, legal affairs, and compliance.

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.

1.5 Framework

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

2. Material Non-Financial Aspects

The HORNBACH Baumarkt AG subgroup holds a dominant position within the HORNBACH Holding AG & Co. KGaA Group, and that both in terms of the Group’s business activities and of their implications for the aspects defined in § 289c HGB. The Baumarkt subgroup in turn generates the predominant share of its retail sales with private end customers (B2C). The B2C retail business at HORNBACH Baumarkt AG therefore contributes by far the largest share of the Group’s sales and is 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 only partly relevant to the HORNBACH Baustoff Union GmbH subgroup and had not yet been pursued in a separate concept upon the preparation of this declaration. We nevertheless reserve the right to map the concepts outlined in the non-financial group declaration of HORNBACH Holding AG & Co. KGaA onto HORNBACH Baustoff Union GmbH as well in future.

In view of this, unless indicated otherwise the concept described in this non-financial group report relates exclusively to the targets, strategies, management approaches, and measures at the HORNBACH Baumarkt AG subgroup. In what follows, the terms "we", "HORNBACH" and "group-wide" are synonymous with the HORNBACH Baumarkt AG subgroup.

2.1 Product range and customer information

2.1.1 Targets and strategy

Our DIY stores with garden centers and online stores provide our DIY 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' growing interest in responsible lifestyles, increasing the range of corresponding products on offer also harbors growth opportunities for the company.

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.

Non-Financial Group Report
2.4 Employee recruitment
2.6 Employee development and retention

To ensure that our employees are available for customers, and thus also safeguard the quality of advice provided in our retail business, we based our staff deployment planning on expected customer frequency volumes. Two key factors highly significant to our business success are the ability to attract well-qualified specialist staff and the provision of regular training and further development measures to our employees. Furthermore, HORNBACH 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").

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. We label these products with widely recognized seals, such as Blauer Engel or the eco-INSTITUT seal. 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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HORNBACH's procurement organization manages 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 DIY retail business, the procurement organization accounts for both central and regional requirements when listing suppliers. The timber source declaration which is a legal requirement in Switzerland, for examples, reaches our customers in all of the countries in which HORNBACH operates.

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.

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.

In Kundenmonitor Deutschland (Servicebarometer AG) and equivalent consumer surveys conducted in other European countries in the 2017/18 financial year, HORNBACH was ranked first or second in the "Overall satisfaction" shown by customers with DIY and home improvement stores, and that in all regions covered by the respective surveys. Furthermore, HORNBACH was ranked first in most regions for the criteria relating to product range, value for money, and specialist advice.

In the 2017/18 financial year, HORNBACH significantly extended its digital information offering for DIY customers in Sweden, Slovakia, and Romania by launching online stores in these regions. Following the launch of the online store in Romania in January 2018, we now have cross-channel e-commerce operations in all of the European countries with HORNBACH DIY stores and garden centers.

2.2 Responsible procurement

2.2.1 Targets and strategy

Consistent, reliable product availability is a factor which 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. 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.

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2.3 Product responsibility

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2.2.2 Management approach and measures

To monitor the supply chain, HORNBACH works with an early-warning risk detection CSR system ("CSR map") that was developed in cooperation with the Austrian startup company Sophiesystems and the University of Vienna. The system on the one hand includes the article master data for HORNBACH's 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.

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 we commission. These involve standardized audits, mainly of production sites for the products we stock as HORNBACH private label products or import directly from non-EU countries. 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/or import suppliers which meet HORNBACH's criteria and have passed all factory audits. Compliance with this requirement in the order process is ensured by way of our SAP QM system and managed by the "Quality Management, Environment, and CSR" department.

Timber is a commodity of particularly great importance for the Group's product range. HORNBACH's CSR Policy requires that we exclusively procure FSC[1)]-certified tropical timber or timber from sustainable European production. This is intended to ensure that the social welfare and work safety standards set out in the CSR Policy are complied with in the production of the timber. To document the source of the timber used and

[1)] Forest Stewardship Council

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. Furthermore, when importing natural stones HORNBACH ensures that these come from companies that document their compliance with international social welfare and work safety standards in regular factory audits.

2.2.3 Target achievement status

A total of 423 factory audits were conducted at suppliers in the 2017/18 financial year (2016/17: 364). In the year under report, there were no cases (2016/17: 0) in which HORNBACH was required to terminate the business relationship with the supplier.

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 trust-based customer retention. As a sustainable retailer, our aim here is to ensure that all products sold by HORNBACH are of irreproachable 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.

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 quality of our entire product range in accordance with our CSR Policy.

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. Quality management also deals with complaints monitoring and product recalls, for example when defects arise in products already in circulation.

In organizational terms, these activities are located at the "Quality Management, Environment, and CSR" department. This performs the following trial-sample product checks either itself or by commissioning external service providers. These are intended to safeguard the highest possible level of product quality:

- Testing products in terms of safety, contaminants, and suitability for use with the assistance of certified testing institutes
- 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
- Group-wide regular extraction of samples from our HORNBACH stores for testing by certified independent audit institutes.

Within the product development process, we also work on optimizing the packaging for our private label products. Efforts are made here to reduce the volume of packaging and use recyclable materials and secondary resources.

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

2.3.3 Target achievement status

In the 2017/18 financial year, HORNBACH's quality management and certified independent audit institutes performed 1,732 (2016/17: 1,686) product quality tests (safety, contaminants, suitability for use) and 2,353 (2016/17: 2,259) article acceptance audits. Together, these correspond to 4,640 person-days (2016/17: 3,925) performed by independent audit institutes on behalf of HORNBACH.

2.4 Employee recruitment

2.4.1 Targets and strategy

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

2.4.2 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 HR 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 digitization, numerous new vocational programs have arisen in recent years, such as the "E-commerce specialist" dual work-study program.

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. We also work with comparable dual work-study training programs in Austria and Switzerland. Not only that, in Romania we are assisting in implementing a dual vocational training system.

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 is very low across large parts of Europe. 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.

Non-Financial Group Report
2.5 Employee satisfaction
2.6 Employee development and retention

2.4.3 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.

In the 2017/18 financial year, HORNBACH employed 893 trainees and participants in dual vocational training programs (2016/17: 855). A group-wide total of 362 trainees completed their training in the year under report (2016/17: 344), of which 58.3 % were accepted into regular employment (2016/17: 60.5 %). Including those trainees accepted into a third year of training, the acceptance rate amounted to 67.7 % (2016/17: 68.5 %).

2.5 Employee satisfaction

2.5.1 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 and garden centers 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.

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

As a Group with operations across Europe and employees from nearly 70 countries, we attach priority to creating a working environment that is free of prejudice. Ethnic origin, gender, age, physical restrictions and religious affiliation play no role in the assessment of applicants. The only qualities that count are specialist competence, ambition, a willingness to learn, and team spirit.

2.5.2 Management approach and measures

HORNBACH is convinced that trust is the basis for every business relationship. 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 among the company's employees.

Fair compensation is a component of any trust-based work relationship. HORNBACH takes due account of wage and salary levels customary to the market in all of its regions and adheres to collectively agreed rates, where such are available in the given region. In Germany, HORNBACH voluntarily adheres to the collectively agreed rates for the retail sector throughout the country. We have a variety of models which enable employees to participate in the company's success.

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

In implementing measures to enhance employee satisfaction levels, the operating units receive assistance from the relevant HR department.

Non-Financial Group Report
2.6 Employee development and retention

2.5.3 Target achievement status

To measure and manage employee satisfaction levels, we refer to the personnel turnover rate as a quantitative indicator. In the year under report, the personnel turnover rate[2)] amounted to 11.9 % (2016/17: 10.6 %). No cases of discrimination or infringements of the German General Equal Treatment Act (AGG) were identified in the year under report.

2.6 Employee development and retention

2.6.1 Targets and strategy

Given our strategic focus on project customers, we have a great requirement for competent employees, particularly at our stores, who are capable of supporting 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 or training as a certified bathroom and kitchen advisor.

We prepare upcoming management staff 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 central administration departments and logistics centers as well. Employees can also obtain regular training at in-house and external seminars.

By holdings 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.

In implementing employee development and retention measures, the operating units receive assistance from the relevant HR department.

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

2.6.3 Target achievement status

No quantitative targets are in place to measure employee development, as training requirements may vary over time. With regard to the sub-aspect of employee retention, the Group also refers to the personnel turnover rate as an indicator.

2.7 Compliance

Corporate Governance
Corporate Governance Report with Corporate Governance Declaration

Our compliance-related objectives, measures, and results are presented in the Corporate Governance Report with the Corporate Governance Declaration, Chapter 6.2 Compliance, of the HORNBACH Holding AG & Co KGaA Group and – unlike the information presented for the preceding material topics – refer to the overall Group.

Independent Auditor's Limited Assurance Report

The assurance engagement performed by Ernst & Young (EY) relates exclusively to the German PDF version of the group non-financial statement 2017/2018 of HORNBACH Holding AG & Co. KGaA. The following text is a translation of the original German Independent Assurance Report.

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

We have performed a limited assurance engagement on the group non-financial statement of HORNBACH Holding AG & Co. KGaA according to § 315b HGB ("Handelsgesetzbuch": German Commercial Code) consisting of the group non-financial report and the chapter "compliance" in the corporate governance report with corporate governance declaration being incorporated by reference (hereafter group non-financial statement) for the reporting period from 1 March 2017 to 28 February 2018. 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 group non-financial statement in accordance with § 315c HGB.

This responsibility includes the selection and application of appropriate methods to prepare the group non-financial statement as well as making assumptions and estimates related to individual disclosures, 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 group non-financial statement 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 entity 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 group non-financial statement 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 group non-financial statement 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 from March to May 2018, we performed amongst others the following assurance and other procedures:

- Inquiries of employees regarding the selection of topics for the group non-financial statement, 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 group non-financial statement, 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 group non-financial statement,
- Inspection of relevant documentation of the systems and processes for compiling, analyzing and aggregating data in the relevant areas, e.g. environment and employees in the reporting period and testing such documentation on a sample basis,
- Inquiries and inspection of documents on a sample basis relating to the collection and reporting of selected data,
- Analytical procedures at group level regarding the quality of the reported data,
- Evaluation of the presentation of disclosures in the group non-financial statement.

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 group non-financial statement of HORNBACH Holding AG & Co. KGaA for the period from 1 March 2017 to 28 February 2018 has not been prepared, 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 (http://www.ey.com/Publication/vwLUAssets/EY-idw-aab-2017-en/€FILE/EY-idw-aab-2017-en.pdf). 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, May 17, 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Nicole Richter Wirtschaftsprüferin (German Public Auditor)	Jan Kaiser Wirtschaftsprüfer (German Public Auditor)

The HORNBACH Holding Share

Key figures for the HORNBACH Holding share		2017/18	2016/17	2015/16	2014/15	2013/14
Year-end price[1]	€	70.30	65.85	56.90	76.25	60.85
12-month high[1]	€	82.38	67.41	82.60	77.99	61.00
12-month low[1]	€	63.53	53.80	50.43	58.10	46.15
Shares issued	No.	16,000,000	16,000,000	16,000,000	16,000,000	16,000,000
Market capitalization	€ 000s	1,124,800	1,053,600	910,400	1,220,000	973,600
Earnings per share	€	5.11	4.84	5.04	5.66	4.56
Price / earnings ratio[2]		13.8	13.6	11.3	13.5	13.3
Book value per share	€	76.01	69.02	69.02	65.07	60.01
Price-to-book ratio[3]		0.9	1.0	0.8	1.2	1.0
Cash flow from operating activities per share	€	11.39	11.17	9.47	9.78	12.37
Price / cash flow ratio[4]		6.2	5.9	6.0	7.8	4.9
Dividend per share[5]	€	1.50	1.50	1.50	0.80	0.80
Distribution total[5]	€ 000s	24,000	24,000	24,000	12,560	12,560
Payout ratio[5,6]	%	29.4	31.0	29.8	14.1	17.5
Dividend yield[7]	%	2.1	2.3	2.6	1.0	1.3
Performance including dividend	%	8.9	18.6	(24.2)	26.7	11.6
Performance excluding dividend	%	6.8	15.7	(25.4)	25.3	10.1
Average daily trading volume[1]	No.	17,074	6,367	6,400	6,231	2,056

[1] In Xetra trading
[2] Year-end price ÷ earnings per share
[3] Year-end price ÷ book value per share
[4] Year-end price ÷ cash flow from operating activities per share
[5] 2017/18: proposal to 2018 Annual General Meeting
[6] Dividend per share ÷ earnings per share
[7] Dividend per share ÷ year-end price

2017/18 on the Stock Markets

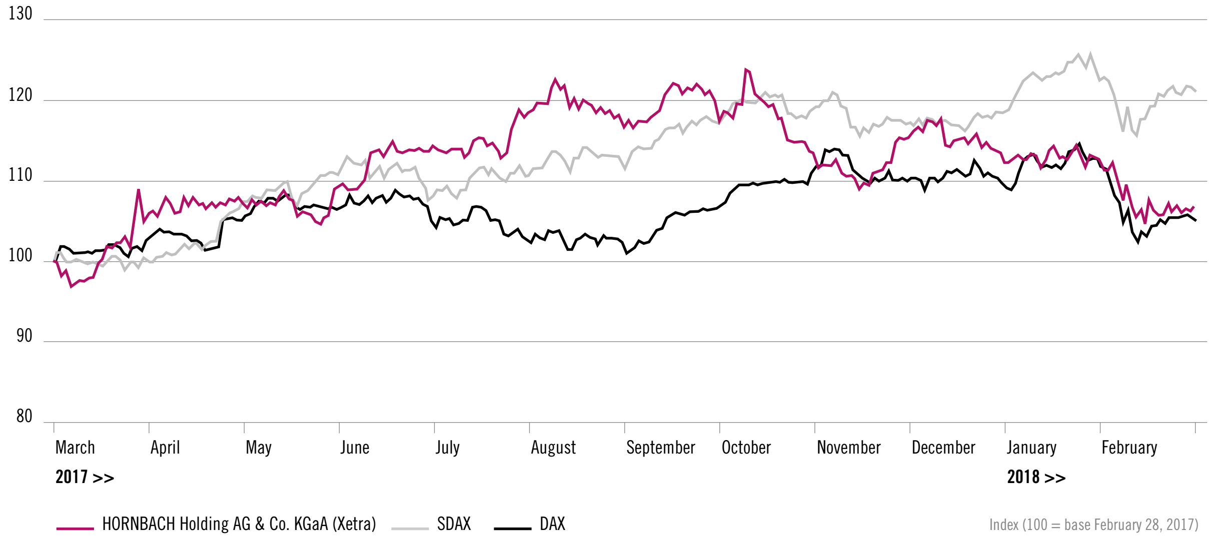
Hangover in the wake of record high

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

HORNBACH Holding share price performance

The HORNBACH Holding share price rose by 6.8 % during the 2017/18 financial year (March 1, 2017 to February 28, 2018). Including the distribution, and assuming reinvestment of the dividend, the share price rose by 8.9 %. The share thus outperformed the DAX, which rose by 5.1 % over the same period, but fell short of the SDAX (+21.0 %) and the DAXSector All Retail Performance Index (+14.5 %).

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



Starting from its annual low at € 63.53 on March 6, the HORNBACH Holding AG & Co. KGaA share moved largely in parallel with the German stock market in the first months of the financial year. In the summer months, the share then clearly outperformed the market, rising to its annual high at € 82.38 on October 9. During a subsequent period of backtracking, however, the share shed most of its gains. Towards the end of the financial year, the HORNBACH Holding share was unable to escape the downturn in prices on international stock markets and closed at € 70.30 in Xetra trading on the balance sheet date on February 28, 2018 (2016/17: € 65.85). The market capitalization therefore came to € 1,125 million at the end of the financial year (2016/17: € 1,054 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, 2018. 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 further sustainable growth potential harbored by the business model. At the end of the financial year, the largest shareholders based on voting rights (>5 %) included First Eagle Investment Management LLC (USA), Platinum Investment Management Limited (Australia), and Prudential plc (United Kingdom).

Analyst assessments

As of the balance sheet date on February 28, 2018, the HORNBACH Holding share was regularly covered by eight financial analysts (2016/17: seven) in research reports and studies. Of these analysts, four recommended buying and four holding the share as of the balance sheet date. Their average share price target of € 83 implies upward potential of 26 % compared with the closing price at the end of our 2017/18 financial year. The current list of banks and research institutes regularly reporting on HORNBACH and their respective recommendations for the share can be viewed at the HORNBACH Group's website.

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

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 €

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 the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose a dividend of € 1.50 per share with dividend entitlement, and thus at the same level as in the previous year, for approval by the Annual General Meeting on July 6, 2018. The distribution total of € 24,000k corresponds to a distribution quota of 29.4 % (2016/17: 31.0 %) of earnings per share.

Financial communications

www.hornbach-group.com
Investor Relations

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' press conferences, and meetings with investors give us the opportunity to maintain our dialog with the capital markets. Moreover, we draw on personal contacts to investors and the media to present our company's objectives and strategy.

Financial Calendar 2018

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May 24, 2018	Annual Results Press Conference 2017/18 Publication of Annual Report
June 22, 2018	Quarterly Statement: 1st Quarter of 2018/19 as of May 31, 2018
July 6, 2018	Annual General Meeting Festhalle Landau, Landau/Pfalz
September 27, 2018	Half-Year Financial Report 2018/19 as of August 31, 2018 DVFA Analysts' Conference
December 20, 2018	Quarterly Statement: 3rd of 2018/19 as of November 30, 2018

COMBINED MANAGEMENT REPORT

Group Fundamentals

1. The Group at a Glance

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, 2018, the Group had a total of 19,614 employees, of which 8,234 outside Germany. In the 2017/18 financial year (March 1, 2017 to February 28, 2018), the HORNBACH Group generated net sales of € 4.14 billion. The HORNBACH Group was founded in 1877 and is still family-managed, now in the fifth generation.

€ 4.1 bn
consolidated sales

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.

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.

Notes to Consolidated Financial Statements
Consolidated shareholdings

1.1 HORNBACH Baumarkt AG subgroup

At the balance sheet date on February 28, 2018, this subgroup operated 156 DIY megastores with garden centers with a uniform market presence in nine countries. Of these, 98 locations are in Germany. A further 58 stores are located in the following other European countries: Austria (14), the Netherlands (13), Luxembourg (1), the Czech Republic (10), Switzerland (6), Sweden (5), Slovakia (3), and Romania (6). With total sales areas of more than 1.8 million m², the average size of a HORNBACH DIY store with a garden center amounts to around 11,700 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 (ICR). This subgroup generated sales of around € 3.9 billion in the 2017/18 financial year.

156
DIY stores and garden centers

29
builders' merchant outlets

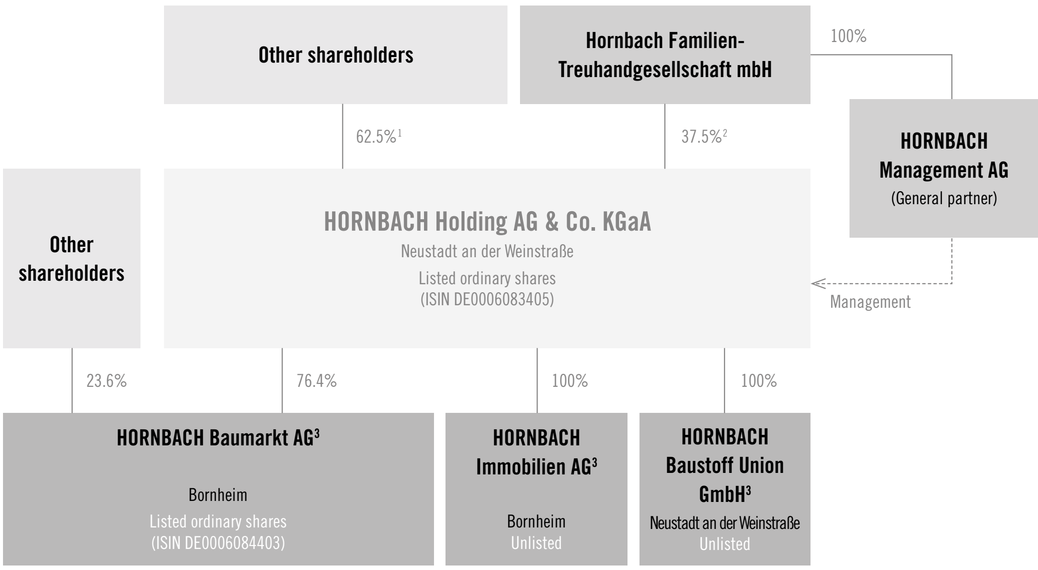
1.2 HORNBACH Baustoff Union GmbH subgroup

HORNBACH Baustoff Union GmbH is active in the regional builders' merchant business. At the balance sheet date on February 28, 2018, it operated a total of 27 outlets in south-western Germany and two locations close to the border in France. This subgroup generated sales of € 248 million in the 2017/18 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 2017/18 financial year, 97 % resulted from the letting of properties within the overall Group.

Group structure and shareholders of HORNBACH Holding AG & Co. KGaA
Status: February 28, 2018



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 as presented in the complete overview provided 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 in Germany and abroad is highly homogenous. Most of the Group's stores have sales areas in excess of 10,000 m². This enables HORNBACH to benefit from economies of scale in its operations and conceptual store enhancement measures, as well as in its group logistics. The company is relying not just on its stationary retail business, but is also drawing on the potential harbored by e-commerce. Since January 2018, HORNBACH's online store – a high-performing virtual DIY store and garden center – has been rolled out to all of the countries in which we have stationary DIY retail operations.

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

150,000
articles available in online shop

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 1,821,807 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, 2018:

	No. of stores	Sales area m²	Share %
Property owned			
HORNBACH Baumarkt AG subgroup	45	527,995	29.0
HORNBACH Immobilien AG subgroup	43	507,384	27.9
Subtotal of property owned	**88**	**1,035,379**	**56.9**
Land rented, buildings owned	4	34,968	1.9
Operating lease (rent)	53	601,624	33.0
Finance leases	11	149,836	8.2
Total	**156**	**1,821,807**	**100**

(Differences due to rounding up or down)

57 %
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. At the balance sheet date on February 28, 2018, this share amounted to around 57 % (2016/17: 57 %). The remaining 43 % (2016/17: 43 %) of sales areas (including finance leases) are rented from third parties (41 %). In individual cases (2 %), only the land has been leased (hereditary lease). 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 also already own pieces of land in Germany and abroad which are 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 rental multiplier of 13, 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 € 418 million in the balance sheet as of February 28, 2018. 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 28, 2017: € 785 million). The deduction of the carrying amount of the real estate in question, amounting to € 418 million (February 28, 2017: € 428 million) leads to hidden reserves of € 375 million (February 28, 2017: € 357 million).

At the balance sheet date on February 28, 2018, 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 € 611 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 € 917 million (February 28, 2017: € 886 million). Deducting the carrying amount of € 611 million (February 28, 2017: € 598 million) leads to calculated hidden reserves of around € 306 million (February 28, 2017: € 288 million).

€ 681 m
hidden reserves in real estate assets

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 € 681 million (February 28, 2017: € 645 million).

2.4 Reporting segments

The allocation of segments corresponds to the internal reporting system used by the Board of Management and 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 – "Group at a glance". Administration and consolidation items not attributable to individual segments are pooled in the segment report in the "Headquarters and consolidation" reconciliation column.

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 Most important key management figures

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.

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

Group Management Report
Business Report
Earnings Position

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

3.2 Alternative key performance figures

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

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

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

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

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

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

The **administration expense ratio** corresponds to the quotient of administration expenses and net sales. General and administration expenses include all costs incurred by administration departments in connection with the operation or construction of stationary DIY stores with garden centers and with the development and operation of online retail (e-commerce) which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses. As well as purely administrative administration expenses, these expenses also include project-related expenses, and in particular expenses relating to the increasing digitization of our business model.

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

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

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

3.3 Further key management figures

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

In managing its financial and asset position, the HORNBACH 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 operating equipment for new and existing DIY stores with garden centers, and intangible assets. Here, we aim to strike a balance between our operating cash flow and our budgeted investments.

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

Business Report

1. Macroeconomic and Sector-Specific Framework

1.1 International framework

Table
GDP growth rates

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

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

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

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

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

1.2 Business framework in Germany

1.2.1 Macroeconomic climate

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

1.2.2 Construction activity and construction trade

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

4.7 %
growth in construction volumes in refurbishment, renovation, and modernization market in 2017

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

1.2.3 Retail and DIY

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

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

1.1 %
growth in gross sales at DIY megastores in 2017

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

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 and Saarland, nominal sales in the main construction trade (housing construction, companies with 20 or more employees) rose in 2017 – by 18.4 % in Rhineland-Palatinate and 18.6 % in Saarland (nationwide figure: plus 11.6 %). New orders increased by 1.5 % in Rhineland-Palatinate and 37.6 % in Saarland (nationwide figure: plus 5.0 %).

The number of building permits issued for residential buildings fell by 5.8 % in Rhineland-Palatinate, while Saarland reported a reduction of 3.9 %. The ifo indicator of business confidence among architects reached an all-time high in the fourth quarter of 2017.

The builders' merchant market in the sales area covered by HORNBACH Baustoff Union GmbH remains highly contested. Alongside numerous smaller-scale 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.

2. Summary of 2017/18 Business Performance

2.1 Overall assessment of the Group's economic position

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

5.1%
growth in net consolidated sales

Consolidated (net) sales increased by 5.1 % to € 4,141 million in the 2017/18 financial year, with growth momentum coming both from the DIY retail business and from the builders' merchant business.

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

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

The HORNBACH Baustoff Union GmbH subgroup generated substantial sales growth in the 2017/18 financial year. Including sales at the two locations newly opened in the third quarter, net sales at the total of 29 outlets grew by 8.3 % to € 247.9 million (2016/17: € 228.9 million).

The HORNBACH Group increased its earnings compared with the previous year. EBIT adjusted for non-operating one-off items – the key indicator of our operating earnings strength – grew by 3.7 % to € 165.6 million. This was driven above all by pleasing like-for-like sales growth at the HORNBACH Baumarkt AG subgroup in conjunction with a stable gross margin, improved cost ratios in store operations and pre-opening expenses, and higher other income and expenses. These factors more than offset the higher volume of digitization-related expenses at the HORNBACH Baumarkt AG subgroup and lower gross margin in the builders' merchant business at the HORNBACH Baustoff Union GmbH subgroup.

Consolidated operating earnings grew by 2.8 % to € 161.2 million. Operating earnings include non-operating one-off charges on earnings for IAS 36 impairments and provisions for onerous contracts. These items rose from € 5.7 million in the 2016/17 financial year to € 7.1 million in the 2017/18 year under report. On Baumarkt subgroup level, these non-operating earnings charges rose from € 5.0 million in the 2016/17 financial year to € 7.7 million in the 2017/18 year under report. As in the previous year, earnings at the HBU subgroup were reduced by non-operating impairments of € 1.9 million. These factors were opposed by non-operating income on the level of the HORNBACH Immobilien AG subgroup. Mainly comprising disposal gains from the sale of land and write-ups, this income of € 2.6 million impacted positively on the HORNBACH Group's earnings performance.

Due mainly to a lower tax charge than in the previous year, consolidated net income before minority interests increased by 6.5 % to € 95.7 million.

The equity ratio rose from 52.8 % to 54.8 % at the balance sheet date and thus remains high. Net financial debt fell by € 46.3 million to € 460.0 million at the balance sheet date. In view of our broad spectrum of financing sources, we enjoy a high degree of security and flexibility to finance our further growth.

All in all, the Group's economic position in the 2017/18 financial year was satisfactory.

2.2 Major events

2.2.1 Development in HORNBACH's stationary store network

2
new DIY stores and garden centers in The Hague and Halle

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

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

HORNBACH Baustoff Union took over two locations in Worms and Baumholder from competitors and therefore had 29 outlets as of February 28, 2018. The outlet in Kaiserslautern-Einsiedlerhof was rebuilt on a larger surface on the opposite side of the road. Operations at these new premises were launched in the first quarter of the financial year. Conversion work on the location already taken over in the previous year in Buchen (Odenwald) was not completed in the year under report. As a result, the opening of this location will be postponed to the 2018/19 financial year.

2.2.2 Development in HORNBACH's online stores

3
new online shops in Slovakia, Sweden, and Romania

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

2.2.3 Development in infrastructure

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

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

2.3 Target achievement in 2017/18

The HORNBACH Holding AG & Co. KGaA Group met the targets it set for the 2017/18 financial year. The comparison of the actual with the forecast business performance is summarized in the following table.

Targets and results of the HORNBACH Holding AG & Co. KGaA Group in the 2017/18 financial year

	Targets for 2017/18	Results in 2017/18
Expansion of the HORNBACH Baumarkt AG subgroup	**Stationary DIY business**: ■ 2 new store openings ■ 1 closure **HORNBACH online shops**: Launch of operations in Slovakia, Sweden, and Romania	**Stationary DIY business:** ■ **The Hague** (Netherlands) and **Halle** (Saale) opened ■ **Hanau** closed Rollout of **online shops** in all countries in HORNBACH's network now completed
Expansion of the HORNBACH Baustoff Union GmbH subgroup	■ 1 new location opening ■ 1 replacement location	■ Worms and Baumholder newly opened ■ Replacement location opened in Kaiserslautern
Investments	Between € 140 million and € 160 million	€ 148 million
Sales performance		
Net sales	Growth in medium single-digit percentage range	plus 5.1 % to € 4.14 billion
Like-for-like and currency-adjusted sales (DIY)	■ Growth in low to medium single-digit percentage range ■ Higher sales growth in Other European countries than in Germany	■ **Group: plus 3.6 %** ■ Germany: plus 1.5 % ■ Other European countries: plus 6.1 %
Earnings performance		
EBIT	At or slightly up on previous year's figure (2016/17: € 156.8 million)	plus 2.8 % to **€ 161.2 million**
Adjusted EBIT	At around the previous year's level (2016/17: € 159.8 million)	plus 3.7 % to **€ 165.6 million**

Note: For **sales** "at previous year's level" refers to changes of -1 % to +1 %, while "slight" changes involve changes of 2 % to 5 %. To enhance the distinctions within the "slight" category, we use the phrase "in a low single-digit percentage range" to refer to changes of 2 % to 3 % and the phrase "in a medium single-digit percentage range" to refer to changes of 4 % to 5 %. "Significant" corresponds to changes of 6 % upwards. For **earnings figures**, "at previous year's level" refers to changes of -1 % to +1 %. "Slight" corresponds to changes of 2 % to10 %, while "significant" is equivalent to changes of 11 % upwards.

2.4 Budget/actual comparison for separate 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. In the separate financial statements for the previous year, it was expected that the annual net surplus for the 2017/18 financial year would more or less match the level reported for the 2016/17 financial year. Due to write-downs of financial assets, our actual net surplus of € 18.5 million fell significantly short of the equivalent figure of € 39.2 million for the 2016/17 financial year.

3. Earnings Position

3.1 Sales performance

–3.2
change in average number of business days in year under report

3.1.1 Seasonal and calendar-related fluctuations

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

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

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

5.1%
growth in HORNBACH Group's net sales in 2017/18 financial year

3.1.2 Net sales of the HORNBACH Group

As of the balance sheet date on February 28, 2018, the HORNBACH Holding AG & Co. KGaA Group comprised the HORNBACH Baumarkt AG, HORNBACH Baustoff Union GmbH (HBU), and HORNBACH Immobilien AG subgroups. In the 2017/18 financial year (March 1, 2017 to February 28, 2018), the HORNBACH Group increased its consolidated sales (excluding sales taxes) by 5.1 % to € 4,141 million (2016/17: € 3,941 million).

3.1.3 HORNBACH Baumarkt AG subgroup

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

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. The previous year's figures can be seen in the quarter-by-quarter overview provided in the table.

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

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

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

* Excluding currency items

- **Germany**

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

1.5 %
like-for-like sales growth at HORNBACH DIY stores and garden centers in Germany

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

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

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 retail sector, HORNBACH achieved top rankings once again in 2017. The company was ranked first in twelve and second in fourteen of the total of 46 assessment categories. Customers awarded us the best grades in individual criteria including "Selection and Product Variety", "Product Quality", "Clarity of Specialist Advice", and "Media Assistance with Using the Materials/Tools Bought". When compared with its competitors, HORNBACH is also viewed by German DIY customers as leading the field in the "Product Range", "Prices", "Specialist Advice", and "Advertising" criteria.

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

11%
market share in Germany in 2017

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

6.1%
like-for-like, currency-adjusted sales growth at HORNBACH DIY stores and garden centers in other European countries

- **Other European countries**

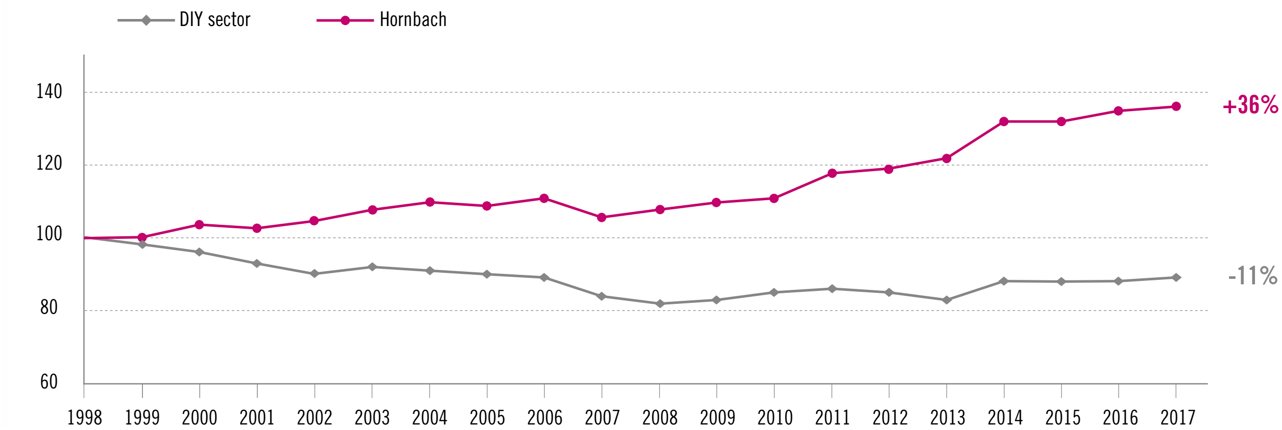
The development in sales in our international business in the 2017/18 year under report latched seamlessly onto the performance seen in the past two financial years. Growth rates in the Other European countries region were significantly higher than in the Germany region and also beat the previous year's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

HORNBACH further boosted its market position in other European countries in the past financial year, as is apparent when our sales performance is compared with sector developments in individual countries. Based on sales indications available to us for five countries in our network outside Germany, we outperformed the relevant DIY sector averages, in most cases significantly, in the 2017 calendar year.

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

Thanks to our retail format, we benefited once again in 2017 from the growth in the European construction sector which was in turn mainly driven by housing construction. As a project partner, HORNBACH enjoys a strong reputation among customers in all countries in which it operates, particularly when it comes to larger-scale modernization and renovation projects in their houses, apartments, and gardens.

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



3.1.4 HORNBACH Baustoff Union GmbH subgroup

The HORNBACH Baustoff Union GmbH subgroup reported substantial sales growth in the 2017/18 financial year. Including the two locations newly opened in the third quarter, net sales at the total of 29 outlets grew by 8.3 % to € 247.9 million (2016/17: € 228.9 million).

8.3 %
sales growth at HORNBACH Baustoff Union subgroup in 2017/18 financial year

3.1.5 HORNBACH Immobilien AG subgroup

Rental income increased slightly to € 79.7 million in the 2017/18 financial year (2016/17: € 79.1 million). Of this sum, € 77.1 million (2016/17: € 76.5 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 HORNBACH Group increased its operating earnings (EBIT) before non-operating items by 3.7 % to € 165.6 million in the 2017/18 financial year. This increase was due in particular to the pleasing sales performance in conjunction with a stable gross margin, lower selling and store and pre-opening expense ratios, and higher other income and expenses. These factors more than offset the rise in administration expenses, which related above all to the digitization of our business model. Consolidated operating earnings (EBIT) including non-operating earnings items grew by 2.8 % to € 161.2 million in the year under report. Consolidated net income grew by 6.5 % to € 95.7 million, as a result of which earnings per share amounted to € 5.11 (2016/17: € 4.84).

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

Key figure (€ million, unless otherwise stated)	2017/18	2016/17	Change
Net sales	4,141	3,941	5.1 %
of which: in Germany	2,312	2,262	2.2 %
of which in other European countries	1,829	1,679	9.0 %
Like-for-like sales growth	3.6 %	3.0 %	
EBITDA	262.7	254.3	3.3 %
EBIT	161.2	156.8	2.8 %
Adjusted EBIT	165.7	159.8	3.7 %
Consolidated earnings before taxes	131.6	130.1	1.2 %
Consolidated net income	95.7	89.9	6.5 %
EBITDA margin	6.3 %	6.5 %	
EBIT margin	3.9 %	4.0 %	
Gross margin	36.6 %	36.6 %	
Store expenses as % of net sales	27.8 %	27.9 %	
Pre-opening expenses as % of net sales	0.1 %	0.2 %	
General and administration expenses as % of net sales	5.2 %	4.9 %	
Tax rate	27.2 %	30.9 %	

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

3.2.2 Gross margin

Gross profit rose by 5.0 %, and thus in line with sales, to € 1,514.4 million in the 2017/18 financial year. The gross margin remained unchanged at 36.6 %. Positive and negative factors cancelled each other out within this key figure. Gross profit was held back by, among other factors, less favorable procurement terms and increased write-downs. Positive factors related to changes in the product mix, margin benefits due to the rising share of sales generated with private labels, and retail price adjustments.

3.2.3 Selling and store, pre-opening and administration expenses

Selling and store expenses at the HORNBACH Group grew less rapidly than sales, rising by 4.6 % to € 1,150.8 million (2016/17: € 1,100.6 million). The store expense ratio fell from 27.9 % to 27.8 %. On an operating level, this figure was affected by personnel expenses (excluding bonuses), advertising expenses, and depreciation and amortization rising less rapidly than sales, as well as by lower rental and utility expenses. By contrast, general operating expenses and bonuses rose more rapidly than sales. Selling and store expenses include non-operating charges of € 6.5 million (2016/17: € 5.7 million). These mainly involve impairment losses (IAS 39) and additions to provisions for onerous contracts. Adjusted to exclude these items, the store expense ratio decreased from 27.8 % to 27.6 % in the 2017/18 financial year.

Notes to Consolidated Financial Statements
Note (4)

Pre-opening expenses decreased from € 6.1 million to € 5.2 million in the 2017/18 financial year. This reduction was chiefly due to the lower number of DIY stores opened. In the year under report, two new DIY megastores were opened, compared with three in the previous year. The pre-opening expense ratio fell from 0.2 % to 0.1 %.

Administration expenses grew more rapidly than sales, rising by 10.8 % from € 192.5 million to € 213.2 million. The administration expense ratio rose significantly from 4.9 % to 5.2 %. This increase was particularly due to forward-looking expenses incurred at the HORNBACH Baumarkt AG subgroup to digitize the business model and for further innovation projects. These amounted to € 61.1 million in the year under report (2016/17: € 53.9 million) and mainly involved expenses for operating online retail and the infrastructure, including customer service centers, needed for multichannel retail. The launch of the online shops in Slovakia, Sweden, and Romania has further increased these expenses.

3.2.4 Other income and expenses

Other income and expenses rose by 11.4 % to € 16.0 million in the year under report (2016/17: € 14.4 million). This figure includes non-operating income of € 2.1 million mainly resulting from the disposal of real estate no longer required for operations (2016/17: € 3.0 million).

3.2.5 EBITDA, adjusted EBIT and EBIT

3.7 %
growth in adjusted EBIT in 2017/18 financial year

Consolidated earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by 3.3 % to € 262.7 million (2016/17: € 254.3 million). EBIT adjusted for non-operating one-off items improved by 3.7 % to € 165.6 million (2016/17: € 159.8 million). The adjusted EBIT margin amounted to 4.0 % (2016/17: 4.1 %). EBIT including non-operating earnings items rose by 2.8 % to € 161.2 million (2016/17: € 156.8 million). The EBIT margin fell slightly from 4.0 % to 3.9 %. Non-operating earnings items, which have been reported under selling and store and pre-opening expenses, as well as under other income and expenses, totaled minus € 4.5 million (2016/17: minus € 3.0 million).

Notes to Consolidated Financial Statements
Note (10)

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

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

2017/18 in € million 2016/17 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Headquarters and consolidation	HORNBACH Holding AG & Co. KGaA Group
Earnings before interest and taxes (EBIT)	**102.5**	**3.6**	**56.7**	**(1.6)**	**161.2**
	97.5	4.2	58.0	(2.9)	156.8
Non-operating earnings items	**7.5**	**1.9**	**(2.5)**	**(2.4)**	**4.5**
	5.3	1.9	(3.0)	(1.2)	3.0
Adjusted EBIT	**110.0**	**5.5**	**54.2**	**(4.0)**	**165.7**
	102.8	6.1	55.0	(4.1)	159.8

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

3.2.6 Net financial expenses, EBT and consolidated net income

Net financial expenses deteriorated from minus € 26.7 million in the previous year to minus € 29.6 million in the year under report. This was mainly due to negative currency items, which rose from minus € 0.8 million to minus € 5.3 million. By contrast, the interest result improved from minus € 26.0 million to minus € 24.2 million. Consolidated earnings before taxes (EBT) came to € 131.6 million (2016/17: € 130.1 million).

Taxes on income fell from € 40.2 million to € 35.9 million. As a result, the effective tax rate on Group level decreased from 30.9 % to 27.2 %. The main reason for this was the turnaround in deferred taxes from minus € 5.3 million in the previous year to plus € 3.1 million in the year under report, a development mainly due to write-downs of the deferred taxes on losses carried forward reported in the previous year. Consolidated net income including minority interests therefore increased by 6.5 % to € 95.7 million (2016/17: € 89.9 million). The return on sales remained constant at 2.3 %. Earnings per share are reported at € 5.11 (2016/17: € 4.84) for ordinary shares in the KGaA.

Notes to Consolidated Financial Statements
Note (9)

3.3 Earnings performance by segment

3.3.1 HORNBACH Baumarkt AG subgroup

The largest subgroup, HORNBACH Baumarkt AG, increased its earnings compared with the previous year and improved its operating earnings strength. Adjusted EBIT, i.e. operating earnings before non-operating one-off items, showed slightly disproportionate growth compared with sales, rising by 7.0 % to € 110.0 million. This increase was largely due to the pleasing level of like-for-like sales growth at HORNBACH's DIY stores with garden centers (currency-adjusted growth of 3.6 %) in conjunction with a stable gross margin. Furthermore, our positive earnings performance also benefited from more favorable operating cost ratios for our selling and store and pre-opening expenses, as well as from higher other income and expenses. These factors more than offset the disproportionate rise in administration expenses, which were influenced once again by increased forward-looking expenses for the Group's digitization. The adjusted EBIT margin remained unchanged at 2.8 %.

7.0 %
adjusted EBIT growth at HORNBACH Baumarkt AG subgroup

Despite higher extraordinary non-operating earnings items, EBIT grew by 5.1 % to € 102.5 million in the year under report. The EBIT margin remained unchanged at 2.6 %. Net financial expenses deteriorated from minus € 18.2 million in the previous year to minus € 21.6 million in the year under report. This was mainly due to negative currency items, which rose from minus € 0.5 million to minus € 4.8 million. Not only that, the interest result improved only slightly by 4.9 % to minus € 16.8 million (2016/17: minus € 17.7 million). As a result of these factors, earnings before taxes rose by 2.0 %, and thus less rapidly than sales, to € 80.9 million

(2016/17: € 79.3million). By contrast, due a lower tax charge consolidated net income showed disproportionate growth of 11.0 % to € 58.7 million (2016/17: € 52.9 million). The return on sales after taxes rose from 1.4 % to 1.5 %. Earnings per Baumarkt share are reported at € 1.84 (2016/17: € 1.66).

The reporting segments within the HORNBACH Baumarkt AG subgroup performed as follows in the 2017/18 financial year:

- Key operating earnings figures in the **Retail segment** developed positively. Adjusted for non-operating expense items, EBIT in this segment came to € 48.0 million (2016/17: € 46.2 million). The adjusted EBIT margin was unchanged at 1.2 %. Operating earnings (EBIT) including total non-operating charges of € 7.6 million fell by 1.9 % to € 40.4 million (2016/17: € 41.1 million). The EBIT margin amounted to 1.0 % (2016/17: 1.1 %).

- In line with the subgroup's expansion, rental income in the **Real estate segment**, 99 % of which comprises internal rental income within the subgroup, rose by 3.1 % to € 172.8 million in the year under report (2016/17: € 167.6 million), while real estate expenses remained virtually unchanged at € 99.0 million (2016/17: € 99.3 million). Given negligible real estate disposal losses, net real estate income improved by 7.9 % to € 73.7 million (2016/17: € 68.3 million). EBIT adjusted for non-operating one-off items increased by 9.9 % to € 74.3 million (2016/17: € 67.6 million). EBIT including one-off items rose by 10.4 % to € 74.3 million (2016/17: € 67.3 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 € 5.5 million in the 2017/18 financial year (2016/17: € 6.1 million). The adjusted EBIT margin decreased to 2.2 % (2016/17: 2.7 %). This development was primarily due to a lower gross margin which particularly reflected changes in the product mix, increased price competition, and growth in the low-margin drop shipment business. As a proportion of sales, selling, store and administration expenses were at the same level as in the previous year. EBIT amounted to € 3.6 million (2016/17: € 4.2 million). This figure includes impairment losses of € 1.9 million (2016/17: € 1.9 million) mainly resulting from IAS 36 asset impairment tests.

3.3.3 HORNBACH Immobilien AG subgroup

Adjusted for one-off items, EBIT at the HORNBACH Immobilien AG subgroup amounted to € 54.2 million in the 2017/18 financial year (2016/17: € 55.0 million). The subgroup reported positive non-operating earnings items, chiefly from real estate sales, of € 2.5 million in the year under report (2016/17: € 3.0 million). Including one-off items, EBIT at this subgroup decreased slightly to € 56.7 million (2016/17: € 58.0 million).

3.4 Earnings performance by geographical regions

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

EBITDA in **Germany** fell by 5.8 % to € 104.1 million (2016/17: € 110.5 million). The domestic share of the Group's EBITDA decreased from 43 % to 40 %. EBIT in the Germany region dropped from € 51.0 million to € 41.7 million. At € 4.8 million, non-operating earnings charges were significantly higher than in the previous year (2016/17: € 1.8 million). These mainly involved IAS 36 impairment losses and provisions for onerous contracts and chiefly related to the domestic business. The domestic share of operating earnings therefore fell from 33 % to 26 %. The EBIT margin for Germany came to 1.8 % (2016/17: € 2.3 %). EBIT for the Germany fell from 33 % to 26 %. The EBIT margin for Germany came to 1.8 % (2016/17: € 2.3 %). EBIT for the Germany region adjusted for non-operating earnings items decreased from € 52.8 million to € 46.6 million in the 2017/18 financial year. The adjusted EBIT margin in Germany amounted to 2.0 % (2017/18: 2.3 %).

Other European countries generated EBITDA of € 158.4 million (2016/17: € 143.9 million), and thus accounted for around 60 % of the HORNBACH Holding AG & Co. KGaA Group's EBITDA in the period under report (2016/17: 57 %). EBIT outside Germany rose by 12.6 % to € 119.2 million (2016/17: € 105.9 million). The international share of EBIT increased from 67 % to 74 %. The EBIT margin for Other European countries came to 6.5 % (2016/17: 6.3 %). Non-operating earnings items, which reduced the previous year's figure by € 1.2 million, resulted in income of € 0.3 million in the 2017/18 financial year. Adjusted EBIT for the Other European countries region amounted to € 118.9 million (2016/17: € 107.1 million). The adjusted EBIT margin outside Germany therefore came to 6.5 % in the 2017/18 financial year (2016/17: 6.4 %).

3.5 Dividend proposal

The general partner and the Supervisory Board of HORNBACH Holding AG & Co. KGaA will propose a dividend of € 1.50 per no-par ordinary bearer share with dividend entitlement in the KGaA, and thus unchanged on the previous year, for approval by the Annual General Meeting on July 6, 2018. Taking due account of the company's performance capacity, HORNBACH will thus uphold its principle of dividend continuity. Subject to the resolution adopted by the Annual General Meeting on the appropriation of unappropriated net profit, the distribution quota (distribution total as a percentage of consolidated net income after minority interests) would then amount to 29.4 % (2016/17: 31 %).

€ 1.50
dividend proposal for 2017/18 financial year

4. Financial Position

4.1 Principles and objectives of financial management

Financing measures are coordinated by Group Treasury at HORNBACH Baumarkt AG in close liaison with the group company financing the respective measure. Central organization of financial management enables the HORNBACH Group to maintain a uniform presence on financial markets and 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.

Notes to Consolidated Financial Statements
Note (12)

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

At the HORNBACH Baumarkt AG subgroup, external financing generally takes the form of unsecured loans and 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.

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 overall Group had financial debt of € 624.0 million at the balance sheet date on February 28, 2018 (2016/17: € 696.3 million). This reduction was due to debt repayments and the avoidance of new borrowing. Net financial debt also decreased, in this case from € 506.2 million to € 460.0 million. Due in particular to funds being channeled into the Group's expansion, cash and cash equivalents fell from € 190.1 million in the previous year to € 164.1 million in the year under report. The specific composition of financial debt is presented in the following table.

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

Type of financing	Liabilities broken down into remaining terms						2.28.2018	2.28.2017
€ million	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total	Total
Short-term bank debt[1]	6.2	0.0	0.0	0.0	0.0	0.0	6.2	35.4
Mortgage loans	20.1	17.0	19.1	12.7	23.4	32.4	124.8	155.4
Other loans[2] [3]	0.0	0.0	0.0	69.9	0.0	0.0	70.0	70.0
Bonds[3]	0.0	248.8	0.0	0.0	0.0	0.0	248.8	248.2
Negative fair values of derivative financial instruments	0.1	0.0	0.0	0.0	0.0	0.0	0.1	1.5
Finance leases	10.3	10.8	11.3	11.7	12.3	117.7	174.1	185.7
Total financial debt	**36.7**	**276.6**	**30.4**	**94.4**	**35.7**	**150.2**	**624.0**	**696.3**
Cash and cash equivalents							164.1	190.1
Net financial debt							**460.0**	**506.2**

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

[1] Financing facilities with nominal terms of under one year and interest deferrals
[2] Loans not secured by mortgages
[3] The costs relating to the taking up of the corporate bond have been spread pro rata temporis over the respective terms.

The current financial debt (up to 1 year) of € 36.7 million (2016/17: € 75.8 million) comprises the portion of long-term financing facilities maturing in the short term, at € 30.4 million (2016/17: € 39.0 million), short-term financing facilities of € 4.5 million (2016/17: € 33.6 million), interest deferrals of € 1.7 million (2016/17: € 1.8 million), and the measurement of derivative financial instruments, at € 0.1 million (2016/17: € 1.4 million).

HORNBACH enjoys great financing flexibility and draws on a wide range of different financing instruments. The following main facilities were in place at the balance sheet date on February 28, 2018:

- The corporate bond of € 250 million at HORNBACH Baumarkt AG with a term until February 15, 2020 and an interest rate of 3.875 %
- The promissory note bond of € 70 million at HORNBACH Immobilien AG with term until June 30, 2021

Furthermore, the overall Group has financing facilities of € 124.8 million (2016/17: € 155.4 million) secured by land charges of € 298.4 million (2016/17: € 328.6 million).

4.2.1 Credit lines

At the balance sheet date on February 28, 2018, the HORNBACH Holding AG & Co. KGaA Group had free credit lines amounting to € 482.2 million (2016/17: € 373.1 million) on customary market terms. These include an as yet unused syndicated credit line of € 350 million at HORNBACH Baumarkt AG, which was agreed in December 2017 with a term running until December 22, 2022. This new facility serves the premature refinancing on improved conditions of the existing syndicated credit line of € 250 million with a regular term running until April 15, 2019. The remaining deferred costs of the previous credit line now terminated were charged to earnings in the past financial year.

€ 482 m
free credit lines

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

4.2.2 Covenants

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

In the case of the syndicated credit line 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. In the case of the aforementioned new syndicated loan agreement, account was taken of the forthcoming IFRS 16 lease accounting amendments and the discontinuation of the "operating lease" classification. Pursuant to the definition in the syndicated loan agreement, lease liabilities classified as "operating leases" under IFRS principles prior to January 1, 2019 will not be viewed as financial liabilities. As a result, these obligations will not be included in the calculation of key financial ratios for the term of the loan facility.

The conditions governing the promissory note bond at HORNBACH Immobilien AG require the maintenance of a specified volume of unencumbered property, plant and equipment.

Notes to Consolidated Financial Statements
Note (23)

The interest cover, net debt/EBITDA ratio, 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.

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 € 102.1 million at HORNBACH Baumarkt AG and its subsidiaries (2016/17: € 113.0 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.

4.3 Cash and cash equivalents

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

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

Key figure	Definition		2.28.2018	2.28.2017
Net financial debt	Current financial debt + non-current financial debt – cash and cash equivalents	€ million	460.0	506.2
Interest cover	Adjusted* EBITDA / Gross interest expenses		10.8	9.5
Net debt / EBITDA	Net financial debt / Adjusted* EBITDA		1.7	2.0

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

To ease this investment situation, cash and cash equivalents were reduced further from € 190.1 million in the previous year to € 164.1 million at the balance sheet date. To achieve this, the Group's liquid funds were used to cover investments without drawing on external financing facilities, while existing financing facilities were repaid upon maturity without refinancing.

The funds of € 30 million invested in current financial assets in the previous year were released in the past financial year and returned to cash and cash equivalents. In the cash flow statement, this reclassification has been reported as an inflow of funds from investing activities and recognized in the "Cash flow for investments in connection with short-term finance planning" line item.

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

Within financial management activities, the reduction in liquid funds by € 26.0 million was accompanied by an increase in the syndicated credit line by € 100 million to € 350 million. With this line, which acts exclusively as a backup, the company has maintained the necessary high degree of security for its liquidity.

4.4 Cash flow statement and investments

The HORNBACH Holding AG & Co. KGaA Group invested a total of € 148.0 million in the 2017/18 financial year (2016/17: € 179.0 million), mainly in land, buildings and plant and office equipment at existing DIY stores with garden centers, and at stores under construction. The funds of € 148.0 million (2016/17: € 179.0 million) required for cash-effective investments were fully acquired from the cash flow of € 182.2 million from operating activities (2016/17: € 178.7 million). Around 58 % of total investments were channeled into new real estate, including properties under construction, while around 42 % were invested largely in replacing and expanding plant and office equipment. The HORNBACH Baumarkt AG segment accounted for € 128.7 million (2016/17: € 157.0 million), the HORNBACH Immobilien AG segment for € 4.6 million (2016/17: € 0.4 million), and the HORNBACH Baustoff Union GmbH segment for € 14.7 million (2016/17: € 21.6 million).

€ 148 m
investments

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

Cash flow statement (abridged) € million	2017/18	2016/17
Cash flow from operating activities	182.2	178.7
of which: funds from operations [1]	200.1	199.2
of which change in working capital [2]	(17.9)	(20.5)
Cash flow from investing activities	(108.8)	(198.3)
Cash flow from financing activities	(98.0)	(140.4)
Cash-effective change in cash and cash equivalents	**(24.6)**	**(160.0)**

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

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

€ 182 m
cash flow from operating activities

The inflow of funds from operating activities rose from € 178.7 million in the previous year to € 182.2 million in the 2017/18 financial year. At € 200.1 million, the inflow of funds from operations remained virtually unchanged (2016/17: € 199.2 million). Higher inflows of funds due to like-for-like sales growth and favorable operating cost ratios were countered by a reduction of € 2.7 million due to other non-cash income and expense items (2016/17: inflow of € 7.7 million). The change in working capital resulted in an outflow of funds of € 17.9 million (2016/17: outflow of € 20.5 million). This in turn was mainly due to the expansion-related increase in inventories, which was offset only in part by the increase in trade payables.

The outflow of funds for investing activities decreased from € 198.3 million to € 108.8 million. Cash-effective investments in non-current assets fell to € 148.0 million (2016/17: € 179.0 million) and proceeds from disposals of non-current assets and of non-current assets held for sale decreased to € 9.2 million (2016/17: € 10.7 million). By contrast, cash and cash equivalents of € 30 million with an original term of more than three months were reclassified as liquid funds in the period under report and recognized as an inflow of funds from financial assets in connection with short-term finance planning. As in the previous year, no DIY stores with garden centers were disposed of within sale and leaseback transactions in the 2017/18 financial year.

The outflow of funds for financing activities totaled € 98.0 million in the 2017/18 financial year, compared with an outflow of € 140.4 million in the previous year. Scheduled repayments of € 31.9 million were made for non-current financial debt but no new long-term borrowing was taken up. Current financial loans and finance lease liabilities decreased by € 36.6 million, having fallen by € 8.4 million in the previous year. At € 29.1 million, the dividends paid to shareholders remained at the previous year's level.

BB+/Ba1
rating of HORNBACH Baumarkt AG Group

4.5 Rating

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

5. Asset Position

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

€ million	2.28.2018	2.28.2017	Change
Non-current assets	1,704.5	1,667.0	2.2 %
Current assets	963.2	981.2	(1.8) %
Assets	**2,667.7**	**2,648.3**	**0.7 %**
Shareholders' equity	1,462.9	1,397.7	4.7 %
Non-current liabilities	693.0	724.0	(4.3) %
Current liabilities	511.7	526.5	(2.8) %
Equity and liabilities	**2,667.7**	**2,648.3**	**0,7 %**

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

Total assets at the Group showed a slight year-on-year increase to € 2,667.7 million (plus 0.7 %). The equity of the Group as stated in the balance sheet amounted to € 1,462.9 million at the end of the financial year (2016/17: € 1,397.7 million). At 54.8 %, the equity ratio remained at a high level (2016/17: 52.8 %).

5.1 Non-current and current assets

Non-current assets, which account for around 64 % (2016/17: 63 %) of total assets, amounted to € 1,704.5 million at the balance sheet date (2016/17: € 1,667.0 million). They mainly comprise property, plant and equipment and investment property of € 1,667.3 million (2016/17: € 1,636.0 million). This increase by 1.9 % was due to additions of € 139.4 million to non-current assets, depreciation and amortization of € 97.5 million, write-ups of € 0.9 million, and disposals of assets amounting to € 2.5 million. Adjustments to account for exchange rate movements reduced property, plant and equipment by € 8.7 million. Furthermore, assets of € 0.3 million were reclassified to non-current assets held for sale.

Other non-current receivables and assets of € 7.2 million (2016/17: € 5.5 million) mainly involve deposits to secure potential purchase price claims. Furthermore, the Group has deferred tax claims of € 10.8 million (2016/17: € 10.1 million). This increase chiefly resulted from adjustments made to temporary measurement differences arising upon the recognition of provisions and for finance leases.

Despite the increase in inventories, it was possible to maintain the inventory turnover rate at 3.9, and thus at the previous year's high level. Current assets decreased by 1.8 % from € 981.2 million to € 963.2 million, or around 36 % of total assets (2016/17: 37 %). Due to the Group's expansion, inventories rose from € 662.0 million to € 698.7 million. By contrast, cash and cash equivalents fell from € 190.1 million in the previous year to € 164.1 million in the year under report. Current receivables and other assets (including income tax receivables, excluding current financial assets) increased by € 2.4 million to € 100.4 million. This was mainly due to the increase in trade receivables and other receivables, a factor opposed by lower current income tax receivables.

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

Key figure	Definition		2.28.2018	2.28.2017
Equity ratio	Equity / Total assets	%	54.8	52.8
Return on equity	Annual net income before minority interests / Average equity	%	6.7	6.6
Return on total capital	NOPAT[1)]/ Average total capital[2)]	%	5.9	6.0
Debt / equity ratio (gearing)	Net debt / Equity	%	31.4	36.2
Additions to non-current assets, including advance payments for land	Additions to non-current assets, including advance payments for land	€ million	148.0	198.1
Net working capital	Inventories and receivables less trade payables	€ million	531.8	530.7
Inventory turnover rate	Cost of goods sold / Average inventories		3.9	3.9

1) Net operating profit after tax, defined as EBIT minus unchanged standardized tax rate of 30 % at the HORNBACH Group.
2) Average total capital, defined as average equity plus average net debt.

Notes to Consolidated Financial Statements
Note (23)

5.2 Non-current and current liabilities

Liabilities, including provisions, decreased to € 1,204.8 million at the balance sheet date (2016/17: € 1,250.5 million). This was mainly due to the reduction in non-current financial debt from € 620.5 million to € 587.3 million. Due to scheduled repayments, non-current loan liabilities fell from € 196.6 million to € 174.6 million and IAS 17 lease liabilities fell from € 175.5 million to € 163.8 million.

Current financial debt decreased from € 75.8 million to € 36.7 million. Other provisions and accrued liabilities rose from € 80.3 million in the previous year to € 92.6 million, a development chiefly due to higher provisions for bonuses.

5.3 Off-balance sheet financing instruments and rental obligations

In addition to the DIY stores with garden centers owned by the HORNBACH Holding AG & Co. KGaA Group and 11 (2016/17: 12) DIY stores with garden centers used on the basis of finance lease agreements, there are 53 DIY stores with garden centers (2016/17: 52) that are let from third parties. Moreover, the Group also has a small number of additional land leasehold, leasing and rental agreements.

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

As of February 28, 2018, obligations under rental, hiring, leasehold and leasing contracts totaled € 577.6 million (2017/18: € 596.9 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 50 % of the sales areas owned by the HORNBACH Group are held by HORNBACH Immobilien AG.

As in previous years, in the 2017/18 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.

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.

Group Management Report
Business Report
Macroeconomic and Sector-Specific Framework

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

€ 000s	2017/18	2016/17
Sales	925	897
Other operating income	93	76
Cost of services rendered	566	554
Gross profit	**452**	**419**
Personnel expenses	760	794
Depreciation and amortization	21	31
Other operating expenses	3,380	3,209
Income from investments	51,808	51,611
Write-downs of financial assets	20,676	0
Interest result	964	1,185
Taxes on income	9,844	9,970
Earnings after taxes	**18,543**	**39,211**
Other taxes	1	0
Annual net surplus	**18,542**	**39,211**
Withdrawal from (2016/17: allocation to) other revenue reserves	5,458	15,211
Net profit	**24,000**	**24,000**

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

Group Business Report
Business Report

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 2017/18 reporting period are presented in detail in the Group Management Report.

6.3 Earnings, financial, and asset position

6.3.1 Earnings performance

The sales of € 925k (2016/17: € 897k) mainly result from the charging on of material and personnel expenses to affiliated companies.

At € 0.8 million, personnel expenses remained unchanged in the 2017/18 financial year. The compensation paid by HORNBACH Management AG to the 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 slightly from € 3.2 million to € 3.4 million.

At minus € 3.7 million, earnings before interest, income from investments, and write-downs of financial assets (net balance of gross profit less personnel expenses, depreciation and amortization, and other expenses) were slightly below the previous year's figure (minus € 3.6 million).

Income from investments rose from € 51.6 million in the previous year to € 51.8 million. This was due to the € 0.2 million increase in the income of € 35.3 million transferred from HORNBACH Immobilien AG (2016/17: € 35.1 million). The income from the investment in HORNBACH Baumarkt AG remained unchanged at € 16.5 million.

The write-downs of € 20.7 million on financial assets (2016/17: € 0.0 million) relate to the write-down recognized on the investment in HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse.

At € 1.0 million, the positive interest result was slightly lower than the previous year's level (2016/17: € 1.2 million).

Net income tax expenses, which comprise current and deferred taxes, were reported at € 9.8 million for the 2017/18 financial year (2016/17: € 10.0 million). Due to the one-off impact of the write-down of financial assets, the annual net surplus of € 18.5 million at HORNBACH Holding AG & Co. KGaA fell significantly short of the previous year's figure (2016/17: € 39.2 million). Adjusted for this one-off item, the annual net surplus amounted to € 39.2 million.

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

Asset	2.28.2018 € 000s	2.28.2017 € 000s
Non-current assets	**182,470**	**203,155**
Receivables and other assets	126,507	92,675
Securities	97	99
Cash holdings and credit balances at banks	15,346	31,978
Current assets	**141,950**	**124,752**
Deferred expenses and accrued income	266	287
Deferred tax assets	725	842
Total assets	**325,411**	**329,036**
Equity and liabilities		
Shareholders' equity	315,550	321,008
Provisions	9,201	7,278
Liabilities	660	750
Total equity and liabilities	**325,411**	**329,036**

6.3.2 Asset position

Total assets amounted to € 325.4 million as of February 28, 2018 (2016/17: € 329.0 million). Non-current assets, which decreased from € 203.2 million to € 182.5 million, were influenced by the write-down of € 20.7 million recognized on financial assets. This factor was opposed by an increase in receivables from associates by € 36.5 million from € 85.6 million to € 122.1 million. As a result of lower income tax credits and associated interest, other assets decreased from € 7.1 million to € 4.4 million.

Deferred tax assets amounted to € 0.7 million (2016/17: € 0.8 million). Shareholders' equity at HORNBACH Holding AG & Co. KGaA fell from € 321.0 million to € 315.6 million at the balance sheet date on February 28, 2018. Due to non-period taxes, provisions for income taxes rose by € 1.8 million to € 8.3 million.

6.3.3 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.

Group Management Report
Business Report
Financial Position

Primarily due to higher group financing, cash and cash equivalents decreased year-on-year by € 16.6 million to € 15.3 million.

6.4 Overall assessment of earnings, financial, and asset position

Adjusted to exclude the one-off effect of the write-down of financial assets, the earnings, financial and asset position of HORNBACH Holding AG & Co. KGaA remained satisfactorily stable in the 2017/18 financial year. Excluding this one-off item, the adjusted annual net surplus matched the previous year's figure of € 39.2 million. Including write-downs of financial assets, the annual net surplus amounted to € 18.5 million. At 97.0 % (2016/17: 97.6 %), the equity ratio remained very high.

6.5 Proposed appropriation of net profit

HORNBACH Holding AG & Co. KGaA concluded the 2017/18 financial year with an annual net surplus of € 18,541,995.17. Following the withdrawal of € 5,458,004.83 from other revenue reserves, the Board of Management of the general partner proposes to appropriate the net profit of € 24,000,000.00 as follows:

- € 1.50 dividend per share with a nominal value of € 3.00 on 16,000,000 ordinary shares
- Dividend distribution: € 24,000,000.00.

Non-Financial Statement

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 statement for the 2017/18 financial year pursuant to § 315b HGB. This will be published at the same time as the Annual Report as a separate non-financial group report on the company's homepage (www.hornbach-group.com/NFS).

www.hornbach-group.com/NFS

Events After the Balance Sheet Date

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

Risk Report

1. Risk Management at the Group

All entrepreneurial activity directly involves opportunities and risks. Effectively managing opportunities and risks therefore represents a critical success factor in sustainably securing the 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 § 315 (2) No. 5 HGB)

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

At the HORNBACH 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 at sometimes international finance conferences for all managers with significant involvement in the group financial reporting process. Specialist accounting or financial reporting issues and complex matters either involving particular risks or requiring special expertise are monitored and processed centrally. External experts, such as chartered surveyors, are drawn on in particular to assess the fair values of real estate for impairment tests or to measure pension provisions.

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

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

Overview of overall risks*

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

* Unless otherwise stated, the risks hereby listed apply 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, 2022, a promissory note bond at HORNBACH Immobilien AG with a volume of € 70 million and a term running until June 30, 2021, and the € 250 million bond issued by HORNBACH Baumarkt AG in February 2013, which has a term running until February 15, 2020.

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

Alongside general covenants, such as pari passu, negative pledge, and cross default covenants, specific financial covenants were also agreed for the syndicated credit line at HORNBACH Baumarkt AG. These require compliance with an equity ratio of at least 25 % and interest cover (adjusted EBITDA / gross interest expenses) of at least 2.25 on the level of the HORNBACH Baumarkt AG subgroup. Furthermore, maximum limits have been set for financial liabilities secured by land charges and for financial liabilities at subsidiaries of HORNBACH Baumarkt AG. The bond at HORNBACH Baumarkt AG is only governed by general covenants, such as pari passu, negative pledge, and cross default covenants, but not by financial covenants. As of February 28, 2018, the equity ratio of the HORNBACH Baumarkt AG subgroup amounted to 52.5 % (2016/17: 51.6 %) and its interest cover amounted to 10.9 (2016/17: 9.8).

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 2017/18 financial year.

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

5.3 Credit risks

Notes to Consolidated Financial Statements
Note (34)

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 2017/18 financial year. The company's retail format (cash and carry) means that the risk of receivables defaults in its operating divisions is already considerably reduced. 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 and economic framework.

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

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

6.2 Natural hazards

The climate change observable around the world also directly affects 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.

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 excluded entirely.

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

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

10. Overall Assessment of Risk Situation

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

Opportunity Report

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

1. Sector-Specific Opportunities

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

1.1 Modernization market

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

€ 215 bn
construction work on existing buildings in 2017

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

> 80 %
homes in Germany more than 30 years old

- The **age structure of real estate** indicates an increasing need for maintenance and modernization. In Germany, for example, more than 80 % of all houses and apartments are more than 30 years old. Almost one in three detached houses in Germany is in need of renovation. Half of the owner-occupied houses built between 1949 and 1960 have not yet been comprehensively renovated and no longer meet current technological standards in terms of energy efficiency. Given that the property will decline in value and attractiveness on the housing market unless renovation measures are undertaken, the need for construction services and materials can be expected to increase. Interest rates, still low by long-term standards, continue to benefit private households' financing opportunities here.

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

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

1.2 Consumer trends

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

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

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

26 %
annual growth in market for smart home products

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

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.

€ 45 bn
core DIY market in 2017

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

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 our internationally successful retail format. On the one hand, this involves focusing on the strategic enhancement of our concept and expanding our store network at locations offering above-average growth potential in Germany and abroad. On the other hand, we intend to further promote our online retail activities in Germany and other European countries in order to sustainably boost our competitive position as a multichannel retailer.

2.1 Unmistakable concept

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

One unshakable component of our uniform strategy across the Group is our reliable permanent low price policy. We believe that we are better able to retain customers at HORNBACH in the long term by offering and guaranteeing the best market price across our entire product range on a permanent basis, with identical prices in our stationary and online stores. Our permanent low price strategy applies not only to prices at stationary competitors, but also for online offerings. In particular, our main target group of project customers, who often undertake large-scale renovation work, needs to be able to budget in the long term. This is not possible with temporary discount campaigns.

2.2 Focus on sustainability

We believe that 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 in future as well continue to present complex projects, such as the insulation of facades, the replacement of windows and doors, or smart home concepts, as "Project Shows" at the stores. Via our online stores, we also provide detailed guidelines which explain DIY projects on a step-by-step basis. Our product range offers customers the opportunity to select low-emission products for their construction and renovation projects and thus to minimize the volume of noxious substances in their homes and living space. Not only that, we also offer energy and water-saving products. Moreover, further sales momentum may also be provided by public sector programs subsidizing the renovation of old properties in terms of energy efficiency or to make them senior citizen-friendly. Here, we offer an extensive database of subsidy opportunities on our homepage.

Our customers increasingly value products that are sustainable in both ecological and economic terms. A suitable product selection, product certification, and transparent product information and advice are key competitive factors here. Above all the lifestyle-driven customer target group, who base their lifestyles on health and sustainability factors, is playing an increasingly important role in this respect. These so-called "LOHAS" (lifestyle of health and sustainability) mostly have above-average incomes, and are conscious, critical consumers. They accord great value to quality, brand and design. With our focus on the quality and sustainability of our product ranges, accompanied by professional advice, we are particularly well-placed to meet the high standards of these target groups. We are the DIY sector leaders, for example, in trading FSC-certified timber products.

2.3 Accessing new customer groups

We are continually expanding our range of services, information and advice in order to attract new customer groups to 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 professional customers. Generous opening hours, the stocking of large quantities, the rapid handling of purchases at our drive-in stores and builders' merchant centers, and the uncomplicated acceptance of residual volumes no longer required make HORNBACH an attractive alternative to traditional specialist retail or wholesale procurement sources.

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

2.4 Digitization of business model

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

12 %

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

Over the past nine years, the HORNBACH Group has channeled a substantial triple-digit million euro amount into digitizing its business model and developing its online retail business. These efforts have sustainably boosted our competitive position within the DIY sector and made the entire company fit for the future. Measured in terms of online sales generated by stationary DIY store chains, we believe that we are the German market leader in DIY online retail. Since its launch in Germany in December 2010, we have built up our online store (www.hornbach.de) into a high-performing virtual DIY store and garden center which we combine with our stationary retail business to provide an interconnected retail solution. We have now rolled out our e-commerce activities beyond Germany to Austria, Switzerland, the Netherlands, the Czech Republic, Luxembourg, and, since 2017, Slovakia and Sweden as well. The online store in Romania was launched in January 2018. This means that customers in all countries in which HORNBACH operates now have the opportunity to implement their projects on a cross-channel basis.

One core aspect of our internet presence is the direct relationship our customers have to their preferred HORNBACH store. This way, our customers can inform themselves online about products, prices, and availability, and also compare articles. Numerous text and image guidelines offer ideas and assistance in preparing and implementing projects. Customers can have articles delivered directly to their homes by mail order or opt for our "Reserve online and pick up at the store" service. From just two hours after the reservation, all of the articles in stock are ready to be collected from the desired HORNBACH store. This service is a real time-saver, especially for our professional customers. Not only that, our internet presence gives us the opportunity to acquire new customers outside our store network catchment areas and arouse their interest in the 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, digitization enables companies to address customers on an increasing personalized basis, a development which may impact positively both on customer satisfaction and on demand levels. Moreover, we expect the digitization of store organization, sales, and the associated dovetailing of these processes with procurement and logistics to have a sustainably positive impact on the Group's sales and earnings performance.

2.5 Internationalization

Our expansion into foreign markets will provide us with additional growth prospects in future as well. These markets offer greater sales potential and higher profitability compared with the saturated German market and enable us to achieve a better distribution of regional market risks. The internationalization of group procurement provides us with broad-based access to global procurement markets, and enables us to forge strategic, long-term partnerships with suppliers and industry. These partnerships benefit both sides. We offer each supplier the opportunity to supply all of our stores as efficiently as possible. Suppliers are able make large-scale logistical deliveries directly to each location, or to supply the merchandise indirectly via our central logistics hubs. We thus provide regional manufacturers as well with the opportunity of growing outside their existing sales regions and supplying goods to additional countries. The fact that our retail format is increasingly attracting professional customers to HORNBACH has enabled us to acquire production specialists who would otherwise only supply professional specialist retailers.

The flexible dovetailing of our suppliers with the company's logistics structures optimizes our value chain and secures a significant competitive advantage for us. The proximity of our suppliers to procurement structures in the individual countries enables us to optimally adapt our product selection to regional requirements in those countries and to improve our margins due to benefits of scale. We are tapping further earnings potential by increasingly developing private labels in cooperation with partners. These provide our customers with attractive value for money, while at the same time differentiating us from competitors.

3. Explanatory Comments on 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. Forward-looking parameters, such as economic and income expectations, or consumers' propensity to spend, provide early indications of developments in consumer confidence ahead of the real macroeconomic data. Political changes in particular are a source of both opportunities and risks for the economy and consumers' propensity to spend. Not only that, exceptional weather conditions can severely impact on consumer behavior and on our seasonal business, even though this factor cannot be accounted for in our advanced planning.

1.1 Business framework in Europe

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

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

Above-average growth in HORNBACH countries

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

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

1.2 Business framework in Germany

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

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

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

+1.3 %
sales growth forecast for German DIY store sector in 2018

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

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

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

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

2. Forecast Business Performance in 2018/19

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

2.1 Expansion

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

Given the challenges facing the sector in the field of e-commerce, in our stationary DIY retail business we will focus even more closely than in the past on selective growth at premium locations. That is especially true for new store openings in Germany. In the coming five years, the number of HORNBACH DIY stores here will only rise marginally, not least as a result of planned closures for new replacement locations. The key focus of our medium-term expansion and investment activities will be outside Germany.

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

+3
new store openings planned for 2018/19 financial year

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

The HORNBACH Baustoff Union subgroup plans to open one new outlet. With a view to boosting its leading market position in the region and beyond, the company is permanently reviewing further opportunities to acquire promising new locations.

2.2 Investments

Gross investments of between € 160 million and € 180 million have been budgeted at the HORNBACH Holding AG & Co. KGaA Group for the 2018/19 financial year. The overwhelming share of these funds will be channeled into building new stores, plant and office equipment at new and existing stores, converting and extending existing stores, and IT infrastructure. Around 44 % of the planned investment budget relates to advance payments for land and buildings, as well as plant and office equipment, for new HORNBACH DIY stores planned for periods beyond the 2018/19 financial year.

€ 160–180 m
gross investments planned for 2018/19 financial year

HORNBACH enjoys great flexibility in its investment financing. Alongside the free cash flow from operating activities, the company's cash resources and free credit lines mean that a large volume of disposable liquidity is available. The inflow of cash from operating activities will exceed the total investment volume both in the one-year forecast period and in the period covered by the medium-term planning. No sale and leaseback transactions are planned in the 2018/19 financial year.

2.3 Sales performance

Our ongoing objective is that of achieving sustainable growth in our core operating business. The sales performance of the HORNBACH Group is essentially shaped by developments at the HORNBACH Baumarkt AG subgroup.

2.3.1 Sales forecast for the HORNBACH Baumarkt AG subgroup

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

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

2.3.2 Sales forecast for the HORNBACH Baustoff Union GmbH subgroup

Net sales at the HORNBACH Baustoff Union GmbH subgroup are expected to show growth in a medium single-digit range in the 2018/19 financial year.

2.3.3 Sales forecast for the HORNBACH Holding AG & Co. KGaA Group

Sales growth expected in medium single-digit percentage range

Consistent with developments at the largest operating subgroup, HORNBACH Baumarkt AG, we expect consolidated sales on the level of the overall HORNBACH Holding AG & Co. KGaA Group also to show growth in a medium single-digit percentage range in the 2018/19 financial year.

2.4 Earnings performance by segment

Our indications for the future earnings performance of the HORNBACH Group are based on developments expected at the HORNBACH Baumarkt AG subgroup, HORNBACH Baustoff Union GmbH subgroup, and HORNBACH Immobilien AG subgroup segments.

2.4.1 Earnings forecast for the HORNBACH Baumarkt AG subgroup

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

- **Retail segment:**

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

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

  According to our 2018/19 annual budget, **selling and store expenses** are set to rise less rapidly than sales. Due to expected collectively agreed pay rises and shortages of specialists in regional labor markets in the countries in which HORNBACH operates, personnel expenses are expected to increase once again, albeit to a less marked extent than sales. We expect rental and utility expenses to rise less rapidly than sales. Due to marketing measures for new stores and the newly added online stores, advertising expenses are budgeted to grow more rapidly than sales in the 2018/19 budget year. We expect our general operating expenses to rise slightly faster than sales due to increased maintenance measures for land and buildings.

Maintaining the substance of stores and while at the same time ensuring they are attractively designed requires an ongoing supply of funds to renovate older properties and modernize sales areas and merchandise presentation.

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

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

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

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

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

2.4.2 Earnings forecast for the HORNBACH Baustoff Union GmbH subgroup

We expect the gross margin in the HORNBACH Baustoff Union GmbH subgroup segment to exceed the previous year's level in the 2018/19 financial year. The store and administration expense ratios are expected to remain unchanged. Adjusted to exclude non-operating one-off items, EBIT at this subgroup should more or less match the figure reported for the 2017/18 financial year.

2.4.3 Earnings forecast for the HORNBACH Immobilien AG subgroup

We have budgeted a slight increase in rental income in the HORNBACH Immobilien AG subgroup segment in the forecast period. No material disposal gains from real estate transactions are budgeted. The budget for 2018/19 includes a year-on-year increase in operating expenses, primarily due to higher maintenance expenses. We expect adjusted EBIT at the subgroup in the 2018/19 financial year to match the figure reported for the previous 2017/18 financial year. This was positively influenced by non-operating income of € 2.5 million mainly resulting from disposal gains.

2.5 Earnings forecast for the HORNBACH Holding AG & Co. KGaA Group

Adjusted EBIT at HORNBACH Group expected at around previous year's level

We expect the **adjusted EBIT** (EBIT adjusted to exclude non-operating earnings items) at the overall HORNBACH Holding AG & Co. KGaA Group in the one-year forecast period to roughly match the level reported for the 2017/18 financial year.

2.6 Earnings forecast for HORNBACH Holding AG & Co. KGaA (separate 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. Overall, the annual net surplus for the 2018/19 financial year is expected to significantly exceed the level reported for the 2017/18 financial year.

Other Disclosures

1. Disclosures under § 315a (4) and § 289a (4) 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 (4) and § 289a (4) 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

Based on the WpHG voting right notifications we have received, the following parties directly or indirectly hold more than 10 % of the voting rights:

- Hornbach Familien-Treuhandgesellschaft mbH, Annweiler am Trifels, Germany, 37.50 %
- Maximilian Management LLC, Wilmington, Delaware, USA (via First Eagle Investment Management LLC, New York, USA), 13.16 %
- Stephen A. Schwarzman, USA (via First Eagle Investment Management LLC, New York, USA), 13.16 %

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.

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 Declaration pursuant to § 289f HGB

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

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

3. Compensation Report

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

To Our Shareholders
Compensation Report

4. Dependent Company Report

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

CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Notes	2017/18 € 000s	2016/17 € 000s	Change %
Sales	1	4,140,990	3,940,853	5.1
Cost of goods sold	2	2,626,628	2,499,229	5.1
Gross profit		**1,514,363**	**1,441,624**	**5.0**
Selling and store expenses	3/10	1,150,800	1,100,630	4.6
Pre-opening expenses	4/10	5,168	6,080	(15.0)
General and administration expenses	5/10	213,249	192,481	10.8
Other income and expenses	6/10	16,025	14,384	11.4
Earnings before interest and taxes (EBIT)		**161,170**	**156,817**	**2.8**
Other interest and similar income		707	1,061	(33.4)
Other interest and similar expenses		24,861	27,104	(8.3)
Other financial result		(5,409)	(698)	>(100)
Net financial expenses	**7**	**(29,563)**	**(26,741)**	**10.6**
Consolidated earnings before taxes		**131,607**	**130,075**	**1.2**
Taxes on income	8	35,860	40,162	(10.7)
Consolidated net income		**95,747**	**89,914**	**6.5**
of which: income attributable to shareholders of HORNBACH Holding AG & Co. KGaA		81,733	77,430	5.6
of which: non-controlling interest		14,014	12,484	12.3
Basic/diluted earnings per share (€)	**9**	**5.11**	**4.84**	**5.6**

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

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

	Notes	2017/18 € 000s	2016/17 € 000s
Consolidated net income		**95,747**	**89,914**
Actuarial gains and losses on defined benefit plans	24/25	4,015	1,964
Deferred taxes on actuarial gains and losses on defined benefit plans		(772)	(363)
Other comprehensive income that will not be recycled at a later date		**3,243**	**1,601**
Measurement of derivative financial instruments (cash flow hedge)			
Measurement of derivative hedging instruments directly in equity [1)]		(159)	(854)
Gains and losses from measurement of derivative financial instruments transferred to profit or loss		657	1,485
Exchange differences arising on the translation of foreign subsidiaries		(4,550)	1,353
Deferred taxes on gains and losses recognized directly in equity	8	(121)	(191)
Other comprehensive income that will be recycled at a later date		**(4,172)**	**1,793**
Total comprehensive income		**94,818**	**93,308**
of which: attributable to shareholders of HORNBACH HOLDING AG & Co. KGaA		80,693	79,714
of which: attributable to non-controlling interest		14,125	13,594

[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, 2018

Assets	Notes	2.28.2018 € 000s	2.28.2017 € 000s
Non-current assets			
Intangible assets	11	19,164	15,376
Property, plant, and equipment	12	1,628,755	1,599,807
Investment property	12	38,533	36,228
Financial assets	13	22	22
Other non-current receivables and assets	14/24	7,177	5,514
Deferred tax assets	15	10,807	10,055
		1,704,459	**1,667,002**
Current assets			
Inventories	16	698,749	661,962
Current financial assets	17	0	30,009
Trade receivables	18	32,081	29,520
Other current assets	18	61,565	53,221
Income tax receivables	27	6,772	15,281
Cash and cash equivalents	19	164,056	190,073
Non-current assets held for sale	20	0	1,182
		963,223	**981,248**
		2,667,682	**2,648,250**

Equity and liabilities	Notes	2.28.2018 € 000s	2.28.2017 € 000s
Shareholders' equity	**21**		
Share capital		48,000	48,000
Capital reserve		130,373	130,373
Revenue reserves		1,037,792	981,436
Equity of shareholders of HORNBACH HOLDING AG & Co. KGaA		**1,216,165**	**1,159,809**
Non-controlling interest		246,759	237,914
		1,462,924	**1,397,723**
Non-current liabilities			
Non-current financial debt	23	587,277	620,484
Provisions for pensions	24	10,861	15,229
Deferred tax liabilities	15	50,088	51,906
Other non-current liabilities	25/28	44,799	36,419
		693,025	**724,038**
Current liabilities			
Current financial debt	23	36,750	75,817
Trade payables	26	267,376	259,300
Other current liabilities	26	93,871	88,368
Income tax liabilities	27	21,106	22,656
Other provisions and accrued liabilities	28	92,631	80,348
		511,733	**526,489**
		2,667,682	**2,648,250**

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

2016/17 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to share-holders	Non-controlling interest	Total group equity
Balance at March 1, 2016		**48,000**	**130,373**	**(1,769)**	**21,624**	**906,036**	**1,104,264**	**229,344**	**1,333,607**
Consolidated net income						77,430	77,430	12,484	89,914
Actuarial gains and losses on defined benefit plans, net after taxes	24/25					1,221	1,221	380	1,601
Measurement of derivative financial instruments (cash flow hedge), net after taxes				318			318	122	440
Foreign currency translation					745		745	608	1,353
Total comprehensive income				**318**	**745**	**78,651**	**79,714**	**13,594**	**93,308**
Dividend distribution	22					(24,000)	(24,000)	(5,118)	(29,118)
Transactions with other shareholders						(240)	(240)	72	(168)
Treasury stock transactions						72	72	23	95
Balance at February 28, 2017		**48,000**	**130,373**	**(1,451)**	**22,368**	**960,519**	**1,159,809**	**237,914**	**1,397,723**

2017/18 financial year € 000s	Notes	Share capital	Capital reserve	Hedging reserve	Cumulative currency translation	Other revenue reserves	Equity attributable to share-holders	Non-controlling interest	Total group equity
Balance at March 1, 2017		**48,000**	**130,373**	**(1,451)**	**22,368**	**960,519**	**1,159,809**	**237,914**	**1,397,723**
Consolidated net income						81,733	81,733	14,014	95,747
Actuarial gains and losses on defined benefit plans, net after taxes	24/25					2,471	2,471	772	3,243
Measurement of derivative financial instruments (cash flow hedge), net after taxes				372			372	6	378
Foreign currency translation					(3,883)		(3,883)	(667)	(4,550)
Total comprehensive income				**372**	**(3,883)**	**84,204**	**80,693**	**14,125**	**94,818**
Dividend distribution	22					(24,000)	(24,000)	(5,118)	(29,118)
Transactions with other shareholders						(301)	(301)	(152)	(453)
Treasury stock transactions						(35)	(35)	(10)	(45)
Balance at February 28, 2018		**48,000**	**130,373**	**(1,079)**	**18,485**	**1,020,386**	**1,216,165**	**246,759**	**1,462,924**

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

	Notes	2017/18 € 000s	2016/17 € 000s
Consolidated net income		**95,747**	**89,914**
Depreciation and amortization of non-current assets	10	102,363	97,467
Change in provisions		7,080	7,161
Gains/losses on disposals of non-current assets and of non-current assets held for sale		(2,371)	(2,991)
Change in inventories, trade receivables and other assets		(46,000)	(12,004)
Change in trade payables and other liabilities		28,064	(8,484)
Other non-cash income/expenses		(2,682)	7,656
Cash flow from operating activities		**182,201**	**178,718**
Proceeds from disposal of non-current assets and of non-current assets held for sale		9,168	10,698
Payments for investments in property, plant, and equipment		(139,360)	(172,414)
Payments for investments in intangible assets		(8,623)	(6,601)
Cash flow for investments in connection with short-term finance planning		30,000	(30,000)
Cash flow from investing activities		**(108,815)**	**(198,317)**
Dividends paid	22	(29,118)	(29,118)
Proceeds from taking up long-term debt	23	0	7,500
Repayment of long-term debt	23	(31,886)	(110,325)
Change in level of shareholding in subsidiary with no change in control		(351)	(90)
Change in current financial loans and finance lease liabilities		(36,647)	(8,366)
Cash flow from financing activities		**(98,002)**	**(140,399)**
Cash-effective change in cash and cash equivalents		(24,616)	(159,998)
Change in cash and cash equivalents due to changes in exchange rates		(1,400)	350
Cash and cash equivalents at March 1		190,073	349,722
Cash and cash equivalents at balance sheet date		**164,056**	**190,073**

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

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

The cash flow from operating activities was reduced by income tax payments of € 32,017k (2016/17: € 18,117k) and interest payments of € 27,320k (2016/17: € 29,930k) and increased by interest received of € 707k (2016/17: € 3,887k).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Explanatory Notes on Accounting Policies

Information about the company

HORNBACH Holding AG & Co. KGaA, whose legal domicile is in Neustadt an der Weinstrasse, 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 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 electronic 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 2017/18 financial year. The consolidated financial statements and group management report of HORNBACH Holding AG & Co. KGaA are published in the electronic 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 minor 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 17, 2018. The period in which adjusting events could be accounted for thus expired as of this date.

Changes to accounting policies due to new accounting requirements

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

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

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

Standards and interpretations not applied prematurely

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

Standard and Interpretation		Effective date [1)]
IFRS 9	Financial Instruments	January 1, 2018
IFRS 15	Revenue from Contracts with Customers	January 1, 2018
Amendments to IFRS 15	Clarifications to IFRS 15	January 1, 2018
IFRS 16	Leases	January 1, 2019

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

- IFRS 9 "Financial Instruments": This standard issued in July 2014 replaces the existing IAS 39 requirements. IFRS 9 contains revised guidelines concerning the classification and measurement of financial instruments, including a new expected credit loss model to calculate impairments of financial assets and new general hedge accounting requirements. It has also taken over requirements governing the recognition and retirement of financial instruments from IAS 39. IFRS 9 has significantly increased the scope of note disclosures resulting from the revision to IFRS 7 "Financial Instruments: Disclosures".

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

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

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

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

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

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

We expect IFRS 9 application to result in a change of less than € 1 million in the allowances recognized for trade receivables. This will result in an effect of the same amount in equity.

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

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

- IFRS 15 "Revenue from Contracts with Customers": This new standard has reorganized the requirements governing the recognition of revenues. As a result, IFRS 15 replaces all previous relevant standards governing revenue recognition (IAS 18, IAS 11, and IFRIC 13), as well as the relevant interpretations. From now on, companies are required to determine the date or period in which revenues are recognized by reference to a 5-step model. The model is also used to determine the amount of revenues. In general, revenues have to be recognized as of the date/period in which control over the goods and services is transferred. The standard also includes guidelines for multiple element arrangements and new requirements governing the treatment of service contracts and contract modifications. The scope of note disclosures has also been extended.

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

  - Due to multiple element arrangements and bonus agreements with customers, in the opening balance sheet as of March 1, 2018 items will be reclassified between assets and contract assets and between liabilities and contract liabilities respectively.

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

- HORNBACH is affected by the IFRS 15 regulations governing non-utilization of credits (breakage) with regard to the customer vouchers its sells. The new regulation will result in unutilized credits being recognized through profit or loss at an earlier point in time in future. In the opening balance sheet as of March 1, 2018, we expect a reduction of around € 2.4 million in liabilities and an increase of the same amount in equity.

- The option of granting retrospective discounts (permanent low price guarantee) may prospectively lead to an increase in refund liabilities. As the relevant contracts are deemed to have been fulfilled as of the date of first-time application, however, this amendment will exclusively apply to contracts concluded after the date of first-time application. No restatement effects will arise as of March 1, 2018.

- IFRS 16 "Leases": This standard replaces the existing lease accounting requirements and fundamentally alters the treatment of leases at the lessee. The existing review performed to classify a lease as an operating lease or a finance lease is no longer required at the lessee. Apart from short-term and low-value contracts, from now on all lease contracts are to be presented using a methodology similar to that previously applied for finance leases, i.e. alongside a right-of-use asset a corresponding lease liability is also recognized upon initial recognition. Both items are updated as appropriate. When accounting for leases, lessors are still required to perform a review to classify leases as operating or finance leases.

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

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

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

  Based on current information, the property agreements at the Group in which HORNBACH acts as lessee are expected to increase non-current assets and financial debt by around € 0.6 billion each.

  This estimate is based on application of a uniform incremental borrowing rate of interest. Furthermore, the exercising of extension options has been based on current economic and company-specific conditions which may change as of the date of first-time application. It is currently not possible to assess any more far-reaching implications for the consolidated financial statements, as the inventory of contracts for lease arrangements involving plant and office equipment and intermediary lease arrangements is not yet complete. The same applies for potential write-downs resulting from application of IFRS 16.C8 (c) as of the date of first-time application as the future economic framework is not known.

Consolidation principles

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

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

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

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

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

Scope of consolidation

The assessment as to whether a subsidiary is fully consolidated in the consolidated financial statements of HORNBACH 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 in accordance with IAS 39.

In addition to HORNBACH Holding AG & Co. KGaA, the consolidated financial statements include 15 domestic and 46 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 (2016/17: 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 2017/18 financial year:

- HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse
- Union Bauzentrum HORNBACH GmbH, Neustadt/Weinstrasse
- Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse
- Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, 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 Real Estate Apeldoorn B.V. (Netherlands) and HORNBACH Real Estate Enschede B.V. (Netherlands) were included in the consolidated financial statements for the first time in the 2017/18 financial year. Both companies were founded in the 2017/18 financial year.

Furthermore, Etablissements Camille Holtz et Cie S.A., Phalsbourg (France) acquired 40 % of the shares in Saar-Lor Immobilière S. C. I., Phalsbourg (France), a company fully included in the scope of consolidation. As a result, the HORNBACH Baustoff Union GmbH subgroup increased its share of the capital from 60 % previously to 100 %. The consideration paid for the minority interests thereby acquired amounted to € 0.5 million.

The development in the scope of consolidation was as follows:

	2017/18	2016/17
March 1	**61**	**64**
Companies consolidated for the first time	2	1
Companies merged	0	4
February 28	**63**	**61**

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

Consolidated shareholdings

Company name and domicile	Shareholding in %	Equity[1] in thousands, local currency	Local currency
Germany			
HORNBACH Baumarkt AG, Bornheim	76.4[2)3)]	608,639	EUR
HORNBACH Immobilien AG, Bornheim	100[3)]	138,661	EUR
HORNBACH International GmbH, Bornheim	76.4[2)]	106,019	EUR
AWV-Agentur für Werbung und Verkaufsförderung GmbH, Bornheim	76.4[2)]	329	EUR
HORNBACH Baustoff Union GmbH, Neustadt/Weinstrasse	100[3)]	67,991	EUR
Union Bauzentrum Hornbach GmbH, Neustadt/Weinstrasse	100	7,754	EUR
Ruhland-Kallenborn & Co. GmbH, Neustadt/Weinstrasse	100	13,631	EUR
Ruhland-Kallenborn Grundstücksverwaltungsgesellschaft mbH, Neustadt/Weinstrasse	100	586	EUR
Robert Röhlinger GmbH, Neustadt/Weinstrasse	100	3,141	EUR
HB Reisedienst GmbH, Bornheim	76.4[2)]	7,285	EUR
HB Services GmbH, Bornheim	76.4[2)]	18	EUR
HORNBACH Versicherungs-Service GmbH, Bornheim	76.4[2)]	141	EUR
HORNBACH Solar-, Licht- und Energiemanagement GmbH, Bornheim	76.4[2)]	(36)	EUR
HIAG Immobilien Jota GmbH, Bornheim	100	6,753	EUR
HORNBACH Baustoff Union Grundstücksentwicklungs GmbH, Neustadt	100	(6)	EUR
Other countries			
HORNBACH Baumarkt GmbH, Wiener Neudorf, Austria	76.4[2)]	75,336	EUR
HL Immobilien Lambda GmbH, Wiener Neudorf, Austria	76.4[2)]	11,238	EUR
G.N.E. Global Grundstücksverwertung GmbH, Wiener Neudorf, Austria	76.4[2)]	768	EUR
HO Immobilien Omega GmbH, Wiener Neudorf, Austria	99.8	(341)	EUR
HR Immobilien Rho GmbH, Wiener Neudorf, Austria	99.8	(224)	EUR
HC Immobilien Chi GmbH, Wiener Neudorf, Austria	99.8	(101)	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
HM Immobilien My GmbH, Wiener Neudorf, Austria	100	(104)	EUR
HB Immobilien Bad Fischau GmbH, Wiener Neudorf, Austria	100[4]	(525)	EUR
HORNBACH Baumarkt Luxemburg SARL, Bertrange, Luxembourg	76.4[2]	9,603	EUR
HORNBACH Holding B.V., Amsterdam, Netherlands	76.4[2]	119,675	EUR
HORNBACH Bouwmarkt (Nederland) B.V., Driebergen-Rijsenburg, Netherlands	76.4[2]	14,221	EUR
HORNBACH Real Estate Apeldoorn B.V., Apeldoorn, Netherlands	76.4[2]	20	EUR
HORNBACH Real Estate Enschede B.V., Enschede, Netherlands	76.4[2]	20	EUR
HORNBACH Real Estate Tilburg B.V., Tilburg, Netherlands	76.4[2]	948	EUR
HORNBACH Real Estate Groningen B.V., Groningen, Netherlands	76.4[2]	914	EUR
HORNBACH Real Estate Wateringen B.V., Wateringen, Netherlands	76.4[2]	1,480	EUR
HORNBACH Real Estate Alblasserdam B.V., Alblasserdam, Netherlands	76.4[2]	825	EUR
HORNBACH Real Estate Nieuwegein B.V., Nieuwegein, Netherlands	76.4[2]	1,456	EUR
HORNBACH Real Estate Nieuwerkerk B.V., Nieuwerkerk, Netherlands	76.4[2]	1,456	EUR
HORNBACH Real Estate Geleen B.V., Geleen, Netherlands	76.4[2]	733	EUR
HORNBACH Reclame Activiteiten B.V., Nieuwegein, Netherlands	76.4[2]	(12)	EUR
HORNBACH Real Estate Breda B.V., Breda, Netherlands	76.4[2]	1,905	EUR
HORNBACH Real Estate Amsterdam-Sloterdijk, Amsterdam, Netherlands	76.4[2]	1,235	EUR
HORNBACH Real Estate Nederland B.V., Amsterdam, Netherlands	100	98	EUR
HORNBACH Real Estate Best B.V., Nieuwegein, Netherlands	76.4[2]	1,411	EUR
HORNBACH Real Estate Den Haag B.V., The Hague, Netherlands	76.4[2]	1,888	EUR
HORNBACH Real Estate Zwolle B.V., Zwolle, Netherlands	76.4[2]	245	EUR
HORNBACH Real Estate Almelo B.V., Almelo, Netherlands	76.4[2]	12	EUR
HORNBACH Real Estate Duiven B.V., Duiven, Netherlands	76.4[2]	(1,124)	EUR
HORNBACH Baumarkt CS spol s.r.o., Prague, Czech Republic	76.4[2]	2,626,342	CZK
HORNBACH Immobilien H.K. s.r.o., Prague, Czech Republic	97.6	463,711	CZK
HORNBACH Baumarkt (Schweiz) AG, Oberkirch, Switzerland	76.4[2]	125,283	CHF
HORNBACH Byggmarknad AB, Gothenburg, Sweden	76.4[2]	75,349	SEK
HIAG Fastigheter i Göteborg AB, Gothenburg, Sweden	100	52,547	SEK
HIAG Fastigheter i Helsingborg AB, Gothenburg, Sweden	100	21,730	SEK
HIAG Fastigheter i Göteborg Syd AB, Gothenburg, Sweden	100	607	SEK
HIAG Fastigheter i Stockholm AB, Gothenburg, Sweden	100	144,318	SEK
HIAG Fastigheter i Botkyrka AB, Gothenburg, Sweden	100	59,288	SEK
HIAG Fastigheter i Sisjön AB, Gothenburg, Sweden	76.4[2]	667	SEK
HORNBACH Immobilien SK-BW s.r.o., Bratislava, Slovakia	100	13,106	EUR
HORNBACH-Baumarkt SK spol. s.r.o., Bratislava, Slovakia	76.4[2]	27,171	EUR

HORNBACH Centrala SRL, Domnesti, Romania	76.4[2)]	101,258	RON
HORNBACH Imobiliare SRL, Domnesti, Romania	100	190,205	RON
Etablissement Camille Holtz et Cie S.A., Phalsbourg, France	99.92	706	EUR
Saar-Lor Immobilière S.C.L., Phalsbourg, France	99.97	158	EUR
HORNBACH Asia Ltd., Kowloon, Hong Kong	76.4[2)]	6,394	HKD

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: 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, between HORNBACH Baustoff Union GmbH and Union Bauzentrum HORNBACH GmbH on the one hand and Robert Röhlinger GmbH and Ruhland-Kallenborn & Co. GmbH on the other hand, and between HORNBACH Baumarkt AG and HORNBACH International 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	
	2.28.2018	2.28.2017	**2017/18**	2016/17
RON Romania	4.6630	4.5202	4.59266	4.49100
SEK Sweden	10.0923	9.5675	9.69801	9.49182
CHF Switzerland	1.1520	1.0648	1.12731	1.08530
CZK Czech Republic	25.4180	27.0210	26.05696	27.03226
USD USA	1.2214	1.0597	1.15673	1.10080
HKD Hong Kong	9.5595	8.2252	9.02700	8.54064

Accounting policies

General principles

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

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

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

Goodwill

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

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

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

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

	Years
Software and licenses	3 to 8
Other intangible assets	3 to 15

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.

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

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

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

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

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

Impairment of non-current non-financial assets

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

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

The value in use of an individual asset or a cash generating unit is calculated by reference to the discounted future cash flows of a cash generating unit expected on the basis of the detailed financial budget compiled within the strategic five-year plan. Periods reaching further into the future (perpetuity) have been based on growth factors of 1.0 % to 1.5 % (2016/17: 1.0 % to 1.5 %). The strategic five-year plan is largely based on the developments expected in consumer spending as stated in economic forecasts published by economic research institutes and on current procurement terms and future expectations as to such terms.

Discounting is based on average equity and debt capital costs after taxes (WACC= Weighted Average Cost of Capital). The calculation of the costs of equity is based on the yield expected on a long-term risk-free federal bond plus a company-specific risk premium. The costs of debt capital are based on the aforementioned base rate and include a risk premium. This risk premium is appropriate to the rating of HORNBACH Baumarkt AG or of a relevant peer group. The discount rates applied for the respective cash generating units take account of the specific equity capital structures of a peer group, and of country risk. To this extent, the value in use is basically determined by reference to Level 3 input data. The interest rates used for discounting are based on market data. Depending on the countries and activities involved, the discount rates thereby applied ranged from 4.9 % to 9.4 % after taxes (2016/17: 4.6 % to 10.0 %) and from 6.2 % to 11.1 % before taxes (2016/17: 5.8 % to 11.9 %). If the impairment loss is derived from the value in use, then the discount rate referred to for the specific item is reported in the respective section of the notes.

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

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

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

Leases

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

Inventories

Inventories are carried at cost or at their net realizable value, if lower. The net realizable value is taken to be the expected realizable sales proceeds less the costs incurred up to disposal. The acquisition costs of inventory holdings are determined using weighted average prices. Costs of unfinished services and customer orders for merchandise deliveries, including services provided with tradesmen commissioned by HORNBACH. Unfinished products and unfinished services mainly involve directly allocable costs of material and invoiced tradesman services. Supplier compensation requiring measurement as a reduction in the respective costs of acquisition or manufacture is recognized accordingly within inventories.

Taxes

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

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

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

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

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

Non-current assets held for sale and disposal groups

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

Pensions and similar obligations

Consistent with legal requirements in the respective countries and with individual commitments made to members of the Board of Management, group companies of 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 under personnel expenses. The net interest result is recognized under net financial expenses. Actuarial gains and losses relating to the pension obligation or the plan assets are recognized directly in equity, taking account of any deferred taxes. The implications are presented separately in the statement of comprehensive income.

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

Provisions and accrued liabilities

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

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

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

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

In the case of accrued liabilities, the date and level of the respective liability are no longer uncertain.

Financial instruments

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

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

Primary financial instruments

The 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.

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

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

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

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

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

Financial debt (except derivatives) 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 and the respective financial liability using the effective interest method. All other debt items are also recognized at amortized cost. This mostly corresponds to the respective repayment amount.

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

Derivative financial instruments

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

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

Upon entering into a hedging transaction, the HORNBACH 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.

Revenues

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

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

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

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

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

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

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

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

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

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

Discretionary decisions
Discretionary decisions made when applying the accounting policies and which materially influence the amounts recognized in the consolidated financial statements chiefly relate to the classification of leases as finance or operating leases. Based on the contractual terms, an assessment is made upon concluding or modifying the respective contracts as to whether the risks and rewards associated with ownership of the leased item are attributable to HORNBACH Holding AG & Co. KGaA or to the counterparty. More detailed information can be found in Notes (23) and (30).

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

The assumptions and estimates mainly relate to uniform procedures applied across the Group for economic useful lives (Notes 10, 11 & 12), the recognition and measurement of provisions (Notes 24, 25 & 28), the calculation of the recoverable amount to determine the amount of any impairments of non-current, non-financial assets (Notes 10, 11 & 12), the determination of the net realizable price for inventories (Note 16), and the ability to obtain future tax relief (Notes 8, 15 & 27). Further information about the accounting policies relating to the respective topic can be found in the aforementioned notes.

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

Segment Reporting

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

Segment delineation

The allocation of 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 in Germany and abroad and online shops in all 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. The "Headquarters and consolidation" reconciliation column includes administration and consolidation items not attributable to the individual segments.

Segment earnings

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

Segment asset and liabilities

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

2017/18 in € million 2016/17 in € million	HORNBACH Baumarkt AG subgroup	HORNBACH Baustoff Union GmbH subgroup	HORNBACH Immobilien AG subgroup	Headquarters and consolidation	HORNBACH HOLDING AG & Co. KGaA Group
Segment sales	**3,890.7**	**247.9**	**79.7**	**(77.3)**	**4,141.0**
	3,710.1	228.9	79.1	(77.2)	3,940.9
Sales to third parties	3,889.4	247.7	0.0	0.0	4,137.1
	3,708.5	228.1	0.0	0.0	3,936.6
Sales to affiliated companies	0.0	0.2	0.0	(0.2)	0.0
	0.0	0.7	0.0	(0.7)	0.0
Rental income from third parties	1.3	0.0	2.5	0.0	3.8
	1.6	0.1	2.6	0.0	4.3
Rental income from affiliated companies	0.0	0.0	77.1	(77.1)	0.0
	0.0	0.0	76.5	(76.5)	0.0
Segment earnings (EBIT)	**102.5**	**3.6**	**56.7**	**(1.6)**	**161.2**
	97.5	4.2	58.0	(2.9)	156.8
of which: depreciation and amortization/write-ups	80.2	8.3	12.9	0.0	101.5
	76.1	7.2	14.2	(0.1)	97.5
Segment assets	**1,991.0**	**169.4**	**480.2**	**9.5**	**2,650.1**
	1,948.3	155.4	492.6	26.6	2,622.9
of which: credit balances at banks	81.6	1.3	45.1	15.3	143.3
	91.0	1.2	43.8	31.9	167.9
Investments [1]	**128.7**	**14.7**	**4.6**	**0.0**	**148.0**
	176.1	21.6	0.4	0.0	198.1
Segment liabilities	**911.4**	**98.5**	**233.0**	**(109.3)**	**1,133.6**
	908.3	84.6	254.2	(71.2)	1,175.9
of which: financial debt	424.1	9.0	190.9	0.0	624.0
	452.9	30.8	212.6	0.0	696.3

[1] Investments in the "HORNBACH Baumarkt AG subgroup" segment include additions due to the capitalization of finance leases of € 0.0 million (2016/17: € 19.0 million).

Reconciliation in € million	2017/18	2016/17
Segment earnings (EBIT) before "Headquarters and consolidation"	**162.8**	**159.7**
Headquarters	(3.7)	(3.6)
Consolidation adjustments	2.1	0.7
Net financial expenses	(29.6)	(26.7)
Consolidated earnings before taxes	**131.6**	**130.1**
Segment assets	**2,650.1**	**2,622.9**
Deferred tax assets	10.8	10.1
Income tax receivables	6.8	15.3
Total assets	**2,667.7**	**2,648.4**
Segment liabilities	**1,133.6**	**1,175.9**
Deferred tax liabilities	50.1	51.9
Income tax liabilities	21.1	22.7
Total liabilities	**1,204.8**	**1,250.5**

Geographical disclosures

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.

2017/18 in € million 2016/17 in € million	Germany	Other European countries	Reconciliation	HORNBACH HOLDING AG & Co. KGaA Group
Sales	**2,659.4**	**1,829.0**	**(347.4)**	**4,141.0**
	2,583.2	1,678.7	(321.1)	3,940.9
Sales to third parties	2,309.8	1,827.3	0.0	4,137.1
	2,259.9	1,676.6	0.0	3,936.6
Rental income from third parties	2.5	1.3	0.0	3.9
	2.6	1.7	0.0	4.3
Sales to affiliated companies	347.0	0.4	(347.4)	0.0
	320.7	0.4	(321.1)	0.0
EBIT	**41.7**	**119.2**	**0.2**	**161.2**
	51.0	105.9	(0.1)	156.8
Depreciation and amortization/write-ups	**62.4**	**39.1**	**0.0**	**101.5**
	59.5	38.0	0.0	97.5
EBITDA	**104.1**	**158.4**	**0.2**	**262.7**
	110.5	143.9	(0.1)	254.3
Assets	**1,932.3**	**1,254.6**	**(536.8)**	**2,650.1**
	1,942.6	1,172.0	(491.7)	2,622.9
of which: non-current assets[*)]	821.6	868.0	(0.4)	1,689.2
	820.9	831.9	(0.3)	1,652.5
Investments [1)]	**74.1**	**73.9**	**0.0**	**148.0**
	80.7	117.9	(0.5)	198.1

[*)] These involve property, plant and equipment, investment property, intangible assets and non-current deferrals and accruals.
[1)] Investments include additions due to the capitalization of finance leases of € 0.0 million (2016/17: € 19.0 million).

Notes to the Consolidated Income Statement

(1) Sales

Sales mainly involve revenues in the "HORNBACH Baumarkt AG subgroup" and "HORNBACH Baustoff Union GmbH subgroup" segments. Furthermore, revenues of € 3,874k (2016/17: € 4,276k) from the letting of real estate have also been reported under sales.

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

(2) Costs of goods sold

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

	2017/18 € 000s	2016/17 € 000s
Expenses for auxiliary materials and purchased goods	2,559,235	2,438,694
Expenses for services rendered	67,393	60,535
	2,626,628	**2,499,229**

(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 and of builders' merchant centers which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel and vehicle expenses.

(6) Other income and expenses

Other income and expenses are structured as follows:

	2017/18 € 000s	2016/17 € 000s
Other income from operating activities		
Income from advertising allowances and other reimbursements of suppliers	1,565	2,193
Income from damages	1,780	1,614
Income from disposal of non-current assets	1,235	1,208
Income from payment differences	1,512	1,073
Miscellaneous other income	16,184	14,731
	22,276	**20,819**
Other income from non-operating activities		
Income from disposal of real estate	1,818	3,384
Income from write-ups to property, plant, and equipment and investment property	873	0
	2,691	**3,384**
Other income	**24,967**	**24,203**

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.

	2017/18 € 000s	2016/17 € 000s
Other expenses from operating activities		
Impairments and defaults on receivables	2,571	2,878
Losses due to damages	2,417	2,137
Losses on disposal of non-current assets	445	1,535
Expenses from payment differences	42	475
Miscellaneous other expenses	2,878	2,409
	8,353	**9,434**
Other expenses from non-operating activities		
Impairment of property, plant, and equipment and investment property	590	385
	590	**385**
Other expenses	**8,943**	**9,819**
Net income from other income and expenses	**16,025**	**14,384**

(7) Net financial expenses

	2017/18 € 000s	2016/17 € 000s
Other interest and similar income		
Interest income on financial instruments measured at amortized cost	515	507
Other	192	554
	707	**1,061**
Other interest and similar expenses		
Interest expenses on financial instruments measured at amortized cost	23,022	24,423
Interest expenses on financial instruments used as hedging instruments	657	1,485
Interest expenses from compounding of provisions	180	196
Other	1,002	1,000
	24,861	**27,104**
Net interest expenses	**(24,154)**	**(26,043)**
Other financial result		
Gains/losses on derivative financial instruments	1,129	(990)
Gains and losses from foreign currency exchange	(6,538)	292
	(5,409)	**(698)**
Net financial expenses	**(29,563)**	**(26,741)**

Other interest income includes interest income of € 192k on tax refund claims (2016/17: € 554k).

In line with IAS 17 "Leases", finance leases are recognized under property, plant and equipment, with the interest component of the leasing installments, amounting to € 7,764k (2016/17: € 8,173k) being recognized under interest and similar expenses. Net interest expenses do not include interest incurred for financing the construction stage of real estate development measures. This interest amounted to € 2,637k in the year under report (2016/17: € 2,980k) 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 3.8 % (2016/17: 3.8 %).

(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 € 1,129k on derivative currency instruments (2016/17: € -990k).

The gains and losses from foreign currency exchange for the 2017/18 financial year chiefly result from the measurement of foreign currency receivables and liabilities. This resulted in net expenses of € 2,186k (2016/17: € 2,049k). Furthermore, this item also includes realized exchange rate gains of € 5,811k (2016/17: € 8,877k) and realized exchange rate losses of € 10,163k (2016/17: € 6,536k). Gains and losses from foreign currency exchange include income of € 872k (2016/17: € 436k) 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 13.4 % of their trading income (2016/17: approximately 14 %). The corporate income tax rate continues to amount to 15 %, plus 5.5 % solidarity surcharge.

As in the previous year, all domestic deferred tax items have been valued at an average tax rate of 30 %. The calculation of foreign income taxes is based on the relevant laws and regulations in force in the individual countries. The income tax rates applied to foreign companies range from 16 % to 28 % (2016/17: 16 % to 29 %).

The actual income tax charge of € 35,860k (2016/17: € 40,162k) is € 3,622k lower (2016/17: € 1,139k higher) than the expected tax charge of € 39,482k (2016/17: € 39,023k) which would have been payable by applying the average tax rate of 30 % at HORNBACH Holding AG & Co. KGaA (2016/17: 30 %) to the Group's pre-tax earnings of € 131,607k (2016/17: € 130,075k).

Deferred tax assets have been stated for losses carried forward amounting to € 5,360k (2016/17: € 4,910k). HORNBACH Holding AG & Co. KGaA expects it to be possible to offset the tax losses arising in individual countries and carried forward against future earnings in full.

No deferred tax assets have been reported in the case of losses carried forward amounting to € 38,555k (2016/17: € 34,146k), as future realization of the resultant benefit is not expected. There are no time limits on the utilization of all other losses carried forward for which no deferred tax assets have been stated. Losses carried forward amounting to € 8k for which no deferred taxes had been recognized were utilized (2016/17: € 2,908k).

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

Taxes on income due in future in connection with planned profit distributions at subsidiaries have been recognized as deferred tax liabilities. A budgeting horizon of one year has been assumed. The distributions for which deferred tax liabilities have been recognized at the HORNBACH Holding AG & Co. KGaA Group are subject to German taxation at 5 %. No deferred tax liabilities have been recognized for retained profits of € 1,098,395k at subsidiaries (2016/17: € 1,065,105k), as these are either not subject to taxation or currently intended for reinvestment over an indefinite period.

Breakdown of the tax charge:

	2017/18 € 000s	2016/17 € 000s
Current taxes on income		
Germany	14,762	13,749
Other countries	24,213	21,124
	38,975	**34,873**
Deferred tax expenses/income		
due to changes in temporary differences	(3,138)	(2,140)
due to changes in tax rates	(47)	(4)
due to losses carried forward	70	7,433
	(3,115)	**5,289**
Taxes on income	**35,860**	**40,162**

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

	2017/18		2016/17	
	€ 000s	%	€ 000s	%
Expected income tax charge	39,482	100.0	39,023	100.0
Difference between local tax rate and group tax rate	(10,078)	(25.5)	(9,230)	(23.7)
Tax-free income	(731)	(1.9)	(794)	(2.0)
Tax reductions/increases due to changes in tax rates	(47)	(0.1)	(4)	0.0
Tax increases attributable to expenses not deductible for tax purposes	5,478	13.9	4,593	11.8
Tax effects on losses carried forward	1,387	3.5	(25)	(0.1)
Non-period current and deferred taxes	369	0.9	6,599	16.9
Taxes on income	**35,860**	**90.8**	**40,162**	**102.9**
Effective tax rate in %	27.2		30.9	

The non-period current tax expenses of € 749k (2016/17: € 176k) chiefly result from changes in provisions for past assessments (€ 714k).

The non-period deferred tax income of € 380k (2016/17: tax expenses of € 6,423k) chiefly result from the capitalization of deferred tax assets due to a change in tax rates in Switzerland and from a write-up of non-current assets. The previous year's figure largely resulted from the derecognition of deferred tax assets on losses carried forward in Sweden.

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

	2017/18 € 000s	2016/17 € 000s
Actuarial gains and losses on defined benefit plans		
Actuarial gains and losses on defined benefit plans before taxes	4,015	1,964
Change in deferred taxes	(772)	(363)
	3,243	1,601
Measurement of derivative financial instruments (cash flow hedge)		
Changes in fair value of derivative financial instruments before taxes	498	631
Change in deferred taxes	(121)	(191)
	378	440
Exchange differences arising on the translation of foreign subsidiaries	**(4,550)**	**1,353**
Other comprehensive income, net after taxes	**(929)**	**3,394**
of which: other comprehensive income before taxes	(37)	3,948
of which: change in deferred taxes	(893)	(554)

(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.

	2017/18	2016/17
Consolidated net income in € attributable to shareholders in HORNBACH Holding AG & Co. KGaA	81,732,744	77,429,532
Number of ordinary shares issued	16,000,000	16,000,000
Earnings per share in €	**5.11**	**4.84**

(10) Other disclosures on the income statement

Non-operating items

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

2017/18 financial year € 000s	Impairment of assets (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Total
Selling and store expenses	(1,670)	0	(4,821)	0	0	(6,491)
Pre-opening expenses	0	0	0	0	(88)	(88)
Other income and expenses	0	873	0	1,229	0	2,102
	(1,670)	**873**	**(4,821)**	**1,229**	**(88)**	**(4,477)**

2016/17 financial year € 000s	Impairment of assets (IAS 36)	Reversal of impairment losses (IAS 36)	Additions to provisions for onerous contracts	Result from sale or valuation of non-operating real-estate	Result from cancellation of projects	Total
Selling and store expenses	(3,068)	0	(2,586)	0	0	(5,654)
Pre-opening expenses	0	0	(312)	0	0	(312)
Other income and expenses	0	0	0	2,999	0	2,999
	(3,068)	**0**	**(2,899)**	**2,999**	**0**	**(2,968)**

Personnel expenses

The individual expense items include the following personnel expenses:

	2017/18 € 000s	2016/17 € 000s
Wages and salaries	606,134	571,253
Social security contributions and pension expenses	133,466	124,899
	739,600	**696,152**

Depreciation and amortization

	2017/18 € 000s	2016/17 € 000s
Scheduled amortization of intangible assets and depreciation of property, plant, and equipment and investment property	100,103	94,014
Impairment of property, plant, and equipment, intangible assets and investment property	2,260	3,453
	102,363	**97,467**

The impairment losses recognized in the 2017/18 financial year relate to properties used for operations, properties not used for operations, plant and office equipment, and intangible assets. In the previous year, impairment losses related to properties used for operations, properties not used for operations, and plant and office equipment. Reference is also made to the disclosures on intangible assets and property, plant and equipment in Notes (11) and (12) respectively.

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

2017/18 financial year **€ 000s**	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	836	89,152	89,988
Pre-opening expenses	0	37	37
General and administration expenses	4,002	7,746	11,748
Other income and expenses	0	590	590
	4,838	**97,526**	**102,363**

2016/17 financial year € 000s	Intangible assets	Property, plant, and equipment and investment property	Total
Selling and store expenses	247	87,295	87,541
Pre-opening expenses	0	20	20
General and administration expenses	2,477	7,043	9,520
Other income and expenses	0	385	385
	2,724	**94,743**	**97,467**

Notes to the Consolidated Balance Sheet

(11) Intangible assets

The development in intangible assets in the 2016/17 and 2017/18 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, 2016	**87,669**	**4,415**	**2,813**	**94,897**
Additions	2,698	0	3,903	6,601
Disposals	250	0	938	1,188
Reclassifications	233	0	(21)	212
Foreign currency translation	(2)	0	0	(2)
Balance at February 28/March 1, 2017	**90,348**	**4,415**	**5,757**	**100,520**
Additions	6,708	0	1,915	8,623
Disposals	626	0	0	626
Reclassifications	5,226	0	(5,245)	(19)
Foreign currency translation	(11)	0	0	(11)
Balance at February 28, 2018	**101,645**	**4,415**	**2,427**	**108,487**
Depreciation and amortization				
Balance at March 1, 2016	**81,527**	**1,143**	**0**	**82,670**
Additions	2,724	0	0	2,724
Disposals	252	0	0	252
Foreign currency translation	2	0	0	2
Balance at February 28/March 1, 2017	**84,001**	**1,143**	**0**	**85,144**
Additions	4,838	0	0	4,838
Disposals	656	0	0	656
Foreign currency translation	(3)	0	0	(3)
Balance at February 28, 2018	**88,180**	**1,143**	**0**	**89,323**
Carrying amount at February 28, 2018	**13,465**	**3,272**	**2,427**	**19,164**
Carrying amount at February 28, 2017	6,347	3,272	5,757	15,376

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

- Additions to franchises, industrial property rights and similar rights and values and licenses to such rights and values and to assets under construction mainly relate to the acquisition of software licenses and expenses incurred to prepare the software for its intended use.
- As in the previous year, there are no major restrictions on ownership and disposition rights.
- The goodwill relates to two garden centers in the Netherlands, with around 50 % of the respective figure being allocable to each of these. As in the previous year, the mandatory annual impairment test performed on goodwill in the 2017/18 financial year did not identify any impairment requirement. The recoverable amounts of the two cash generating units are based in each case on their value in use. This is calculated using the discounted cash flow method by reference to Level 3 input data.

- The pre-tax discount rates applied in the 2017/18 financial year amounted to 9.1 % and 6.6 % (2016/17: 9.3 % and 6.2 %).
- As in the previous year, the changes deemed possible in key assumptions (increase in discount rate or reduction in gross profit) would not result in any impairments at the two locations.
- An impairment requirement was identified on intangible assets in the 2017/18 financial year. The respective items were written down by € 650k to their net realizable values. All items involved related to the "HORNBACH Baustoff Union subgroup" segment.

(12) Property, plant and equipment and investment property

The development in property, plant and equipment in the 2016/17 and 2017/18 financial years was as follows:

€ 000s	Land, leasehold rights, and buildings on third-party land	Investment property (IAS 40)	Other equipment, plant, and office equipment	Assets under construction	Total
Cost					
Balance at March 1, 2016	**1,776,123**	**63,987**	**636,766**	**33,204**	**2,510,080**
Reclassifications to/from non-current assets held for sale	0	(2,892)	0	0	(2,892)
Changes in scope of consolidation	8,189	0	0	0	8,189
Additions	104,299	1,551	41,754	35,695	183,299
Disposals	1,935	6,140	32,029	104	40,208
Reclassifications pursuant to IAS 40	(3,503)	3,503	0	0	0
Reclassifications	20,156	0	7,546	(27,914)	(212)
Foreign currency translation	(767)	(101)	158	32	(678)
Balance at February 28/March 1, 2017	**1,902,562**	**59,907**	**654,195**	**40,913**	**2,657,577**
Reclassifications to/from non-current assets held for sale	0	(754)	0	0	(754)
Additions	38,945	3,120	48,488	48,807	139,360
Disposals	(451)	3,202	28,062	1,301	32,114
Reclassifications	26,832	0	7,423	(34,236)	19
Foreign currency translation	(8,193)	(22)	(2,307)	(227)	(10,749)
Balance at February 28, 2018	**1,960,597**	**59,048**	**679,737**	**53,956**	**2,753,338**
Amortization					
Balance at March 1, 2016	**457,254**	**23,020**	**480,903**	**2**	**961,179**
Reclassifications to/from non-current assets held for sale	0	(1,877)	0	0	(1,877)
Additions	47,967	1,008	45,768	0	94,743
Disposals	1,890	0	30,612	0	32,502
Reclassifications pursuant to IAS 40	(1,535)	1,535	0	0	0
Reclassifications	(18)	0	18	0	0
Foreign currency translation	(212)	(7)	219	0	0
Balance at February 28/March 1, 2017	**501,566**	**23,679**	**496,296**	**2**	**1,021,543**
Reclassifications to/from non-current assets held for sale	0	(432)	0	0	(432)
Additions	49,368	1,215	46,943	0	97,526
Write-ups	0	(873)	0	0	(873)
Disposals	(163)	3,087	26,723	0	29,647
Reclassifications	14	0	(14)	0	0
Foreign currency translation	(90)	13	(1,990)	0	(2,067)
Balance at February 28, 2018	**551,021**	**20,515**	**514,512**	**2**	**1,086,050**
Carrying amount at February 28, 2018	**1,409,576**	**38,533**	**165,225**	**53,954**	**1,667,288**
Carrying amount at February 28, 2017	1,400,996	36,228	157,899	40,911	1,636,034

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

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

Valuation parameter	Min.	Max.
Gross profit		
Inside area (€/m²)	€ 4.50	€ 8.00
Outside area (€/m²)	€ 0.64	€ 2.25
Administrative costs (% of annual gross profit)	1.00 %	1.00 %
Maintenance costs (€/m²)		
Inside area (€/m²)	€ 3.50	€ 3.50
Outside area (€/m²)	€ 0.60	€ 0.60
Real estate interest rate	5.25 %	8.00 %

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

As a result of the impairment test, impairment requirements were identified in the 2017/18 financial year for one building at a store which constitutes a cash generating unit at the "HORNBACH Baumarkt AG subgroup" segment and for marketing-oriented and sales promotional plant and office equipment and for real estate at the "HORNBACH Baustoff Union GmbH subgroup" segment. These items were written down by € 1,020k to their values in use. The values in use were determined using the discounted cash flow method and based on Level 3 input data. Depending on the country involved, the discount rate used to calculate the value in use amounted to 9.8 % before tax. The recoverable amount for the locations amounts to € 156,645k.

In the previous year, impairment requirements were identified for marketing-oriented and sales promotional plant and office equipment and on real estate at four stores at the "HORNBACH Baumarkt AG subgroup" segment and at the "HORNBACH Baustoff Union GmbH subgroup" segment. These items were written down by € 3,068k to their net realizable values. The recoverable amount for these locations amounted to € 148,847k.

In the 2017/18 financial year, impairment losses of € 590k were recognized for items of investment property, which were written down to their net realizable values (2016/17: € 385k). In the 2017/18 financial year, write-ups of € 873k were recognized for items of investment property, which were thereby written up to their net realizable values. Of these, € 752k related to the "HORNBACH Immobilien AG subgroup" segment and € 121k to the "HORNBACH Baumarkt AG subgroup" segment. The net realizable values were determined by reference to available real estate sale contracts and external current value surveys. The value of the properties valued by the surveyor was determined on the basis of land values determined by the surveyor by reference to suitable comparable properties as well as on the basis of capitalized earnings values determined by reference to the German Real Estate Valuation Ordinance (ImmoWertV).

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

€ 000s	2017/18	2016/17
HORNBACH Baumarkt AG subgroup		
Buildings	350	0
Other equipment, plant, and office equipment	0	1,203
	350	**1,203**
HORNBACH Immobilien AG subgroup		
Land	0	385
	0	**385**
HORNBACH Baustoff Union GmbH subgroup		
Intangible assets	650	0
Land	40	221
Buildings	534	891
Outdoor facilities	16	564
Other equipment, plant, and office equipment	670	189
	1,910	**1,865**
Total	**2,260**	**3,453**

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 approximately € 46.1 million (2016/17: € 45.1 million). The fair values have been determined by independent external surveyors, who generally calculate the capitalized earnings value pursuant to the German Real Estate Valuation Ordinance (ImmoWertV). The calculation is based on Level 3 input data. Key input factors include future rental income, the property rate, and operating costs. Irrespective of this, application is also made of the comparative method. This involves determining the fair value on the basis of transactions with comparable properties (Level 2 input data).

Rental income of € 2,458k was generated on properties let to third parties in the year under report (2016/17: € 3,245k). Expenses of € 1,206k were incurred for the maintenance of the properties let to third parties (2016/17: € 1,464). Expenses of € 62k were incurred for all other items of investment property (2016/17: € 162k). The real estate acts as security for bank loans in the form of registered land charges amounting to € 298.4 million (2016/17: € 328.6 million).

As in the previous year, contractual amendments and new rental contracts were negotiated for several existing locations in the 2017/18 financial year. The existing lease agreements were exclusively classified as operating leases.

The net carrying amount of finance leases included in the "Land, leasehold rights and buildings, and buildings on third-party land" asset class at the balance sheet date totals € 161,756k (2016/17: € 176,385k).

The leases mainly relate to land and buildings that are let and provide for basic rental periods of 15 years. Furthermore, the leases include up to three options to extend the contractual terms by five years in each case, as well as indexing provisions customary to the market and based on the development in consumer price indices. The following table provides disclosures on finance lease obligations. Further information about operating lease obligations can be found in Notes (30) and (31).

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

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

(13) Financial assets

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

€ 000s	Investments	Total
Cost		
Balance at February 28/March 1, 2017	**22**	**22**
Balance at February 28, 2018	**22**	**22**
Carrying amount at February 28, 2018	**22**	**22**
Carrying amount at February 28, 2017	22	22

There were no changes in financial assets in the 2017/18 financial year. These all refer to companies that are not primarily pursuing the aim of generating profit. All financial assets have been recognized at cost as it was not possible to determine reliable fair values.

The Group currently has no intention to sell investments.

(14) Other non-current receivables and assets

Other non-current receivables and assets mainly consist of deposits of € 4,023k (2016/17: € 4,014k) paid as security for possible subsequent claims to purchase price reductions on the part of the buyer. The deposits have a maximum remaining term of 2 years.

(15) Deferred taxes

Deferred taxes relate to the following items:

	2.28.2018		2.28.2017	
	Assets € 000s	**Liabilities € 000s**	Assets € 000s	Liabilities € 000s
Intangible assets and property, plant, and equipment	7,764	54,578	7,262	54,663
Finance leases	1,935	0	1,275	0
Inventories	734	4,063	686	4,533
Other assets and liabilities	870	1,100	978	1,101
Liabilities	73	788	459	625
Other provisions	10,052	423	8,984	382
Tax-free reserves	0	699	0	1,067
Losses carried forward	942	0	876	0
	22,370	**61,651**	**20,520**	**62,371**
Set-off	(11,563)	(11,563)	(10,465)	(10,465)
Total	**10,807**	**50,088**	**10,055**	**51,906**

(16) Inventories

	2.28.2018 € 000s	2.28.2017 € 000s
Raw materials and supplies	1,923	1,771
Unfinished products, unfinished services	1,460	1,439
Finished products and merchandise	706,712	669,437
Inventories (gross)	**710,095**	**672,647**
less valuation allowances	11,346	10,685
Inventories (net)	**698,749**	**661,962**
Carrying amount of inventories measured at net realizable value	34,290	29,614

Expenses of € 2,547,889k were recognized as merchandise input expenses for merchandise and auxiliary materials and supplies in the 2017/18 financial year (2016/17: € 2,428,009k).

(17) Current financial assets

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

(18) Trade receivables and other current assets

This item comprises the following items:

	2.28.2018 € 000s	2.28.2017 € 000s
Trade receivables	32,073	29,512
Receivables from affiliated companies	8	8
Positive fair values of derivative financial instruments	578	29
Other receivables and assets	60,986	53,192
	93,645	**82,741**

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

Furthermore, the company has factoring agreements that result in the full derecognition of the respective trade receivables, but that nevertheless entail continuing involvement pursuant to IFRS 7. This continuing involvement arises due to fact that new obligations arise for HORNBACH upon the assignment of the respective receivable. Should the receivables thereby assigned default, then HORNBACH is liable for a contractually defined quota. The receivables assigned and fully derecognized are countered by a provision of € 26k (2016/17: € 22k) that represents the likely liability risk. Any liability-related issues are generally addressed shortly after the assignment of the receivable. The maximum risk of loss amounted to € 1,669k as of February 28, 2018 (2016/17: € 1,499k) and was based on the total loss of all relevant receivables. This amount was derived by multiplying the balance of receivables thereby assigned with the respective liability quota. The company does not generate any gain or loss at the time at which the receivable is assigned. The expenses recognized in the 2017/18 financial year for receivables that were assigned and fully derecognized and that subsequently defaulted amount to € 244k (2016/17: € 278k).

Other receivables and assets mainly consist of receivables in connection with credit notes for goods and bonus agreements, receivables from credit card companies, receivables from pledged funds, and deferred charges and prepaid expenses. Furthermore, this item also includes tax refund claims of € 4,930k (2016/17: € 2,480k) 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.

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

2.28.2018 **€ 000s**	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	32,073	16,660	5,731	1,686	1,863	141
Receivables from affiliated companies	8	8				
Positive fair values of derivative financial instruments	578	578				
Other receivables and assets	42,530	38,626	2,887	221	150	161
	75,189	**55,872**	**8,618**	**1,907**	**2,013**	**302**

2.28.2017 € 000s	Carrying amount	of which: neither impaired nor overdue	of which: not impaired, but overdue within the following time bands (days)			
			< 60	61 to 90	91 to 180	> 180
Trade receivables	29,512	14,989	5,788	1,550	1,797	23
Receivables from affiliated companies	8	8				
Positive fair values of derivative financial instruments	29	29				
Other receivables and assets	41,085	37,517	2,073	125	132	86
	70,634	**52,543**	**7,861**	**1,675**	**1,929**	**109**

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

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

€ 000s	Trade receivables		Other receivables and assets	
	2017/18	2016/17	2017/18	2016/17
Allowances at March 1	**4,577**	**4,640**	**1,976**	**2,003**
Utilization	1,408	1,229	58	81
Reversals	484	612	107	215
Additions	1,169	1,779	442	269
Foreign currency translation	(7)	(1)	(2)	0
Allowances at February 28	**3,847**	**4,577**	**2,251**	**1,976**

The complete retirement of receivables resulted in expenses of € 670k (2016/17: € 807k). The receipt of receivables already derecognized resulted in income of € 107k (2016/17: € 297k).

(19) Cash and cash equivalents

	2.28.2018 € 000s	2.28.2017 € 000s
Cash balances at banks	143,304	167,926
Checks and cash on hand	20,752	22,147
	164,056	**190,073**

(20) Non-current assets held for sale

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

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

A piece of land included in this line item at the beginning of the financial year was sold in the 2017/18 financial year. This piece of land was previously allocated to the "HORNBACH Immobilien AG subgroup" segment. The sale resulted in a disposal gain that has been recognized under other operating income from non-operating activities.

No impairment losses or write-ups were recognized on non-current assets held for sale in the 2017/18 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 2016/17 and 2017/18 financial years.

Share capital

At the balance sheet date on February 28, 2018, the share capital of HORNBACH Holding AG & Co. KGaA amounted to € 48,000,000 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

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

Pursuant to § 26 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, 2017 to February 28, 2018. 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 shareholders

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 % (2016/17: 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, 2018	February 28, 2017
Sales	3,890,704	3,710,097
Consolidated net income	58,667	52,864
of which: attributable to non-controlling interests	13,969	12,500
Other comprehensive income	1,168	6,448
Total comprehensive income	**59,835**	**59,312**
of which: attributable to non-controlling interests	14,079	14,025
Assets	1,997,740	1,959,885
Liabilities	948,938	949,240
Net assets	**1,048,802**	**1,010,645**
of which: attributable to non-controlling interests	246,692	238,978
Cash flow from operating activities	134,106	115,217
Cash flow from investing activities	(96,245)	(185,447)
Cash flow from financing activities	(47,698)	(100,125)
Cash-effective change in cash and cash equivalents	**(9,837)**	**(170,355)**
Dividends paid to non-controlling interests[1)]	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 2017/18 financial year. The equity ratio amounted to 54.8 % as of February 28, 2018 (2016/17: 52.8 %).

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

(22) Distributable earnings and dividends

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

HORNBACH Holding AG & Co. KGaA concluded the 2017/18 financial year with an annual net surplus of € 18,541,995.17.

Following the withdrawal of € 5,458,004.83 from other revenue reserves, the unappropriated net profit amounts to € 24,000,000.00.

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 € 1.50 on 16,000,000 shares	24,000,000.00
	24,000,000.00

The Annual General Meeting held on July 7, 2017 approved a dividend of € 1.50 in the 2017/18 financial year. The total amount distributed thus amounted to € 24,000k (2016/17: € 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	**2.28.2018 Total**
Bonds	0	248,844	0	248,844
Liabilities to banks	26,279	142,226	32,414	200,919
Liabilities in connection with finance leases	10,322	46,045	117,748	174,115
Negative fair values of derivative financial instruments	148	0	0	148
Total	**36,750**	**437,115**	**150,162**	**624,027**

€ 000s	Maturities			Carrying amount
	Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2017 Total
Bonds	0	248,231	0	248,231
Liabilities to banks	64,208	141,282	55,334	260,824
Liabilities in connection with finance leases	10,232	44,444	131,057	185,733
Negative fair values of derivative financial instruments	1,378	135	0	1,513
Total	**75,817**	**434,092**	**186,391**	**696,301**

The HORNBACH Holding AG & Co. KGaA Group had current financial debt amounting to € 36.7 million at the balance sheet date on February 28, 2018 (2016/17: € 75.8 million). This consists of the portion of long-term financing facilities maturing in the short term, amounting to € 30.4 million (2016/17: € 39.0 million), short-term financing facilities of € 4.5 million (2016/17: € 33.6 million), interest deferrals of € 1.7 million (2016/17: € 1.8 million), and liabilities of € 0.1 million relating to the measurement of derivative financial instruments (2016/17: € 1.4 million).

HORNBACH Baumarkt AG took up a seven-year corporate bond of € 250 million on February 15, 2013. The bond has an interest coupon of 3.875%. In combination with the issue price of 99.25 %, this results in a yield of 4.00 % p.a. The total costs of € 2,355k arising in connection with the corporate bond and the disagio of € 1,875k have been spread over the term using the effective interest method. The interest of € 372k accrued since the previous bond interest payment date has been recognized in the carrying amount of liabilities to banks (2016/17: € 372k).

The HORNBACH Immobilien AG subgroup took up an unsecured promissory note bond of € 70 million as of June 30, 2015. The promissory note bond has a term running until June 30, 2021 and charges interest with a fixed interest coupon. The inflow of funds was used to prematurely redeem the existing promissory note bond of the same amount with an extended term and improved margin.

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

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

2017/18 financial year	Currency	Interest agreement in % (including swap)	Maturity	**Amount 2.28.2018 € 000s**
Loans	EUR	1.73 to 3.80	2018 to 2021	69,970
Mortgage loans	EUR	1.25 to 5.54	2018 to 2023	57,332
	CZK	2.19 to 5.22	2018 to 2026	40,450
	SEK	4.97 to 6.60	2018 to 2028	26,988
				194,740

2016/17 financial year	Currency	Interest agreement in % (including swap)	Maturity	Amount 2.28.2017 € 000s
Loans	EUR	1.73 to 3.80	2018 to 2021	69,993
Mortgage loans	EUR	1.25 to 5.57	2017 to 2023	79,336
	CZK	2.19 to 5.22	2018 to 2026	43,660
	SEK	4.97 to 6.60	2018 to 2028	32,433
				225,422

The overwhelming majority of non-current liabilities to banks have fixed interest rates. Loans with floating rates have interest rates based on the short-term Euribor, or a corresponding foreign currency Ibor, plus a bank margin of between 0.75 and 1.60 percentage points (2016/17: 0.75 to 1.60). Interest swaps have been concluded to secure the interest rate on non-current liabilities with floating interest rates. These enable the interest payments to be secured on those loans which could have a significant influence on the Group's annual earnings.

As of February 28, 2018, the HORNBACH Holding AG & Co. KGaA Group had total credit lines of € 491.5 million (2016/17: € 411.5 million) on customary market terms. Unutilized credit lines amounted to € 482.2 million (2016/17: € 373.1 million). Furthermore, HORNBACH Baumarkt AG has a credit line for import credits amounting to USD 40.0 million (2016/17: USD 40.0 million). Of this, an amount of USD 9.9 million had been drawn down as of the balance sheet date (2016/17: USD 8.0 million).

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

Land charges amounting to € 298.4 million have been provided as security for liabilities to banks (2016/17: € 328.6 million).

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

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 € 102.1 million at HORNBACH Baumarkt AG and its subsidiaries (2016/17: € 113.0 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 leasing payments for finance leases has been presented in Note (12) "Property, plant and equipment and investment property". The following reconciliation presents the changes in financial liabilities and derivative financial instruments relating to the Group's financing activities.

Reconciliation pursuant to IAS 7 in € 000s	3.1.2017	Cash-effective changes	of which: interest included in cash flow from opertaing activities	Non-cash changes			2.28.2018
				Foreign currency translation	Changes in fair values	Other changes	
Bonds	248,231	(9,688)	9,688	0	0	613	248,844
Liabilities to banks	260,824	(65,980)	6,859	(763)	0	(21)	200,919
Liabilities in connection with finance leases	185,733	(17,176)	7,764	(2,206)	0	0	174,115
Negative fair values of derivative financial instruments from financing activities	183	(146)	146	(7)	6	0	36
Financial and similar liabilities	**694,972**	**(92,990)**	**24,457**	**(2,976)**	**6**	**592**	**623,914**
Positive fair values of derivative financial instruments from financing activities	18	(537)	537	(1)	1,692	0	1,172
Derivative financial assets	**18**	**(537)**	**537**	**(1)**	**1,692**	**0**	**1,172**

(24) Pensions and similar obligations

As a result of legal requirements in individual countries and individual commitments made to members of its Board of Management, the HORNBACH 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 € 56,626k in the 2017/18 financial year (2016/17: € 52,962k). Of this total, an amount of € 32,632k involved the employer's share of contributions to the state pension scheme in Germany (2016/17: € 31,593k).

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 € 3,827k in the 2018/19 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 840 beneficiaries.

  The pension plan offers benefits that exceed the statutory minimum requirements under the BVG legislation. The employee covers around 35 % of the premiums to be paid for the savings balances, as well as further clearly defined costs. The remaining expenses are covered by the employer. Retirement pension contributions are age-dependent and rise with increasing age. Risk and cost premiums are calculated by the insurance company on an individual basis and reassessed each year. The actuarial risk in connection with this plan is borne by 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 to 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 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.

Pensions and similar obligations are structured as follows:

	2017/18 € 000s	2016/17 € 000s
Present value of pension obligation	66,934	70,503
less fair value of plan assets	(56,073)	(55,274)
Pension commitments as reported in balance sheet	**10,861**	**15,229**
of which: pension provisions	10,861	15,229

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

	2.28.2018 %	2.28.2017 %
Debt securities	77.0	79.9
Shares	5.0	4.2
Real estate	11.4	11.0
Other	6.5	4.9
	100.0	**100.0**

Change in pension obligation

	2017/18 € 000s	2016/17 € 000s
Present value of pension obligation at the beginning of the period	70,503	63,326
Current service cost of employer	4,726	5,453
Employee contributions	2,922	2,800
Interest cost	401	518
Payments from the plan	(2,152)	(1,000)
Remeasurement effects because of:		
Changes in demographic assumptions	0	(2,170)
Changes in financial assumptions	(5,000)	1,544
From experience adjustments	1,212	(257)
Insurance premiums	(1,168)	(1,138)
Foreign currency translation	(4,509)	1,428
Present value of pension obligation at the end of the period	**66,934**	**70,503**

Change in plan assets

	2017/18 € 000s	2016/17 € 000s
Plan assets at beginning of period	55,274	48,753
Employer contributions	3,699	3,877
Employee contributions	2,922	2,800
Payments from the plan	(2,152)	(1,000)
Interest income	334	439
Return on plan assets (excluding interest income)	460	570
Insurance premiums	(1,168)	(1,138)
Foreign currency translation	(3,294)	974
Plan assets at the end of the period	**56,073**	**55,274**

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.

	2017/18 € 000s	2016/17 € 000s
Current service cost of employer	4,726	5,453
Interest cost	401	518
Interest income	(334)	(439)
Effects recognized in P&L	**4,793**	**5,532**
Remeasurement effects because of:		
Changes in demographic assumptions	0	2,170
Changes in financial assumptions	5,000	(1,544)
From experience adjustments	(1,212)	257
Return on plan assets (excluding interest income)	460	570
Effects recognized in OCI	**4,248**	**1,453**
Costs for defined benefit plans	**545**	**4,078**

The amounts recognized through profit or loss are included in the income statement in the personnel expenses for the following functional areas and in net financial expenses:

	2017/18 € 000s	2016/17 € 000s
Selling and store expenses	3,295	4,041
Pre-opening expenses	48	0
General and administration expenses	1,384	1,412
Net financial expenses	67	79
	4,793	**5,532**

Actuarial assumptions

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

	2.28.2018		2.28.2017	
	Weighted average	Range	Weighted average	Range
Discount interest rate	1.1 %	1.0 % to 1.6 %	0.7 %	0.5 % to 1.6 %
Future salary increases	1.8 %	1.5 % to 3.0 %	1.8 %	1.5 % to 3.0 %
Future pension increases	0.3 %	0.0 % to 2.0 %	0.3 %	0.0 % to 2.0 %

The discount rate used has been determined on the basis of the return on blue-chip fixed-income industrial bonds. The assumptions concerning future mortality rates are based on published statistics and mortality tables. For plans in Germany, reference has been made to the "Heubeck Richttafeln 2005 G". Swiss plans are governed by the "BVG 2015 Generationentafel".

Sensitivity analysis

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

Change in present value of pension obligation:

€ 000s	2.28.2018		2.28.2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25 basis points change)	(2,365)	2,563	(2,741)	2,982
Rate of pension increase (0.10 basis points change)	714	n/a	912	n/a
Mortality (+ 1 year)	984	n/a	1,203	n/a

Future cash flows

Payments of contributions amounting to € 3,626k are expected for the 2018/19 financial year.

Expected payments	2.28.2018 € 000s
2018/19	408
2019/20	877
2020/21	496
2021/22	6,213
2022/23	4,027
2023 to 2027	6,495

Expected payments	2.28.2017 € 000s
2017/18	375
2018/19	508
2019/20	944
2020/21	594
2021/22	5,869
2022 to 2026	9,769

(25) Other non-current liabilities

Other non-current liabilities mainly involve non-current provisions of € 35,659k (2016/17: € 27,829k). These include provisions of € 15,178k (2016/17: € 13,150k) for contractually assumed structural maintenance obligations and personnel provisions of € 11,797k (2016/17: € 10,270k). The rental agreements underlying the maintenance obligations have remaining terms of between 1 and 15 years. The personnel provisions mainly relate to provisions recognized due to statutory requirements in Austria for employees in the event of their leaving the company (severance payments) and to anniversary bonus claims and part-time early retirement obligations. Further information about the severance payment obligation can be found below. Furthermore, this line item also includes provisions for onerous lease arrangements and a provision for the storage of business documents. The lease arrangements for which provisions were recognized have non-terminable remaining terms of between 2 and 13 years. The provision for the storage of business documents chiefly relates to statutory storage periods of between 7 and 11 years.

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

Other non-current liabilities also include accruals of € 7,919k (2016/17: € 8,435k). These mainly relate to incentive payments received in connection with extensions or amendments to real estate rental agreements classified as operating leases. The accruals are being written back in instalments over the non-terminable rental period. Furthermore, this item also includes accruals relating to graduated rental agreements.

Severance payments

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

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

Change in pension obligation and costs of plan

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

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

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

Actuarial assumptions and sensitivity analysis

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

The discount rate used has been determined on the basis of the return on blue-chip fixed-income bonds. The biometric calculation has been based on "AVÖ 2008 P – Rechnungsgrundlage für die Pensionsversicherungen". The influence of those actuarial assumptions which, if changed, would materially impact on the measurement of the present value of the pension obligation, has been presented in the following sensitivity analysis. This presents that change in the present value of the pension obligation that would have arisen if different actuarial assumptions had been used as of the balance sheet date. The other parameters influencing the respective values have remained constant.

Change in present value of the pension obligation

€ 000s	2.28.2018		2.28.2017	
	Increase	Decrease	Increase	Decrease
Discount rate (0.5 basis points change)	-390	429	-380	420
Rate of salary increase (0.25 basis points change)	203	-195	222	-213

(26) Trade payables and other current liabilities

	2.28.2018 € 000s	2.28.2017 € 000s
Trade payables and advance payments received for orders	283,694	274,928
Liabilities to affiliated companies	249	201
of which: to shareholders	249	201
Other liabilities	77,304	72,539
of which: other taxation	26,425	26,316
of which: social security contributions	4,359	4,146
	361,247	**347,668**

Trade payables and other current liabilities have remaining terms of less than one year.

Trade payables are secured by reservations of title to the customary extent.

Other taxation liabilities include amounts for which the individual group companies are liable. Liabilities for social security contributions particularly include contributions yet to be remitted to the social security funds. In addition to the aforementioned items, other liabilities mainly include deposits and pledged funds, merchandise credits not yet redeemed, and amounts due for outstanding invoices.

(27) Income tax receivables and liabilities

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

The income tax receivables of € 6.8 million (2016/17: € 15.3 million) mainly result from deductions for capital gains tax on the dividend from HORNBACH Baumarkt AG. The previous year's figure included a refund claim for corporate tax credits amounting to € 3.7 million which arose due to the "German act on fiscal measures accompanying the introduction of the European Company and amending further tax legislation (SEStEG)" and the 2010 Annual Tax Act. This claim was settled in the current financial year.

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

(28) Other provisions and accrued liabilities

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

€ 000s	Opening balance at 3.1.2017	Utilization	Reversals	Additions	Interest compounding	Foreign currency translation	Closing balance at 2.28.2018	of which: non-current
Other provisions								
Personnel	10,270	1,379	39	2,829	97	20	11,797	11,797
Miscellaneous	24,738	6,053	1,261	12,096	16	(134)	29,402	23,862
	35,007	**7,432**	**1,300**	**14,925**	**113**	**(114)**	**41,199**	**35,659**
Accrued liabilities								
Other taxes	1,488	1,043	88	787	0	(30)	1,113	0
Personnel	48,654	46,715	807	60,476	0	(238)	61,370	0
Miscellaneous	23,029	18,309	3,060	23,107	0	(158)	24,609	0
	73,170	**66,067**	**3,954**	**84,370**	**0**	**(426)**	**87,091**	**0**
	108,177	**73,499**	**5,255**	**99,295**	**113**	**(540)**	**128,290**	**35,659**

Miscellaneous other current provisions mainly relate to provisions for onerous contracts, at € 1,641k (2016/17: € 2,835k), for customers' expected utilization of their rights of return, recognized at € 1,500k (2016/17: € 1,554k), and for litigation risks, at € 643k (2016/17: € 751k).

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

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

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

Other Disclosures

(29) Guarantees and other commitments

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

(30) Other financial obligations

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2018 Total
Purchase obligations for investments	119.0	11.8	0.0	130.8
Obligations under rental, leasehold and leasing contracts	83.6	253.5	240.5	577.6
Other financial obligations	8.4	0.6	0.0	9.0
	211.0	**265.9**	**240.5**	**717.4**

€ million	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	2.28.2017 Total
Purchase obligations for investments	94.4	25.3	0.0	119.7
Obligations under rental, leasehold and leasing contracts	84.1	246.3	266.5	596.9
Other financial obligations	14.0	0.2	0.0	14.2
	192.5	**271.8**	**266.5**	**730.8**

The obligations resulting from rental, hiring, leasehold and leasing contracts relate exclusively to those rental contracts in which the companies of the HORNBACH Holding AG & Co. KGaA Group do not constitute the economic owners of the rented assets pursuant to IFRS regulations (operating leases). Rental agreements mainly relate to DIY stores in Germany and abroad. The terms of the rental agreements mostly amount to 15 years, with subsequent rental extension options and purchase options at market value. The agreements include rent adjustment clauses.

An amount of € 83,426k, excluding ancillary expenses, was recognized in the 2017/18 financial year as rental expenses in connection with operating lease agreements (2016/17: € 83,908k).

(31) Future income from rental and leasing contracts

Future income from rental and leasing contracts is structured as follows:

Rental income from third parties € 000s	Maturities Current < 1 year	Non-current 1 to 5 years	Non-current > 5 years	Total
February 28, 2018	5,957	10,584	2,419	18,960
February 28, 2017	5,432	10,572	2,448	18,452

Rental income results from the letting of retail real estate and office space. The rental contracts mostly have terms of between 5 and 15 years. Rental income has only been reported for up to one year in the case of rental contracts with indefinite contractual terms.

(32) Legal disputes

HORNBACH 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.

(33) Supplementary disclosures on financial instruments

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

€ 000s	Category	Carrying amount 2.28.2018	Fair value 2.28.2018	Carrying amount 2.28.2017	Fair value 2.28.2017
Assets					
Financial assets	AfS	22	22	22	22
Current financial assets	LaR	0	0	30,009	30,009
Trade receivables	LaR	32,081	32,081	29,520	29,520
Other current and non-current assets					
Derivatives with hedge relationship	n.a.	1,172	1,172	18	18
Derivatives without hedge relationship	FAHfT	578	578	29	29
Other assets	LaR	46,941	46,941	45,521	45,521
Cash and cash equivalents	LaR	164,056	164,056	190,073	190,073
Equity and liabilities					
Financial debt					
Bonds	FLAC	248,844	266,080	248,231	272,310
Liabilities to banks	FLAC	200,919	216,371	260,824	281,386
Liabilities in connection with finance leases	n.a.	174,115	200,354	185,733	215,260
Derivatives with hedge relationship	n.a.	36	36	184	184
Derivatives without hedge relationship	FLHfT	113	113	1,329	1,329
Trade payables	FLAC	267,446	267,446	259,300	259,300
Other current and non-current liabilities	FLAC	32,115	32,115	27,664	27,664
Accrued liabilities	FLAC	24,608	24,608	23,027	23,027

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

The following items are outside the scope of IFRS 7: other current and non-current assets of € 20,051k (2016/17: € 13,167k), other current and non-current liabilities of € 106,485k (2016/17: € 97,123k), and accrued liabilities of € 62,483k (2016/17: € 50,142k).

Aggregate totals by measurement category € 000s	Category	Carrying amount 2.28.2018	Carrying amount 2.28.2017
Loans and receivables	LaR	243,078	295,123
Available-for-sale financial assets	AfS	22	22
Financial assets held for trading	FAHfT	578	29
Financial liabilities measured at amortized cost	FLAC	773,932	819,048
Financial liabilities held for trading	FLHfT	113	1,329

Cash and cash equivalents, trade receivables, other assets, accrued liabilities, trade payables, and other liabilities mature in the short term in the majority of cases. Their carrying amounts therefore basically correspond to their fair values as of the balance sheet date. Available for sale financial assets include shareholdings recognized at cost due to the lack of an available fair value.

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

The fair value of the publicly listed bond corresponds to the nominal value multiplied by the market value at the balance sheet date. The fair value has thus been determined by reference to Level 1 data in the fair value hierarchy.

The following financial instruments whose measurement has been based on fair value hierarchy input data have been recognized at fair value in the balance sheet or the notes:

€ 000s		2.28.2018	2.28.2017
Assets			
Valuation based on level 2 input data			
Derivatives with hedge relationship	n.a.	1,172	18
Derivatives without hedge relationship	FAHfT	578	29
Liabilities			
Valuation based on level 1 input data			
Bonds	FLAC	266,080	272,310
Valuation based on level 2 input data			
Liabilities to banks	FLAC	216,371	281,386
Liabilities in connection with finance leases	n.a.	200,354	215,260
Derivatives with hedge relationship	n.a.	36	184
Derivatives without hedge relationship	FLHfT	113	1,329

Net result by measurement category	2017/18 € 000s	2016/17 € 000s
Loans and receivables (LaR)	(6,931)	(343)
Financial liabilities measured at amortized cost (FLAC)	492	(16)
Financial instruments held for trading (FAHfT and FLHfT)	85	(1,055)

The net results of the measurement category "financial instruments held for trading" are attributable to derivative financial instruments. The net results of the measurement categories "loans and receivables", and "financial liabilities measured at amortized cost" involve foreign currency translation items, the results of disposals and write-downs.

No financial instruments are reported on a net basis in the balance sheet. Supplementary arrangements permitting the economic netting of recognized financial instruments exist for swap transactions and forward exchange transactions concluded by the Group. These are governed by the German Master Agreement for Financial Derivative Transactions.

The following table presents the financial netting volume for derivatives with hedge relationships (swaps) and without hedge relationships (forward exchange transactions).

2.28.2018 in € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	578	0	578	0	0	578
Derivatives with hedge relationship	1,172	0	1,172	(36)	0	1,136
Equity and liabilities						
Derivatives without hedge relationship	113	0	113	0	0	113
Derivatives with hedge relationship	36	0	36	36	0	0

2.28.2017 in € 000s	Gross amount	Set-off	Net amount	Potential netting volume		Potential net amount
				Netting arrangements	Financial collateral	
Assets						
Derivatives without hedge relationship	29	0	29	(29)	0	0
Derivatives with hedge relationship	18	0	18	(18)	0	0
Equity and liabilities						
Derivatives without hedge relationship	1,329	0	1,329	29	0	1,300
Derivatives with hedge relationship	184	0	184	18	0	166

(34) 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	2.28.2018	2.28.2017
EUR	(82,685)	(55,809)
USD	3,435	17,414
SEK	86	784
CZK	(519)	(627)

The above EUR currency position results from the following currency pairs: CHF/EUR € -29,333k (2016/17: € 5,991k), SEK/EUR € -24,689k (2016/17: € -31,560k), RON/EUR € -20,801k (2016/17: € -18,731k), CZK/EUR € -7,862k (2016/17: € -10,511k), and USD/EUR € 0k (2016/17: € -999k).

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

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

If the euro had **appreciated by 10 %** compared with the Group's other main currencies at the balance sheet date, and all other variables had remained unchanged, consolidated earnings before taxes would have been € 8,745k lower (2016/17: € 7,184k). 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 € 8,745k higher (2016/17: € 7,184k). The hypothetical impact on earnings of € +8,745k (2016/17: € +7,184k) is the result of the following sensitivities: EUR/CHF € 2,998k (2016/17: € -589k), EUR/SEK € 2,578k (2016/17: € 3,259k), EUR/RON € 2,112k (2016/17: € 1,885k), EUR/CZK € 715k (2016/17: € 988k), and EUR/USD € 342k (2016/17: € 1,641k).

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 (2016/17: € 250,000k) and by an unsecured promissory note bond with a total equivalent nominal value of € 70,000k (2016/17: € 70,000k). Furthermore, the Group also has short-term and long-term euro loans amounting to € 57,673k (2016/17: € 79,811k), long-term CZK loans amounting to € 40,450k (2016/17: € 43,660k), and long-term SEK loans amounting to € 27,281k (2016/17: € 32,771k). 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 € 4,468k as of the balance sheet date (2016/17: € 33,557k).

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 € 1,387k higher (2016/17: € 1,344k) and equity before deferred taxes would have been € 579k higher (2016/17: € 793k). 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 € 139k lower (2016/17: € 134k) and equity before deferred taxes would have been € 162k lower (2016/17: € 30k).

Credit risk

Credit risk involves the risk that a contractual party is unable to comply in part or in full with the obligations entered into upon the conclusion of a financial instrument. The credit risk of the Group is strictly limited to the extent that financial assets and derivative financial instruments are as far as possible only concluded with contractual parties of good credit standing. Moreover, transactions with individual contractual partners are subject to a maximum limit. The risk of receivables default in the operating business is already considerably reduced on account of the retail format (cash & carry). The maximum credit risk is basically equivalent to the carrying amounts of the financial assets, which do not include any material risk clusters.

Liquidity risk

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

€ 000s	Carrying amount 2.28.2018	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	248,844	9,688	259,714	0
Liabilities to banks	200,919	30,226	157,029	35,050
Liabilities in connection with finance leases	174,115	17,565	70,260	138,693
Trade payables	267,446	267,446	0	0
Other current and non-current liabilities	32,115	30,894	1,220	0
Accrued liabilities	24,608	24,608	0	0
	948,047	**380,427**	**488,223**	**173,743**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	113	113	0	0
Interest derivatives in connection with cash flow hedges	36	35	0	0
	148	**147**	**0**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	578	3,202	0	0
Interest derivatives in connection with cash flow hedges	1,172	185	136	0
	1,750	**3,387**	**136**	**0**
		383,961	**488,359**	**173,743**

€ 000s	Carrying amount 2.28.2017	Cash outflows < 1 year	1 to 5 years	> 5 years
Primary financial liabilities				
Bonds	248,231	9,688	269,401	0
Liabilities to banks	260,824	69,047	159,993	59,812
Liabilities in connection with finance leases	185,733	18,004	70,806	157,475
Trade payables	259,300	259,300	0	0
Other current and non-current liabilities	27,664	27,509	155	0
Accrued liabilities	23,027	23,027	0	0
	1,004,780	**406,575**	**500,355**	**217,286**
Derivative financial liabilities				
Foreign currency derivatives without hedge relationship	1,329	10,749	0	0
Interest derivatives in connection with cash flow hedges	184	142	77	0
	1,513	**10,891**	**77**	**0**
Derivative financial assets				
Foreign currency derivatives without hedge relationship	29	5,627	0	0
Interest derivatives in connection with cash flow hedges	18	365	750	41
	48	**5,992**	**750**	**41**
		423,458	**501,182**	**217,327**

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

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

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

Hedging measures

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

Cash flow hedge – interest rate risk

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.

A Swedish subsidiary took up a long-term euro 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. This swap enables the floating-rate euro payment installments to be secured as fixed-interest SEK payment installments.

At the end of the 2017/18 financial year, the Group had interest swaps amounting to € 991k (2016/17: € 3,954k), with which a transformation from floating interest commitments to fixed interest commitments was achieved. The fair value of the interest swaps amounted to € -36k as of February 28, 2018 (2016/17: € -184k) and has been recognized under financial debt. Furthermore, as of February 28, 2018, the Group also had an interest-currency swap with a nominal value of € 19,000k (2016/17: € 21,000k) enabling a euro loan with a floating interest rate to be converted into a fixed-interest SEK loan. At the end of the 2017/18 financial year, the fair value of this interest-currency swap amounted to € 1,172k (2016/17: € 18k). This item has been reported under other assets.

All swaps met hedge accounting requirements as of February 28, 2018. Fair value changes are recognized in the hedging reserve in equity up to recognition of the results of the hedged transaction.

The following table presents the contractually agreed maturities for the payments, i.e. the time at which the hedged item is recognized through profit or loss:

Start	End	Nominal value at 2.28.2018 in € 000s	Nominal value at 2.28.2017 in € 000s	Reference rate
6.29.2012	6.30.2022	19,000	21,000	3-month Euribor
9.30.2002	9.30.2017	0	1,110	3-month Euribor
9.30.2002	9.30.2017	0	754	3-month Euribor

Start	End	Nominal value at 2.28.2018 in SEK 000s	Nominal value at 2.28.2017 in SEK 000s	Reference rate
11.28.2003	12.31.2018	10,000	20,000	3-month SEK-Stibor

The HORNBACH Holding AG & Co. KGaA Group meets the hedge accounting requirement set out in IAS 39 in that it already documents the relationship between the derivative financial instrument deployed as a hedging instrument and the hedged item, as well as the hedging objective and strategy, at the beginning of any hedging measure. This also includes an assessment of the effectiveness of the hedging instruments thereby deployed. The effectiveness of the hedging relationship is assessed prospectively using the critical terms match method. Retrospective effectiveness is calculated at each balance sheet date using the dollar offset method. A hypothetical derivative is taken as the hedged item. A hedging relationship is termed effective when the changes in the value of the hedging instrument and the hypothetical derivative are compensated by between 80 % and 125 %. Hedging relationships are cancelled without delay upon becoming ineffective.

Other hedging measures – foreign currency risk

The HORNBACH Holding AG & Co. KGaA Group also deploys hedging measures which do not meet the hedge accounting requirements set out in IAS 39, but which nevertheless make an effective contribution towards hedging the Group's financial risks in line its risk management principles. For example, the HORNBACH 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 € 465k (2016/17: € -1,300k). Of this total, € 578k has been recognized under other assets (2016/17: € 29k) and € -113k under financial debt (2016/17: € -1,329k).

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

Derivatives

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

2.28.2018	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Interest rate and currency swap	Total
Nominal value in € 000s	4,000	29,469	991	19,000	53,460
Fair value in € 000s (before deferred taxes)	65	400	(36)	1,172	1,602

2.28.2017	Forward exchange transactions	Embedded forward exchange transactions	Interest swaps	Interest rate and currency swap	Total
Nominal value in € 000s	17,000	37,182	3,954	21,000	79,136
Fair value in € 000s (before deferred taxes)	(64)	(1,236)	(184)	18	(1,465)

As all interest swaps are included in effective hedging relationships, the changes in their value, less deferred taxes, have basically been recognized in the hedging reserve within equity. The ineffective portion is recognized through profit or loss under net financial expenses.

(35) Sundry disclosures

Employees

The average number of employees was as follows:

	2017/18	2016/17
Salaried employees	18,407	17,738
Trainees	936	913
	19,343	**18,651**
of which: part-time employees	5,410	5,065

In terms of geographical regions, 11,285 of the average workforce were employed in Germany during the 2017/18 financial year (2016/17: 11,098) and 8,058 in other European countries (2016/17: 7,553).

Auditor's fee

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

	2017/18 € 000s	2016/17 € 000s
Auditing of financial statements	983	906
Other certification services	16	16
Tax advisory services	27	68
Other services	0	48
	1,026	**1,038**

The annual and consolidated financial statements of HORNBACH Holding AG & Co. KGaA have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, since the 1997/98 financial year. Lars Bertram (partner) has been the responsible auditor since the 2017/18 financial year.

Information on the German Corporate Governance Code

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

(36) Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, 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

Administrative support was provided to Hornbach Familien-Treuhandgesellschaft mbH in the past financial year. The services thereby performed in the 2017/18 financial year were valued at customary market prices invoiced at € 6k (2016/17: € 0k).

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 € 1,646k.

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	1,633
	1,646

Liabilities	€ 000s
Liabilities to HORNBACH Management AG	
Trade payables	249
	249

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 € 6k were performed by the seminar hotel in the 2017/18 financial year (2016/17: € 13k). These services were invoiced at customary rates. As in the previous year, no liabilities were outstanding at the balance sheet date on February 28, 2018.

HORNBACH Holding AG & Co. KGaA provided administrative support to Albrecht Hornbach in the 2017/18 financial year. The services thereby performed amounted to € 1k (2016/17: € 3k). Furthermore administrative support services invoiced at € 4k were performed in the previous year for Grundstücksgemeinschaft Albrecht und Bettina Hornbach. The value of these services was calculated by reference to customary market prices.

In the previous year, HORNBACH Holding AG & Co. KGaA provided administrative support to Kurhaus Trifels Seminarhotel GmbH, Annweiler, am Trifels. This company is represented by its managing director, Bettina Hornbach, wife of Albrecht Hornbach. The services thereby performed amounted to € 10k and were settled at customary market prices.

(37) Events after the balance sheet date

The consolidated financial statements of HORNBACH Holding AG & Co. KGaA for the 2017/18 financial year were approved for publication by the Board of Management of the general partner HORNBACH Management AG on May 17, 2018.

(38) Supervisory Board and 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 and Roland Pelka. The compensation 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 compensation 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, 2017 to February 28, 2018:

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, 2021
Roland Pelka Finance, Accounting and Tax, Group Controlling, Risk Management, Loss Prevention, Group Communications	First appointed: October 9, 2015 Appointed until: October 31, 2021

The total compensation of the Board of Management of HORNBACH Management AG for performing its duties for the Group in the 2017/18 financial year amounts to € 1,972k (2016/17: € 1,979k). Of this sum, € 957k (2016/17: € 956k) relates to fixed compensation and € 1,015k (2016/17: € 1,023k) to performance-related components.

Post-employment benefits amounting to € 210k were incurred for active members of the Board of Management in the 2017/18 financial year (2016/17: € 210k). These involve expenses incurred to endow pension provisions (Note 24). Further individualized disclosures and information can be found in the Compensation Report (see "Combined Management Report").

Members of the Supervisory Board:

Dr. Wolfgang Rupf Managing Partner, Rupf Industries GmbH, Rupf Engineering GmbH and Rupf ATG Casting GmbH	**Chairman** Member since: October 13, 1998 Chairman since: July 11, 2008 Appointed until: end of 2018 AGM
Martin Hornbach Managing Partner Corivus Gruppe GmbH	**Deputy Chairman** Member since: July 10, 2015 Dep. Chairman since: October 9, 2015 Appointed until: end of 2018 AGM
Dr. John Feldmann Supervisory Board Chairman of KION Group AG Former Executive Board member at BASF SE	Member since: January 17, 2014 Appointed until: end of 2018 AGM
Erich Harsch CEO dm-drogerie markt GmbH & Co. KG	Member since: January 17, 2014 Appointed until: end of 2018 AGM
Joerg Walter Sost Managing Partner J.S. Consulting GmbH	Member since: July 6, 2012 Appointed until: end of 2018 AGM
Dr. Susanne Wulfsberg Veterinary Surgeon	Member since: July 5, 2013 Appointed until: end of 2018 AGM

The total compensation of the Supervisory Board for the 2017/18 financial year amounted to € 361k (2016/17: € 364k). Of this sum, € 225k (2016/17: € 225k) related to basic compensation and € 136k (2016/17: € 139k) to committee activities. Further individualized disclosures and information can be found in the Compensation Report (see "Combined Management Report").

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. Wolfgang Rupf
a) HORNBACH Baumarkt AG (Deputy Chairman)
HORNBACH Management AG (Chairman)
IVA Valuation & Advisory AG (Deputy Chairman)
b) Inception Exploration Ltd. (Member of Board)

Dr. John Feldmann
a) HORNBACH Baumarkt AG
HORNBACH Management AG
KION Group AG (Chairman)

Erich Harsch
a) HORNBACH Baumarkt AG
HORNBACH Management AG
b) dm drogerie markt GmbH, Wals/Austria (since February 2018)

Martin Hornbach
a) Corivus AG (Chairman)
HORNBACH Baumarkt AG
b) Corivus Swiss AG (Chairman of Administrative Board)

Joerg Walter Sost
a) DUOPLAST AG (Chairman since May 2017)
HORNBACH Baumarkt AG
HORNBACH Management AG
b) Atreus GmbH (Member of Advisory Board)
Bürger GmbH (Chairman of Advisory Board)
DUOPLAST Holding GmbH (Chairman of Advisory Board)
ECF GmbH (Chairman of Advisory Board)
Leuna Tenside Holding GmbH (Chairman of Advisory Board since March 2017)
Norafin Industries GmbH (Chairman of Advisory Board)
VR Equitypartner GmbH (Chairman of Advisory Board)
Weisshaar GmbH (Member of Advisory Board until March 2017)
ZT Management Holding GmbH (Member of Advisory Board until January 2018)

Dr. Susanne Wulfsberg
a) HORNBACH Management AG (Deputy Chairman)

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) Rheinland-Pfalz Bank (Member of Advisory Board until December 2017)

Roland Pelka

a) HORNBACH Immobilien AG (Deputy Chairman)
WASGAU Produktions & Handels AG
b) Commerzbank AG (Member of Regional Advisory Board, Central Region)

Neustadt an der Weinstrasse, May 17, 2018

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

Albrecht Hornbach Roland Pelka

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 17, 2018

HORNBACH Holding AG & Co. KGaA
represented by HORNBACH Management AG

Albrecht Hornbach | Roland Pelka

AUDITOR'S REPORT

To HORNBACH Holding AG & Co. KGaA, Neustadt/Weinstrasse

Report on the Audit of the Consolidated Financial Statements and the Combined Management Report

Audit Opinions

We have audited the consolidated financial statements of HORNBACH Holding AG & Co. KGaA, Neustadt/ Weinstrasse, and its subsidiaries (the Group), comprising the balance sheet as of February 28, 2018, income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the financial year from March 1, 2017 to February 28, 2018, and the notes to the consolidated financial statements, including the summary of significant accounting policies. Furthermore we audited the combined management report for the financial year from March 1, 2017 to February 28, 2018.

In our opinion, on the basis of the knowledge obtained in the audit:

- the accompanying consolidated financial statements comply in all material respects with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB (Handelsgesetzbuch - German Commercial Code) and, in compliance with these requirements, give a true and fair view of the assets and financial position of the Group as of February 28, 2018, and of its financial performance for the financial year from March 1, 2017 to February 28, 2018, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014; hereinafter "EU-APrVO") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany - IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) Point f) EU-APrVO, we declare that we have not provided any non-audit services prohibited under Article 5 (1) EU-APrVO. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from March 1, 2017 to February 28, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon we do not provide a separate audit opinion on these matters.

Measurement of inventories
Information about the accounting policies applied can be found in the "Accounting policies/General principles" and "Accounting policies/Inventories" chapters of the notes to the consolidated financial statements.

THE RISK FOR FINANCIAL REPORTING
Inventories of € 698.7 million have been recognized in the balance sheet as of February 28, 2018. This figure includes impairments of € 11.3 million.

Inventories, which require initial measurement at cost (including incidental acquisition costs and purchase price reductions) must be written down when they are damaged, fully or partly obsolete, or when their expected net realizable value no longer covers their cost of acquisition.

The calculation of net realizable value as the maximum value permitted is subject to discretionary decisions and in some cases requires forward-looking estimates concerning the amounts which can most likely be generated upon the sale of the inventories. There is the risk that, due to the failure to recognize an impairment requirement, the inventories are overvalued.

OUR AUDIT APPROACH
Based on the understanding we gained of the relevant processes, we initially assessed the structure, establishment, and functionality of those internal controls identified with regard to the correct calculation of net realizable values.

We then performed a critical assessment of the methodology applied by the company to calculate age-related write-downs of inventories. We assessed the days-on-inventory analyses of the company and referred to historical empirical values at the company to appraise whether the write-downs recognized were adequate. Furthermore, we convinced ourselves of the arithmetical correctness of the calculation.

We then assessed the sale prices used when calculating the net realizable values by selecting specific elements on a risk-oriented basis and referring to sale prices valid as of the balance sheet date. In a further step, we convinced ourselves that the impairments recognized by the company due to reductions in sale prices had been correctly stated.

OUR CONCLUSIONS
The assumptions underlying the calculation of net realizable values are appropriate, as were the discretionary decisions taken by the company's legal representatives in this respect.

The recoverability in the value of location properties

Information about the accounting policies applied can be found in the "Accounting policies/General principles" and "Accounting policies/Property, plant and equipment" chapters of the notes to the consolidated financial statements. Information about the impairment test performed can be found in the "Impairment of non-current, non-financial assets" chapter.

THE RISK FOR FINANCIAL REPORTING

The HORNBACH Holding AG & Co. KGaA Group assesses the recoverability in the value of property, plant and equipment on the level of individual stores, each of which constitutes a cash generating unit (CGU). Within property, plant and equipment, the carrying amount of "Land, leasehold rights, and buildings on third-party land" (so-called "location properties") amounts to € 1,409.6 million. This line item thus accounts for 86.5 % of property, plant and equipment and 52.8 % of total assets and is therefore of considerable significant for the Group's net asset position. In the 2017/18 financial year, the Group recognized impairments totaling € 0.4 million on these assets.

The company calculates the value in use for each CGU in the context of its impairment testing. Where the value in use falls short of the carrying amount, the fair value less costs to sell (net realizable value) is determined for the property attributable to the CGU.

Impairment testing pursuant to IAS 36 is complex and requires the use of numerous assumptions based on discretionary decisions. These particularly include the forecast cash flows used to determine the value in use, the assumed long-term growth rates, and the discount rates used. Furthermore, the recoverability in the value of location properties also depends on their respective location and the resultant potential alternative uses. The company commissioned an external surveyor to determine the net realizable values of its location properties. The net realizable value of the location properties depends on their respective location and the resultant potential alternative uses. There is the risk that the properties at the stores are overvalued.

OUR AUDIT APPROACH

We received explanations from employees in the accounting department and assessed the group accounting policy and thus gained an understanding of the processes used by the Group to identify any indications of impairment and to determine the value in use and the net realizable value. We analyzed the indications of impairment identified by the Group and, based on the information gained from our audit, assessed whether there were any further indications of impairment not identified by the Group.

In addition to the arithmetical correctness and IFRS-conformity of the valuation model used by the company, we then assessed the appropriateness of the key assumptions used in the model. To this end, we first analyzed the planning process and convinced ourselves of the forecasting quality of group planning by comparing the planning referred to in the past financial year with the results actually achieved in the subsequent period. Furthermore, we compared the planning thereby used with the five-year planning compiled by the Board of Management and approved by the Supervisory Board. Furthermore, we assessed the extent to which the assumptions used were consistent with external market estimates.

We compared the assumptions and parameters underlying the discount rate, and in particular the risk-free interest rate, market risk premium, and beta factor, with publicly available data and took advice from valuation specialists.

Furthermore, we assessed the competence, skills, and objectivity of the independent surveyor commissioned by the Group to determine the net realizable values and appraised the results of his work, also seeking advice in this respect from our own valuation specialists.

OUR CONCLUSIONS

The approach taken to measuring the recoverability of the value of location properties and the valuation model are consistent with the accounting policies. The assumptions and parameters referred to by the company are appropriate.

Other Information

The company's legal representatives are responsible for the other information. The other information comprises the Annual Report of the HORNBACH Holding AG & Co. KGaA Group with the exception of the audited consolidated financial statements, the combined management report, and our audit report.

Our audit opinions on the consolidated financial statements and on the combined management report do not cover the other information and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibility of the Board of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The company's legal representatives are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, financial position, and financial performance of the Group. In addition, the Board of Management is responsible for such internal controls as they have deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the legal representatives are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for such precautions and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and EU-APrVO and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or aggregately, they could reasonably be expected to influence the economic decisions taken by users on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the consolidated financial statements and in the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and of precautions and measures relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates made by the legal representatives and related disclosures.

- conclude on the appropriateness of the legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that they give a true and fair view of the assets, financial position, and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinions.

- evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with (German) law, and the view of the Group's position it provides.

- perform audit procedures on the prospective information presented by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the company's legal representatives as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independent requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless laws or other regulations preclude public disclosure of the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 EU-APrVO

We were elected as auditor of the consolidated financial statements by the Annual General Meeting on July 7, 2017. We were engaged by the Supervisory Board on December 14, 2017. We have been the auditor of the consolidated financial statements of HORNBACH Holding AG & Co. KGaA without interruption since the 1997/98 financial year.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 EU-APrVO (long-form audit report).

In addition to the consolidated financial statements, we also audited the annual financial statements of HORNBACH Holding AG & Co. KGaA and audited the annual financial statements of various subsidiaries and audited the consolidated financial statements of HORNBACH Baumarkt AG. Furthermore, we performed an audit review on the half-year financial reports of HORNBACH Baumarkt AG and HORNBACH Holding AG & Co. KGaA. Additional certification services were performed in particular with the issuing of sales certificates and confirmation of compliance with the contractual requirements of a promissory note loan. Furthermore, we provided support in connection with the first-time application of new financial reporting principles. The tax advisory services mainly involved providing support in tax court proceedings.

Auditor Responsible

The German public auditor responsible for the engagement is Lars Erik Bertram.

Frankfurt am Main, May 17, 2018
KPMG AG
Wirtschaftsprüfungsgesellschaft

Bertram	Palm
Wirtschaftsprüfer	Wirtschaftsprüfer
(German public auditor)	(German public auditor)

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