

Compensation Report

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

Compensation of the Board of Management

Compensation system at HORNBAACH HOLDING AG

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

■ Fixed annual salary:

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

■ Variable compensation:

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

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 after taxes (IFRS) and minority interests at HORNBAACH HOLDING AG. Of variable compensation calculated on the basis of average consolidated net income after taxes (IFRS) and 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 HOLDING 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 after taxes (IFRS) and minority interests at HORNBAACH HOLDING AG for the past three years. For all members of the Board of Management, the level of variable compensation is capped at a maximum of 150 % of the respective fixed salary of the individual member of the Board of Management. No further variable compensation is granted.

■ 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.

Retirement and pension commitments

Members of the Board of Management of HORNBAACH HOLDING 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 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 respective 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.

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

The employment contracts concluded with members of the Board of Management do not provide for the payment of compensation in the event of their activity on the Board of Management being terminated prematurely without compelling reason or due to a change of control. HORNBAACH HOLDING AG thus deviates from the recommendations made in Points 4.2.3 (4) and (5) of the German Corporate Governance Code. In individual cases, payments may nevertheless be made, based on a corresponding Supervisory Board resolution, to a member of the Board of Management retiring from the Board prematurely, particularly when the reasons for such retirement do not lie with the respective member.

Additional benefits

Members of the Board of Management of HORNBAACH HOLDING 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 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.

Compensation of the Board of Management for the 2014/2015 financial year

Total compensation of the Board of Management of HORNBAACH HOLDING AG for performing its duties on behalf of the Group in the 2014/2015 financial year amounted to € 1,866k. Of this, € 946k was fixed compensation and € 920k involved performance-related components. Termination benefits of € 210k were incurred for active members of the Board in the

2014/2015 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. At the 2011 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the compensation of members of the Board of Management on an individual basis up to and including the 2015/2016 financial year (opting-out clause).

Compensation of the Supervisory Board

Supervisory Board compensation is governed by § 16 of the Articles of Association of HORNBAACH HOLDING 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 the Mediation Committee, should this be convened. 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 2014/2015 financial year totals € 443k. Of this total, € 290k is basic compensation and € 153k for committee activity.