

Remuneration Report

The remuneration report presents the basic features of the remuneration system for the Board of Management and Supervisory Board of HORNBACH Baumarkt AG and the remuneration paid to individual members of the Board of Management and Supervisory Board in the 2020/21 financial year under report.

1. Remuneration of Board of Management

1.1 Basic features of remuneration system

The remuneration system for members of the Board of Management is consistent with the requirements of the German Stock Corporation Act (AktG) as formulated in the German Second Shareholder Rights Directive Implementation Act (ARUG II) dated December 12, 2019 (Federal Law Gazette, Section I 2019, No. 50 dated December 19, 2019) and accounts for the recommendations made by the German Corporate Governance Code (DCGK) in the version which took effect as of March 20, 2020. The new remuneration system, which was approved by the Annual General Meeting on July 9, 2020, has been in effect for members of the Board of Management since March 1, 2020. The remuneration of the Board of Management is regularly reviewed by the Supervisory Board.

1.1.1 Overview

The remuneration of members of the Board of Management comprises fixed and variable components. Fixed remuneration components for the members of the Board of Management are the fixed annual salary, ancillary benefits, and the company pension scheme. The variable components are one-year variable remuneration (“OVR”) and multiyear variable remuneration (“MVR”). Furthermore, the remuneration system stipulates share ownership guidelines (“SOG”) for members of the Board of Management.

Remuneration components and assessment base

Fixed remuneration components	
Fixed annual salary	in 12 equal monthly instalments at the end of each calendar month
Ancillary benefits	<ul style="list-style-type: none"> ■ Private use of company car ■ Accident insurance ■ Employer contribution to health and nursing care insurance ■ Contribution to voluntary pension insurance or, alternatively, to life insurance policy contributions, in both cases amounting to 50 % of the respectively valid pension insurance rate up to the contribution assessment ceiling ■ D&O insurance cover
Company pension scheme	Plan type: Defined contribution commitment Contribution: Half-yearly pension contribution amounting to 12.5 % of fixed gross annual salary

Variable remuneration components		
One-year variable remuneration (OVR)	Plan type:	Target bonus
	Cap:	200 % of target amount
	Performance criteria:	<ul style="list-style-type: none"> ■ Sales (40 %), free cash flow (30 %), and EBT (30 %) ■ Modifier (0.8-1.2)
	Assessment period:	One year (forward-looking)
	Payment date:	Month in which consolidated financial statements for respective financial year are approved, at latest month thereafter
Multiyear variable remuneration (MVR)	Plan type:	Performance cash plan
	Cap:	200 % of target amount
	Performance criteria:	<ul style="list-style-type: none"> ■ Relative TSR (25 %), ROCE premium over WACC (75 %) ■ Modifier (0.8-1.2)
	Performance period:	Four years (forward-looking)
	Payment date:	Month in which consolidated financial statements for final financial year in four-year performance period are approved, at latest month thereafter
SOG	<ul style="list-style-type: none"> ■ Obligation to use 50 % of MVR payment amount to acquire shares in HORNBACH Baumarkt AG. ■ SOG target: 150 % of one fixed gross annual salary for Chairman; 100 % of one fixed gross annual salary for regular member of Board of Management ■ Shares to be held for duration of activity on Board of Management 	

Based on the remuneration system, the Supervisory Board stipulates specific target total remuneration for each member of the Board of Management. This should stand in an appropriate relationship to the tasks and performance of the member of the Board of Management and to the company's situation and should not, without other reason, exceed customary levels of remuneration. Target total remuneration comprises the total amount of all remuneration components relevant to total remuneration. For OVR and MVR, reference is made to the target amount upon 100 % target achievement. Fixed remuneration (fixed annual salary, ancillary benefits, contributions to company pension scheme) accounts for approximately 50 % of target total remuneration. The percentage share of target total remuneration attributable to OVR amounts to approximately 20 %, while the equivalent share for MVR amounts to approximately 30 %.

1.1.2 Fixed remuneration components

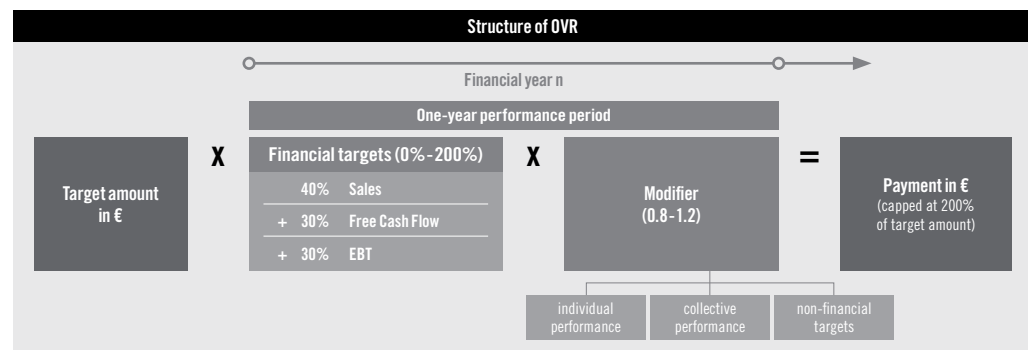
Members of the Board of Management receive a fixed annual salary in twelve monthly instalments. Ancillary benefits are also granted: HORNBACH Baumarkt AG provides each member of the Board of Management with a company car that can also be used privately. Should a member of the Board of Management decide not to use a company car, HORNBACH Baumarkt AG provides the respective member with settlement based on the average monthly costs of providing a company car. Furthermore, HORNBACH Baumarkt AG provides members of the Board of Management with accident insurance (fatality and invalidity) and covers the maximum employer contribution permitted by law to health insurance and voluntary retirement insurance or alternatively contributions to a private life insurance policy. The contribution amounts to 50 % of the respectively valid retirement insurance rate up to the contribution assessment ceiling. Moreover, members of the Board of Management are covered by the D&O insurance policy taken out by HORNBACH Baumarkt AG. In addition, HORNBACH Baumarkt AG provides members of its Board of Management with coverage in a defined contribution company pension scheme. This commitment involves payment of half-yearly pension contributions amounting to 12.5 % of fixed gross annual salary.

1.1.3 Variable remuneration components

Performance-related variable remuneration comprises one-year variable remuneration (OVR) and multiyear variable remuneration (MVR).

One-year variable remuneration (OVR)

OVR is a performance-related bonus with a one-year assessment period. In the first step, OVR is dependent on key financial performance criteria at HORNBAACH Baumarkt AG. In the second step, the Supervisory Board may apply a modifier to account for the performance of the individual member of the Board of Management, the collective performance of the overall Board of Management, and the achievement of relevant non-financial targets.



The three financial performance criteria used to calculate the amount of OVR remuneration paid are: sales (weighted at 40 %), free cash flow, and earnings before taxes (“EBT”), both of which weighted at 30 %. This on the one hand provides an incentive for the Board of Management to focus its activities on the growth strategy pursued by the company. On the other hand, it provides an incentive for continually increasing the company’s earnings strength and internal financing potential.

The figures reported in the company’s approved and audited consolidated financial statements for the respective financial year are taken as the basis for reference.

The Supervisory Board sets targets for the individual financial performance criteria before the beginning of the respective financial year. Upon expiry of the financial year, total target achievement is calculated on the basis of target achievement in the individual financial performance criteria. To determine target achievement for the three financial performance criteria, for each criterion the Supervisory Board compares the actual value upon expiry of the financial year with the actual value for the previous year (strategic growth rate).

To supplement the financial performance criteria, the Supervisory Board stipulates criteria for the modifier, generally before the beginning of the respective financial year. By way of the modifier, the Supervisory Board can assess the performance of the individual member of the Board of Management, the performance of the overall Board of Management, and the achievement of non-financial targets, such as stakeholder and ESG (Environment, Social, Governance) targets.

The individual modifier is determined by the Supervisory Board at its due discretion. The modifier generally amounts to 1.0 and may be adjusted to a value between 0.8 and 1.2 if the financial performance criteria alone do not adequately reflect the performance of the member of the Board of Management. Pursuant to the transitional provisions for OVR in the employment contracts, for OVR in the 2020/21 financial year the company has applied the modifier with the factor 1.0.

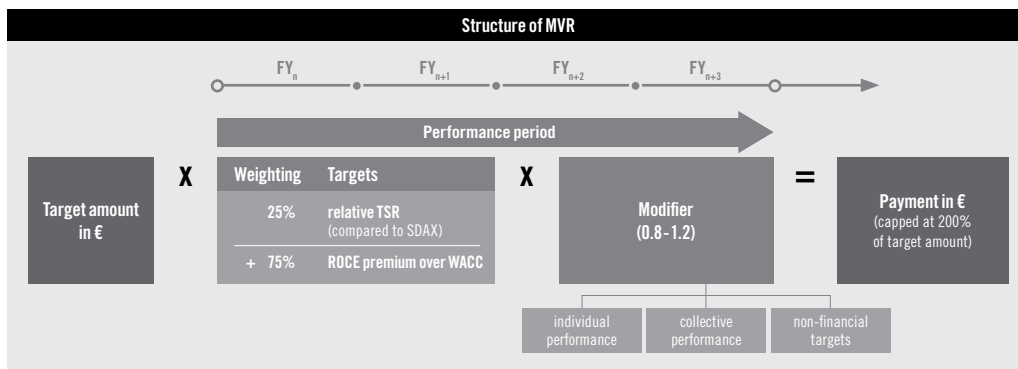
The OVR target amount is disbursed in the event of 100 % target achievement. If the employment relationship begins or ends in the current financial year, the target amount is proportionately reduced on a pro rata temporis basis as of the beginning or end of the employment relationship. The same applies by analogy to periods in which the member of the Board of Management, while still employed, has no claim to remuneration. If the employment relationship ends, the OVR is calculated for the current financial year in accordance with general provisions governing the OVR and paid at the regular date. All claims to OVR relating to a current assessment period, i.e. a current financial year, lapse without replacement or compensation in the following “bad leaver” cases: The employment contract with the member of the Board of Management ends prior to expiry of the assessment period due to extraordinary termination by the company for a compelling reason pursuant to § 626 of the German Civil Code (BGB) for which the member of the Board of Management is responsible; the appointment of the member of the Board of Management ends before expiry of the assessment period due to the appointment being revoked as a result of a gross breach of duty, or the appointment of the member of the Board of Management ends before expiry of the assessment period due to his or her resigning, without such resignation being caused by a breach of duty on the part of the company or by ill health on the part of the member of the Board of Management or of a close family member.

The annual OVR payment amount is capped at a maximum of 200 % of the target amount. The payment amount is due for payment at the latest in the month following approval of the consolidated financial statements of HORNBAACH Baumarkt AG for the financial year to which the OVR refers.

Multiyear variable remuneration (MVR)

MVR is structured as a performance cash plan that is granted annually in rolling tranches. Each tranche of the performance cash plan has a four-year term (“performance period”). Each performance period begins on March 1 of the first financial year in the performance period (“grant year”) and ends on February 28/29 of the third year following the grant year.

In the first step, MVR is dependent on key financial performance criteria at HORNBAACH Baumarkt AG. In the second step, the Supervisory Board may apply a modifier to account for the performance of the individual member of the Board of Management, the collective performance of the overall Board of Management, and achievement of relevant non-financial targets. Following expiry of the performance period, the target achievement for MVR is calculated over the four-year performance period and the payment amount for each member of the Board of Management is determined in line with the level of target achievement.



The key financial performance criteria for MVR are the relative total shareholder return (“TSR”) of HORNBAACH Baumarkt AG compared with the TSRs of companies listed in the SDAX throughout the entire performance period (except HORNBAACH Holding AG & Co. KGaA), which is weighted at 25 %, and the return premium (expressed by the return on capital employed, “ROCE”) less the weighted average cost of capital (“WACC”)

(“ROCE premium over WACC”) of the Group during the four-year performance period, which is weighted at 75 %. This on the one hand creates long-term incentives to generate an adequate return for shareholders, also by comparison with the market. On the other hand, the remuneration system for members of the Board of Management presents and promotes all aspects of sustainably profitable value creation resulting from their entrepreneurial actions.

By analogy with OVR and the principles presented in 1.1.3, the Supervisory Board may supplement the financial performance criteria with the modifier to account for the performance of the individual member of the Board of Management, the performance of the overall Board of Management, and the achievement of non-financial targets such as stakeholder and ESG targets and, at its due discretion, set the modifier at between 0.8 and 1.2 for each member of the Board of Management.

The MVR target amount is disbursed in the event of 100 % target achievement. If the employment relationship or MVR participation entitlement of the respective member of the Board of Management begins or ends during the grant year, the target amount is proportionately reduced on a pro rata temporis basis. This means that the target amount of MVR is reduced by 1/365 for each day in the grant year on which there was no employment relationship or no entitlement to participate. The same applies by analogy to periods in which the member of the Board of Management, while still employed, has no claim to remuneration. If the employment relationship ends, the MVR is calculated for the current performance periods in accordance with general provisions governing the MVR and paid at the regular date. All claims to MVR relating to a current assessment period, i.e. a current performance period, lapse without replacement or compensation in the “bad leaver” cases presented for the OVR in 1.1.3.

The MVR payment amount is capped for each tranche at a maximum of 200 % of the target amount. The payment amount is due for payment at the latest in the month following approval of the consolidated financial statements of HORNBACH Baumarkt AG for the final financial year in the four-year performance period.

Transitional provisions for MVR

The transition from the existing retrospective multiyear variable remuneration to the prospective performance cash plan outlined in this remuneration system will give rise to a three-year payment gap. For the 2020/21, 2021/22, and 2022/23 financial years, members of the Board of Management are therefore entitled to a prepayment amounting to 25 % of the target amount of the MVR tranche granted for the respective financial year. If a member of the Board of Management opts for a prepayment, the prepayment is made at the beginning of the following financial year. At the end of the respective performance period, the prepayment made is offset against the payment amount from the performance cash plan.

Share ownership guideline (SOG)

For the duration of their employment contracts, members of the Board of Management are obliged to acquire a minimum number of shares in HORNBACH Baumarkt AG and retain ownership of such (“SOG target”).

The SOG target amounts to 150 % of the fixed annual gross salary for the Chairman and 100 % of the fixed annual gross salary for regular members of the Board of Management. From the first payment of MVR through to achievement of the SOG target, the member of the Board of Management is obliged to use 50 % of the MVR payment amount (tax net amount) each financial year to acquire shares in HORNBACH Baumarkt AG. In individual cases and at its own due discretion, the Supervisory Board may approve deviations from the SOG terms following due consideration of individual circumstances.

1.2 Minimum and maximum remuneration

The minimum remuneration to be granted for a financial year, comprising fixed annual salary and the contribution to the company pension scheme, amounts to € 843,750 plus ancillary benefits for the Chairman, € 625,000 plus ancillary benefits for the Deputy Chairman, and € 562,500 plus ancillary benefits for regular members of the Board of Management.

The total remuneration to be granted for a financial year (total of all remuneration components expended for the respective financial year, including fixed annual salary, variable remuneration components, company pension scheme, and ancillary benefits) for members of the Board of Management – irrespective of whether they are paid in that financial year or at a later point in time – has a maximum cap (“maximum remuneration”). Maximum remuneration amounts to € 2,703,750 for the Chairman, € 2,015,000 for the Deputy Chairman, and € 1,822,500 for regular members of the Board of Management. If remuneration exceeds the maximum, the MVR payment amount is reduced for the respective grant year.

Irrespective of the maximum remuneration hereby stipulated, the payment amounts for individual variable remuneration components are capped at 200 % of the respective target amounts.

1.3 Remuneration upon premature termination of employment relationship

Should the activity of a member of the Board of Management be terminated prematurely, then any potential severance pay, including ancillary benefits, is capped at a maximum of two annual remuneration packages. If the remaining term of the employment contract amounts to fewer than two years, the severance pay may not exceed the contractual remuneration for the remaining term (severance pay cap). The calculation of the severance pay cap is generally based on total remuneration for the past financial year and, where appropriate, also on expected total remuneration for the current financial year.

If a retrospective prohibition on competition is agreed, then any severance pay is imputed to the remuneration agreed as compensation for such prohibition. If the employment contract is terminated by the member of the Board of Management, or due to a compelling reason for which he or she is responsible, then severance pay is precluded.

1.4 Remuneration of members of Board of Management in 2020/21 financial year

1.4.1 Remuneration of Board of Management in the 2020/21 financial year

The remuneration of the Board of Management for the 2020/21 financial year amounted to € 9,976k (2019/20: € 8,766k). Of this sum, € 3,232k (2019/20: € 2,938k) was fixed remuneration and € 6,744k (2019/20: € 1,911k) related to performance-related components. The previous year's figure included one-off payments of € 3,917k.

Total remuneration of members of Board of Management in 2020/21 financial year

Incumbent members	Non-performance-related components € 000s	Performance-related components (OVR) € 000s	Components with long-term incentive effect (MVR) € 000s	Total remuneration 2020/21 € 000s
Erich Harsch	715	750	656	2,121
Roland Pelka*	530	710	718	1,958
Karin Dohm (since 1.1.2021)	78	82	76	236
Susanne Jäger	480	500	438	1,418
Karsten Kühn	483	500	438	1,421
Ingo Leiner	477	500	438	1,415
Dr. Andreas Schobert	469	500	438	1,407
Total	3,232	3,542	3,202	9,976

* In addition to the remuneration components for the 2020/21 financial year, the remuneration of Roland Pelka also includes variable remuneration components for the 2021/22 financial year.

1.4.2 Pension commitments

Service costs totaling € 761k were expensed pursuant to IFRS for members of the Board of Management in the 2020/21 financial year (2019/20: € 685k). The following overview presents the service cost and the present value of the pension obligations attributable to individual members of the Board of Management.

Incumbent members of Board of Management	Service cost 2020/21 € 000s	Service cost 2019/2020 € 000s	Amount of pension provision February 28, 2021 * € 000s
Erich Harsch	169	22	198
Roland Pelka	125	100	6,774
Karin Dohm	19	0	22
Susanne Jäger	112	90	1,177
Karsten Kühn	112	90	656
Ingo Leiner	112	90	923
Dr. Andreas Schobert	112	90	597
Total	761	482	10,347
Former members of Board of Management	0	203	4,788
Total	761	685	15,135

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

2. Remuneration of the Supervisory Board

Supervisory Board remuneration is governed by § 15 of the Articles of Association of HORNBACH Baumarkt AG. Pursuant to § 113 (3) AktG, the remuneration system was confirmed by the Annual General Meeting on July 9, 2020.

2.1 Remuneration system

2.1.1 Contribution made by remuneration system for Supervisory Board members to promoting business strategy and long-term development

Given that its structure conforms to market norms, the Supervisory Board remuneration makes it possible to attract suitable candidates for the position of Supervisory Board member. The Supervisory Board remuneration therefore helps to ensure that the Supervisory Board as a whole is able to perform its duties of supervising and advising the Board of Management in an appropriate and competent manner and thus promotes the business strategy and long-term development of HORNBACH Baumarkt AG.

2.1.2 Remuneration components

The remuneration of Supervisory Board members comprises fixed annual basic remuneration and inclusion in a financial loss liability insurance policy maintained by HORNBACH Baumarkt AG.

The fixed annual basic remuneration amounts to € 50,000.00 for the Chairman of the Supervisory Board, € 40,000.00 for each Deputy Chairman of the Supervisory Board, and € 20,000.00 for each other member of the Supervisory Board. Furthermore, Supervisory Board members also sitting on a Supervisory Board committee receive fixed committee remuneration. Fixed committee remuneration amounts to:

- Audit Committee: € 22,500.00 for the chairman and € 9,000.00 for each other member
- Personnel Committee: € 15,000.00 for the chairman and € 6,000.00 for each other member
- Mediation Committee – if convened in the financial year – € 10,000.00 for the chairman and € 4,000.00 for each other member.

The fixed annual basic remuneration and fixed committee remuneration are granted for each financial year and are each due for payment on the day after the Annual General Meeting to which the annual financial statements for the respective financial year are presented. Remuneration is proportionately reduced on a pro rata temporis basis if a member of the Supervisory Board or a committee is not a member of such for the full financial year or does not chair the respective body for the full financial year. HORNBACH Baumarkt AG reimburses any sales tax incurred on the fixed annual basic remuneration and the fixed committee remuneration to the extent that Supervisory Board members are entitled to charge the company separately for sales tax and exercise this right. Furthermore, Supervisory Board members are included in a financial loss liability insurance policy maintained by HORNBACH Baumarkt AG at its own expense for its directors and officers.

2.1.3 Procedure for determining, implementing, and reviewing the remuneration system

At the proposal of the Board of Management and the Supervisory Board, the Annual General Meeting determines Supervisory Board remuneration in the Articles of Association or by adopting a resolution. At present, Supervisory Board remuneration is determined in the Articles of Association. The Annual General Meeting adopts a resolution on Supervisory Board remuneration at least once every four years. To prepare the resolution to be adopted by the Annual General Meeting, the Board of Management and Supervisory Board each review whether the Supervisory Board remuneration is still in the interests of HORNBACH Baumarkt AG and appropriate, particularly in respect of its amount and structure. If necessary, the Board of Management and the Supervisory Board propose a suitable adjustment for approval by the Annual General Meeting.

2.2 Remuneration of Supervisory Board members in 2020/21 financial year

The remuneration of the members of the Supervisory Board in office in the 2020/21 financial year amounted to € 515k in total. Of this, € 390k is basic remuneration and € 125k is for committee activity. We present the Supervisory Board remuneration for members of the Supervisory Board of HORNBACH Baumarkt AG in individualized form below.

Incumbent members	Financial year	Basic remuneration € 000s	Total committee remuneration € 000s	Total € 000s
Albrecht Hornbach	2020/21	50	15	65
	2019/20	50	15	65
Kay Strelow	2020/21	40	9	49
	2019/20	40	9	49
Dr. John Feldmann	2020/21	40	24	64
	2019/20	40	24	64
Mohamed Elaouch	2020/21	20	0	20
	2019/20	20	0	20
Christian Garrecht	2020/21	20	6	26
	2019/20	20	6	26
Erich Harsch	2020/21	0	0	0
	2019/20	17	8	25
Georg Hornbach	2020/21	20	9	29
	2019/20	20	1	21
Martin Hornbach	2020/21	20	15	35
	2019/20	20	15	35
Markus Lass	2020/21	20	15	35
	2019/20	20	15	35
Jörg Manns	2020/21	20	0	20
	2019/20	20	0	20
Anke Matrose	2020/21	20	0	20
	2019/20	20	0	20
Brigitte Mauer	2020/21	20	0	20
	2019/20	20	0	20
Johannes Otto	2020/21	20	0	20
	2019/20	20	0	20
Simona Scarpaleggia	2020/21	20	0	20
	2019/20	3	0	3
Vanessa Stütze	2020/21	20	9	29
	2019/20	20	9	29
Melanie Thomann-Bopp	2020/21	20	23	43
	2019/20	20	23	43
Prof. Dr.-Ing. Jens P. Wulfsberg	2020/21	20	0	20
	2019/20	20	0	20
Total	2020/21	390	125	515
	2019/20	390	125	515

(Differences due to rounding up or down to nearest € 000)