

Compensation Report

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

1. Compensation of Board of Management of HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH 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 HORNBAACH Management AG for performing its duties on behalf of the HORNBAACH 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 HORNBAACH 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 HORNBAACH Management AG are presented separately.

1.5 Total compensation of members of Board of Management of HORNBAACH 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 HORNBAACH 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 HORNBAACH Holding AG & Co. KGaA

Supervisory Board compensation is governed by § 17 of the Articles of Association of HORNBAACH 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 HORNBAACH Holding AG & Co. KGaA includes compensation components amounting to € 206k in total for positions held on the Supervisory Board of HORNBAACH Baumarkt AG (basic: € 120k; committee: € 86k).

3. Compensation of Supervisory Board of HORNBAACH Management AG

Supervisory Board compensation is governed by the Articles of Association of HORNBAACH 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 HORNBAACH Holding AG & Co. KGaA and HORNBAACH 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 HORNBAACH Baumarkt AG, HORNBAACH Holding AG & Co. KGaA, and HORNBAACH 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 HORNBAACH Management AG Group

Incumbent members	Financial year	Basic compensation HORNBAACH Holding AG & Co. KGaA € 000s	Basic compensation HORNBAACH Management AG € 000s	Total committee compensation HORNBAACH Holding AG & Co. KGaA KGaA € 000s	Total committee compensation HORNBAACH 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 (HORNBAACH Management AG)

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

³⁾ Member of Supervisory Board of HORNBAACH Baumarkt AG; compensation for this function included in compensation at KGaA.