

Remuneration Report

The remuneration report presents the basic features and structure of the remuneration 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 remuneration, is based on the recommendations of the German Corporate Governance Code.

1. Remuneration of Board of Management

1.1 Remuneration system at HORNBACH Baumarkt AG

Remuneration 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 Remuneration (VorstAG), taking due account of levels of remuneration customary in the market. Total remuneration of members of the Board of Management comprises the components of fixed annual salary, annual variable remuneration, plus ancillary benefits customary to the market and the company. The appropriateness of total remuneration is regularly reviewed by the Supervisory Board of HORNBACH Baumarkt AG.

■ 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, Deputy Chairman, and regular members of the Board of Management.

■ Variable remuneration:

Alongside fixed annual salaries, members of the Board of Management also receive annual variable remuneration 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 remuneration is average consolidated net income (IFRS) at HORNBACH Baumarkt AG. Variable remuneration is calculated on the basis of the three-year average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG.

Individual variable remuneration is separately graded at different levels for the Chairman, Deputy Chairman and for each 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) at HORNBACH Baumarkt AG. Of variable remuneration calculated on the basis of average consolidated net income (IFRS), up to 25 % is calculated and determined in several stages following achievement of the targets individually set for each member of the Board of Management for the respective financial year. This process is based on targets individually agreed in advance for each member of the Board of Management. To set these targets, the Supervisory Board of HORNBACH Baumarkt 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 remuneration is determined on the sole basis of the average level of consolidated net income (IFRS) at HORNBACH Baumarkt AG for the past three years. For all members of the

Board of Management, the level of variable remuneration is capped at a maximum of 150 % of the respective fixed salary of the individual member of the Board of Management. No further variable remuneration is granted.

1.2 Internal ratio of remuneration components

No specific ratio of fixed salary to variable remuneration 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 remuneration.

The structure of annual variable remuneration ensures that the overwhelming share of such remuneration (75 %) is based on long-term factors, complying with the predominantly multiyear nature called for in the relevant legislation. In individual cases, the remuneration 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.

1.3 Retirement and pension commitment

Members of the Board of Management of HORNBACH Baumarkt 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 remuneration components due in future in unspecified amounts up to a maximum of one total annual remuneration package.

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

From January 2018, employment contracts newly agreed or extended with members of the Board of Management will provide for caps on the remuneration paid in the event of their activity on the Board of Management being terminated prematurely. The recommendations made in Point 4.2.3 (4) of the German Corporate Governance Code will therefore be complied with in future.

1.5 Additional benefits

Members of the Board of Management of HORNBAACH Baumarkt AG receive the following further specific benefits to an extent customary to the market and the Group. Some of these are deemed benefits in kind and taxed accordingly:

- Reimbursement of travel and other expenses incurred in the interests of HORNBAACH Baumarkt 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 remuneration in event of sickness or death
- Claim to provision of a company car for work-related and private use or to settlement based on the average monthly costs of providing a company car.

1.6 Remuneration of the Board of Management for the 2019/20 financial year

Total remuneration of the Board of Management for the 2019/20 financial year amounted to € 8,766k (2018/19: € 5,209k). Of this sum, € 2,938k (2018/19: € 2,903k) was fixed remuneration, € 1,911k (2018/19: € 2,306k) related to performance-related components, and € 3,917k involved one-off payments. Post-employment benefits of € 689k were incurred for active members of the Board of Management in the 2019/20 financial year (pension provision endowment) (2018/19: € 689k). Pension provisions for former members of the Board of Management total € 2,541k (2018/19: € 1,245k). The major share of pension provisions are offset by corresponding value credits.

Given the company's size and its market position, we believe that the total remuneration of the Board of Management is appropriate. At the 2016 Annual General Meeting, shareholders voted with a three-quarters majority to forego the disclosure of the remuneration of members of the Board of Management on an individual basis up to and including the 2020/21 financial year (opting-out clause).

1.7 New remuneration for the Board of Management from the 2020/21 financial year

On December 17, 2019, the Supervisory Board approved a new remuneration system for members of the Board of Management of HORNBAACH Baumarkt AG. This new system, which takes effect as of March 1, 2020 and will also disclose remuneration on an individualized basis in future, will be explained in the remuneration report in the 2020/21 Annual Report.

2. Remuneration of the Supervisory Board

Supervisory Board remuneration is governed by § 15 of the Articles of Association of HORNBAACH Baumarkt AG. As well as reimbursement of expenses, each Supervisory Board member receives fixed remuneration 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 remuneration.

Supervisory Board members who also sit on a Supervisory Board committee receive additional fixed committee remuneration 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 remuneration is retrospectively payable together with the fixed remuneration. Supervisory Board members who chair a Supervisory Board committee receive two-and-a-half times the respective committee remuneration.

Remuneration of the Supervisory Board for the 2019/20 financial year totals € 515k (2018/19: € 515k). Of this, € 390k (2018/19: € 390k) is basic remuneration and € 125k (2018/19: € 125k) for committee activity. Remuneration totaling € 277k (2018/19: € 313k) was paid for the 2019/20 financial year for further Supervisory Board positions at HORNBAACH Holding AG & Co. KGaA or HORNBAACH Management AG. Of this, € 215k (2018/19: € 238k) is basic remuneration and € 62k (2018/19: € 75k) for committee activity.