HALF-YEAR FINANCIAL REPORT
HORNBACH BAUMARKT AG GROUP

H1
2019/20

(MARCH 1 – AUGUST 31, 2019)

Es gibt immer was zu tun.

HORNBACH BAUMARKT AG GROUP

Half-Year Financial Report 2019/20 (March 1 – August 31, 2019)

Key figures of the HORNBACH Baumarkt AG Group (in € million, unless otherwise stated)	2nd Quarter 2019/20	2nd Quarter 2018/19	Change in %	1st Half 2019/20	1st Half 2018/19	Change in %
Net sales	**1,184.0**	**1,087.6**	**8.9**	**2,444.7**	**2,249.6**	**8.7**
of which: in Germany	601.7	561.2	7.2	1,255.8	1,173.9	7.0
of which: in other European countries	582.3	526.4	10.6	1,188.9	1,075.7	10.5
Like-for-like sales growth	8.8%	3.4%		8.3%	2.8%	
Gross margin (as % of net sales)	36.3%	36.6%		36.6%	36.9%	
EBITDA	145.2	86.6	67.6	287.3	172.1	66.9
Earnings before interest and taxes (EBIT)	**86.8**	**65.0**	**33.6**	**170.9**	**130.2**	**31.3**
Adjusted EBIT	**87.3**	**65.5**	**33.3**	**171.4**	**130.4**	**31.5**
Consolidated earnings before taxes	72.5	62.3	16.3	142.2	122.8	15.8
Consolidated net income	54.7	46.0	18.9	106.5	91.0	17.0
Basic/diluted earnings per share (€)	1.72	1.45	18.6	3.35	2.86	17.1
Investments	28.7	64.5	(55.5)	53.0	129.2	(59.0)

Misc. key figures of the HORNBACH Baumarkt AG Group (in € million, unless otherwise stated)	August 31, 2019	February 28, 2019	Change in %
Total assets	3,624.4	2,337.9	55.0
Shareholders' equity	1,146.4	1,068.6	7.3
Shareholders' equity as % of total assets	31.6%	45.7%	
Number of stores	157	158	(0.6)
Sales area in 000 m² (based on BHB)	1,852	1,853	(0.1)
Number of employees	20,564	20,118	2.2

Figures for 2019/20 financial year take due account of first-time application of new IFRS 16 lease accounting requirements. Previous year's figures not adjusted.
Rounding up or down may lead to discrepancies between percentages and totals. Calculation of percentage figures based on € 000s.

Summary

HORNBACH Baumarkt AG Group reports strong first-half growth

- **Consolidated sales up 8.7 % to € 2.44 billion in first six months of 2019/20 financial year**
- **Interconnected retail: Both stationary and online retail businesses report growth**
- **DIY stores with garden centers post like-for-like growth of 8.3 %: Germany plus 7.4 % – other European countries plus 9.2 %**
- **Half-year earnings show clearly disproportionate growth: Adjusted EBIT up 31.5 % to € 171.4 million – EPS up 17.1 %**
- **Board of Management raises full-year sales and earnings forecasts for 2019/20**

The HORNBACH Baumarkt AG Group significantly increased its sales and earnings in the first half of the 2019/20 financial year. Consolidated sales for the period from March 1 to August 31, 2019 grew by 8.7 % to € 2,444.7 million (2018/19: € 2,249.6 million). On a like-for-like basis and net of currency items, consolidated sales rose by 8.3 % in the first half of the year. At 8.8 %, the rate of sales growth in the second quarter of 2019/20 (June 1 to August 31, 2019) accelerated further compared with the previous quarter. The retail activities in Germany contributed to the Group's growth with substantial rises in like-for-like sales of 8.0 % in the second quarter (Q2) and of 7.4 % in the first half (H1) of 2019/20. In other European countries, HORNBACH's DIY business performed even more strongly, with like-for-like, currency-adjusted growth of 9.6 % (Q2) and 9.2 % (H1). Growth momentum came from both the stationary and the online businesses.

Key earnings figures showed clearly disproportionate growth compared with sales in the reporting period from March to August 2019. This was mainly due to the higher rate of sales growth compared with the previous year and improved cost ratios. Furthermore, positive conversion effects resulting from first-time application of the new IFRS 16 lease accounting requirements also contributed to the growth in operating earnings (EBIT). EBIT excluding non-operating earnings items (adjusted EBIT) increased by 33.3 % to € 87.3 million in the second quarter of 2019/20 (2018/19: € 65.5 million) and by 31.5 % to € 171.4 million in the first half of 2019/20 (2018/19: € 130.4 million). Earnings per Baumarkt share came to € 3.35 at the end of the first six months (2018/19: € 2.86).

Given the pleasing earnings performance in the first six months, the Board of Management has slightly raised the full-year forecast for 2019/20.

Macroeconomic and Sector-Specific Framework

The first half of 2019 saw a significant slowdown in global economic growth. On the one hand, the ongoing trade dispute between the US and China created uncertainty. On the other hand, countries not directly affected by that conflict also reported weak industrial and investment activity.

European economic output showed slight growth. This was driven above all by domestic demand, which remained robust as a result of noticeable income growth among private households and favorable financing conditions. According to Eurostat, real-term gross domestic product (GDP) in the second quarter of 2019 showed seasonally adjusted growth of 0.2 % compared with the previous quarter, and that both in the **euro area** (EA 19) and the **European Union** (EU 28). Compared with the equivalent quarter in the previous year, economic output in the euro area and EU 28 grew by 1.2 % and 1.4 % respectively, as against +1.3 % and +1.6 % in the previous quarter. Economic confidence indicators have slipped in recent months, yet still point to further expansion.

Seasonally adjusted **output in the construction industry** in the second quarter of 2019 fell by 0.5 % in the euro area and by 0.9 % in the European Union. In the first quarter, these figures were both still positive, with growth of 1.5 % and 2.1 % respectively compared with the previous quarter. Compared with the previous year, second-quarter output in the construction industry rose by 2.3 %

and 2.2 % respectively. The research and consulting network Euroconstruct has forecast growth of 1.9 % for the **European construction industry** in 2019. This represents a slowdown compared with the previous year (+3.1 %).

Compared with the previous quarter, **retail sales** growth adjusted for seasonal and calendar factors came to 0.7 % in the euro area and the EU 28 in the second quarter of 2019, as against 0.8 % and 0.9 % respectively in the first quarter of 2019. Compared with the previous year's quarter, calendar-adjusted second-quarter sales rose by 2.1 % in the euro area and by 2.6 % in the EU 28. The equivalent figures for the first quarter were 2.4 % and 2.9 %. Based on the data available to us for the DIY retail sector, gross sales in the first half of the 2019 calendar year grew year-on-year by 4.8 % in Germany, by 2.8 % in the Netherlands, by 5.0 % in Austria, and by 12.3 % in the Czech Republic. In Switzerland, DIY retail sales denominated in national currency fell slightly short of the previous year's figure.

GDP growth rates in countries with HORNBACH DIY stores and garden centers (calendar year)

Percentage change on previous quarter Source: Eurostat (calendar year figures)	3rd Quarter 2018	4th Quarter 2018	1st Quarter 2019	2nd Quarter 2019
Germany	**(0.1)**	**0.2**	**0.4**	**(0.1)**
Austria	0.2	0.6	0.4	0.2
Czech Republic	0.6	0.9	0.6	0.7
Luxembourg	0.4	0.6	0.3	n/a
Netherlands	0.2	0.5	0.5	0.5
Romania	1.3	1.0	1.2	1.0
Slovakia	0.8	0.6	0.7	0.5
Sweden	(0.5)	1.3	0.1	0.1
Switzerland	(0.3)	(0.1)	0.4	0.3
Euro area (EA 19)	**0.2**	**0.3**	**0.4**	**0.2**
EU28	**0.3**	**0.4**	**0.5**	**0.2**

Given its dependence on exports, the **German economy** was particularly affected by the global economic slowdown. According to figures released by the Federal Statistical Office Destatis, GDP adjusted for price, seasonal and calendar-related factors fell by 0.1 % in the second quarter of 2019 compared with the first quarter of 2019, in which economic output rose by 0.4 %. Positive momentum came above all from the domestic economy, where private consumer spending rose by 0.1 % in the second quarter compared with the first quarter of 2019 and the state increased its consumption by 0.5 %. In the first quarter, both private and state consumption rose by 0.8 % on the previous quarter. Construction investments declined (-1.0 %) in the second quarter of 2019, having still risen by 2.5 % in the first quarter. Mild weather conditions at the beginning of the year are expected to have played a role in this respect.

According to Destatis, building permits for the construction of a total of 164,600 residential units were issued in Germany in the period from January to June 2019. That represents a 2.3 % reduction compared with the previous year's period. Particularly clear reductions were seen in the number of permits issued for newly built semi-detached houses and apartment blocks, while the number of permits for detached houses and construction work on existing buildings remained virtually unchanged.

The German **retail sector** reported year-on-year price-adjusted growth of 2.2 % and nominal sales growth of 2.9 % in the first half of 2019. Sales with furnishings, household appliances, and building materials grew by 2.0 % on a price-adjusted basis and by 2.4 % in nominal terms. Internet and mail order sales grew by 6.9 % and 7.1 %.

Sales at DIY and home improvement stores in Germany (calendar year)

Source: GfK Total Store Report Deutschland	1st Quarter 2019	2nd Quarter 2019	1st Half 2019
Gross sales (€ billion)	4.15	6.08	10.23
Nominal year-on-year change (%)	10.5	1.2	4.8
Like-for-like year-on-year change (%)	9.9	0.9	4.4

According to the BHB sector association, the German **DIY retail sector** increased its aggregate gross nominal sales year-on-year by 4.8 % to € 10.23 billion in the first half of the 2019 calendar year. This substantial sales growth was driven above all by a strong start to the spring season, which was due to weather conditions and was reflected in first-quarter growth of 10.5 %. In the second quarter, the sector reported growth of 1.2 %.On a like-for-like basis, i.e. excluding stores newly opened, closed or subject to major conversion measures, sales in the sector rose by 4.4 % in the period from January to June 2019 and by 0.9 % in the second quarter.

Earnings, Financial, and Asset Position

First-time application of new IFRS 16 accounting standard since March 1, 2019

The HORNBACH Baumarkt AG Group is applying the new IFRS 16 lease accounting requirements from the 2019/20 financial year onwards. This has led to amendments in the statement of items in the balance sheet and income statement of the HORNBACH Baumarkt AG Group.

IFRS 16 basically requires all leases to be recognized in the balance sheet in future. At HORNBACH, this particularly affects those real estate letting arrangements for our retail properties in Germany and abroad that were previously classified as operating leases. The recognition of these arrangements in the balance sheet has significantly increased the volume of right-of-use assets and lease liabilities. Based on the lease contracts recognized and measured as of March 1, 2019, application of IFRS 16 has resulted in the following material conversion effects in the balance sheet:

Key balance sheet figures HORNBACH Baumarkt AG Group (status: March 1, 2019)	Carrying amount February 28, 2019 € million	Carrying amount March 1, 2019 € million	**IFRS 16 conversion effect (ceteris paribus) € million**
Right-of-use assets	149.0	1,316.4	**1,167.4**
Lease liabilities	164.0	1,356.5	**1,192.5**

Within the income statement, most of the rental payments made for operating lease contracts were previously included within selling and store expenses. Since March 1, 2019, rather than rental expenses the company has recognized depreciation of right-of-use assets (selling and store expenses) and interest expenses for lease liabilities (net financial expenses). Assuming that all other factors remain unchanged ("ceteris paribus"), this will significantly increase EBIT. At the same time, the future recognition of interest expenses will place a significant charge on net financial expenses and earnings before taxes.

The following table summarizes the material currency-adjusted conversion effects resulting from IFRS 16 as recognized in the income statement for the first half of 2019/20 and for the 2019/20 financial year:

Key income statement figures HORNBACH Baumarkt AG Group (status: March 1, 2019)	IFRS 16 conversion effect 1st half of 2019/20 € million	**IFRS 16 conversion effect 2019/20 financial year € million**
Depreciation and amortization	70.6	139.5
Adjusted EBIT	**10.8**	**21.5**
Net financial expenses	(17.4)	(34.9)
Earnings before taxes	**(6.6)**	**(13.3)**

Differences due to rounding up or down to nearest € million

Development in HORNBACH store and logistics network

No new DIY stores with garden centers were opened in the first half of 2019. One small-scale location in Neunkirchen (Saarland) was closed at the end of August. As of August 31, 2019, the HORNBACH Baumarkt AG Group therefore operated 157 retail outlets (February 28, 2019: 158) with total sales areas of 1.85 million m², of which 96 locations in Germany and 61 in other European countries.

In the course of the measures taken to optimize our logistics network, we closed one cross-docking location in Berlin in June 2019. As of August 31, 2019, HORNBACH therefore had seven logistics locations in Germany and Austria.

Seasonal and calendar-related factors

Impact of weather conditions

All in all, conditions for implementing DIY projects were more favorable in the first half of the 2019/20 financial year than in the previous year's comparative period. March 2019, which was blustery at first but mild overall, facilitated an early start to the gardening season. Changeable weather conditions in April and May were followed by a very warm and dry summer, with repeated heatwaves and record temperatures measured across many parts of Europe, particularly at the end of July.

Number of business days

The first half of the 2019/20 financial year (March 1 to August 31, 2019) had the same number of business days on average as the previous year's period. The arithmetic calendar-related impact at the Group came to plus 1.3 business days in Q1, contrasting with minus 1.3 business days in Q2.

Sales performance

2nd quarter of 2019/20

Consolidated sales at HORNBACH Baumarkt AG rose by 8.9 % to € 1,184.0 million in the period from June 1 to August 31, 2019 (2018/19: € 1,087.6 million) and thus grew slightly more rapidly than in the first quarter (+8.5 %). Net sales in the Germany region grew by 7.2 % to € 601.7 million (2018/19: € 561.2 million), while the Other European Countries region increased its quarterly net sales year-on-year by 10.6 % to € 582.3 million (2018/19: € 526.4 million).

On a like-for-like basis and net of currency items [↳Brief Glossary on Page 12], consolidated sales grew by 8.8 % in the quarter under report, compared with growth of 3.4 % in the previous year. Including currency items for non-euro countries, namely the Czech Republic, Romania, Sweden, and Switzerland, we improved our group-wide like-for-like sales by 9.0 % in the second quarter of 2019/20. In Germany, like-for-like sales grew by 8.0 % in the second quarter of 2019/20. In other European countries, we generated growth of 9.6 % in the period from June to August 2019. Including currency items, this growth came to 10.0 %.

Like-for-like sales performance [1)]

(in percent)

2019/20 financial year 2018/19 financial year	1st Quarter	2nd Quarter	1st Half
Group	**7.8**	**8.8**	**8.3**
	2.3	3.4	2.8
Germany	**6.9**	**8.0**	**7.4**
	(0.2)	1.2	0.5
Other European countries	**8.7**	**9.6**	**9.2**
	5.2	5.8	5.5

[1)] Excluding currency items

1st half of 2019/20

Consolidated net sales grew by 8.7 % to € 2,444.7 million in the period under report from March 1 to August 31, 2019 (2018/19: € 2,249.6 million). Net sales in Germany showed cumulative growth of 7.0 % to € 1,255.8 million (2018/19: € 1,173.9 million). In other European countries, we increased our first-half sales by 10.5 % to € 1,188.9 million (2018/19: € 1,075.7 million). The international share of sales therefore rose from 47.8 % to 48.6 %. On a like-for-like basis, consolidated sales in the first half of the year improved by 8.3 % net of currency items and by 8.4 % including currency items.

- In the **Germany region**, we generated like-for-like sales growth of 7.4 % in the first half of 2019/20 (2018/19: plus 0.5 %). Based on our own calculations, this means that we significantly outperformed the sector average and gained additional market share. Our stationary business at DIY stores with garden centers contributed the largest share of our sales growth in absolute terms. Our online business, which is dovetailed with our stationary DIY retail business (interconnected retail: "ICR"), is also gaining in significance. In percentage terms, for example, ICR sales in the Germany region in the period under report continued to grow significantly faster than domestic net sales as a whole.

  The pleasing business performance in the period under report also reflects our popularity with DIY and home improvement customers. The findings of Kundenmonitor Deutschland, the most prestigious consumer survey in the German retail sector, show that HORNBACH significantly improved its competitive position in 2019 and was ranked first in terms of overall satisfaction. Customers also awarded us the best marks in major individual criteria, such as "Product range selection and diversity", "Merchandise and product quality", and "Private label quality". German DIY store customers also see HORNBACH as having the edge over its competitors in criteria including "Product range", "Prices", "Specialist advice", and "Service".

- In the **Other European countries region**, where we pool our retail activities in eight countries outside Germany, like-for-like sales for the first half of 2019/20 rose year-on-year by 9.2 % net of currency items (2018/19: plus 5.5 %) and by 9.4 % including currency items (2018/19: plus 4.1 %). These figures show that we far exceeded the rates of change in major pan-European economic indicators, such as GDP and private consumer spending growth rates in particular. HORNBACH further extended its market position in key country markets. Based on the DIY sales indicators for four countries outside Germany available to us upon completion of this financial report, HORNBACH's growth rates in the period from January to July 2019 were in most cases significantly higher than the sector averages. As in Germany, our dynamic business performance in other European countries was also driven to an above-average extent – measured in terms of growth rates – by interconnected retail sales.

Earnings performance

The following comments refer to the earnings performance of the HORNBACH Baumarkt AG Group. Information about the "Retail" and "Real estate" segments can be found in the segment report in the notes to the financial statements (Page 27).

2nd quarter of 2019/20

Earnings for the summer quarter of 2019/20 were significantly higher than in the previous year's period. This was mainly due to the further acceleration in sales growth in the second quarter of 2019/20 compared with the previous quarter, as well as to more favorable cost ratios. These factors were supplemented by the effects of first-time application of the new accounting standard IFRS 16, which impacted positively on EBIT. Key data on the earnings performance in the second quarter of 2019/20 are as follows:

- Gross profit rose by 8.0 %, or € 31.8 million, to € 429.8 million in the quarter under report (2018/19: € 398.0 million). The **gross margin**, i.e. gross profit as a percentage of net sales [↳ Brief Glossary on Page 13], fell from 36.6 % to 36.3 %.

- **Selling and store expenses** grew significantly less rapidly than sales, rising by 2.8 % to € 290.1 million (2018/19: € 282.1 million). Overall, the **store expense ratio** [↳ Brief Glossary on Page 13] fell by more than 140 base points from 25.9 % to 24.5 %. Personnel expenses (excluding bonuses) rose less rapidly than sales. The measures to enhance cost efficiency led the store expense ratio to improve by around 100 base points in the second quarter, while the positive currency-adjusted IFRS 16 conversion effect contributed around 45 base points. **Pre-opening expenses** rose year-on-year from € 2.4 million to € 2.6 million in the second quarter of 2019/20. The pre-opening expense ratio [↳ Brief Glossary on Page 13] remained unchanged at 0.2 %. **General and administration expenses** showed slightly disproportionate growth compared with sales and rose to € 56.0 million (2018/19: € 51.2 million). The administration expense ratio [↳ Brief Glossary on Page 13] also remained unchanged (4.7 %).

- Earnings before interest, taxes, depreciation, and amortization (**EBITDA**) [↳ Brief Glossary on Page 12] increased by 67.6 % to € 145.2 million in the second quarter of 2019/20 (2018/19: € 86.6 million), with this growth being due to the improvement in operating earnings and the positive conversion effect resulting from first-time application of IFRS 16 (plus € 34.4 million).

- Operating earnings (**EBIT**) rose by 33.6 % to € 86.8 million in Q2 (2018/19: € 65.0 million). EBIT adjusted to exclude non-operating charges on earnings, which amounted to € 0.5 million in the quarter under report (2018/19: € 0.5 million) [↳**adjusted EBIT**: Brief Glossary on Page 12], improved by € 21.8 million, or 33.3 % to € 87.3 million (2018/19: € 65.5 million). Of this significant improvement in earnings, around € 16.4 million, corresponding to around three quarters, was due to the operating business, while the IFRS 16 conversion effect increased earnings by around € 5.4 million. The adjusted EBIT margin increased to 7.4 %, up from 6.0 % in the previous year's quarter.

- **Net financial expenses** fell from minus € 2.7 million to minus € 14.4 million, a development mainly due to the first-time recognition of the interest portion of lease expenses (IFRS 16), which accounted for around minus € 8.7 million in the quarter under report. Earnings were also reduced by currency items, which reversed from plus € 1.1 million in the previous year's quarter to minus € 0.2 million in the quarter under report.

- **Consolidated earnings before taxes** grew by 16.3 % to € 72.5 million (2018/19: € 62.3 million). The negative IFRS 16 effect of minus € 3.3 million in Q2 was clearly offset by the pleasing operating business performance.

- Given a slight year-on-year reduction in the tax charge, **consolidated net income** for the second quarter increased by 18.9 % to € 54.7 million (2018/19: € 46.0 million). Earnings per share are reported at € 1.72 for the second quarter of 2019/20 (2018/19: € 1.45).

1st half of 2019/20

Thanks to strong growth momentum in the second quarter, the key earnings figures of the HORNBACH Baumarkt AG Group for the first half (March 1 to August 31, 2019) also increased significantly. Key data on the earnings performance in the first half of 2019/20 (March 1 to August 31, 2019) are as follows:

- Gross profit increased by 7.9 % to € 895.6 million (2018/19: € 830.1 million). The **gross margin** decreased by almost 30 base points from 36.9 % to 36.6 %. The reduction in the gross margin was mainly due to higher procurement prices, which could only be offset in part by adjusting retail prices. Furthermore, it should be noted that the gross margin for the previous year's period included fixed-price terms in connection with the 50th anniversary of the HORNBACH DIY stores with garden centers and higher contractual penalties. Without this negative base effect, the gross margin for the period under report would have virtually matched the previous year's figure.

- **Selling and store expenses** grew notably less rapidly than sales, rising by 3.9 % to € 618.9 million (2018/19: € 595.8 million). The store expense ratio fell by nearly 120 base points from 26.5 % to 25.3 %. The IFRS 16 conversion effect accounted for around one third of this reduction in the expense ratio. **Pre-opening expenses** amounted to € 3.5 million (2018/19: € 4.7 million), corresponding to a reduction in the pre-opening expense ratio from 0.2 % to 0.1 %. **General and administration expenses** rose from € 105.5 million to € 111.9 million and thus less rapidly than sales. The administration expense ratio eased slightly from 4.7 % to 4.6 %.

- Including IFRS 16 conversion effects of € 70.6 million, **EBITDA** grew 66.9 % to € 287.3 million (2018/19: € 172.1 million).

- **EBIT** improved by 31.3 % to € 170.9 million in the first six months of 2019/20 (2018/19: € 130.2 million). Excluding non-operating earnings items, **adjusted EBIT** increased by € 41.1 million, or 31.5%, to € 171.4 million (2018/19: € 130.4 million). Of this earnings growth, around € 30.3 million (74 %) was attributable to the operating business and around € 10.8 million (26 %) to the IFRS 16 conversion effect. The adjusted EBIT margin rose to 7.0 %, up from 5.8 % in the previous year's comparative period.

- **Net financial expenses** fell from minus € 7.5 million to minus € 28.7 million, with this mainly being due to IFRS 16 (negative effect in first half of 2019/20: € 17.5 million). Currency items amounted to minus € 0.1 million, compared with plus € 0.8 million in the previous year's comparative period.

- **Consolidated earnings before taxes** rose – despite the negative IFRS 16 effect of € 6.7 million – by 15.8 % to € 142.2 million (2018/19: € 122.8 million). The half-year tax rate decreased from 25.9 % to 25.1 %. **Consolidated net income** grew by 17.0 % to € 106.5 million (2018/19: € 91.0 million). **Earnings per share** are reported at € 3.35 for the first half of 2019/20 (2018/19: € 2.86).

Financial and asset position

Financial position

Investments showed a significant year-on-year reduction from € 129.2 million to € 53.0 million in the first half of 2019/20. It should be noted that total investments in the previous year included the acquisition of a piece of land with buildings in Switzerland (Q1 2018/19) as well as the buyback of two stores previously leased in the Greater Berlin region (Q2 2018/19). At € 28.4 million, around 54 % of investments were channeled into land and buildings, while the remainder related to plant and office equipment at new and existing stores and to intangible assets (mainly IT software).

The cash flow from operating activities rose from € 129.7 million to € 324.4 million in the first half of 2019/20. From an operating business perspective, the growth in the cash flow from operating activities was driven – alongside the increase in consolidated net income – above all by the substantial improvement in working capital from minus € 2.0 million in the previous year's period to plus € 102.5 million. Furthermore, the figure for the period under report includes depreciation of € 78.4 million recognized on right-of-use assets (2018/19: € 6.3 million). To avoid negative interest rates, cash and cash equivalents of € 20 million

(2018/19: € 0k) were reallocated to current financial assets with terms of more than three months and recognized as an outflow of funds for investing activities, which thus decreased from minus € 126.6 million to minus € 71.5 million in the first half of 2019/20. The outflow of funds for financing activities, which totaled € 84.4 million, included an amount of € 70.0 million for repayments of current and non-current lease liabilities (2018/19: € 5.2 million). Information about the financing and investing activities of the HORNBACH Baumarkt AG Group can be found in the cash flow statement on Page 19.

Asset position

Total assets at the HORNBACH Baumarkt AG Group grew to € 3,624.4 million as of August 31, 2019, up 55.0 % compared with the balance sheet date on February 28, 2019. The principal reason for this increase was the first-time recognition of right-of-use assets for leased properties and of lease liabilities pursuant to IFRS 16, which extended the balance sheet by around € 1.2 billion. Shareholders' equity as posted in the balance sheet rose to € 1,146.4 million, up 7.3 % compared with the previous reporting date. At 31.6 %, the **equity ratio** [↪ Brief Glossary on Page 13] remained at a satisfactory level (February 28, 2019: 45.7 %). **Net financial debt** [↪ Brief Glossary on Page 13] rose from € 519.6 million to € 1,493.8 million as of August 31, 2019. This was chiefly due to the increase in current and non-current lease liabilities resulting from application of IFRS 16. Excluding lease liabilities, net financial debt fell by € 179.3 million to € 176.3 million as of August 31, 2019 (February 28, 2019: € 355.6 million).

Other Disclosures

New Chief Executive Officer at HORNBACH Baumarkt AG from January 1, 2020

Erich Harsch (57), a member of the Supervisory Board of HORNBACH Baumarkt AG, will succeed Steffen Hornbach (61) as the company's new Chief Executive Officer. In line with the proposal submitted by the Personnel Committee, on August 28, 2019 the Supervisory Board decided to appoint Erich Harsch as a member of the Board of Management and as Chief Executive Officer of HORNBACH Baumarkt AG as of January 1, 2020. Steffen Hornbach, company CEO since November 1, 2001, will stand down from his position on the Board of Management for health-related reasons as of December 31, 2019.

Employees

A total of 20,564 employees across Europe were in fixed employment at HORNBACH Baumarkt AG or one of its subsidiaries as of the reporting date on August 31, 2019 (February 28, 2019: 20,118).

Statement of figures

Figures have been rounded up or down to the nearest million euro amount. Such rounding up or down may result in minor discrepancies between the various presentations. Percentages have been calculated on the basis of thousand euro figures.

Risk and Opportunity Report

We presented the risks and opportunities involved in the future business activities of the HORNBACH Baumarkt AG Group in detail in the Risk and Opportunity Reports in our 2018/19 Annual Report (from Page 64 onwards). This basic assessment of the Group's medium to long-term development potential had not changed materially upon publication of this interim report.

Outlook

We presented our forecast of the macroeconomic and sector-specific framework on Pages 78 and 79 of the 2018/19 Annual Report of the HORNBACH Baumarkt AG Group. By comparison, upon publication of this half-year financial report the risks resulting from Brexit, from the ongoing trade dispute between the US and China, and from geopolitical crises mean that we see a significant increase in macroeconomic risks for the 2019/20 financial year as a whole. We cannot exclude the possibility that the resultant rise in insecurity will have a more substantial adverse impact on consumer confidence in the European countries in which we operate in the months ahead than we previously expected.

Expansion

New HORNBACH stores were opened in Presov (Slovakia) and Kristianstad (Sweden) in September 2019. We therefore now operate at four locations in Slovakia and seven locations in Sweden. One further new store opening is planned for Duiven (Netherlands) in the fourth quarter of 2019/20. By the end of the financial year on February 29, 2020, the total number of HORNBACH DIY stores with garden centers should amount to 160, of which 64 at sites in other European countries.

Sales and earnings forecast

All in all, upon completion of this report our assessment of the expected performance of the HORNBACH Baumarkt AG Group in the 2019/20 financial year is more positive than the outlook provided in the 2018/19 Annual Report (Pages 79 to 82). There has been a noticeable increase in the short-term risks expected for earnings in the second half of 2019/20; however, the resultant potentially negative impact on earnings is expected to be clearly offset by the surplus earnings achieved in the first half of the year. The sales and earnings forecasts have been raised slightly.

Sales forecast for the HORNBACH Baumarkt AG Group

The highly dynamic sales momentum in the first half of the year is not expected to continue in the second half of the financial year. This is due on the one hand to the high basis for comparison provided by the third and fourth quarters of 2018/19. Following a weak first half in the 2018/19 financial year, group-wide like-for-like sales net of currency items rose by 6.2 % (Q3) and 5.9 % (Q4). On the other hand, weather conditions in the final quarter (December 1, 2019 to February 29, 2020) are likely to turn out less favorable than in the extremely mild winter of 2018/19. Significantly lower rates of sales growth are therefore expected in the second half of 2019/20 than in the first half. Should consumer confidence in the European countries in which we operate be sustainably impeded by the global economic slowdown expected by economic experts, then this too could additionally weaken customer demand in our stationary and online retail business in the course of the second half.

Given high sales growth of 8.7 % in the first half of the year, the Board of Management has slightly raised its sales forecast for the 2019/20 financial year as a whole. Accordingly, **consolidated sales for the 2019/20 financial year** are now expected to increase in a **medium to upper single-digit percentage range** (previously: "in a medium single-digit percentage range").

Earnings forecast for the HORNBACH Baumarkt AG Group

Based on the assessment by the Board of Management, the sales, weather, and macroeconomic risks identified for the second half of the financial year could adversely impact the development in adjusted EBIT in the second half of 2019/20. To account for the sharply opposed earnings growth achieved in the second quarter and first half of 2019/20, however, the Board of Management has moderately raised its earnings forecast for the 2019/20 financial year as a whole. Accordingly, adjusted EBIT is now expected to exceed the **level reported for the 2018/19 financial year** (€ 81.9 million) **by more than 40 %** (previously: "more than 30 %"). Earnings are expected to benefit on the one hand from like-for-like sales growth and greater cost discipline in the operating business. On the other hand, we still expect the first-time application of IFRS 16 to increase EBIT for the 2019/20 financial year on a scale of around € 21.5 million (basis for calculation: March 1, 2019).

Brief Glossary of Key Performance Figures

In this quarterly statement we also refer to the following key performance figures that are not defined under IFRS to comment on our asset, financial, and earnings situation. These figures should also be viewed in the overall context of the information published in the Annual Report concerning the Group's management system.

Like-for-like sales net of currency items (change in %)	*Alternative key performance figure to measure the operating business performance and indicate the organic growth achieved by 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. No account is taken of stores newly opened, closed, or subject to substantial conversion measures in the past twelve months. Like-for-like sales are calculated excluding sales tax (net) and based on the local currency for the reporting period under comparison (currency-adjusted). The rate of change in like-for-like sales net of currency items is therefore a performance indicator independent of exchange rate factors. On a euro basis, like-for-like sales are also calculated including currency items for those countries in our European store network that have currencies other than the euro.
EBITDA	*Alternative key performance figure to comment on earnings performance*	EBITDA stands for earnings before interest, taxes, depreciation and amortization (on property, plant and equipment and on intangible assets). EBITDA is a cash flow-based figure, as depreciation and amortization, which do not impact on liquidity, are added to operating earnings (EBIT).
Adjusted EBIT	*Major key performance figure to comment on operating earnings performance*	To calculate this key figure, EBIT is adjusted to exclude non-operating earnings items. Non-operating expenses (e.g. impairment losses on 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.

Cost ratios	*Alternative key performance figures for the development in store, pre-opening, and administration expenses as a percentage of net sales*	The **store expense ratio** is obtained by dividing selling and store expenses by net sales. Selling and store expenses comprise those costs incurred in connection with the operation of stationary DIY stores with garden centers and the online shops. They mainly include personnel expenses, costs of premises, and advertising expenses, as well as depreciation, amortization, and general operating expenses, such as transport expenses, service and maintenance. The **pre-opening expense ratio** is calculated by dividing pre-opening expenses by net sales. Costs incurred in connection with and upon the construction of a new stationary DIY store with a garden center through to opening are reported as pre-opening expenses. Pre-opening expenses largely comprise personnel expenses, costs of premises, and administration expenses. The **administration expense ratio** is the quotient of administration expenses and net sales. Administration expenses include all administrative expenses incurred 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) and which cannot be directly allocated to such. They mainly consist of personnel expenses, legal and advisory expenses, depreciation and amortization, costs of premises, and IT, travel, and vehicle expenses. As well as purely administrative expenses, they also include project-related expenses and in particular the expenses incurred for the increasing digitalization of our business model (multichannel retail).
Equity ratio	*Alternative key performance figure to comment on asset position*	The equity ratio is derived by dividing shareholders' equity as reported in the balance sheet (equity posted) by total capital (balance sheet total).
Net financial debt	*Alternative key performance figure to comment on 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.
Gross margin	*Further key performance figure to comment on earnings performance*	The gross 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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Income Statement

€ million	2nd Quarter 2019/20	2nd Quarter 2018/19	Change in %	1st Half 2019/20	1st Half 2018/19	Change in %
Sales	1,184.0	1,087.6	8.9	2,444.7	2,249.6	8.7
Cost of goods sold	754.2	689.6	9.4	1,549.2	1,419.5	9.1
Gross profit	**429.8**	**398.0**	**8.0**	**895.6**	**830.1**	**7.9**
Selling and store expenses	290.1	282.1	2.8	618.9	595.8	3.9
Pre-opening expenses	2.6	2.4	10.3	3.5	4.7	(25.9)
General and administration expenses	56.0	51.2	9.4	111.9	105.5	6.1
Other income and expenses	5.8	2.7	>100	9.7	6.1	58.2
Earnings before interest and taxes (EBIT)	**86.8**	**65.0**	**33.6**	**170.9**	**130.2**	**31.3**
Interest and similar income	0.2	0.2	1.9	0.2	0.3	(9.8)
Interest and similar expenses	14.3	4.0	>100	28.8	8.5	>100
Other financial result	(0.2)	1.1	>(100)	(0.1)	0.8	>(100)
Net financial expenses	**(14.4)**	**(2.7)**	**>(100)**	**(28.7)**	**(7.5)**	**>(100)**
Consolidated earnings before taxes	**72.5**	**62.3**	**16.3**	**142.2**	**122.8**	**15.8**
Taxes on income	17.7	16.3	9.2	35.8	31.8	12.5
Consolidated net income	**54.7**	**46.0**	**18.9**	**106.5**	**91.0**	**17.0**
Basic/diluted earnings per share (€)	1.72	1.45	18.6	3.35	2.86	17.1

Statement of Comprehensive Income

€ million	2nd Quarter 2019/20	2nd Quarter 2018/19	1st Half 2019/20	1st Half 2018/19
Consolidated net income	**54.7**	**46.0**	**106.5**	**91.0**
Actuarial gains and losses on defined benefit plans	(9.6)	0.0	(15.6)	0.0
Deferred taxes on actuarial gains and losses on defined benefit plans	1.7	0.0	2.6	0.0
Valuation of equity instruments (after deferred taxes)	2.5	0.8	2.5	0.8
Other comprehensive income that will not be recycled at a later date	**(5.4)**	**0.8**	**(10.4)**	**0.8**
Exchange differences arising on the translation of foreign subsidiaries	3.6	3.2	4.2	1.5
Other comprehensive income that will be recycled at a later date	**3.6**	**3.2**	**4.2**	**1.5**
Total comprehensive income	**52.9**	**50.0**	**100.2**	**93.3**

Balance Sheet

Assets [1]	August 31, 2019		February 28, 2019	
	€ million	%	€ million	%
Non-current assets				
Intangible assets	17.0	0.5	17.4	0.7
Property, plant, and equipment	1,092.7	30.1	1,072.7	45.9
Right-of-use assets	1,268.8	35.0	149.0	6.4
Investment property	6.8	0.2	6.6	0.3
Financial assets	9.9	0.3	7.3	0.3
Other non-current receivables and assets	1.3	0.0	2.2	0.1
Deferred tax assets	8.9	0.2	6.4	0.3
	2,405.3	**66.4**	**1,261.5**	**54.0**
Current assets				
Inventories	702.5	19.4	755.7	32.3
Current financial assets	20.0	0.6	0.0	0.0
Trade receivables	12.5	0.3	11.3	0.5
Contract assets	1.7	0.0	1.6	0.1
Other current assets	66.8	1.8	60.0	2.6
Income tax receivables	4.0	0.1	5.3	0.2
Cash and cash equivalents	411.6	11.4	242.5	10.4
	1,219.2	**33.6**	**1,076.4**	**46.0**
	3,624.4	**100.0**	**2,337.9**	**100.0**

[1] Statement of previous year's figures adjusted due to IFRS 16 (see Note 1).

Equity and liabilities [1]	August 31, 2019		February 28, 2019	
	€ million	%	€ million	%
Shareholders' equity				
Share capital	95.4	2.6	95.4	4.1
Capital reserve	143.6	4.0	143.6	6.1
Revenue reserves	907.4	25.0	829.6	35.5
	1,146.4	**31.6**	**1,068.6**	**45.7**
Non-current liabilities				
Non-current financial debt	294.2	8.1	294.2	12.6
Non-current lease liabilities	707.4	19.5	153.2	6.6
Non-current lease liabilities related to affiliated companies	474.5	13.1	0.0	0.0
Provisions for pensions	28.8	0.8	14.2	0.6
Deferred tax liabilities	14.1	0.4	17.5	0.7
Other non-current liabilities	35.1	1.0	52.4	2.2
	1,554.2	**42.9**	**531.4**	**22.7**
Current liabilities				
Current financial debt	313.7	8.7	304.0	13.0
Current lease liabilities	75.7	2.1	10.8	0.5
Current lease liabilities related to affiliated companies	59.8	1.6	0.0	0.0
Trade payables	203.9	5.6	227.0	9.7
Contract liabilities	35.1	1.0	30.9	1.3
Other current liabilities	101.3	2.8	70.3	3.0
Income tax liabilities	35.5	1.0	9.1	0.4
Other provisions and accrued liabilities	98.9	2.7	85.9	3.7
	923.8	**25.5**	**737.9**	**31.6**
	3,624.4	**100.0**	**2,337.9**	**100.0**

[1] Statement of previous year's figures adjusted due to IFRS 16 (see Note 1).

Statement of Changes in Equity

1st Half 2018/19 in € million	Share capital	Capital reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2018	**95.4**	**143.6**	**36.3**	**773.4**	**1,048.8**
Adjustments due to IFRS 15				1.8	1.8
Adjustments due to IFRS 9				0.2	0.2
Balance at March 1, 2018 (adjusted)	**95.4**	**143.6**	**36.3**	**775.4**	**1,050.8**
Consolidated net income				91.0	91.0
Measurement of equity instruments, net after taxes				0.8	0.8
Foreign currency translation			1.5		1.5
Total comprehensive income			**1.5**	**91.8**	**93.3**
Dividend distribution				(21.6)	(21.6)
Treasury stock transactions				(0.3)	(0.3)
Balance at August 31, 2018	**95.4**	**143.6**	**37.9**	**845.2**	**1,122.1**

1st Half 2019/20 in € million	Share capital	Capital reserve	Cumulative currency translation	Other revenue reserves	Total equity
Balance at March 1, 2019	**95.4**	**143.6**	**37.3**	**792.2**	**1,068.6**
Consolidated net income				106.5	106.5
Actuarial gains and losses on defined benefit plans, net after taxes				(12.9)	(12.9)
Measurement of equity instruments, net after taxes				2.5	2.5
Foreign currency translation			4.2		4.2
Total comprehensive income			**4.2**	**96.0**	**100.2**
Dividend distribution				(21.6)	(21.6)
Treasury stock transactions				(0.7)	(0.7)
Balance at August 31, 2019	**95.4**	**143.6**	**41.5**	**865.9**	**1,146.4**

Cash Flow Statement

€ million 1)	1st Half 2019/20	1st Half 2018/19
Consolidated net income	**106.5**	**91.0**
Depreciation and amortization of investments in property, plant, and equipment and in intangible assets	37.9	36.0
Depreciation of right-of-use assets	78.4	6.3
Change in provisions	1.5	(1.1)
Gains/losses on disposals of non-current assets and of non-current assets held for sale	0.5	(0.5)
Change in inventories, trade receivables and other assets	45.8	(5.7)
Change in trade payables and other liabilities	56.8	3.6
Other non-cash income/expenses	(2.9)	0.2
Cash flow from operating activities	**324.4**	**129.7**
Proceeds from disposals of non-current assets and of non-current assets held for sale	1.4	2.6
Payments for investments in property, plant, and equipment	(50.9)	(127.1)
Payments for investments in intangible assets	(2.1)	(2.1)
Cash paid for investments in connection with short-term finance planning	(20.0)	0.0
Cash flow from investing activities	**(71.5)**	**(126.6)**
Dividends paid	(21.6)	(21.6)
Repayment of long-term debt	0.0	(0.6)
Repayment of current and non-current lease liabilities	(70.0)	(5.2)
Proceeds from group financing activities	0.0	13.0
Change in current financial debt	7.2	5.6
Cash flow from financing activities	**(84.4)**	**(8.8)**
Cash-effective change in cash and cash equivalents	168.4	(5.7)
Change in cash and cash equivalents due to changes in exchange rates	0.7	0.1
Cash and cash equivalents at March 1	242.5	102.1
Cash and cash equivalents at August 31	**411.6**	**96.6**

[1] Statement of previous year's figures adjusted due to IFRS 16 (see Note 1).

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

The cash flow from operating activities was reduced by income tax payments of € 11.5 million (2018/19: € 16.7 million) and interest payments of € 22.3 million (2018/19: € 4.3 million) and increased by interest received of € 0.2 million (2018/19: € 0.3 million). Of interest payments, an amount of € 21.6 million (2018/19: € 3.7 million) involves interest paid in connection with leases.

The other non-cash income/expenses item mainly relates to deferred taxes, the period-based updating of financing expenses deferred using the effective interest method, and unrecognized exchange rate gains/losses.

GROUP NOTES

Notes to the Interim Consolidated Financial Statements as of August 31, 2019

(1) Accounting principles

This group half-year financial report of HORNBACH Baumarkt AG and its subsidiaries for the 1st half as of August 31, 2019 has been prepared in accordance with § 315e of the German Commercial Code (HGB) based on International Financial Reporting Standards (IFRS) in the form requiring mandatory application in the European Union. The abridged interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting".

Pursuant to IAS 34 "Interim Financial Reporting", income tax expenses for the first half have been calculated using the average annual tax rate expected for the financial year as a whole.

This interim report is to be read in conjunction with the consolidated financial statements of HORNBACH Baumarkt AG for the 2018/19 financial year. Reference is made to these financial statements on account of the additional information they contain as to the specific accounting and valuation methods applied. The notes included therein also apply to this interim report, unless any amendments are expressly indicated. Moreover, this interim report is also consistent with German Accounting Standard No. 16 (DRS 16) – Interim Reporting – of the German Accounting Standards Committee (DRSC).

Figures have been rounded up or down to the nearest million euros. This may result in discrepancies between figures in the various numeric presentations. Percentages have been calculated on the basis of € 000s.

Changes in accounting principles

The new standards, amendments to standards, and interpretations requiring first-time application in the 2019/20 financial year were described in the notes to the 2018/19 consolidated financial statements. Apart from the first-time application of the new standard outlined below, other changes did not have any material implications for the consolidated financial statements.

Adoption of IFRS 16

Due to IFRS 16, all leases with few exceptions require recognition in the balance sheet. At HORNBACH, this particularly affects those property rental agreements previously classified as operating leases. Their recognition in the balance sheet has materially increased the volume of non-current assets and financial debt as of March 1, 2019. Furthermore, changes have also arisen within the income statement. Rental payments for operating lease agreements were previously mainly recognized as expenses within selling and store expenses. In future, depreciation of right-of-use assets will be recognized, as will interest expenses for the financial debt item. Depreciation of right-of-use assets will continue to be recognized within functional expenses (mainly selling and store expenses). By contrast, interest expenses relating to leases will be recognized in net financial expenses, thus leading to an increase in EBIT.

In the cash flow statement, the outflow of funds for "rental payments" will no longer be recognized in the cash flow from operating activities. These outflows will rather be split into interest and principal repayment portions. Interest payments will be recognized in the cash flow from operating activities, while principal repayments will be recognized in the cash flow from financing activities. This will increase the inflow of funds from operating activities. The outflow of funds for financing activities will also rise.

The Group has applied IFRS 16 for the first time as of March 1, 2019 and used the modified retrospective method. Comparative information has not been adjusted. The right-of-use assets have been capitalized in the amount of the lease liabilities thereby determined and reduced by lease payments paid in advance or deferred.

To enhance comparability and given the materiality involved in the presentation of leases, new line items were added to the balance sheet upon first-time application of IFRS 16. From now on, right-of-use assets will be recognized as a separate line item within non-current assets. Furthermore, non-current and current lease liabilities will be recognized separately from non-current and current financial debt. This presentation will also take due account of the relationship of such items to affiliated companies. In the cash flow statement, depreciation of right-of-use assets and principal payments on lease liabilities will from now on be presented as separate line items. The previous year's presentation with respect to IAS 17 finance leases has been adjusted by analogy with the aforementioned methodology. This resulted in the following conversion effects in the balance sheet as of March 1, 2019:

€ million	IAS 17 carrying amount 2.28.2019	Reclassification	Conversion effects due to leases previously not requiring recognition	IFRS 16 carrying amount 3.1.2019
Non-current assets				
Property, plant, and equipment	1,221.7	(149.0)	0.0	1,072.7
Right-of-use assets	0.0	149.0	1,167.4	1,316.4
Current assets				
Other current assets	60.0		(0.3)	59.7
Non-current liabilities				
Non-current financial debt	447.4	(153.2)	0.0	294.2
Non-current lease liabilities	0.0	153.2	587.2	740.4
Non-current lease liabilities related to affiliated companies	0.0		480.8	480.8
Other non-current liabilities	52.4		(19.9)	32.5
Current liabilities				
Current financial debt	314.8	(10.8)	0.0	304.0
Current lease liabilities	0.0	10.8	66.1	76.9
Current lease liabilities related to affiliated companies	0.0		58.5	58.5
Other current liabilities	70.3		(0.6)	69.7
Other provisions and accrued liabilities	85.9		(4.9)	81.0

As of the conversion date, around 99 % of right-of-use assets requiring recognition relate to land, leasehold rights and buildings, as well as buildings on third-party land. The remaining share involves advertising space and other plant and office equipment.

The items capitalized upon first-time application take due account of the practical expedient concerning impairment testing. As of March 1, 2019, the provision recognized for onerous rental agreements was therefore offset against the carrying amount of the corresponding right-of-use asset. This reduced right-of-use assets by € 18.2 million. Furthermore, incentive payments received and deferred as liabilities through to February 28, 2019 and deferred obligations relating to graduated rental agreements were offset against the corresponding right-of-use assets, reducing the latter item by € 7.2 million.

For the current 2019/20 financial year, HORNBACH expects the IFRS 16 conversion to increase operating earnings (EBIT) on a currency-adjusted basis by around € 21.5 million and to reduce consolidated earnings before taxes on income (EBT) by around € 13.3 million. Including conversion and current effects (and excluding the effects of finance lease contracts already recognized in accordance with IAS 17), as of the reporting date EBIT was positively affected by € 10.2 million and earnings per share were negatively affected by € 0.18.

Transition of lease liabilities (€ million)	
Off-balance lease obligations as of 2.28.2019	**1,039.3**
Properties not yet available for use	(8.1)
"Low-value" and "short-term" leases	(0.3)
Purchase options for plant and office equipment	0.2
Reasonably certain extension and termination options (reassessed)	373.4
Lease liabilities as of 3.1.2019 (undiscounted)	**1,404.5**
Discounting	(212.0)
Lease liabilities resulting from first-time application of IFRS 16 as of 3.1.2019	**1,192.5**
Lease liabilities relating to finance leases (IAS 17) as of 2.28.2019	164.0
Total lease liabilities as of 3.1.2019	**1,356.5**

Upon initial application, the weighted average incremental borrowing rate amounted to 3.1 %.

The following further options were exercised:

- Application of "low-value" and "short-term" exemptions for all leased items except for items in the "advertising space" asset class
- No application of the standard to leases involving intangible assets
- Separation of lease and non-lease components except for items in the "advertising space" asset class
- Application of a portfolio approach for the "advertising space" asset class, as the Group does not expect any material variance compared with item-specific recognition
- No consideration of directly allocable costs at time of initial application.

(2) Seasonal influences

Due to weather conditions, the HORNBACH Baumarkt AG Group generally reports a weaker business performance in the fall and winter than in the spring and summer months. These seasonal fluctuations are reflected in the figures for the first half. The business performance in the first six months as of August 31, 2019 does not necessarily provide an indication for the year as a whole.

(3) Other income and expenses

Other income and expenses are structured as follows:

€ million	2nd Quarter 2019/20	2nd Quarter 2018/19	Change in %
Other income	11.5	6.2	86.1
Other expenses	5.8	3.5	63.6
Other income and expenses	**5.8**	**2.7**	**>100**

€ million	1st Half 2019/20	1st Half 2018/19	Change in %
Other income	17.1	10.8	58.2
Other expenses	7.4	4.7	58.1
Other income and expenses	**9.7**	**6.1**	**58.2**

Other income for the first half of 2019/20 mainly results from operating income and chiefly relates to ancillary revenues at DIY stores with garden centers, income from disposal services, income from allocations within the HORNBACH Holding AG & Co. KGaA Group, and income from damages payments. In the previous year, this line item included non-operating income of € 1.2 million included without functional designation (see Note 5).

Other expenses mainly relate to losses incurred for damages and to operating expenses in connection with impairments of receivables and to disposal losses.

(4) Earnings per share

Basic earnings per share are calculated pursuant to IAS 33 "Earnings per Share" as the quotient of the income attributable to the shareholders of HORNBACH Baumarkt AG for the period under report and the weighted average number of shares issued. As in the previous year, no dilutive effects had to be accounted for when calculating earnings per share.

Basic earnings per share

	2nd Quarter 2019/20	2nd Quarter 2018/19
Number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG in € million	54.7	46.0
Earnings per share in €	**1.72**	**1.45**

	1st Half 2019/20	1st Half 2018/19
Number of shares issued	31,807,000	31,807,000
Consolidated net income allocable to shareholders in HORNBACH Baumarkt AG in € million	106.5	91.0
Earnings per share in €	**3.35**	**2.86**

(5) Other disclosures

The personnel expenses of the HORNBACH Baumarkt AG Group amounted to € 397.0 million at the end of the first half of the 2019/20 financial year (2018/19: € 359.3 million).

Depreciation and amortization totaling € 37.9 million was recognized on intangible assets and property, plant and equipment at the HORNBACH Baumarkt AG Group in the first six months (2018/19: € 36.0 million). An amount of € 78.4 million related to depreciation of right-of-use assets in connection with leases (2018/19: € 6.3 million).

Individual functional expenses include the following non-operating items:

1st Half of 2019/20 € million	Result from sale or valuation of non-operating real estate	Result from cancellation of projects	Sundry items	Total
Pre-opening expenses	0.0	(0.5)	0,0	(0.5)
	0.0	**(0.5)**	**0,0**	**(0.5)**

1st Half of 2018/19 € million	Result from sale or valuation of non-operating real estate	Result from cancellation of projects	Sundry items	Total
Pre-opening expenses	0.0	(0.1)	(1.3)	(1.4)
Other income and expenses	0.8	0.0	0.4	1.2
	0.8	**(0.1)**	**(0.9)**	**(0.2)**

(6) Shareholders' equity

On July 15, 2019, the Board of Management of HORNBACH Baumarkt AG resolved pursuant to § 71 (1) No. 2 of the German Stock Corporation Act (AktG) to acquire up to 55,000 treasury stock shares. These shares are to be acquired for the annual issue of employee shares scheduled to take place at the end of 2019. The buyback of shares began on August 1, 2019 and is limited to February 29, 2020. By August 31, 2019, HORNBACH Baumarkt AG had acquired 45,000 treasury stock shares. In the statement of changes in equity, the acquisition costs for these shares (€ 0.7 million) have been recognized under "Treasury stock transactions".

The buyback of shares on the basis of this management board resolution is being executed in accordance with the safe harbor regulations set out in Article 5 of Regulation (EU) No. 596/2014 of the European Parliament and Council dated April 14, 2014 and with the delegated Regulation (EU) 2016/1052 of the Commission dated March 8, 2016.

(7) Dividend

As proposed by the Board of Management and Supervisory Board of HORNBACH Baumarkt AG, following approval by the Annual General Meeting on July 4, 2019 a dividend of € 0.68 per share was distributed to shareholders for the 2018/19 financial year.

(8) Contingent liabilities

The company had contingent liabilities of € 228.0 million as of the balance sheet date. These mainly relate to conditionally deferred rental relationships and outstanding land purchase contracts. The timing of any potential outflow of funds for contingent liabilities is uncertain, as they depend on various external factors that are outside HORNBACH's control.

(9) Related party disclosures

In addition to the subsidiaries included in the consolidated financial statements, HORNBACH Baumarkt AG also has direct or indirect relationships with associated companies when performing its customary business activities. These include the parent company, HORNBACH Holding AG & Co. KGaA, and its general partner (HORNBACH Management AG), as well as their direct and indirect subsidiaries. Apart from the transactions performed in the usual course of business and reported in the annual financial statements, no material transactions were undertaken with closely related companies and persons in the period under report.

(10) Fair value disclosures

The methods and principles applied to determine fair value are basically unchanged compared with the consolidated financial statements as of February 28, 2019. The following table presents the carrying amounts and fair values of individual financial assets and liabilities pursuant to IFRS 9 as of August 31, 2019:

€ million	Category	Carrying amount 8.31.2019	Fair value 8.31.2019	Carrying amount 2.28.2019	Fair value 2.28.2019
Assets					
Financial assets	FVtOCI	9,9	9,9	7,3	7,3
Current financial assets	AC	20,0	20,0	0,0	0,0
Trade receivables	AC	10,8	10,8	9,7	9,7
Trade receivables due to non-recourse factoring that are not derecognized	FVtPL	1,7	1,7	1,6	1,6
Contract assets	AC	1,7	1,7	1,6	1,6
Other current and non-current assets					
Derivatives without hedge relationship	FVtPL	0,4	0,4	0,2	0,2
Other assets	AC	50,9	50,9	37,5	37,5
Cash and cash equivalents	AC	411,6	411,6	242,5	242,5
Equity and liabilities					
Financial debt					
Bonds	AC	249,7	254,0	249,5	257,7
Liabilities to banks	AC	357,5	369,8	348,1	340,9
Lease liabilities[1)]	n/a	783,2	--	164,0	180,1
Lease liabilities related to affiliated companies[1)]	n/a	534,3	--	0,0	0,0
Derivatives without hedge relationship	FVtPL	0,7	0,7	0,5	0,5
Trade payables	AC	203,9	203,9	227,0	227,0
Contract liabilities	AC	35,1	35,1	30,9	30,9
Other current and non-current liabilities	AC	18,5	18,5	19,3	19,3
Accrued liabilities	AC	32,1	32,1	26,1	26,1

1) Amounts recognized due to IFRS 16 are exempted from the scope of IFRS 13 (IFRS 13.6 (b)).

Other current and non-current assets of € 16.8 million (February 28, 2019: € 24.5 million), other current and non-current liabilities of € 118.0 million (February 28, 2019: € 103.3 million), and accrued liabilities of € 64.9 million (February 28, 2019: € 53.2 million) are outside the scope of IFRS 7.

The following financial instruments measured by reference to input data in the fair value hierarchy have been recognized at fair value in the balance sheet or in the note disclosures:

€ million	Category	8.31.2019	2.28.2019
Assets			
Valuation based on level 2 input data			
Derivatives without hedge relationship	FVtPL	0.4	0.2
Valuation based on level 3 input data			
Financial assets	FVtOCI	9.9	7.3
Liabilities			
Valuation based on level 1 input data			
Bonds	AC	254.0	257.7
Valuation based on level 2 input data			
Liabilities to banks	AC	369.8	340.9
Lease liabilities[1)]	n/a	--	180.1
Derivatives without hedge relationship	FVtPL	0.7	0.5

[1)] Amounts recognized due to IFRS 16 are exempted from the scope of IFRS 13 (IFRS 13.6 (b)).

Derivative financial instruments without hedge relationships involve foreign currency items for outstanding orders.

Financial assets include an investment measured using level 3 input data. Reference is made in this respect to the disclosures made in the 2018/19 consolidated financial statements. A change in the measurement of this investment required recognition in equity in the first half of 2019/20. This was mainly due to a change in the relevant interest rate (WACC). The discount rate after taxes decreased from 5.5 % to 4.7 %. The following table presents the development in fair value:

Changes in level 3 financial assets in € million	08.31.2019	02.28.2019
Balance at March 1	**7.3**	**6.5**
Change in valuation (OCI)	2.5	0.8
Balance at August 31	**9.8**	**7.3**

The following overview presents the sensitivities of the main input factors as of August 31, 2019:

€ million	Fair value	
	Increase	Decrease
Rent (5% change)	1.1	(1.1)
Discount rate (50 basis point change)	(1.6)	2.1

(11) Segment report

1st Half 2019/20 in € million 1st Half 2018/19 in € million	Retail	Real Estate	Headquarters and Consolidation	HORNBACH Baumarkt AG Group
Segment sales	**2,442.5**	**139.3**	**(137.1)**	**2,444.7**
	2,248.2	87.5	(86.1)	2,249.6
Sales to third parties	2,442.5	0.0	0.0	2,442.5
	2,248.2	0.0	0.0	2,248.2
Rental income from third parties	0.0	2.2	0.0	2.2
	0.0	1.4	0.0	1.4
Rental income from affiliated companies	0.0	137.1	(137.1)	0.0
	0.0	86.1	(86.1)	0.0
Segment earnings (EBIT)	**129.8**	**51.0**	**(9.9)**	**170.9**
	97.7	39.1	(6.5)	130.2
Depreciation and amortization/write-ups	**27.8**	**82.9**	**5.7**	**116.4**
	20.4	16.5	4.9	41.9
EBITDA	**157.6**	**133.9**	**(4.2)**	**287.3**
	118.1	55.6	(1.6)	172.1
Segment assets	**1,146.8**	**2,183.7**	**281.0**	**3,611.6**
	939.0	1,056.8	81.7	2,077.5
of which: credit balances at banks	167.1	0.0	206.4	373.5
	44.9	0.0	26.0	70.9

Reconciliation in € million	1st Half 2019/20	1st Half 2018/19
Segment earnings (EBIT) before "Headquarters and consolidation"	**180.8**	**136.8**
Headquarters	(9.9)	(6.5)
Net financial expenses	(28.7)	(7.5)
Consolidated earnings before taxes	**142.2**	**122.8**

The table below presents a breakdown of external sales by region and activity:

External sales by region 1st Half 2019/20 in € million 1st Half 2018/19 in € million	Retail	Real Estate	HORNBACH Baumarkt AG Group
Germany	**1,255.7**	**0.1**	**1,255.8**
	1,173.9	0.0	1,173.9
Other European countries	**1,186.8**	**2.1**	**1,188.9**
	1,074.3	1.4	1,075.7
Revenue from contracts with customers	**2,442.5**	**2.2**	**2,444.7**
	2,248.2	1.4	2,249.6

Bornheim bei Landau, September 24, 2019

HORNBACH Baumarkt AG
The Board of Management

Steffen Hornbach

Roland Pelka

Susanne Jäger

Wolfger Ketzler

Karsten Kühn

Ingo Leiner

Dr. Andreas Schobert

RESPONSIBILITY STATEMENT (BALANCE SHEET OATH)

We hereby affirm that, to the best of our knowledge and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the financial year.

Bornheim bei Landau, September 24, 2019

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ATTESTATION REPORT BASED ON LIMITED REVIEW

To HORNBACH Baumarkt AG, Bornheim/Pfalz/Germany

We have performed a limited review of the condensed interim consolidated financial statements, which comprise the income statement and the statement of comprehensive income for the period from 1 March to 31 August 2019, the balance sheet as at 31 August 2019, the statement of changes in equity, the statement of cash flows and the selected explanatory notes, together with the interim group management report of HORNBACH Baumarkt AG, Bornheim/Pfalz/Germany, for the period from 1 March to 31 August 2019, that are part of the semi annual financial report pursuant to Section 115 German Securities Trading Act (WpHG). The executive directors are responsible for the preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the German Securities Trading Act (WpHG) applicable to interim group management reports. Our responsibility is to issue an attestation report on the condensed interim consolidated financial statements and on the interim group management report based on our limited review.

We conducted our limited review of the condensed interim consolidated financial statements and of the interim group management report in accordance with the German Generally Accepted Standards for the Limited Review of Financial Statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the limited review in a manner that, based on critical assessment, we can preclude with a certain level of assurance, that, in material respects, the condensed interim consolidated financial statements have not been prepared in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, or that, in material respects, the interim group management report has not been prepared in accordance with the requirements of the German Securities Trading Act (WpHG) applicable to interim group management reports. A limited review is primarily confined to making enquiries of the Company‘s employees and performing analytical assessments and therefore does not offer the assurance that can be obtained through an audit of financial statements. Since we were not engaged to perform an audit of financial statements, we cannot issue an auditor‘s report.

Based on our limited review no matters have come to our attention that cause us to assume that, in material respects, the condensed interim consolidated financial statements of HORNBACH Baumarkt AG, Bornheim/Pfalz/Germany, have not been prepared in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, or that, in material respects, the interim group management report has not been prepared in accordance with the requirements of the German Securities Trading Act (WpHG) applicable to interim group management reports.

Mannheim/Germany, September 24, 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Steffen Schmidt
Wirtschaftsprüfer
(Certified Public Auditor)

Patrick Wendlandt
Wirtschaftsprüfer
(Certified Public Auditor)

This is the translation of the German attestation report. Therefore, the German attestation report is decisive.

FINANCIAL CALENDAR

September 26, 2019	Half-Year Financial Report 2019/20
December 19, 2019	Quarterly Statement: 3rd Quarter of 2019/20
March 20, 2020	Trading Statement 2019/20
May 27, 2020	Annual Results Press Conference 2019/20 Publication of Annual Report DVFA Analysts Conference

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DISCLAIMER

This interim report contains forward-looking statements based on assumptions and estimates made by the Board of Management of HORNBACH. Statements referring to the future are always only valid at the time at which they are made. Although we assume that the expectations reflected in these forecast statements are realistic, the company can provide no guarantee that these expectations will also turn out to be accurate. The assumptions may involve risks and uncertainties which could result in actual results differing significantly from the forecast statements. The factors which could produce such variances include changes in the economic and business environment, particularly in respect of consumer behavior and the competitive environment in those retail markets of relevance for HORNBACH. Furthermore, they include a lack of acceptance of new sales formats or new product ranges, as well as changes to the corporate strategy. HORNBACH has no plans to update the forecast statements, neither does it accept any obligation to do so.