19/20

Annual Report

otto group

Key Data

The Otto Group can look back on a very successful 2019/20 financial year and was able to hold its own in a dynamic and competitive market environment. The Group increased its global revenues by 4.8 percent to around EUR 14.3 billion. Pure e-commerce revenue increased by 6.2 percent to around EUR 8.1 billion. The Otto Group's focused growth strategy was consistently maintained and the targets for revenue growth were fully achieved. Furthermore, all profit levels improved compared to the previous year and the EBIT figure was almost doubled. In the 2019/20 financial year, the Group continued to invest at a high level in the IT and logistics infrastructure as well as further digitisation, thus confirming the commitment to drive the transition towards a fully digitised retail and services group.

		2019/20	2018/19
Group in total			
Revenue	in EUR billion	14.3	13.6
Increase	in percent	+4.8	
E-commerce revenue	in EUR billion	8.1	7.7
Increase	in percent	+6.2	
EBITDA	in EUR million	1,012	524
EBIT	in EUR million	432	222
EBT	in EUR million	291	278
Profit of the year	in EUR million	214	177
Group equity	in EUR million	1,452	1,706
Free cash flow	in EUR million	783	–213
Investments in intangible assets and property, plant and equipment	in EUR million	358	413
Employees	average number	51,982	52,326
Group "FS at Equity"		2019/20	2018/19
EBITDA	in EUR million	1,010	471
Group equity	in EUR million	1,382	1,648
Net financial debt	in EUR million	2,098	1,653
of which: lease liabilities (IFRS 16)	in EUR million	808	0
Sustainability indicators (CR Strategy 2020)*		2019	2018
Share of sustainable cotton in own and licensed brands	in percent	96	93
Share of FSC®-certified furniture products	in percent	79	59
Share of FSC®-certified catalogue paper	in percent	64	54
Share of integrated suppliers of own and licensed brands in the Social Programme	in percent	95	96
Reduction of CO_2 emissions (compared to the base year 2006)	in percent	–51	–47

* Includes all major Group companies based in Germany and Austria.

Annual Report

2019/2020

Alexander Birken

Ladies and gentlemen, partners and friends of the Otto Group,

We look back on the past financial year with a bit of wistfulness. We have been able to achieve all our goals in line with our focused growth strategy. With revenue growth of 4.8 percent and 6.5 percent in our consolidated focus companies, we have exceeded our plans. E-Commerce revenue increased by 6.2 percent to EUR 8.1 billion. Despite continued high investments, we have also succeeded in significantly increasing our profit and cash flow. Only one downside remains: we have not yet achieved our objective of increasing the equity ratio. In particular, the valuation of pension provisions and the new accounting rules on leases have made a dent in our calculations.

In normal times, we would have reported with a little pride that in March of this year we started well prepared for what we hope will be an equally successful financial year 2020/21. But, as we all know, the consequences of the pandemic lockdown mean that the global economy is no longer the same, and will not be for years to come.

The management of the Otto Group adjusted very early on to the new situation in a very calm yet active way. In the short term, operation are running surprisingly smoothly with around 20,000 employees working from home and all logistical processes being ensured – without exposing colleagues to an increased risk of infection.

Looking at the situation from a medium- and long-term perspective, all necessary measures were taken just as quickly to secure the future of the Group of companies and jobs. All investments and expenses are under scrutiny, hiring freezes have been imposed in key Group companies and cash-saving measures have been initiated.

We believe that the clear strategic focus on online retail and related services, the consistent investment in technology and the vigorous change in our attitude and culture in recent years may help us emerge possibly stronger from this crisis.

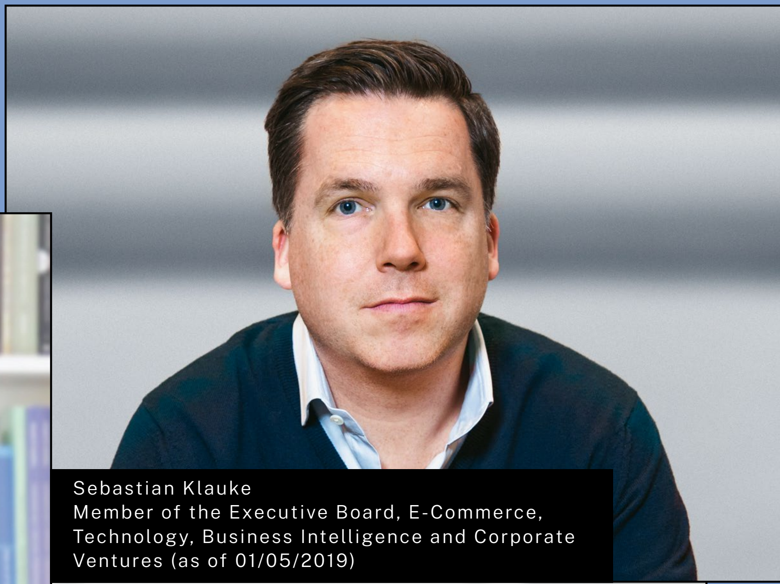
We will also do so responsibly, with respect and responsibility towards our colleagues, our business partners, society and the environment. Genuine climate neutrality in 2030 remains our goal. In short – we will continue to make our values a reality and are very sure of ourselves in uncertain times: this is an important competitive advantage.

Alexander Birken

Chairman of the Executive Board & CEO

The Executive Board

Petra Scharner-Wolff
Chief Financial Officer (CFO), Member of the Executive Board, Finance, Controlling, Human Resources



Sebastian Klauke
Member of the Executive Board, E-Commerce, Technology, Business Intelligence and Corporate Ventures (as of 01/05/2019)

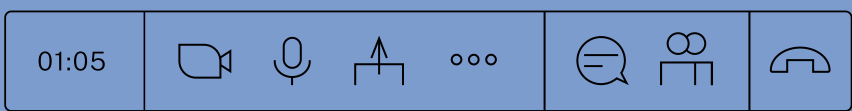
Dr Marcus Ackermann
Member of the Executive Board, Multichannel Distance Selling

Kay Schiebur
Member of the Executive Board, Services

Sergio Bucher
Member of the Executive Board, Brands and Retail (as of 01/02/2020)

Dr Rainer Hillebrand, Vice Chairman of the Executive Board, Member of the Executive Board, Corporate Strategy, E-Commerce & Business Intelligence (until 30/04/2019).

Sven Seidel, Member of the Executive Board, Multichannel Retail (until 31/10/2019)



Ladies and gentlemen, partners and friends of the Otto Group,

The Corona pandemic is challenging the global economy in a way that I have never experienced in my long working life. The worldwide shutdown in all relevant procurement and demand markets will also leave its mark on the Otto Group.

In terms of revenue, we believe that, as one of the world's largest online retailers and service providers for digitised retail, we can manage the crisis comparatively well. But the increased expenditure due to the rapidly changing demand and the provision for the health of our employees will have an impact on the profit situation. The shareholders have therefore decided to waive distributions until further notice. Together, we are cautiously optimistic about surviving the crisis relatively intact.

I believe that the fact that we have continued to develop the Otto Group so well in strategic, technical and cultural terms over the past few years is definite grounds for optimism. The results of the past financial year confirm that we are well positioned for the current crisis.

But I am also optimistic about the signs of lived solidarity in the Group of companies. Be it in the interaction of the employees with each other, be it in the fair dealings with our worldwide business partners or in the manifold actions of the holding company and our Group companies to alleviate the plight of the people here as well as in the developing countries. We will also continue to drive forward our commitment to the environment.

Last, but not least, the clarity, speed and calmness with which the Otto Group has prepared itself for the challenges ahead are truly impressive. We are aware of the pressures that our 50,000 employees worldwide are currently facing.

And so I want to do one thing now more than anything: to take this opportunity to thank the Executive Board, the executives, every employee for their great commitment, their incredible team spirit and their true solidarity for the company and society as a whole.

Prof Dr Michael Otto

Chairman of the Supervisory Board

The Supervisory Board

Prof Dr Michael Otto
HAMBURG
Chairman
Businessman

Alexander Otto
HAMBURG
Chairman of the Management Board
ECE Projektmanagement G.m.b.H. & Co. KG

Benjamin Otto
HAMBURG
Chairman of the Foundation's Board
Holistic Foundation

Birgit Rössig*
HITTBERGEN
Deputy Chairwoman
Group Works Council Chairwoman
Otto (GmbH & Co KG)
as of 1 March 2019

Thomas Armbrust
REINBEK
General Manager (retired)
until 29 February 2020

Frederic Arndts
HAMBURG
Member of the Board
GSV Aktiengesellschaft für Beteiligungen

Anita Beermann
AHRENSBURG
Employee
Kommanditgesellschaft CURA
Vermögensverwaltung G.m.b.H. & Co.

Horst Bergmann*
MICHELAU
Member of the Works Council
Baur Versand (GmbH & Co KG)

Marius Marschall von Bieberstein
ZOSSEN
Managing Partner
evoreal Holding GmbH & Co. KG
as of 1 March 2020

Olaf Brendel*
HAMBURG
Member of the Works Council
Hermes Fulfilment GmbH

Jürgen Bühler*
HANAU
Chairman of the Works Council
Schwab Versand GmbH
as of 1 March 2020

Petra Finnern*
JESTEBURG
Chairwoman of the Works Council
EOS Region Germany

Torsten Furgol*
MAGDEBURG
Regional Specialist
ver.di Trade Union Sachsen-Anhalt Nord

Michael Häberle*
KARLSRUHE
Member of the Works Council
Heinrich Heine GmbH
until 29 February 2020

Dr Rainer Hillebrand
HAMBURG
Independent management and strategy consultant
as of 1 June 2019

Heike Lattekamp*
HAMBURG
ver.di Trade Union Secretary Commerce

Dr Wolfgang Linder
HAMBURG
General Manager (retired)
until 31 May 2019

Heinrich Reisen*
GREVENBROICH
Chairman of the General Works Council
Hermes Germany GmbH

Lars-Uwe Rieck*
HAMBURG
Regional Specialist
ver.di Trade Union Secretary Post and Logistic

Hans-Otto Schrader
HAMBURG
Chairman of the Board
Otto Aktiengesellschaft für Beteiligungen

Dr Winfried Steeger
HAMBURG
General Manager
Jahr Holding GmbH

Sandra Widmaier-Gebauer*
HAMBURG
Executive Employee
Group Vice President Human Resources

Prof Dr Peer Witten
HAMBURG
Chairman of the Board
GSV Aktiengesellschaft für Beteiligungen

* Employee Representative

The Corporate Overview

Selected companies and brands

The Otto Group as a globally active retail and services group is represented by 30 major company groups in more than 30 countries in Europe, North and South America and Asia. Its business activities cover the three segments Multichannel Retail, Financial Services, and Services.

Multichannel Retail

About You*

Ackermann

Baur

Bonprix

Crate and Barrel

Eddie Bauer Japan

Eventures*

Freemans Grattan Group

Frankonia

Heine

Küche & Co

Lascana

Limango

Manufactum

Mytoys Group

OTTO

Otto Group Brazil

Otto Japan

Project A*

Schwab

Sheego

Unito

Venus

Witt Group

Financial Services

Cofidis*

EOS Group

Hanseatic Bank*

Hanseatic Versicherungsdienst (HVD)

Otto Group Digital Solutions (OGDS)

Services

Baur Fulfillment

Hermes Europe

Hermes Fulfilment

Hermes Hansecontrol

Otto International

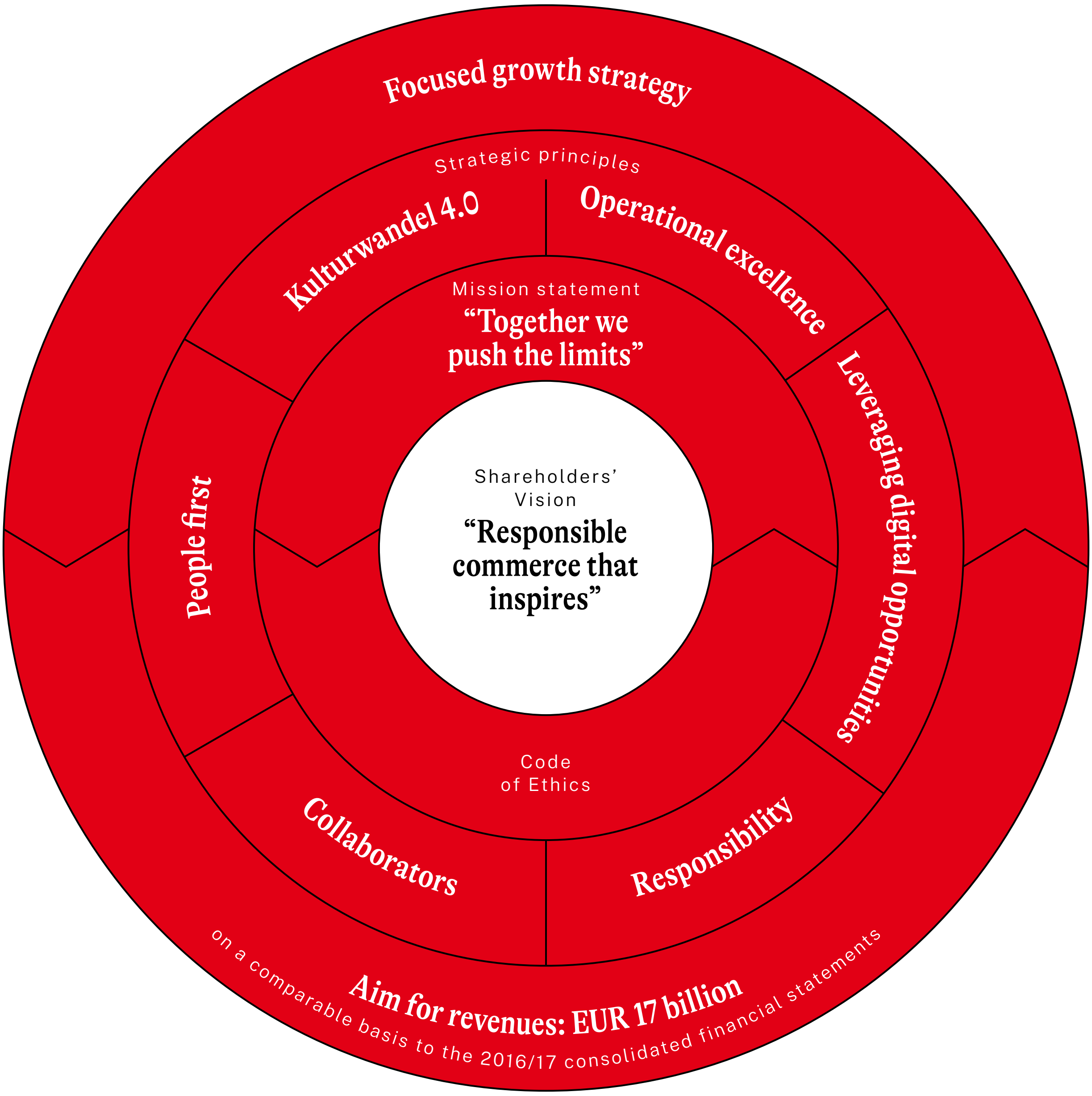
* Investment companies

The Strategy

The **shareholder's vision "Responsible commerce that inspires"** emphasises the importance of actions that are financially, socially and ecologically sustainable. Together with the participatively developed Mission Statement and the Code of Ethics, this provides a clear indication of the framework conditions and guidelines within which the Otto Group can develop and operate sustainable profitable business models.

Our focused growth strategy is based on our **mission statement "Together we push the limits"**. It defines our claim to the future: the desire to succeed, the ambition to accomplish great things, and the pleasure we take from working with people – all this drives us to achieve our common goals. Like an emotional bond, this can be experienced in our collaboration, which is characterised by warmth, respect and trust.

As a Group of companies, we pursue a **focused growth strategy** in our three business segments: we target investments in market-specific business models and in Group companies that are estimated to be capable of particularly strong performance and high growth levels. The overarching aim is achieving revenues of EUR 17 billion in the 2022/23 financial year – on a basis comparable to the 2016/17 consolidated financial statements – and an increase in profitability.



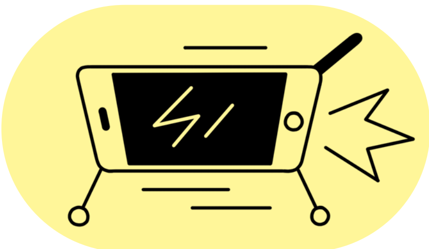
Chronicle 2019/20

2019

March

Bonprix awarded "Best Brand Shop"

Bonprix convinces the eleven-strong panel of experts with its concept "Mobile First" and is awarded the Internet World Business Shop Award as "Best Brand Shop" in the German-speaking region.



Hermes opens state-of-the-art logistics centre

The new logistics centre in Hamburg is part of a EUR 300 million investment program with which Hermes is expanding its nationwide logistics network.

April

Otto Group places sustainable bond

Thanks to successful collaboration between colleagues from the financial and sustainability departments of Otto Group Holding, the Otto Group is one of the first retail companies to place a so-called sustainable bond and raise EUR 250 million from investors.

Rainer Hillebrand hands over baton

Sebastian Klauke, previously Chief Digital Officer, joins the Otto Group Executive Board as announced and takes on responsibility for E-Commerce, Technology, Business Intelligence and Corporate Ventures as the successor to Dr Rainer Hillebrand, who joins the Supervisory Board and continues to provide advice to the Group.

Excellent news app

In the category "Measures & Instruments – Internal Communication Media", og2go, the news app of the Otto Group, is awarded the International German PR Award 2019.

Collaboration in business model development

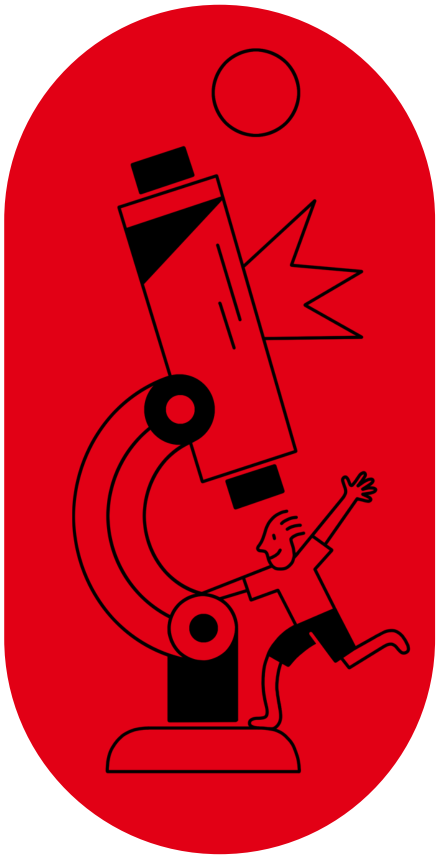
The Internet of Things platform Order This becomes part of OTTO and connects as OTTO ready the Internet of Things with commerce by allowing devices to order goods over the Internet. The project was developed under the umbrella of corporate Company Builder Otto Group Digital Solutions (OGDS).

About You takes over AdTech specialists

After two years of successful cooperation, About You is expanding its team with digital marketing experts with the acquisition of Adference, one of the leading Adtech specialists.

50 years of Werner Otto Foundation

In April 1969, Werner Otto founded the Werner Otto Foundation for the advancement of medical research at Hamburg hospitals. The focus is on commitment to sick children and children with disabilities.



New clout in the advertising market

The Otto Group is strengthening its retail media business and setting up a new Retail Media Unit under

OTTO. OTTO, as well as the entire Otto Group, will be able to benefit from this: the rapidly growing market in the retail media business will become an integral part of business models for all retailers in the future.

May

Heine becomes a brand of the Witt Group

Heinrich Heine GmbH will be managed by the Witt Group from the 2020/21 financial year onwards. The aim of this is to ensure the future viability of the Heine brand, to ensure a return to profitability and to retain the Karlsruhe location in the long term.

Combined forces for data products

By founding the joint venture OS Data Solutions, Ströer and Otto Group Media intend to expand their previous partnership into a German data alliance, thus offering one of the largest targeting ranges in Germany.

June

Digital technologies in trade

The Otto Group and ECC Cologne publish the study "Future Retail". In focus: digital shopping trends of the future, the handling of data and the question of how digital offers are established among consumers.

Crate and Barrel acquires Hudson Grace

With the acquisition of San Francisco-based retail company Hudson Grace, Crate and Barrel is further expanding its position as an internationally successful multichannel furniture and lifestyle retailer in the US and Canada.

Record in Haldensleben

Colleagues in Haldensleben are performing incredibly strongly and set new records for order processing with more than 1 million items processed in one day and a total of 4.5 million items in calendar week 21.

July

Staff change at Baur successfully completed

Patrick Boos takes over as Chairman of the Management Board of the Baur Group on 1 July 2019, succeeding Albert Klein, who is retiring after 35 years in the Otto Group.

Crate and Barrel opens restaurant

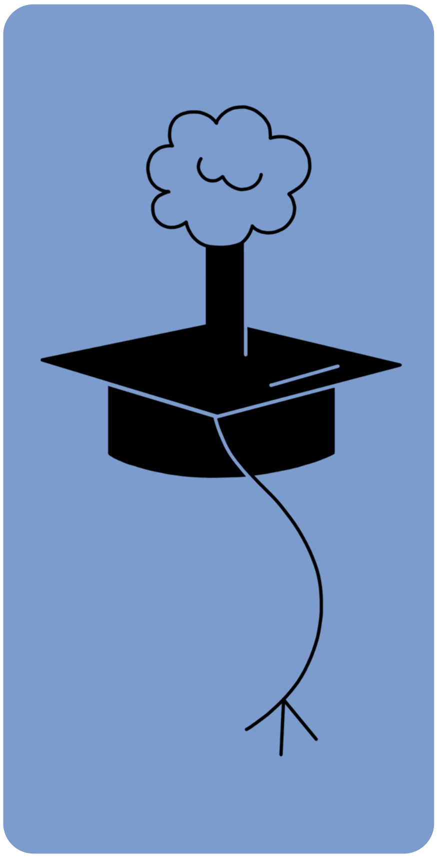
Crate and Barrel, in cooperation with Cornerstone Restaurant Group, is opening its first full-service restaurant in Chicago, combining gastronomy and shopping in the furniture and lifestyle retailer's premises.

Hermes and VWN launch Future Logistics Challenge

Volkswagen Nutzfahrzeuge (VWN) and Hermes Europe are launching the Future Logistics Challenge, which aims to create synergies between parcel logistics, automotive industry and start-ups in a four-month competition and to find innovative solutions for the "vehicle – parcel delivery" ecosystem. The winners are the start-ups Neohelden and Viscopic.

Reinventing learning

With 'Life Hamburg', Benjamin Otto and his wife Janina Lin Otto are planning the construction of a new type of building for cross-generational learning, working and wellbeing close to the Otto Group Campus in Hamburg.



Baur Group reduces CO_2 emissions by 52 percent

The group of companies around the online retailer Baur continues its commitment to sustainability and environmental protection. The self-imposed target of halving CO_2 emissions from 2006 to 2020 is achieved prematurely.

Otto Group Digital Solutions strengthens "one company" approach

The Company Builder Liquid Labs and Into-e will be appearing on the market under the umbrella of Otto Group Digital Solutions (OGDS).

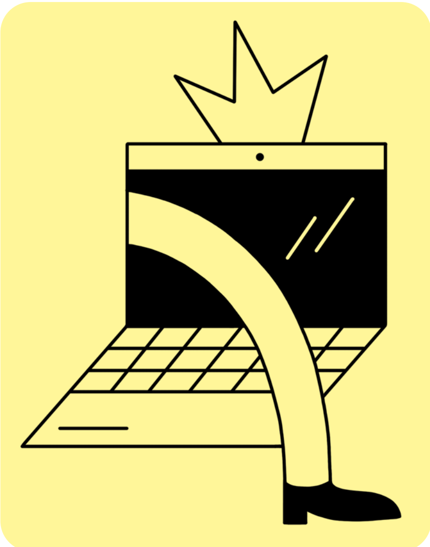
August

Stronger together

The Otto Group companies Collect AI and EOS Deutschland are working more closely together to jointly offer companies an interconnected solution of digital and consumer-orientated services in receivables management.

OTTO and ECE connect shopping worlds

OTTO and ECE create an entirely new and unique connection between offline and online retail, where customers see a desired item on otto.de, reserve it and can buy it in a store nearby.



Otto Group inspires at Hamburg CSD

The Otto Group shows its diversity and is present for the third time with its own truck at the Christopher Street Day (CSD) parade in Hamburg to stand up for equality and tolerance.

Civic Festival in Berlin

Federal President Frank-Walter Steinmeier and his wife Elke Büdenbender welcome around 4,000 volunteer citizens to Bellevue Palace. Also present are socially active colleagues of the Otto Group, Chairman of the Supervisory Board Prof Dr Michael Otto, CEO Alexander Birken and The Young ClassX Felix Mendelssohn Youth Orchestra.

Bonprix pushes ahead with CR commitment

Bonprix continues its strong commitment to corporate responsibility by launching its second “Sustainable Collection”, which combines sustainable materials and production processes with modern styles.

September

Otto Group as founding member of the textile certification label “Green Button”

The “Green Button” is the new certification label for particularly sustainably produced clothing. In addition to numerous small and medium-sized enterprises, the Otto Group is one of the 27 pioneers of the “Green Button”.

Anniversary at Mytoys

The Mytoys Group turns 20 years old and today reaches a large number of households with children in Germany. The company addresses the target group families more successfully than almost any other e-commerce company in Germany.

25 years of the logistics centre in Haldensleben

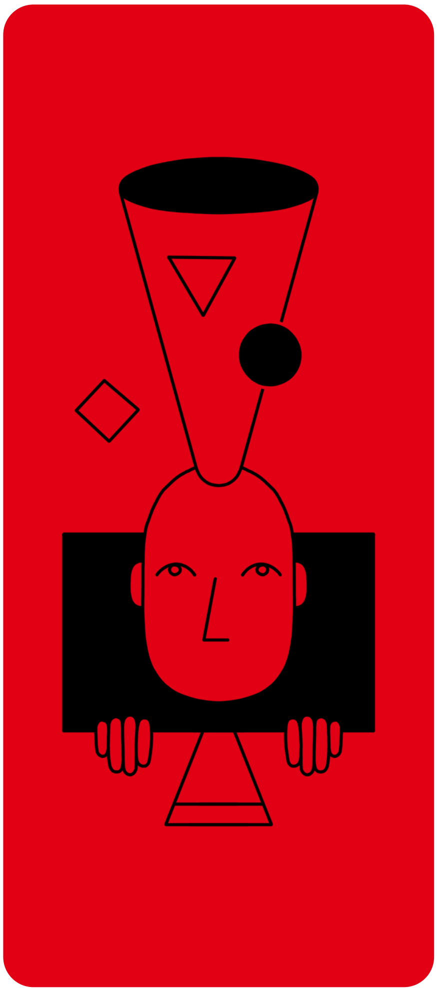
The logistics centre in Haldensleben has been the hub for Otto Group retailers since 1994. On average 300,000 shipments are sent out daily. With around 3,800 employees, Hermes Fulfilment is one of the largest employers in Saxony-Anhalt.

Lascana expands with Bonprix

Following the successful cooperation with Venus in the USA, Lascana, a subsidiary of OTTO, is expanding its international presence in Europe with Bonprix at his side. Customers can now order goods from Lascana from Bonprix Italy.

Digitisation becomes tangible

Launch of the TechUcation training initiative started by CEO Alexander Birken: it is intended to further promote understanding of digitisation topics, establish a new learning culture and ensure future viability. A central part of TechUcation is a mandatory, video-based online basic course on mindset and organisation. The rollout will be started in a staggered way in the Group companies.



October

Creating change together

On the initiative of the Otto Group, around 280 participants exchange views on the topics of cultural change, transformation and digitisation at the second Culture Development Experience #CDX2019 in Hamburg.

Support for blockchain research

As new partners of the Bizzbloxx research project, Otto Group IT and Hermes are pioneering blockchain research. Founded by the software manufacturer Datev and Deutsche Telekom, logistics processes in German SMEs are to be digitised and automated securely.

Honorary Award for Prof Dr Michael Otto

Prof Dr Michael Otto is honoured with an award for social commitment by the audit and consulting company Ernst & Young (EY).

November

Frankonia in Kaltenkirchen

The hunting equipment supplier Frankonia continues to grow and celebrates the most successful branch opening in the 111-year history of the company with more than 5,000 customers over three days in Kaltenkirchen (Schleswig-Holstein).

German Arts Sponsorship Award for The Young ClassX

Together with its partners Handelsblatt and ZDF, the cultural circle of the German economy in the BDI e.V. has awarded the German Arts Sponsorship Award 2019 to the Otto Group music project The Young ClassX.

Talks on Nature Conservation

Representatives from science, business, civil society and politics attend the 16th Hamburg Forum for Nature Conservation, hosted by the Michael Otto Foundation for Environmental Protection, to discuss the importance of biological products and processes that are in harmony with nature for the future of man and the environment.

Award for the Finance team

The Otto Group Finance department has been awarded "Treasury of the Year 2019" by the leading trade magazine Der Treasurer.

Automated Search Engine Marketing

The start-up forge Otto Group Digital Solutions launches with Adsoul a software for automation from Search Engine Advertising (SEA). Adsoul is designed for the use of keyword-based fully automated advertising formats and should place suitable ads on selected websites. The aim is to minimize an elaborate campaign management due to use of artificial intelligence (AI).

December

Sportscheck goes to Signa Group

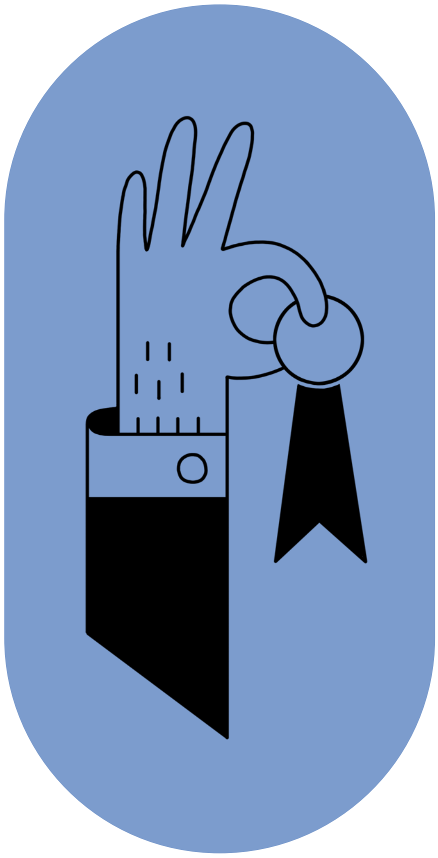
The Otto Group has decided to sell its Group company Sportscheck GmbH to the Signa Group. With this step, the Otto Group gives the multichannel retailer the best chance of a long-term business viability, considering all options.

Werner Otto Foundation: 2019 awards

This year, the Werner Otto Foundation's prize for the promotion of medical research goes to Dr Benjamin Schattling and Dr Malte Vetterlein from the University Medical Centre Hamburg-Eppendorf (UKE). The results of the two prizewinners can contribute in the future to the development of new treatments for multiple sclerosis (MS) as well as to better treatment methods for patients with urethral diseases.

Culture Cup 2019 for Kulturwandel@Logistik

The cross-company initiative Kulturwandel@Logistik receives the internal Culture Cup 2019. The prize, awarded annually by CEO Alexander Birken, recognises outstanding achievements in the Kulturwandel 4.0 process.



Bonprix relies on agile recruiting

With "talentry@bonprix", Bonprix introduces a digital recommendation program through which every employee can become a recruiter and recommend jobs in a targeted manner. The advertiser receives a donation voucher, which can be redeemed via a specific landing page in support of a social project.

2020

January

Shareholders clarify vision for the Otto Group

Prof Dr Michael Otto and Benjamin Otto clarify the shareholders' mandate of the Otto Group with the visionary formula "Responsible commerce that inspires".

Bodo Kipper becomes member of OTTO Management Board

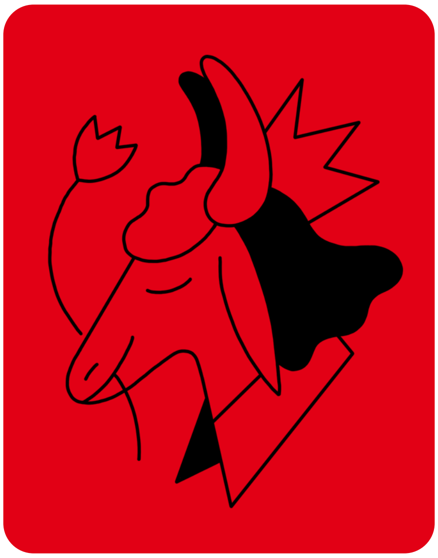
Bodo Kipper takes over responsibility for the "Commerce and Marketplace" division at Group company OTTO.

develop<HER> for the third time

10 workshops, 25 volunteer mentors, 120 participants: after the second event in April, the digital camp develop<her> takes place for the third time. Launched in 2018 by the company's internal Plan F network for women in business, the event aims to provide women in particular with access to the tech world and to impart digital know-how.

For the good of the Cashmere goats

The Aid by Trade Foundation is launching "The Good Cashmere Standard", the first standard for sustainable cashmere wool.



New department stores by Manufactum

Manufactum announces the opening of department stores in Bonn and Münster. The Otto Group team from the department of expansion & site management supported in the search for suitable properties.

Fashion Connect is Store of the Year

Less than a year after its opening, the Bonprix Fashion Connect Store in Hamburg receives the prestigious "Stores of the Year 2020" award from the German Retail Federation (HDE). The jury of retail experts appreciates the consistent approach that combines the best of the online and offline world into a new and unique shopping experience.

February

Sergio Bucher appointed Executive Board Member, Brands and Retail

The internationally renowned top manager Sergio Bucher takes over the Brands and Retail division in the Otto Group Executive Board from 1 February 2020. Sergio Bucher succeeds Sven Seidel, who has left office for personal reasons.

New customer for About You Cloud

Marc O' Polo creates the technical prerequisite for merging the various B2B and B2C sales channels and relies on the flexible API-based e-commerce infrastructure of About You Cloud.

Realignment of Schwab

In the future, the traditional company will focus exclusively on the "plus-size" clothing brand Sheego and will continue the brand as a vertical fashion label. The aim of the conversion is to lead the Group company back into profitability and thus also to maintain the location in Hanau. There will be job cuts with a redundancy programme.

Otto Group commits to climate neutrality by 2030

The Otto Group aims to become climate neutral by 2030 through concrete measures to prevent or reduce CO_2 emissions in its core processes. The Otto Group Executive Board has issued this objective for the Group's locations, transportations, employee mobility as well as the Group's external data centres and cloud services.

Sus–tain–ability

How We Take Responsibility

Operating and acting in a sustainable way is an important matter for the Otto Group. In doing so, we react to changes and set new impulses for the future – for example, in the development of our new CR strategy.

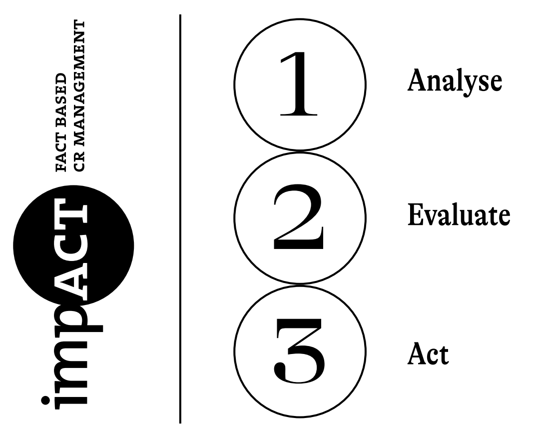
ADAPTING TO NEW CHALLENGES

The awareness of pressing sustainability issues is growing worldwide – the importance of social and environmental challenges such as climate change is increasing (see p. 21). Governments tend to react slowly. Although more and more countries have regulations, for instance about CO_2 pricing, these are not yet sufficient to achieve the necessary changes. This is another reason why corporations like the Otto Group are increasingly obliged to tackle social and environmental issues themselves. We want to reduce the negative impact of our business and strengthen positive effects – while our challenges are constantly evolving. In order to continue to set standards and thus meet our own requirements as well as those of our stakeholders, we have developed our new Corporate Responsibility strategy (CR strategy). It will replace the CR strategy 2020 expiring this year. To be able to react flexibly to changing framework conditions, the strategy is dynamic – for example, we can take up new topics, objectives or concrete key figures and continuously further develop the strategy. With the new strategy, the Otto Group provides a framework for the entire corporation: it sets binding, overarching targets – the individual Group companies define their own objectives and measures within it to achieve the Group-wide targets.

As an international trade and services group, we pursue sustainable development in all corporate areas. This is a central component of our corporate mission statement. We want to set global standards for human interaction, a healthy environment, and a diverse society. This is the only way in which we can reconcile our growth-oriented strategy in the long term with value-oriented sustainable handling and ensure quality of life for future generations. At the end of 2019, the shareholders also sharpened a shareholder vision for the Otto Group: “Responsible Commerce that inspires”. Sustainability is thus brought even more into the focus of the entire Group and will guide the actions of every employee. The new CR strategy forms the basis for fulfilling this vision – in addition, in the reporting period we also started to develop a value-based framework for action with our new “Code of Ethics”, which we can provide every employee with (see p. 24).

ANALYSE IMPACTS AND IMPLEMENT SOLUTIONS

The foundation for the development of our new CR strategy is our management process impACT – consisting of the elements “impact” and “act”. In a three-stage process, we capture all the impacts of our business activities and thus we are able to target possible negative developments. In the first stage, key issues are identified and prioritized through quantitative and qualitative analyses. This materiality analysis forms the basis on which we have defined the seven topic areas of our new CR strategy (see p. 23). In order to address these issues, the Otto Group companies establish measures in the second stage and evaluate them on the basis of cost and benefit. The most efficient measures will be implemented within the CR strategy. In this way, we deploy our resources specifically where they have the greatest impact on sustainable development. To improve our new CR strategy, we also further developed the impACT process (see p. 19).



ALIGNING WITH THE SUSTAINABLE DEVELOPMENT GOALS

With the 2030 Agenda and its 17 Sustainable Development Goals (SDGs), the United Nations have adopted a roadmap for the future that applies equally to all countries. Companies in particular are called upon to achieve these goals. For a better alignment of our CR activities with global challenges, the Otto Group has strategically embedded the SDGs in Group-wide sustainability management. Among other things, our strategy development was based on such objectives as a framework and the new CR strategy was systematically aligned with the SDGs (see p. 19).

What Topics Move the Society, Politics and the Economy

Political requirements, change in societal awareness and ecological developments: all these have an impact on the business activities of the Otto Group.

CLIMATE-FRIENDLY MANAGEMENT

Climate protection occupies a prominent place in public perception – noticeable consequences of climate change and the "Fridays for Future" movement gave new resonance to the appeals of the scientists and the decisions of the Paris Climate Agreement of 2015. Global warming is moving people around the world. According to a Pew Research Center survey released in early 2019, two-thirds of respondents in 26 countries identified climate change as the biggest threat. To effectively deal with it, more and more states are relying on CO_2 taxes and emissions trading systems. Some countries in the European Union (EU) have had CO_2 pricing for years. With its Climate Protection Law, the German Federal Government has now also adopted such a law from 2021. Binding targets for climate protection were also introduced for each economic sector. By 2050, Germany should be climate neutral.

The Otto Group has been systematically concerned with climate protection for over two decades, it has already achieved a great deal with its Climate strategy and is also setting itself ambitious goals within the new strategy (see p. 32). As a founding member of the Foundation 2° – German CEOs for Climate Protection – it has also helped to raise awareness on the importance of climate protection and the need for rapid action in business.

FAIR SUPPLY CHAINS

One issue that is currently of great concern to both politics and business is the observance of human rights in global supply chains. The German Government has been monitoring from 2018 to 2020 the extent to which corporations are already complying with their human rights due diligence.

Expectations for German corporations, as well as other societal actors, are enshrined in the National Action Plan for Business and Human Rights (NAP), which is a national interpretation of the UN Guiding Principles on Business and Human Rights (UNGP), a framework for the implementation of due diligence adopted by the UN Human Rights Council.

As a group of companies with global supply chains, the Otto Group works intensively to ensure safe and fair working conditions for employees in the factories of its suppliers as well as for its own employees (see p. 28). Among other things, as a founding member of the Business Social Compliance Initiative (BSCI), the Otto Group has been involved in the matter of responsible supply chains for many years, both from a social and an ecological point of view, and also participates in voluntary government initiatives such as the German Partnership for Sustainable Textiles and the "Grüner Knopf" seal.

Other global challenges that also concern the Otto Group include the realization of the circular economy and the responsible shaping of digital change (see p. 23).

FINANCING SUSTAINABILITY

The EU Action Plan for Sustainable Finance adopted in 2018 aims at strengthening the role of the financial sector for sustainable development. Above all, it should help to shape the world in line with the Paris climate goals, for which enormous investments are needed. In order to channel the funds into sustainable business in the future, a classification of sustainable investments, called taxonomy, is planned. In Germany, a Sustainable Finance Advisory Board appointed by the Federal Government will accorporation the national implementation of the EU Action Plan.

In order to link its commitment to sustainability with corporate financing, the Otto Group has developed a "Sustainable Finance Framework". In 2019, it was the first German trading corporation to place a Sustainable Bond, the proceeds of which will be used to finance the purchase of textiles made from sustainable cotton and FSC®-certified furniture (see also p. 24).

How We Manage Sustainability

With the CR strategy, the Otto Group systematically embeds sustainable action in its processes. In the future, we will integrate sustainability into the highest strategic planning and decision-making level of the Group.

STRATEGY FOR RESPONSIBLE MANAGEMENT

The Otto Group firmly believes in sustainability. Among other things, the achievement of the CR strategy objectives as part of the Group strategy flows directly into the variable remuneration of the Group's Executive Board members. The current CR strategy 2020 is made up of five sub-strategies that are backed up by concrete targets – from the careful extraction and processing of raw materials to compliance with social standards in factories and the improvement of the CO_2 balance.

The current strategy applies to all major Group companies (annual external revenue of more than EUR 100 million) based in Germany and Austria. The Otto Group Holding Corporate Responsibility division is in constant contact with them. There are regular working group meetings to elaborate and discuss content and make decisions on sustainability activities. Since 2016, foreign companies such as Crate and Barrel (USA and Canada) and Freemans Grattan Holdings (UK) as well as foreign subsidiaries of Bonprix have also been integrated into the strategy. As a result of the subsequent implementation, these Group companies are pursuing a separate target path on which they are partly making significant progress. The current CR strategy of the Otto Group expires at the end of 2020 and will be replaced by the new CR strategy.

SUSTAINABILITY MANAGEMENT

At the Otto Group, individuals from various functions and Group companies are involved in order to manage sustainability holistically. The Chief Executive Officer of the Otto Group Alexander Birken is responsible not only as Chairman of the CR Board, but also as the Executive Board member accountable for the department of Corporate Responsibility, for ensuring that sustainability is firmly anchored in the Group.

The department of Corporate Responsibility manages the Group-wide sustainability activities of the Otto Group and advises the individual Group companies. Due to the decentralized organization of the Group, the Managing Directors of the Group companies are responsible for the implementation of the strategy in their respective organization. They are supported by Sustainability Officers who are in constant contact with the department of Corporate Responsibility. In the course of the new strategy development, the CR structure was changed in such a way that the Group companies have more freedom and responsibility in their contribution to the overall strategy. For this purpose, cross-functional CR teams are formed in the respective companies and cooperation is carried out in so-called 'Expert Circles'.

With the purpose of bringing sustainability even more into the core of our business, we will integrate CR into the strategic planning process of the Group in the future. Sustainability issues are then discussed annually at the two Executive Board meetings dealing with the further development of the Group. Important strategic decisions, such as business model or portfolio changes, are discussed together with CR aspects and objectives and are thus adopted holistically. With the new strategy, the CR Board as the decision-making body receives an even stronger mandate and a clear authorization from the Group Executive Board to make decisions largely independently.

Under the new CR strategy, the CR Board will be given a stronger mandate and will make decisions largely on its own.

RESPONSIBILITY DURING CORONA

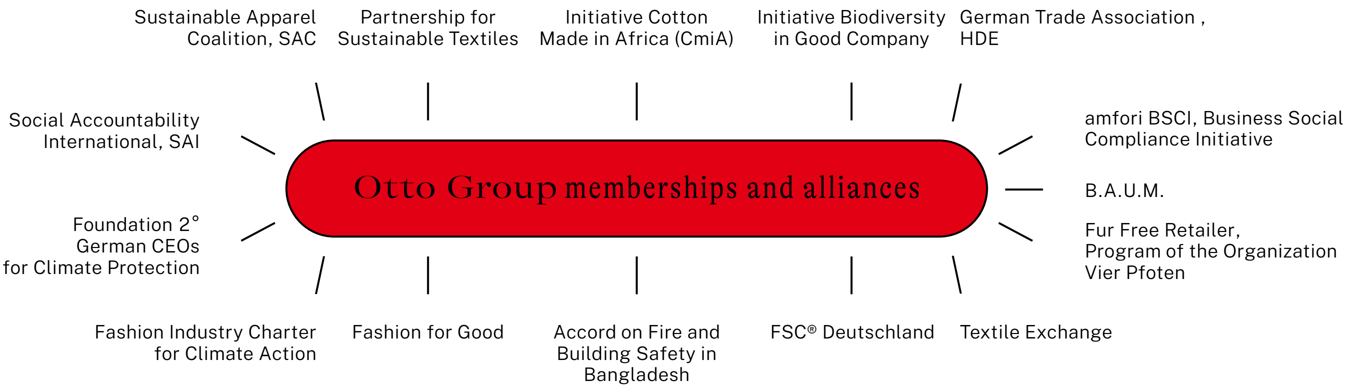
Inevitably, the question arises as to what the Corona crisis means for corporate responsibility within the Otto Group. Due to the current situation, we have decided to postpone aspects of the new CR strategy and the participatory development of the Code of Ethics (CoE) is thus put on hold for the time being. This is clearly a mere postponement of a very ambitious strategy to a more appropriate time. We are convinced that the CR strategy and the CoE can help us shaping the "new normal" after the crisis. We have a clear focus on both topics and will work on them again as soon as possible.

Does this decision mean that we are abandoning or pausing our value-oriented actions and our corporate responsibility, which we have lived by for many years? This is clearly not the case. On the contrary: especially in these challenging times, corporate responsibility and the values associated with it, are a very valuable asset and an essential part of our corporate culture.

IN CONSTANT DIALOGUE

The Otto Group has been actively involved in the public debate on sustainability for many years. We cultivate exchanges with our stakeholders and help shaping the political discourse – to protect the environment, improve social standards or create digital responsibility. In addition to taking stakeholder requirements into account within the impACT management process, the dialog takes place through discussions, events, and industry initiatives. In this way, we ensure a constant transfer of knowledge and can meet expectations and requirements (s. S. 17).

Selected memberships and alliances



ACHIEVING MORE TOGETHER – HIGHLIGHTS FROM THIS YEAR

Concepts for more conscious consumption

Overproduction in the clothing sector and new concepts such as sharing and slow fashion – these were topics that were discussed and presented in June 2019 as part of the discourse series CUT UP by the young design label Bridge & Tunnel. Nearly 80 interested parties gathered on the Otto Group campus. The Otto Group is currently the sponsor of the event series. “If we want to make fundamental changes in the textile sector, we have to work together with other corporations and the producers,” was the conclusion. Two initiatives from the Otto Group also fit the topic under discussion: the rental platform OTTO NOW and the non-profit initiative “Platz schaffen mit Herz” (see p. 32). The discourse series CUT UP will also continue in 2020, and at the end of January another round of talks took place: this time, the discussion took place at the Fair Fashion Store glore in Hamburg and it was all about innovative textile fibres, for example from nettles, brown algae, milk or pineapple.

Promoting sustainable start-ups

In November 2019, the event “Innovation 4 Good” took place on the Otto campus. It was an occasion to gain insights into the world of the “Fashion for Good” initiative and panels with start-ups who present their innovations for recycling management or alternative materials. At the end of 2018, the Otto Group had entered into a partnership with the initiative. The aim of “Fashion for Good” is the promotion of sustainable innovation along the entire value chain – as well as the bringing together of promising start-ups with investors. The Otto Group sees the partnership as an opportunity to enter into new cooperations and to find collaborative approaches for improvements in the textile value chain. One of the projects that resulted from this is the collaboration between OTTO and the Spanish start-up Cadel Deinking. The pilot project should make it possible to manufacture the plastic bags used for shipping 100 percent from recycled material – and to conserve resources through the closed cycle.

Initiative for ambitious climate protection

The “Foundation 2° – German CEOs for Climate Protection” has sent a strong signal to politicians. The foundation was established in 2012 on the initiative of Otto Group Supervisory Board Chairman Prof. Dr. Michael Otto and is aimed at limiting average global warming to well below 2 degrees. Before the crucial meeting of the Climate Cabinet in Berlin in 2019, it published a position paper for an ambitious climate protection law as an opportunity for innovation and planning security. The annual conference of the Foundation was held in November under the motto “Investing in Climate Protection: the Business Model of the Century” with around 300 guests from politics, business and associations.

Preserving natural livelihoods

In 2019, the Environmental Foundation Michael Otto (UMO) has set impulses for the socio-political dialog for the design of the bio-economy with the so-called “Hamburg talks”. At the symposium, the participants discussed possible solutions for an economy based on renewable resources and in harmony with nature. Since 1993, UMO has pursued the goal of preserving the natural foundations of life and preserving a sustainable planet for future generations – the Foundation is convinced that this can only be achieved through dialog and cooperation. UMO initiates its own projects and promotes or supports external projects in environmental protection, climate and nature conservation and for sustainable development. With the F.R.A.N.Z. project for the protection of biodiversity in agriculture, the Foundation brings together stakeholders from the areas of nature conservation and agriculture. F.R.A.N.Z. is funded and supported by both the Federal Ministry of Food and Agriculture and the Federal Ministry of the Environment and was awarded the German Sustainability Prize in the category “Research” in 2018. On the premise that agriculture and nature conservation can only be promoted through dialogue, the German Federal minister of Agriculture Julia Klöckner and the German Federal Minister of the Environment Svenja Schulze jointly visited a demonstration plant of the F.R.A.N.Z. project in Havelland in September 2019. Within the framework of UMO’s educational work, the AQUA AGENTS, which will celebrate their 10th anniversary in 2020, bring primary school children closer to the importance of water for people, nature and the economy. With its support program “aqua-projects”, the Foundation also supported numerous activities of children and young people in 2019 who are committed to protecting water as a resource.

What We Have Already Achieved

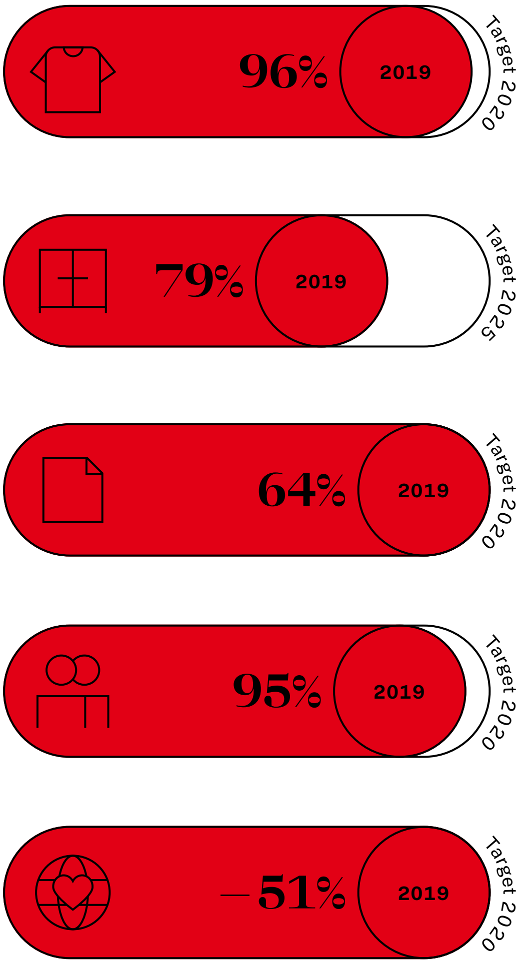
Our current CR strategy 2020 includes five sub-strategies. To this end, we have set specific targets, which we want to achieve by the end of the year.

The CR strategy 2020, adopted in 2012, comprises five sub-strategies, each of which we have defined concrete objectives for. With these, the Otto Group contributes to the enhancement of the social and ecological conditions in its business environment and beyond. The objectives were created on the basis of previous analyses and their results from our management process impACT.

The five KPIs were audited by the independent accounting firm Pricewaterhouse Coopers (PwC) in accordance with the International Standard on Assurance Engagements (ISAE) 3000.

The following Group companies are included in the CR strategy 2020: Baumarkt direkt, Baur, Bonprix, Eos, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck[1], Unito and the Witt Group.

Achievement of targets in 2019



Sub-strategy	Target	These Group companies are integrated into the sub-strategies based on relevance thresholds.
Textile strategy	100% sustainable cotton in own and licensed brands	Bonprix, Heine, OTTO, Schwab/Sheego, Sportscheck, Witt Group
Furniture strategy	100% FSC®-certified products of own, licensed and third party brands in the framework of owner cultivation	Baumarkt direkt, Bonprix, Heine, OTTO
Paper strategy	60% FSC®-certified paper for catalogues	OTTO coordinates purchasing for all strategy corporations
Social programme	100% integrated suppliers of own and licensed brands	Baur, Bonprix, Heine, Mytoys, OTTO, Schwab/Sheego, Sportscheck and Witt Group
Climate strategy	– 50% reduction of the CO_2 emissions (compared to 2006)	Baumarkt direkt, Baur, Bonprix, Eos, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck, Unito, Witt Group

[1] Sale of SportScheck GmbH and its subsidiaries at the end of the 2019/20 financial year.

How we further develop impACT

We have expanded our management process impACT in order to continue to act responsibly in the future. It forms the basis for our previous CR strategy, but also for our new CR strategy. We also include the United Nations Sustainable Development Goals in the basis of the new CR strategy.

ANALYSING, EVALUATING, ACTING

The impACT management process of the Otto Group is designed to align its business processes with sustainability and follows the three steps of analysing, evaluating, and acting. In the first step, we use the materiality analysis to determine the effects of our business activities on people and nature. In this way, we identify the key issues along the entire value chain. The combination of quantitative data and the qualitative assessment of our stakeholders enables us to carry out an extensive evaluation.

DIFFERENTIATED ANALYSIS

Within the framework of the development of the new CR strategy, the Otto Group has also further developed its materiality analysis, including the expansion of the scopes of impact categories considered (see p. 21). This more differentiated approach enabled us to identify further sustainability challenges and to derive more concrete topics for our new CR strategy – for example, we have formed the two topics “Conscious Customer” and “Empowered Employees” from the new impACT affected category “Awareness for Sustainability”.

MEASURING SOCIAL AND ENVIRONMENTAL IMPACTS

As part of impACT, we can quantify a large part of the impact categories along the value chain. For these individual topic areas (for example, “greenhouse gases in the supply chain”), company data is linked to external data sources. The environmental impacts are converted into “incurred” external environmental costs. The social risk is presented in high-risk hours of work (working hours with a risk of human rights violations). In this way, we are able to measure the environmental and social impact of business activities – and also to compare them with each other.

The analysis also takes into account how our stakeholders assess the relevance of the Otto Group’s actions in terms of environmental and social impact – this enables us to depict impacts on people and nature in a materiality matrix (see chart p. 21).

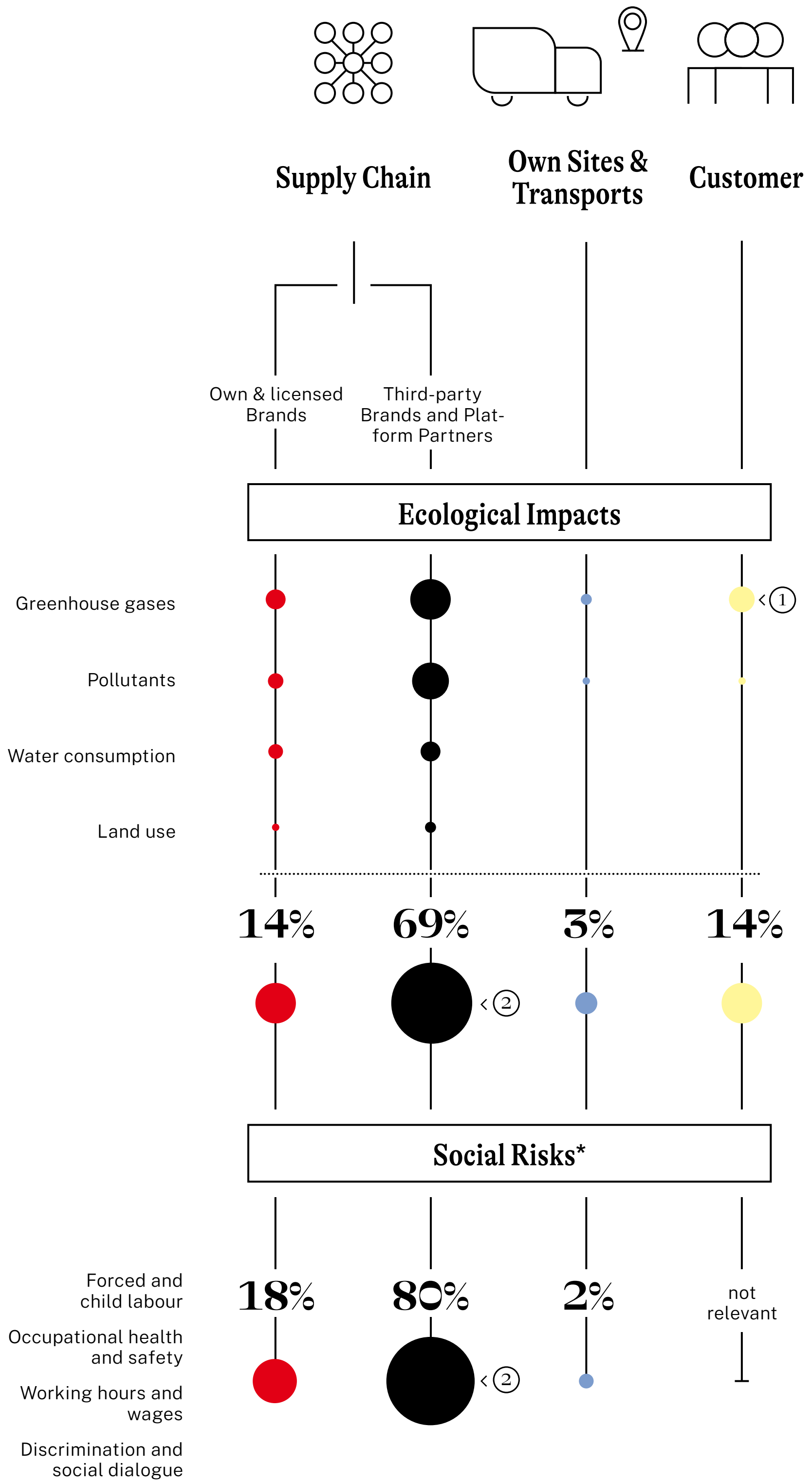
MATERIALITY ANALYSIS FOR BUSINESS SEGMENTS

In 2019, we also conducted analyses for the various business segments of the Otto Group. This helps the Group companies to react more specifically to their respective challenges. For example, for the “Brands” business area, which includes trading concepts with a high proportion of own and licensed brands, the following topics were identified as particularly important: environmental and social challenges in their own supply chain, customer sustainability awareness, and resources and waste. In the ”Services” business area, on the other hand, the greatest materiality for CR challenges lies in the domain of operations, for example in the field of greenhouse gases and pollutants.

CONCRETELY ADDRESSING SUSTAINABLE DEVELOPMENT GOALS

In developing our new CR strategy, we also followed the United Nations Sustainable Development Goals (SDGs) as a framework. With our CR activities, we want to address the relevant global challenges – that is why we systematically compared the contents of the new CR strategy with the global sustainability goals during the reporting period. In the first step, we examined which of the 169 sub-objectives of the SDGs, the so-called targets, are relevant for the Otto Group, as this is where a possibility for action is offered. In the second step, it was analysed how directly and concretely the targets of the SDGs are addressed by the objectives of the new CR strategy. We have come to the conclusion that all 17 SDGs are addressed in principle. A majority of the relevant targets are covered by the new CR strategy; the degree of coverage will depend on implementation in the next step.

Effects of our business activities



1

Here we consider the effects in the customer's use phase e.g. energy consumption when washing textiles. In the new strategy, we address the environmental impact of the customer with the "Conscious Customer" theme and aim at encouraging sustainable consumption.

2

External brands and platform partners account for a large proportion of the total environmental and social impact.

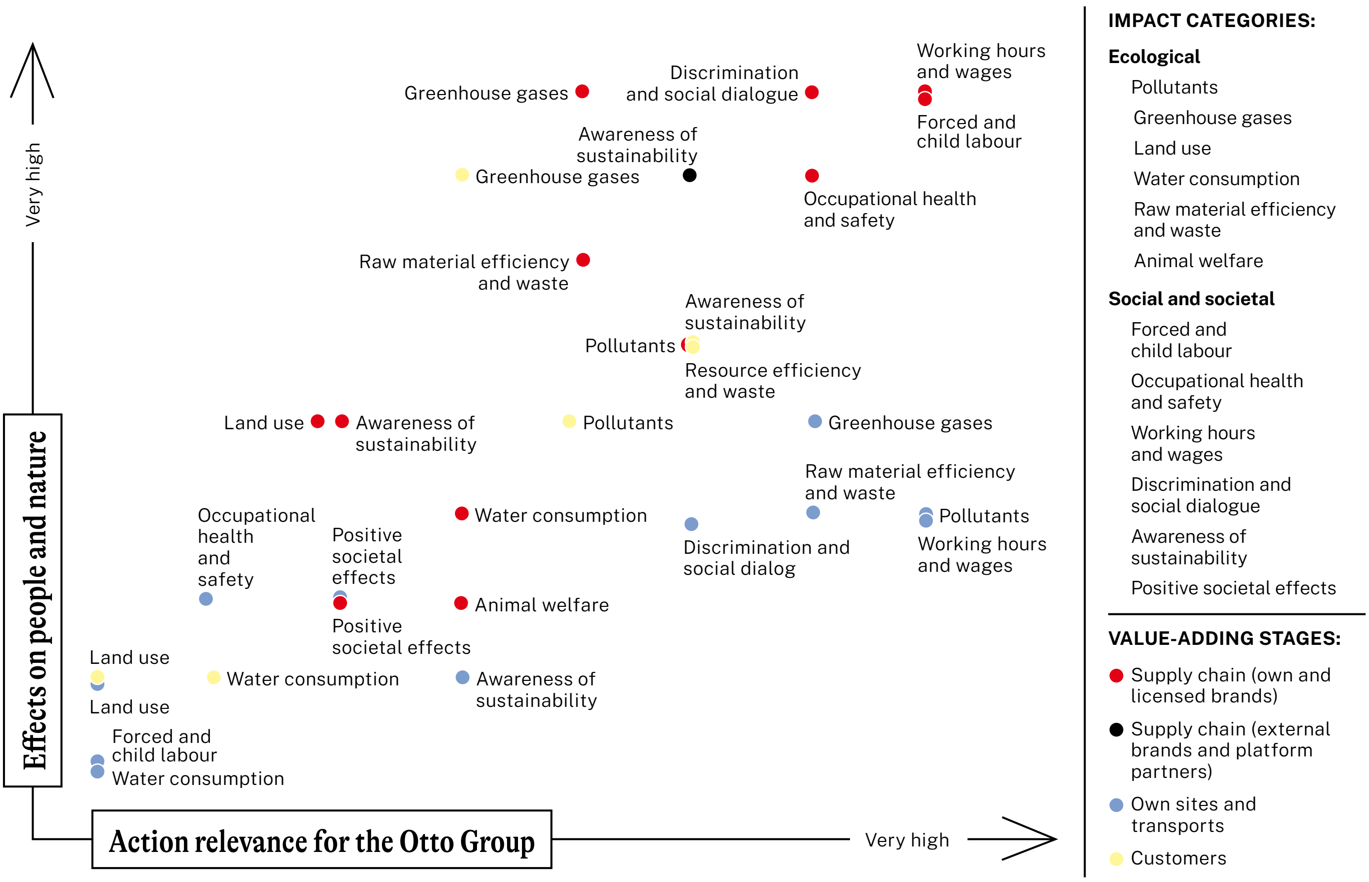
This is due to the fact that they make up a large part of the range of goods traded. Here the main responsibility lies with the brands themselves who also have their own partly comprehensive sustainability programmes.

* Social risks are measured in risk working hours The specified distribution refers to the total risk work hours. These can be divided into the specified categories.

Key topics for the Otto Group

The materiality analysis results in the matrix with the most relevant sustainability topics for the Otto Group. We address these challenges with the seven topic areas of our new CR strategy, for example "Climate", "Supply Chain" and "Circularity" (see p. 23)

Materiality matrix



The materiality matrix shows the most relevant sustainability issues for the Otto Group, from which the focal points of our new CR strategy are derived. The impact on humans and nature (vertical axis) consists of the assessment of external stakeholders combined with the quantified results, i.e. the calculated environmental impacts and social risks. The relevance of action for the Otto Group (horizontal axis) was determined by the internal stakeholder assessment with regard to regulation, reputation and business relevance.[2]

In the supply chain, social risks such as working hours and wages are a major challenge. Environmental aspects in the supply chain are also essential. In terms of own sites and transports, the focus is on the categories greenhouse gases and pollutants. In our new CR strategy, we address the identified challenges in the topics "Supply Chain", "Sustainable Materials", "Climate" and "Circularity". As can be seen in the overview of effects (see p. 20), high impacts are also present with third-party brands and platform partners of the Otto Group. Since we do not have a comparable influence here, the results of our analysis are included in the "Awareness for Sustainability" category. The challenge here is about sensitizing our platform partners to more sustainable offers and promoting such awareness. This category of impact gives rise to a concrete objective within the new strategy for those Group companies that operate platform business. Customers are also influential: by using the products, they contribute to the ecological impact. Customers' awareness on sustainability is also relevant. We address this in the new strategy with the topic area "Conscious Customers".

[2] Further information on the three steps of the impACT management process can be found in the Otto Group Annual Report 2017/18.

This is How We Position Ourselves for the Future

What does a modern CR strategy look like in times of advancing digitalization and ever-faster change? Which topics does the Otto Group consider to be essential? How do we meet the major societal challenges in the context of our own transformation? What have we learned from the past? We have used 2019 to address these issues – a solid and sustainable concept for a CR strategy has emerged.

The new CR strategy will remain part of the Otto Group's overall strategy and will be further anchored at the core of its business. Our management concept provides for a target-oriented framework for action in which the Group companies operate. They define their own goals and define measures that are specifically suited to their business model – the Otto Group's CR team supports them in creating their so-called action plan, dynamically develops the strategy and translates external requirements into concrete, measurable objectives. There are seven fixed topic areas – within these, for example, new key figures can be added. The concept was tested with various Group companies during the reporting period, and in January 2020 a kick-off event with workshop formats and panel discussions was also held on the Otto Group campus with over 50 participants from 19 Group companies. The concept will be further developed and implemented in parts in 2020 to ensure a transition between the previous and the new strategy. In the course of this, the Group companies of the Otto Group will draw up their own action plans – within the set content framework. The action plans will be the basis for the concretization of the Group-wide CR objectives.

OUR NEW CR STRATEGY

Seven topic areas define the framework for action of the new CR strategy of the Otto Group (see p. 23). For each topic area, we pursue a long-term objective (Transformational Goal) as well as short-term goals or focus topics for implementation in the coming years (Core Priorities). The topic areas "Climate", "Sustainable Materials" and "Supply Chain" are already part of our current strategy – here we will continue or expand our previous CR activities to supplement new topics and continue to provide key figures. In the field of climate, we have defined a challenging new goal: The Otto Group wants to become climate neutral by 2030. The goal applies to locations, transportation, employee mobility as well as external data centres and cloud services. We want to achieve this objective by means of concrete measures to prevent or reduce CO_2 emissions. In the area of supply chain, we face the great challenge of becoming effective in the deeper supply chain in order to meet our demands for decent working conditions and environmental protection. The main focus is on the desire for greater transparency about our supply chains. We have established environmental and social indicators that measure changes in our supply chains in order to contribute together to positive development. In the field of "Sustainable Materials", we focus on essential materials in our product portfolio and expand the content scope compared to the CR strategy 2020 (e.g. fibers, wood, paper, packaging). The long-term goal is to use sustainable materials throughout our business and all our own products.

In addition to these topic areas, we have defined four new areas in which we want to provide impetus and define the Group companies' own goals and measures:

A topic of central importance is the circular economy or "Circularity". In society as a whole, we are faced with the necessity of using our natural resources effectively and, ideally, establishing sustainable regenerative cycles. We see this as an opportunity to rethink existing business models and processes as well as to develop entirely new business models and we will support our Group companies in identifying potential in this area.

In the field of "Conscious Customers", we want to empower and inspire our customers in making conscious and sustainable decisions. We will support the Group companies in developing ways of addressing customers and designing their product ranges – one of our short-term goals, for example, is for all Otto Group companies involved in the CR strategy to introduce a label for sustainable products by 2022. In the new topic area "Empowered Employees" we want to pay great attention to our colleagues in the Otto Group. We have understood that the topic of corporate responsibility is of great importance to many – together with the Group companies, we want to create opportunities for participation and show how to shape everyday working life. The seventh topic area of our new CR strategy is "Digital Responsibility" – it is described more detailed in the following section.

HELPING TO RESPONSIBLY SHAPE THE DIGITAL FUTURE

In the field of "Digital Responsibility", we are committed to responsible digitalization. In order to develop and implement effective solutions that take advantage of the opportunities offered by digitization, we want to promote cross-social discourse – together with various interest groups from business, science, politics and civil society. Here it is important to move from talking to action: this is why we want to meet our claim to be a responsible player in the digital age with concrete measures and initiatives.

For example, as part of an initiative by the German Federal Ministry of Justice and Consumer Protection, we are working with other corporations to investigate the principles and guidelines of Corporate Digital Responsibility (CDR) that go beyond what is required by law. We are also checking how we can make this knowledge and skills available to parts of society beyond corporation boundaries.

A further focus for the Otto Group within the framework of Digital Responsibility is the topic of "Digital Education", which includes the acquisition of digital skills and lifelong learning – both for our employees and beyond our corporate boundaries. The modular learning offer "TechUcation" is an elementary building block for this, so that everyone in the Otto Group can take advantage of the opportunities offered by the new technologies. The digital learning platform "Masterplan" and various measures will promote a common understanding within the Group about the topics of digitization and establish a new learning culture throughout the Group companies. We are also checking how we can make this knowledge and skills available to parts of society beyond corporation boundaries.

In addition to the responsible design of learning and working, our business activities make it essential to deal with "Data and Security" – and last but not least, it is also about the opportunities of digital technologies to reduce the negative impact on the environment.

The seven topic areas of the new CR strategy

Topic area	Transformational goal
Climate	Climate neutrality by 2030 within the scope of our own locations, transports and employee mobility (operations) as well as for externally operated data centres and cloud services
Sustainable Materials	Systematically increasing the use of sustainable materials in our own products as well as in our operations
Supply Chain	Continuous improvement of social and environmental performance in our supply chains
Circularity	Active examination of the principles and solution approaches of the circular economy and their application to the business models of the Otto Group
Empowered Employees	Empowering our employees, actively living and shaping sustainability
Conscious Customers	Inspiring and educating our customers for conscious, sustainable consumption
Digital Responsibility	Using the opportunities of digitization for people and society

CODE OF ETHICS

The new CR strategy of the Otto Group is shaped by the guidelines of our cultural change 4.0 and the Group strategy – the Otto Group Path. In the future, our employees should make decisions independently in the interests of sustainability. The human being should be at the centre of our actions: as the guarantor of success for our corporation, as the protector of our natural resources and as a designer of the future. A translation of this approach for everyday work can be found in our "Code of Ethics" (CoE), which is intended to provide orientation for all employees. We are planning a continuous process for the participatory development of this CoE, in which we will also incorporate the experience gained from the multi-year cultural change process. The CoE should be a framework for action and an opportunity to shape one's own tasks in the corporation autonomously and consciously in such a way that a value-oriented economic activity emerges from it.

SUSTAINABLE BONDS

The Otto Group was the first German trading company to place a Sustainable Bond in 2019. We want to combine our commitment to sustainability with corporate financing and we have therefore developed a "Sustainable Finance Framework". Institutional investors and private investors can thus make a targeted contribution to the implementation of our sustainability strategy. The Otto Group uses the proceeds resulting from these Bonds to finance the purchase of textiles made from sustainable cotton from the "Cotton made in Africa" initiative and FSC®-certified furniture. The framework was audited by the independent agency Sustainalytics for compliance with the "Sustainability Bond Guidelines 2018" of the international industry association ICMA (International Capital Markets Association). The fact that the Otto Group is bringing the issue of sustainability into its own financing strategy with the placement of the Sustainable Bond was one of the reasons why our Treasury Team received a special award in 2019: the "Treasury of the Year", which is published by the trade magazine DerTreasurer.

With the Sustainable Bonds placed in 2019, the Otto Group finances the purchase of textiles made of sustainable cotton as well as FSC-certified furniture.

Promoting Responsible Production

The Otto Group is working to reduce environmental impacts and social risks in its supply chain. We take measures to contribute to sustainable resource use and fair working conditions – and work closely with our suppliers to achieve this.

Whether water, clean air or fertile soils – the worldwide consumption of natural resources significantly exceeds the regeneration capacity of the earth and endangers the livelihoods of man and nature. Companies such as the Otto Group also use natural goods to produce products such as clothing or furniture. We therefore work intensively on the careful use of resources and start right at the beginning of the value chain – for example in the production of sustainable cotton or the purchase of wood obtained in a responsible manner.

However, since supply chains and procurement structures are complex, we often have little impact on the production process itself. We therefore seek close cooperation with our direct and indirect suppliers on social and environmental standards, pay attention to appropriate conditions in production and engage in alliances.

SOCIAL AND ENVIRONMENTAL STANDARDS IN THE SUPPLY CHAIN

With the internal Group Guideline “Sustainability in Procurement”, the Otto Group determines the minimum social and environmental requirements for the procurement of goods. Among other things, it contains important specifications on the use of animal and textile materials, transparency, working conditions and occupational health and safety in the production facilities and on requirements with regard to the use of chemicals. The Guideline applies to all Group companies.

The Otto Group uses the “Supplier Declaration on Sustainability” to let suppliers confirm the compliance with these regulations. It is sent to the business partners of Otto Group for commercial goods throughout the Group and draws the attention of our suppliers to the requirements to be observed. It is the basis for any business relationship with our suppliers of private label goods, third-party brands and partners on the Otto platform and contains all the sustainability requirements of the Otto Group.

TEXTILE STRATEGY: OUR PROGRESS

As part of its current Textile strategy, the Otto Group is pursuing the goal of using 100% cotton from sustainable cultivation in its own and licensed brands by the end of 2020. In 2019, we could significantly raise the share of sustainable cotton to 96% (2018: 93%) and are thus well on track to meet the 2020 target. The positive development is mainly due to the fact that we have further increased the proportion of cotton from the Cotton made in Africa (CmiA) initiative. In addition, we also include the proportion of recycled cotton and organic cotton in the key figure of the Textile strategy. In the future, the Otto Group also intends to increasingly use sustainable materials for its own and licensed brands, in addition to certified cotton. The new CR strategy concerns the increase in the share of more sustainable alternatives for all fibers, while maintaining 100% use of sustainable cotton. For this purpose, a portfolio of preferred fibers is defined by systematically testing and selecting alternatives to the conventional fiber variant in the various fiber categories. In the future, the majority of all fibers used will come from this portfolio.

Textile strategy

96%

Share of sustainable cotton
in the reporting period 2019

Sustainable cotton*

(in tons)

	2016	2017	2018	2019
Entire quantity of cotton	33,664	35,943	33,025	33,385
Organic cotton quantity	639	750	666	749
CmiA cotton quantity	15,913	27,156	30,077	31,380
Recycled cotton quantity	N/A	N/A	73	63
Sustainable cotton proportion	**49%**	**78%**	**93%**	**96%**

* on the basis of the procurement quantity of raw cotton

WHAT WE HAVE ACHIEVED WITH THE TEXTILE STRATEGY

We have been able to reduce our environmental and social impact through the intensive use of CmiA cotton.[3]

In 2019, a total of over 86 million cotton articles according to the CmiA-standard were procured, of which Bonprix, Witt and OTTO are the main customers with approx. 97%.

86 million
CmiA cotton articles

50,000
small farmers

Around 50,000* small farmers benefited from the Otto Group's CmiA demand in 2019.

Through the use of CmiA in 2019 23,800 tones of CO_2 could be avoided.

23,800
tonnes of CO_2

By exclusively irrigating with rainwater at CmiA, the use of over 65 billion liters of fresh water could be avoided in 2019.

65 billion
liters

* Measured by the share of the accepted quantity in the total CmiA production volume.

TOGETHER FOR SUSTAINABLE COTTON CULTIVATION

CmiA is a leading standard for cotton produced in a sustainable way. The initiative of the Aid by Trade Foundation founded by Prof. Dr. Michael Otto is aimed at improving the working and living conditions of cotton farmers and factory workers in Africa and contributing to environmental protection. To this end, it is building a global alliance of textile corporations and brands that use CmiA-certified cotton. CmiA provides trainings for small scale farmers on sustainable cotton cultivation, campaigns for children's rights, promotes better working conditions and strengthens the role of small scale women farmers. CmiA excludes genetically modified seeds and the clearing of primary forests, as well as certain pesticides that are classified as particularly dangerous under international conventions.

In 2019, around 900,000 small farmers in eleven African countries benefited from the initiative. They produced almost 600,000 tons of sustainable cotton according to the CmiA standards, of which the Otto Group purchased an equivalent amount of 31,380 tons according to the mass balance system. The credibility of CmiA standards is ensured by the work of independent auditors. In 2019, the Aid by Trade Foundation worked more intensively on the digitalization of the verification management and the tracking system, so that data can be collected even more reliably in the future.

TOGETHER FOR BETTER CONDITIONS IN TEXTILE PRODUCTION

The Partnership for Sustainable Textiles was founded in 2014 on the initiative of the Federal Ministry for Economic Cooperation and Development. The goal is to improve conditions in global textile production – from raw material production to disposal. The Otto Group has been involved in the Partnership for Sustainable Textiles since 2015 with a focus on social and chemical management as well as natural fibers. Dr. Johannes Merck, Director of Corporate Responsibility at the Otto Group until early 2020, was re-elected in the year under review as one of four business representatives in the Steering Committee of the Partnership for Sustainable Textiles. A road map has also been published in 2019. Due to the Corona pandemic, the Steering Committee of the Partnership for Sustainable Textiles has decided outside the reporting period (end of March 2020) that no new roadmap should be drawn up in 2020 and no progress report should be published. The Steering Committee will decide on the further handling for the future.

The Otto Group also participates in the Working Group on Living Wages, which is joined by various members of the Textile Alliance. The wages paid in the countries of production of the textile industry are often not sufficient to cover the living costs of workers, even if the minimum wages laid down by law are respected. In order to bring about change here, joint action is needed. As part of the Confederation Initiative, the Otto Group takes part in the so-called "Purchasing Practices Self Assessment" – an online check for corporations to analyse the strengths and weaknesses of their own purchasing practices and to determine possible effects on human rights.

We are involved in the Chemicals and Environmental Management Confederation Initiatives and the Tamil Nadu Initiative. Here we are working together with other corporations to improve working conditions in the textile and clothing industry in the Indian state and, for example, to promote sustainable chemicals and environmental management in the South Asian region through joint training videos and courses.

3 The retrieved data is based on the Life Cycle Assessment of CmiA.

FSC®-certified furniture

(Number)

	2016	2017	2018	2019
Total furniture articles	58,527	62,270	115,203*	64,096**
of which number of FSC®-certified articles in the product range	26,829	32,229	67,497	50,683
Proportion of FSC®-certified articles in full product portfolio	46%	52%	59%	79%

* The sharp increase in the total amount of furniture products can be attributed to the expansion of product numbers.
** Certain furniture suppliers, some of which also offer FSC-certified products and were previously within the scope, are to be classified as third-party brands and will therefore fall outside the scope in 2019.

In 2019, the use of FSC®-certified furniture made it possible to avoid an average of around 16% of the external effects caused by land use in the production of furniture.*

16%

FSC®

In addition, FSC® makes a very decisive contribution to biodiversity, which is why its use is increasingly demanded by our stakeholders and customers.

* This assessment was carried out by the Group's own consulting firm Systain Consulting.

FURNITURE STRATEGY: OUR PROGRESS

As part of our Furniture strategy, we have set ourselves the goal of converting our own, licensed and strategically relevant third-party brands to articles from responsible forestry by 2025 as indicated by the certification compliant with the standard of the Forest Stewardship Council® (FSC®). In 2019, we recorded an increase in the use of FSC®-certified wood within the Otto Group to 79% (2018: 59%). This increase can be deduced from the enlarged FSC®-certified furniture range of all Group companies involved in the Furniture strategy, whereas OTTO is particularly relevant as the main supplier of furniture and furnishings. The partial strategy on sustainable furniture products will be continued and will maintain part of our new CR strategy.

FOR A CAREFUL USE OF THE FOREST: FSC®

The non-governmental organization Forest Stewardship Council® (FSC®) pursues the goal of protective forest use and defines uniform global standards for this purpose. This prevents uncontrolled deforestation, the violation of human rights or an excessive burden on the environment. The Otto Group has intensified its cooperation with the FSC®: together we advise furniture suppliers when it comes to a transition to a FSC® certification and we support higher availability and demand for FSC®-certified wood-based materials in Germany.

PAPER STRATEGY: OUR PROGRESS

In the field of paper, the Otto Group has already exceeded its current target. According to our Paper strategy, the share of FSC®-certified paper in catalogues and advertising materials is expected to rise to 60% by the end of 2020 – in 2019 it was already close to 64% (2018: 54%). In addition, our paper consumption has decreased significantly in 2019. Our new CR strategy also sets a concrete KPI for further increasing the proportion of certified paper.

MORE SUSTAINABLE PACKAGING

Our new CR strategy also includes the issue of packaging – both during transport and storage, and during delivery to customers. To achieve this, we will set ourselves a concrete goal to systematically use more sustainable materials in the long term and thus reduce our ecological impact.

Furniture strategy

79%

Share of FSC®-certified furniture in the reporting period 2019

Paper strategy

64%

Share of FSC®-certified paper for catalogues and advertising materials in the reporting period 2019

Paper consumption for catalogues and advertising materials

(in tons)

	2016	2017	2018	2019
Entire quantity	221,497	200,559	197,615	165,403
FSC® paper quantity	75,047	85,821	106,507	105,111
Proportion of FSC® paper	**34%**	**43%**	**54%**	**64%**

SOCIAL PROGRAMME: OUR PROGRESS

The various business models within the Otto Group mean that we have our goods produced in many different factories and for the most part we only order small production quantities – accordingly, we often have only limited influence on the prevailing conditions. For this reason, it is a particular challenge for us to ensure social standards and to improve working conditions in the factories that produce for us. With our Social Programme, we have set ourselves the goal of establishing transparency concerning working conditions in our supply chains. At the same time, we want to support our business partners and their factories in complying with human rights and with a continuous and sustainable improvement of working conditions. As a first step, suppliers must disclose to us every factory producing for the Otto Group and submit a valid and accepted social audit. We accept amfori BSCI audits, other independent external audits, and our own Otto Group Assessment. The corresponding distribution can be found in the graph on p. 29. This obligation applies to all suppliers of our own and licensed brands producing in risk countries[4]. The majority of our production takes place in China, Turkey and India. We are ending cooperation with suppliers who do not guarantee the required transparency. During the reporting period, 95% of suppliers (2018: 96%) of all factories that were active for the Otto Group have complied with our requirements and are thus integrated into the Social Programme. In the reporting period 2019, MyToys was integrated into the key figure for the first time with the suppliers and factories operating for them. Improving the social and environmental performance of all suppliers in our supply chain will continue to be part of the new CR strategy.

95%

Share of the social programme integrated suppliers in the reporting period 2019

IMPROVING WORKING CONDITIONS TOGETHER

EMPOWERMENT TO ACT

EMPact

"EMPact" stands for the Otto Group's Capacity Building Program. It represents the continuation of our management process impACT and links the empowerment of our suppliers and factories with the resulting act. The goal is to raise awareness and impart knowledge with a collaborative approach. By means of workshops and training measures on site, online training as well as practical implementation tips we were able to support producing factories for the Otto Group in improving their working and production conditions. The factories are currently being offered trainings focusing on social responsibility, occupational safety, and chemical management within the supply chain.

We support the factories of our suppliers in implementing our requirements and implementing social management systems. With 'EMPact Social' we have been offering factory training in our main production countries for over six years. Over a period of around eight months, we systematically impart skills and work together to develop concrete improvement measures for a wide range of challenges. Thematically, the training is broadly based: from root cause failure analysis to trainings in the field of Health & Safety, Working Time or Remuneration. The program is based on group workshops with factory representatives. In order to improve factory-specific topics, the trainers visit each factory individually twice during the program. During the reporting period, we supported 32 factories in China and Turkey in this way.

The Otto Group believes that many challenges can only be met by working hand in hand with others. We engage in initiatives and alliances together with other players to find and implement industry-wide solutions. As far as human rights in the supply chain are concerned, the "Accord on Fire and Building Safety in Bangladesh", amfori BSCI and the German Partnership for Sustainable Textiles are particularly relevant for us at present.

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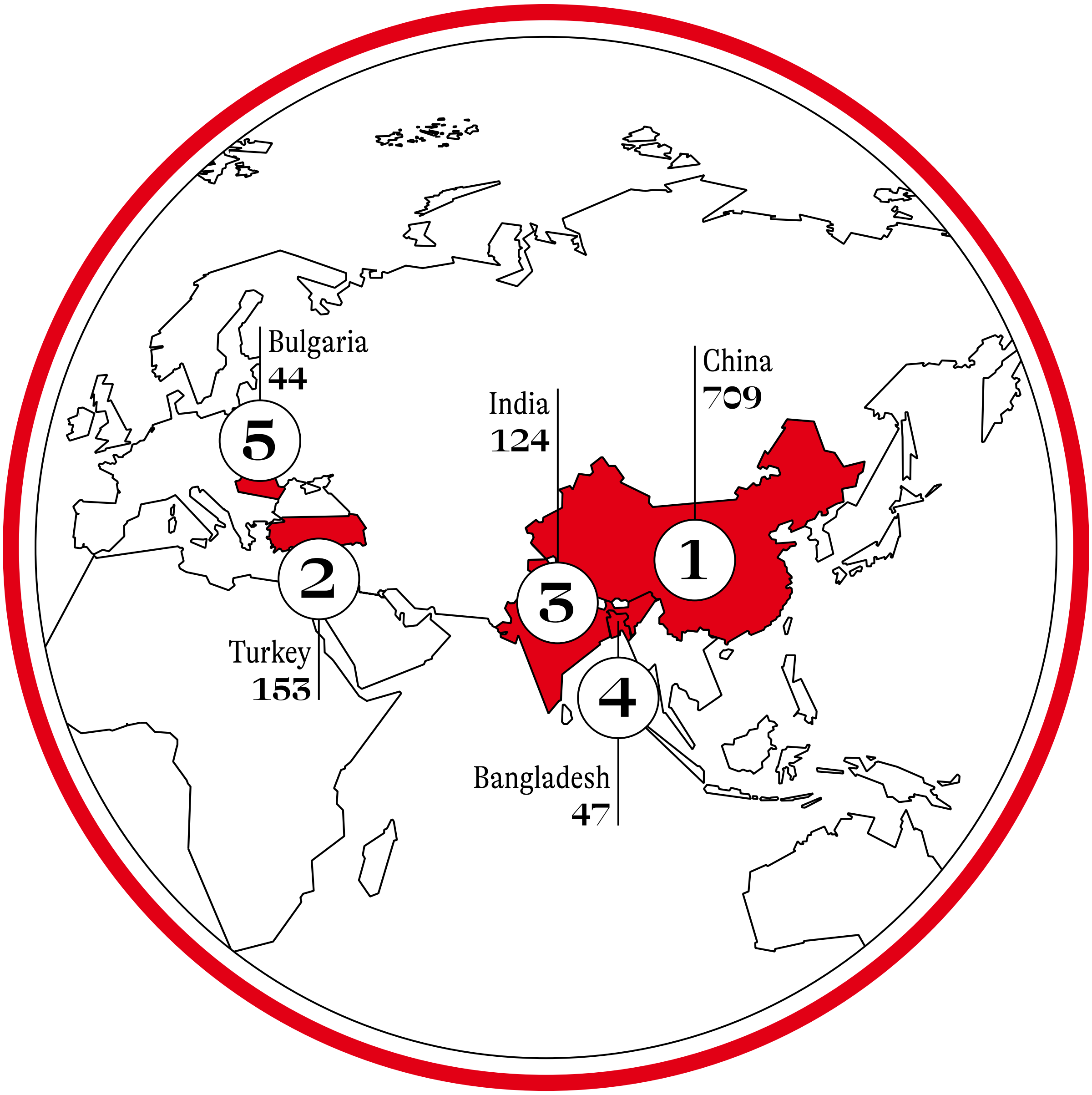
[4] According to the amfori BSCI classification (Country Risk Classification)

Number of factories in the main production countries*



With our interactive world map we are taking an important step towards greater transparency in the supply chain. The map shows the locations of the factories that produce for us and also provides information on factory audits.

* Includes factories that are active for the production of own brands producing for the group companies Baur, Bonprix, Heine, MyToys, OTTO, Schwab/Sheego, Sportscheck and Witt Group (all product groups).

Distribution of social audits and certificates of factories integrated into the Social Programme

amfori BSCI Audit	84%
Otto Group Assessment	8%
SA8000 Certificate	6%
WRAP Certificate, ICS Audit, ICTI Audit	2%

COMPLAINT MECHANISM

The Otto Group is committed to acting responsibly. An important part of this is a trustworthy, functioning and effective complaint mechanism. We learn more every year – and the feedback we receive gives us important tips on what can be improved in the future. We are aware of the gaps and areas for improvement and are committed to addressing them. Complaint mechanisms are one aspect of how the Otto Group fulfills its human rights duty of care (addressing identified risks by making reparations in the event of a human rights violation).

The Otto Group uses several complaint mechanisms:

- External grievance mechanism by amfori: We have published the external grievance mechanism of amfori on our website in order to point out the possibility of placing grievances about wrong or unfair treatment here. No grievances about human rights violations have been sent to us in 2019 via the external amfori mechanism.
- ACCORD on Fire and Building Safety in Bangladesh Complaints Mechanism: Of the complaints received via the ACCORD mechanism in 2019, twelve were relevant to Otto Group factories. All complaints have been accepted and dealt with.
- Otto Group Holding Ombudsman/Whistle-blowing system: No complaints about human rights violations were generated through this channel in 2019.

Our commitment to greater transparency and improvement in 2020:

- Raising awareness, visibility and training in order to improve the use and effectiveness of existing complaint and greivance mechanisms.
- Integrate the various complaints and grievance mechanisms into an effective process.
- Publish complaints.
- Active member of the amfori Supply Chain Grievance Mechanism project group, with the aim of establishing an industry-wide grievance mechanism and improved access to it for those potentially affected.

REDUCE THE IMPACT OF CHEMICALS

Especially at the beginning of the value chain, chemicals are used in many cases. In the context of textile production, they are used to ensure specific properties such as color or quality. The Otto Group is working on reducing the impact of chemicals on humans and the environment as well as on promoting responsible application. The biggest lever for improvement lies in the factories with wet processes that include dyeing, bleaching, washing and printing. We are intensifying our efforts to provide these factories with know-how for the safe and environmentally friendly handling of chemicals in a spirit of partnership.

In order to specifically improve the Chemical Management of our partners, we have developed the EMPact Detox Qualification Programme. It offers factories with wet processes a wide range of free support: in group workshops and with trainers on site, we raise awareness on safe use of chemicals. In this way, we were able to support 57 factories in India and China in the responsible use of chemicals in textile production in the reporting year.

As a member of the Sustainable Textile Alliance, the Otto Group, together with other corporations, also carried out a comprehensive training program (Advanced Training on Chemical Management) at factories with wet processes. Over a period of nine months, the factories were intensively accompanied by trainers and substantial improvements were achieved.

EXAMPLE FROM PRACTICE: WORKSHOPS IN PAKISTAN

At the end of 2018, as part of the EMPact Detox Program, the Otto Group for the first time also offered training in Pakistan on more sustainable chemicals management – with workshops and factory visits to a total of nine production sites. During factory visits, a comprehensive need for action in handling with chemicals was identified. In close cooperation with the local sourcing agency Eurocentra, factories and Group companies, the Otto Group has developed and implemented a follow-up process to further support the factories, with the aim of substantially improving Chemical Management. A year later, new factory training revealed how the impulse of the Otto Group has increased awareness and how improvements have already been implemented in the factories on their own. The factories consistently implement the individual action plans and show a high willingness to invest – for example, there have been significant improvements in the establishment of a systematic chemicals management system, in the handling of chemicals by factory employees as well as in the construction and use of wastewater treatment plants. The successful cooperation in Pakistan shows us that we are making effective progress in the factories in close coordination with our partners and are thus making a demonstrably important contribution to the more sustainable management of chemicals for people and the environment in our supply chain.

Climate-friendly and Fair Management at Own Sites and during Transport

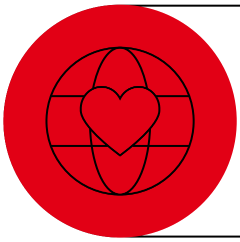
In operating its sites and shipping goods, the Otto Group has a great deal of influence on reducing emissions and using resources sparingly. Our Climate strategy has already enabled us to significantly reduce CO_2 emissions. Our new goal: by 2030, we want to become climate neutral.

CLIMATE STRATEGY: OUR PROGRESS

With the Climate strategy, the Otto Group aims to reduce CO_2 emissions caused by its transports and facilities. To this end, the Group sets a concrete goal and implementation framework, and the Group companies implement measures independently. In this way, adjusted CO_2 emissions of the Group's facilities, procurement and distribution transports as well as business trips should be halved by 2020 compared to the base year of 2006. In 2019, CO_2 emissions were reduced to 154,730 tons (2018: 166,392 tons). Looking at the base year, the reduction thus amounts to 51 percent (2018: 47 percent), which means that the target has already been reached. This can be attributed to increased energy efficiency in all areas of the Climate strategy. Other reasons for the reduction in emissions are the shift of air freight to more climate-friendly sea, road and rail transport and the purchase of high-quality certified green electricity from the German Group companies (around 40 percent of the total electricity supply at the sites). We will continue to systematically increase this share, and by 2025 the German sites will be 100% supplied with green electricity.

CLIMATE NEUTRALITY UNTIL 2030

With our new CR strategy, we have set ourselves the goal of becoming climate neutral in our own operations by 2030 – the focus remains on concrete measures to prevent or reduce CO_2 emissions. We regard high-quality CO_2 compensation as a necessary but last resort of choice in achieving targets. The goal applies to all sites, transportation, employee mobility, as well as external data centres and cloud services.



Climate strategy

—51%

Reduction of adjusted CO_2 emissions compared to 2006 in the 2019 reporting period

CAREFUL USE OF RESOURCES

The Group corporations implement their environmental management and concrete measures at their respective sites in a decentralized manner. Some of the core issues are the careful use of resources like water and packing materials, as well as the responsible handling of waste material. If waste cannot be avoided, it has to be deposed of properly. Currently, 34 of the facilities covered use an ISO 14001 certified Environmental Management System.

PROPER DISPOSAL OF ELECTRICAL DEVICES

At the end of the product life cycle of electrical appliances, the Otto Group ensures their proper recycling. Every year, we collect about three percent of the electronic waste generated in Germany. Regional waste disposal corporations then remove the pollutants contained, such as refrigerants, and take care of their proper disposal. It is thereby important to us that the process is carried out in Germany.

PACKAGING MADE OF RECYCLED MATERIAL

Requirements for packaging are growing, especially in online trade: packaging must be stable to avoid damaging goods. At the same time, packaging should be produced in a sustainable manner in order to consume as little raw materials as possible. The Otto Group has addressed this issue and is developing solutions for packaging optimization. Consequently, cardboard boxes from the Group company OTTO consist of FSC®-certified recycled materials. The printing on the cartons also encourages customers to reuse them to send discarded clothing to the Group's own initiative "Platz schaffen mit Herz" ("Make space with a heart"). In addition, OTTO's shipping bag now consists of 80% recycled plastic and bears the Blue Angel eco-label.

SOCIAL STANDARDS FOR PARCEL DELIVERY

Ensuring satisfactory working conditions for parcel carriers employed by subcontractors is a major challenge for the entire courier, express and parcel (CEP) industry. Fair working conditions are an absolute prerequisite for the Group company Hermes, a leading logistics service provider in Europe, in its cooperation with its service partners in the delivery sector. Since the end of 2019, there has been a new law on subcontractor liability for the parcel industry: the Parcel Courier Protection Act. For the Otto Group the following applies: we warmly welcome all measures that help ensure fair working conditions.

Hermes stands for high social standards in dealing with its employees and partners. To meet these requirements, the corporation has been operating a comprehensive audit system in cooperation with the SGS Germany audit group since 2012 and additionally with the DQS certification corporation since 2018.

Hermes Service partners are audited on a regular basis. The focus of these audits is on employment conditions and subcontractor management. Besides others, the payment of a quantity-independent hourly wage that is at least equal to the statutory minimum wage, the remuneration or compensation for overtime, the granting of holidays, maximum daily or weekly working hours, the observance of break times and the continued payment of wages in the event of illness are checked. Hermes carried out 448 audits at service partners in the reporting period. Within the framework of the established whistleblowing system, indications of possible irregularities at service partners are followed up by Hermes internal audits – in addition to the regular audits. Any irregularities found are addressed, corrected and followed up internally as part of follow-up audits.

CLIMATE PROTECTION TRAINING FOR SUPPLIERS

Together with the German Society for International Cooperation (GIZ), we have trained an important supplier of Witt and Heine in Vietnam on the topic of climate protection management as part of a pilot project. The multi-day program dealt with key issues such as: How does a greenhouse gas balancing work? How are hotspots identified? What structures are needed to systematically integrate climate protection into one's own processes? The project was successful and there was a very good response from all the actors involved.

DELIVERING CLIMATE-FRIENDLY PACKAGES

With its "Urban Blue" strategy, the parcel service provider Hermes is pursuing the goal of zero-emission delivery of shipments in the inner-city areas of Germany's 80 largest cities by the year 2025. Among these, Hermes summarizes various new mobility concepts, including e-cargo bikes. In Hamburg, for example, they are used around the Hamburger Meile shopping centre. Cargo bikes were also in use in other cities such as Berlin and Cottbus in 2019.

Hermes Germany is recording a significant CO_2 saving through a further innovation: the Group company has introduced a fully digital route planning system for parcel delivery in Germany. Parcel deliverers benefit, besides others, from intelligent route and traffic planning that dynamically adapts to changes in the course of the journey. More than 13 tonnes of CO_2 are saved every day. For its environmental commitment, the Hermes Group has been awarded the European Transport Award for Sustainability by the newspaper "Transport".

PILOT PROJECT ON REUSABLE PACKAGING

Together with two other online retailers, the Otto Group is participating in a pilot project on reusable systems in mail-order business. The research project is funded by the German Federal Ministry of Economics. The aim of the PraxPack project is to reduce resource consumption through packaging. The central element is a "cooperation laboratory" in which solutions for the construction of reusable systems are developed. Practical reusable systems can make a significant contribution to reducing resource consumption and waste volumes. A practical test is planned for 2020.

CO_2 emissions

(in tonnes)

	2006** (base year)	2017**	2018**	2019**
Absolute in tons	315,363	236,240	213,828	205,814
Adjusted* in tons	315,363	188,119	166,392	154,730
Reduction of adjusted CO_2 emissions compared to 2006	**–**	**–40%**	**–47%**	**–51%**

* Represented with respect to their performance units.
** Introduction of a new CO_2 calculation model at Hermes for the distribution logistics (1-man handling) subdivision in 2019 and, consequently, adjusted base year and previous year figures. For the base year 2006 and the previous year 2018, recalculation of CO_2 emissions distribution logistics (1-man handling) was carried out on the basis of the new calculation model. For 2017, the recalculation was carried out on the basis of the new trend data 2006-2018. Due to the changes, the new values are no longer comparable with the old values from previous annual reports.

Encouraging Sustainable Consumption

The Otto Group wants its customers to make sustainable purchasing decisions and relies, amongst others, on clear labeling.

Whether jeans made of sustainable cotton, jackets made of recycled material or furniture made of FSC®-certified wood: the Otto Group offers a wide range of products that are better than conventional products for humans and the environment. We want to sensitize and inspire our customers for sustainability – and make it particularly easy for them to buy products that have been produced ecologically and fair. That is why we mark sustainable articles on our online platforms. At the Group company OTTO, Baur, Heine, Schwab and Unito, for example, the "GOODproduct" label serves as a bracket for all relevant seals and certificates with added sustainability value. Following the same principle, Bonprix uses the "Sustainable Product" label to identify goods whose materials or manufacturing processes meet high standards for the protection of people and the environment. Schwab's Sheego brand will also feature sustainable products in the future, with the "sheego cares" label. In general, materials, production steps and transport routes are to be presented transparently for the customers.

The sustainability blog of OTTO should also encourage an environmentally friendly and fair lifestyle. The re:blog offers a wide range of insights into topics such as sustainable consumption, upcycling or healthy eating. Various bloggers and authors inform about trends, news and everyday tips – they report on home and living concepts and take a closer look at product innovations.

ECO-FRIENDLY COLLECTIONS

Bonprix has received the state certificate "Grüner Knopf" after a positive audit of the corporation. For the launch, the fashion provider has put together an initial collection of baby clothes with Grüner Knopf-certified products and hopes that this will be well received by its customers.

Bonprix also released its second "Sustainable Collection". The collection combines sustainable materials and processes in production with modern styles. Materials such as recycled cotton, sustainably produced cotton, recycled polyester and a particularly environmentally friendly viscose fiber are used. As in the first sustainable collection, Bonprix uses polybags made of 100% recycled plastic to package the items. The corporation also aims to use 70% sustainable fibers in its entire textile range by 2025.

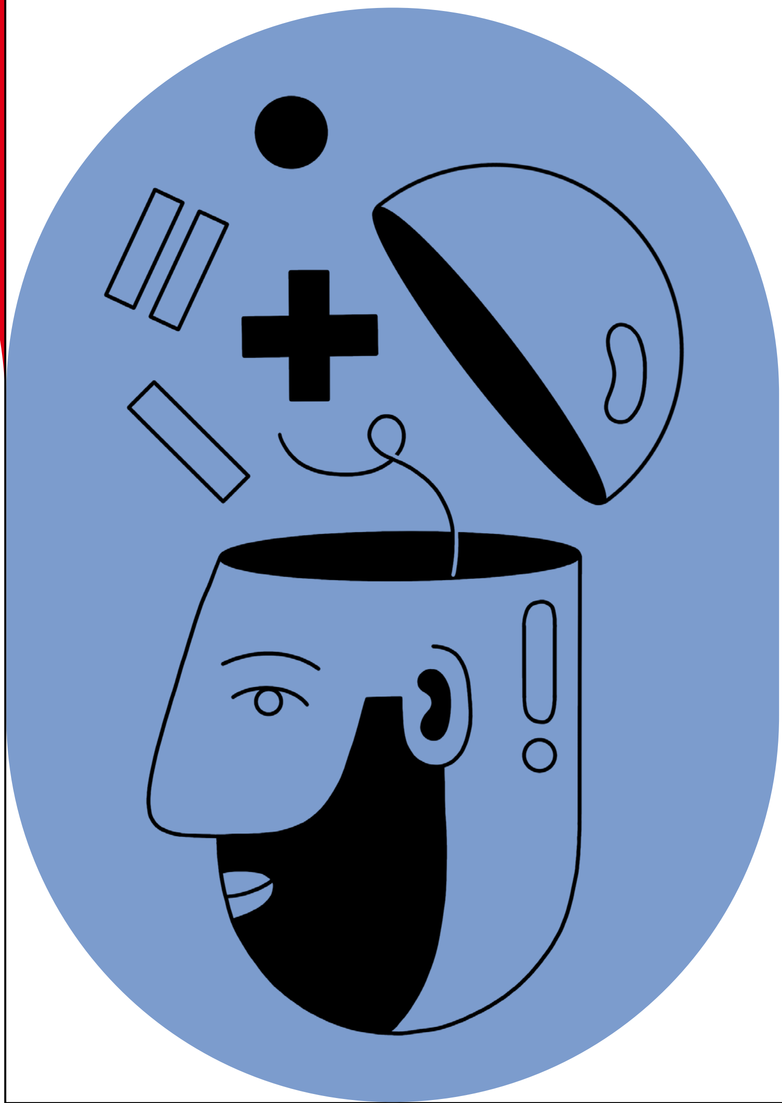
RENTING INSTEAD OF BUYING

The independent OTTO Inhouse start-up OTTO NOW further expanded its offer in 2019. The shop now offers around 1,000 different items for rental products – including mainly technical, household and sports equipment as well as furniture. Since 2019, children's furniture such as changing chests, wardrobes or beds have also been available for rent.

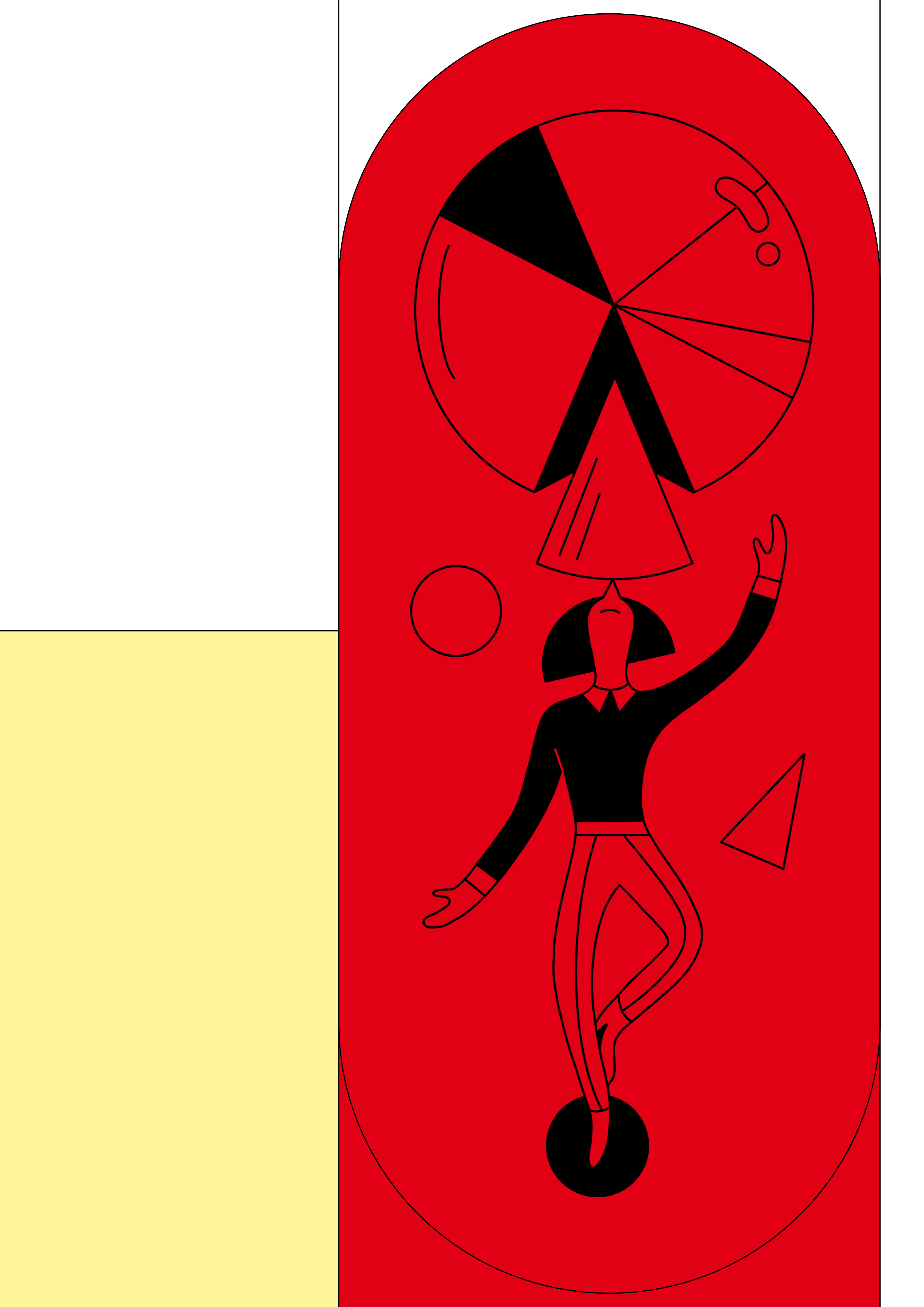
SELECTING AND DONATING

"Creating space with heart" is a non-profit initiative of the Group company OTTO, which supports social projects all over the world by reselling used clothes. The proceeds are donated to charitable organizations and projects in Germany. The participants decide through an online poll who receives the donations. Since the introduction of the new voting mechanism at the end of 2018, significantly more clothing has been donated: in the reporting year, we were able to collect approximately 1,000 tons of clothing – an increase of 100 percent compared to the previous year. Donations amounting to 190,000 euros were distributed.

Figures of the Otto Group



Group Manage-ment Report



Foreword on the Current Situation

The Otto Group can look back on a very successful 2019/20 financial year. The results of the Group's focused growth strategy were fully in evidence and the targets for revenue growth were fully achieved. All earnings levels improved compared to the previous year and the EBIT figure was almost doubled. Despite this, the coronavirus, which has been spreading worldwide since the beginning of 2020, is affecting social, economic and political life in nearly every country in the world. On 11 March 2020, the World Health Organization (WHO) declared the coronavirus to be a global pandemic. The extensive safeguarding measures adopted in many countries are aimed at containing or preventing the sometimes uncontrolled increase in the number of cases, and at maintaining the effectiveness of the respective national health systems. As a globally active group of retailers and retail-related service providers with sales and procurement markets in Europe, North and South America and Asia, the Otto Group is also directly affected by the current impact of the coronavirus pandemic. In addition to the consequences for the Otto Group's sales and procurement markets, the coronavirus pandemic also affects the day-to-day working lives of its approximately 52,000 employees worldwide.

The coronavirus pandemic is a non-adjusting event within the meaning used in financial reporting; the pandemic falls within the past financial year, 2019/20, and must be taken into account when preparing the consolidated financial statements. Nevertheless, the consolidated financial statements as at 29 February 2020 were only influenced by the coronavirus pandemic to a small extent. Due to the current developments and the significant impact on the Otto Group in the 2020/21 financial year, which has already begun, the coronavirus pandemic forms part of the Group Management Report. In the Group Management Report, the coronavirus pandemic and its effects on the Otto Group is examined both in the description of opportunities and risks and in the outlook, coming into greater focus in the latter.

Basic Information about the Group

GROUP STRUCTURE

The Otto Group is a globally active group of retailers and retail-related service providers with an average of 51,982 employees and sales of EUR 14.3 billion in the 2019/20 financial year. Through 30 major Group companies, it has a presence in more than 30 countries in Europe, North and South America as well as Asia and is structured into three segments: Multichannel Retail, Financial Services, and Services. With online sales of approximately EUR 8.1 billion, the Otto Group is one of the world's largest online retailers.

The **Multichannel Retail** segment is the core of the Group's business. It comprises the Otto Group's domestic and foreign companies that offer their products via the channels of e-commerce, catalogue business and over-the-counter retail. The product range includes fashion, shoes and lifestyle products, furniture and home accessories, toys and also consumer electronics, sports and leisure products.

Multichannel Retail

About You*	Freemans Grattan Group	Manufactum	Schwab
Ackermann	Frankonia	Mytoys Group	Sheego
Baur	Heine	OTTO	Unito
Bonprix	Küche & Co	Otto Group Brazil	Venus
Crate and Barrel	Lascana	Otto Japan	Witt Group
Eddie Bauer Japan	Limango	Project A*	
Eventures*			

* Investment companies

The **Financial Services** segment comprises the Otto Group's international financial service offerings such as receivables and liquidity management, as well as innovative financial services. The internationally active EOS Group, as one of the leading experts in the technology-based processing of impaired receivables, has a major influence on this segment. With its numerous Group companies worldwide, it offers diverse services related to receivables management.

Financial Services

Cofidis*	Hanseatic Versicherungsdienst (HVD)
EOS Group	Otto Group Digital Solutions (OGDS)
Hanseatic Bank*	

The **Services** segment comprises the Otto Group's logistics and sourcing companies. They render their services both to customers outside the Group and also to the Otto Group's Multichannel Retail segment. The Group companies in the Hermes Group offer many services along the logistics value chain – from transport through warehousing up to delivery to private and business customers – and thus characterise the activities of the segment.

Services

Baur Fulfillment	Hermes Hansecontrol
Hermes Europe	Otto International
Hermes Fulfilment	

* Investment companies

The Otto Group's portfolio is composed of different Group companies within the three segments. The following focus companies are the central point of the Group's focused growth strategy:

Otto (GmbH & Co KG) – hereafter OTTO – is one of the leading online retailers in Germany. It operates the multi-award-winning online shop otto.de as well as other specialist online shops. At OTTO, the focus continues to be on the change from a pure online retailer to an e-commerce platform. Online sales [1] account for approximately 95% of OTTO's revenue.

The **bonprix Group** is represented in 30 countries worldwide. The Group markets its own fashion brands at an excellent price-performance ratio and in a wide variety of styles and sizes. The bonprix brand is being further developed into a strong international fashion brand. In the past financial year, bonprix took over responsibility for all of Otto Group Russia's business activities, which was thus fully integrated into the bonprix Group. Online sales account for over 87% of the bonprix Group's revenue.

The **Crate and Barrel Group** offers international houseware, furniture and home accessories for sophisticated tastes in the North American market. In addition to the Crate and Barrel brand, the Group also operates under the CB2 brand. Through online sales and catalogues as well as over 100 retail stores, the Crate and Barrel Group has firmly established itself as a multichannel retailer in the USA and in Canada. Online sales account for approximately 49% of revenue.

The **EOS Group** is one of the world's leading experts in technology-based management of impaired receivables. EOS is represented by over 60 subsidiaries in 26 countries around the world. The EOS Group has access to resources in more than 180 countries via an international network of partner companies.

Companies that supply all relevant retail-related logistics services operate under the **Hermes** umbrella brand. The internationally operating Hermes Group is represented as an international service provider with its own networks in Europe's core markets. The majority of its business relates to working with external customers, however services carried out within the Otto Group also play a significant role.

For over ten years, the myToys Group has been operating the no. 1 online shop for toys and products for children in Germany under the **myToys** brand, as well as 17 over-the-counter stores with the same name. Apart from myToys, the Group also owns the retail services limango, mirapodo and yomonda and is one of the largest German e-commerce companies for the target groups of family and women in terms of revenue. Online sales account for approximately 96% of revenue.

The **Witt Group** is one of the leading multichannel companies for textiles for the 50+ target group. It reaches its customers through online shops, catalogues and approximately 130 retail stores in Germany. Online sales currently account for approximately 24% of revenue. Following the completion of the ongoing integration process, the **heine** brand will also complement the Witt Group's plans for further growth in the future.

GROUP STRATEGY

SHAREHOLDER VISION, BUSINESS MANDATE AND MISSION STATEMENT

At the end of the 2019/20 financial year, the shareholders issued the shareholder vision: "Responsible commerce that inspires". This vision highlights the importance of sustainable action, whereby business goals are combined with social and environmental responsibility.

In conjunction with shareholders' business mandate, the shareholder vision specifies the framework conditions and guiding principles within which the Otto Group's sustainably profitable business models are to be developed and operated.

In its mission statement, under the guiding principle "Together we push the limits", the Otto Group has set expectations for itself in three thematic areas:

- **We inspire our customers – through our personnel and the technology we offer.**
- **We create and harness new opportunities for creativity – both independently and within wider networks.**
- **We develop important ideas for our future and for society – built on courage and long-term thinking.**

"Responsible commerce that inspires" is the course set by the shareholders for the Otto Group, through the mission statement and the Code of Ethics. This goal provides a basis for the further development and realisation of the Otto Group Path.

The Otto Group Path describes the path of development for the Otto Group. It defines strategic goals, establishes guiding principles at the level of the Otto Group and provides a framework for both the portfolio strategy and the strategy for complying with social and environmental responsibility (Corporate Responsibility Strategy 2020 – hereafter CR Strategy 2020).

The overriding aim is to achieve revenues of EUR 17 billion by 2022/23 [2] and an increase in profitability.

To achieve this objective, the Group is pursuing a targeted growth strategy for its three segments. Targeted investments are being made in market-specific business models and in Group companies that are estimated to be capable of particularly strong performance in terms of the yield and high growth levels at the same time. Furthermore, the Otto Group places special emphasis on its overarching guiding principles: Improving operational excellence; capitalising on the opportunities afforded by digitisation;

[1] The percentage of online sales in relation to revenue in this section relates to the 2019/20 financial year.

[2] On a comparable basis with the 2016/17 consolidated financial statements.

carrying out economic activities with a view to Corporate Responsibility; harnessing the strength of the Group via networking and collaboration; recruiting, fostering and retaining talent; and actively driving progress on the "Culture change 4.0" initiative.

The portfolio strategy covers the strategic segments of the Otto Group – namely Multichannel Retail (with special emphasis on online retail), Financial Services (in particular receivables management) and Services (primarily logistics). Together with the CR Strategy 2020, these growth and portfolio strategies provide a framework of action for the Group companies. They are transferred to the Group companies by means of portfolio management and other control mechanisms and are therefore linked with one another. The Group's Executive Board is incentivised to achieve both the business and corporate responsibility goals.

PORTFOLIO STRATEGY

The Otto Group is internationally orientated and covers nearly all relevant value levels in retailing and retail-related financial services and services. The Group will continue with this strategic orientation.

Portfolio management is aimed at strengthening the Otto Group's financial capability, whereby the debt service ratio (net financial debt/EBITDA) and the leverage ratio (net financial debt/Group equity) – on the basis of the "FS at equity" presentation of the Otto Group – are primary indicators of financial performance. The debt service ratio was reduced in the past financial year, while the leverage ratio increased.[3]

To ensure strong performance in the long term, the Otto Group continuously assesses the profitability and future viability of each individual Group company. In addition, the Otto Group ensures that targeted investments are made in promising, future-oriented business models, technologies and competencies right across the strategies for the individual segments.

To ensure that the Otto Group's market position can be strengthened in the long term, continued investment in the IT infrastructure is necessary so as to orientate it towards future needs in accordance with competitive demands. Central IT governance ensures that inter-departmental goals can be pursued and synergies can be realised. Furthermore, future-oriented skills, in the areas of business intelligence, mobile commerce, conversational commerce and virtual reality for example, continue to be built up in a centralised or collaborative manner in order to efficiently and effectively shape development across all Group companies.

MULTICHANNEL RETAIL

In the Multichannel Retail segment, the overriding strategic goal is the further development of e-commerce – the Otto Group's most important sales method and the one that has shown the strongest growth – across all devices and interfaces.

The Otto Group will focus on two main areas here: Firstly, both the change in the business model of the Group company OTTO from a pure online retailer to an e-commerce platform, which has been the subject of high investments, and the further development of ABOUT YOU will be treated as a top priority; and secondly, efforts to expand and grow brand concepts will continue. Notable players here include the internationally active brands bonprix, Witt, and Crate and Barrel. By adopting this focus, the Group will be able to continuously increase its profile in the key focus areas of fashion and home & living.

With regard to the Group's other retail concepts, again the focus is on driving the ongoing transformation of the individual retail concepts towards greater levels of digitisation. It also includes intensively building up further business intelligence in order to personalise the Group's offering to an even greater degree, with a clear focus on the customer journey and special emphasis on retail sales through various devices.

Solutions were found for business models that did not have good prospects for a sustainable future in the Otto Group's current structure. This will allow investments in the Multichannel Retail segment to become the active focus. With effect from 29 February 2020, Group company SportScheck GmbH and its subsidiaries were sold to the Signa Group. With this step, the Otto Group is giving the multichannel retailer the best possible chance at a sustainable future, when all options are considered, while at the same time fulfilling its own goal of using its investments in a more focused manner. In addition, the decision was made that Heinrich Heine GmbH will be managed by the Witt Group from the 2020/21 financial year onwards. In so doing, the aim is to ensure the future viability of the heine brand, to ensure a return to profitability and to retain the Karlsruhe location in the long term. Furthermore, Group company SCHWAB VERSAND GmbH is being radically restructured in order to realise synergies with other Group companies and to focus its activities at the Hanau site primarily on the future-oriented sheego brand. Following the dissolution of the joint venture with Hagebau, baumarkt direkt GmbH & Co KG was also integrated into Group company OTTO on 30 June 2019. With its wide variety and large quantity of product concepts in the DIY segment, the company baumarkt direkt GmbH & Co KG is a 100% ideal candidate for Group company OTTO's platform strategy.

Within the Multichannel Retail segment, the focus is on venture and incubation activities by the Otto Group's investment companies (Project A Ventures GmbH & Co. KG and the EVC Group). This enables the Group to secure early access to innovative ideas, promising new business models and well-qualified, talented individuals from business and technology areas with an entrepreneurial mindset.

[3] For the development of the financial performance indicators with regard to the 2019/20 financial year, reference is made to the chapter "Reporting the Financial Services providers using the 'at equity' method".

Furthermore, apart from benefiting from its own retail activities, the Otto Group also benefits from the development of digital retail-related services and the growth of third-party online retail and associated sectors. For example, services in the areas of data analytics, search functions and algorithms, as well as advertising marketing, are already being sold to third parties. In the 2019/20 financial year, in collaboration with Ströer, OS Data Solutions GmbH & Co. KG was established as a new company, with the aim of further strengthening the Group's advertising marketing activities.

FINANCIAL SERVICES

The Otto Group's strategy in the Financial Services segment is primarily focused on ensuring the responsible international development of the receivables management business. The EOS Group deserves special mention in this respect: the group has consistently expanded its services in recent financial years and now boasts a successful offering in 26 countries.

The Otto Group is also developing new digital financial services in this segment, such as tailored arrears billing and fraud prevention, and in doing so, is actively and systematically shaping the ongoing digitisation of this segment.

SERVICES

Services are one of the most significant factors in business activities with end-consumers. Consequently, B2C and B2B services, which are grouped under the Hermes umbrella brand, represent a further focal point within the Otto Group's strategy. Besides speed, reliability and the transparency of the supply chain, the Hermes Group places particular importance on service quality at all points of contact with the end-consumer. Areas of focus here include the distribution business, a sector in which the group operates successfully, in the largest European e-commerce markets of Germany, France and the UK; the two-man delivery sector, where HERMES Einrichtungs Service GmbH & Co. KG is a clear market leader in Germany; and warehousing, which, due to Hermes Fulfilment GmbH, plays a key role in the Otto Group's retail activities. In the parcel distribution business in particular, a clear leadership position has been established in the three largest European e-commerce markets in recent years, just behind the formerly state-owned companies. The Otto Group has decided to further develop their parcel distribution business with a strong partner in the future, so that, going forward, they can lead the way in this particularly dynamic market environment with even greater innovation, and develop an even more highly performing international service promise for the customers of the Hermes Group.

CR STRATEGY

The Otto Group's Executive Board is convinced that sustainability is the foundation of long-term economic success in business. Therefore, both the existing CR Strategy 2020 and the new CR Strategy are an integral part of the Group strategy. Moreover, since the 2014/15 financial year, the Executive Board's variable remuneration is now also linked to the achievement of the targets set out in the CR Strategy 2020. The principles of sustainable development are thereby firmly anchored in the Group organisation and its business processes. Concretely, the CR Strategy 2020 consists of five specific sub-strategies. These cover key areas of the business model that can be specifically influenced by the Otto Group: social responsibility within the supply chain, environmental protection at Group sites and during transport as well as environmental and resource protection in the manufacturing of textiles, furniture products, and catalogue paper[4]. The new CR strategy, which will be implemented across the Group from autumn 2020, expands the portfolio of topics to include the Climate, Sustainable Materials and the Supply Chain as a further development of the current goals; Circularity, Empowered Employees, Conscious Customer and Digital Responsibility are new additions. In order to reduce the ecological and social impact of the Otto Group's business activities in an effective and measurable way in relation to these topics, Group-wide goals have been defined for each of the seven sub-strategies, such as climate neutrality by 2030 in the context of its own business activities, – meaning at Group sites, during transport and employee mobility – as well as for externally operated data centres or cloud services. The new CR strategy provides the Group companies with a framework within which to develop individual measures and their contributions to reaching the targets. This high degree of flexibility fulfils the requirements of the decentralised structure of the Otto Group.

[4] A more in-depth presentation of the CR Strategy may be found in the chapter "Corporate responsibility".

Economic Environment

OVERALL ECONOMIC ENVIRONMENT

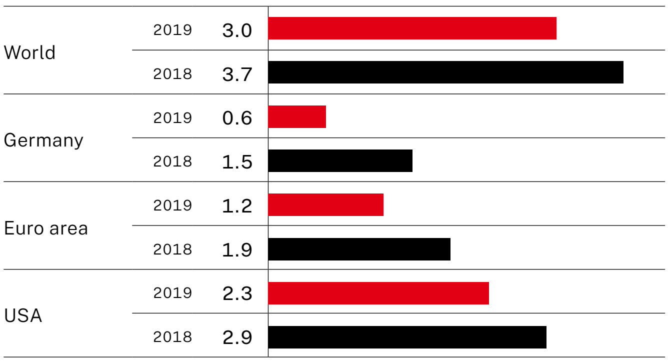
Over the course of 2019, the development of the **global economy**, after quite a substantial increase in the first quarter, gradually lost momentum, with the result that the increase in the global gross domestic product – hereafter GDP – of 3.0% was far below the previous year's figure of 3.7%, when adjusted for inflation. Contributory elements included, among other things, the continuing weakness of international trade due to a high degree of uncertainty, as well as a large number of other political risk factors. In the advanced economies, overall expansion remained fairly heterogeneous. While economic development has almost stagnated in Japan and lost significant momentum in the Euro area and the UK, strong household consumption in the USA continued to provide a comparatively high, albeit attenuated, rate of expansion. In emerging economies, economic growth came to a halt. Among other things, the recurring decline in China's high economic expansion rates had a negative impact on development in these countries. Economic recovery continued in Russia, especially towards the end of 2019, although as in previous years, the pace was very slow. International trade lost momentum over the course of the year and declined significantly towards the end of the year. As a result, the volume of international trade was reflected in a decline of –0.4% (2018: +3.5%).

In the **German economy**, growth slowed down in 2019 and was characterised by real GDP growth of 0.6% (2018: 1.5%). The weakness of the industrial economy and related business services were the main factors in the slowdown in overall economic development. Private consumer spending continued to increase at an accelerated pace, mainly due to the significant increase in disposable incomes for private households. Positive impetus was provided by employment growth, which has been increasing for years, as employment figures reached a new high once more. Moreover, real wages rose significantly once again. Corporate investment slowed significantly compared to the previous year and has increased at a considerably slower rate. Foreign trade developed modestly and, overall, did not make a positive contribution to overall economic development. Once again, exports expanded at a significantly slower rate than the previous year and export growth declined with respect to all sales regions; the slowing of economic growth in major sales markets was a significant contributory factor.

In the **Euro area** economic development was less dynamic in 2019 than the previous year. This was reflected in a rise of real GDP of 1.2% (2018: 1.9%). The overall economic expansion rate declined in comparison to the previous year, primarily in the large countries in the Euro area. This can be attributed in particular to a negative net exports figure, caused by both rising imports and falling exports. The development of private-household consumption expenditure, which benefited from a rise in real wages and increase in employment, had an offsetting effect. The ongoing positive developments observed in the labour market since mid-2013 continued, with the annual average unemployment rate falling to 7.5% (2018: 8.2%). When considered as a whole, economic growth in the European Union countries outside of the **Euro area** also weakened. While economic growth continued to be strong in central and eastern European countries, such as Poland for example, economic expansion in the United Kingdom in particular was very modest. The uncertainty regarding further overall economic development in the context of Brexit was only partly alleviated with the completion of the exit from the European Union on 1 February 2020.

In the **USA** the overall economic upturn slowed somewhat in 2019 and was characterised by an inflation-adjusted increase in GDP of 2.3% (2018: 2.9%). Private consumer spending expanded at a strong rate similar to that of the previous year, whereas corporate investment increased at a clearly slowed rate, with a dampening effect on economic growth. The effects of the tax reform implemented in 2017 had a less severe impact on overall economic development, resulting in a reduction in fiscal stimulus. The US labour market continued to deliver a robust performance, resulting in continued growth in employment and a fall in average annual unemployment levels to 3.7% (2018: 3.9%). However, foreign trade did not provide a positive stimulus overall in 2019, as exports stagnated, while imports, although weakened, continued to grow.

Change in real GDP
(in %)



SECTOR-SPECIFIC ENVIRONMENT

MULTICHANNEL RETAIL

In 2019, the entire **German retail sector** recorded a nominal rise in revenue of 3.4% compared to the previous year (2018: 3.1%). Adjusted for inflation, this corresponds to a rise of 2.9% (2018: 1.8%). This meant that for the tenth year in a row, German retailers recorded both nominal and inflation-adjusted revenue increases compared to the previous year. The significant increase in retail sales can be explained by the continued strong growth of the German economy. The ongoing growth in employment witnessed over the past 14 years continued in 2019, albeit less dynamically, with employment figures reaching a new high. Continued low interest rates likewise provided positive stimuli. After the previous year's increase of 1.3%, real wages rose again, with a similarly dynamic increase of 1.2%. The average rise in consumer prices in 2019 continued to be fairly strong at 1.4%, but fell slightly below the annual rates of inflation for preceding years. Against the background of this overall economic development, private-household consumption expenditure, adjusted for inflation, increased significantly by 1.6% in the past year (2018: 1.0%).

The **German online and mail-order sales sector** increased its sales of goods by 9.3% in 2019 to EUR 74.4 billion (2018: EUR 68.1 billion). In the **e-commerce sector** especially, above-average sales increases of 11.6% were recorded, whereby sales of goods in pure online business amounted to EUR 72.6 billion (2018: EUR 65.1 billion). Commodity-driven e-commerce in Germany has now grown by approximately 55% since 2015. Clothing remained the best-selling class of products in 2019 in the e-commerce sector – followed by electronics and telecommunications products, computer equipment and games, and software products. A very significant sales increase of 13.5% was recorded in the furnishings sector, with sales of household goods and appliances, furniture, lamps and decoration, and home textiles amounting to just under EUR 11 billion for the first time in 2019. In particular, multichannel retailers, which offer their goods through multiple distribution channels, showed extremely dynamic overall development and saw above-average growth rates.

Internet usage via smartphones and tablets also increased further in 2019. In terms of sales, the percentage of orders of goods in the German e-commerce sector placed via the mobile Internet rose to 33.5% in 2019 (2018: 29.5%).

FINANCIAL SERVICES

The strong performance of the German economy in 2019 affected the **German financial services sector**. In the past year, the number of company insolvencies decreased for the tenth time in a row and declined by 2.9% to 18,749 cases compared to the previous year (2018: 19,302 cases). The number of company insolvencies thus reached its lowest level since the introduction of the German Insolvency Code in 1999. Creditors' claims arising from filed company insolvencies, however, rose significantly to EUR 26.8 billion (2018: EUR 21.0 billion) and the average claim amount per insolvency was EUR 1.4 million (2018: EUR 1.1 million). The disproportionate increase in receivables in comparison to the decline in the number of company insolvencies is due to the fact that more economically significant companies had to file for insolvency in 2019 than in the previous year.

German companies' payment behaviour, which had already been at a very high level, stabilised in 2019. Companies identified a high rate of payment default by their own customers, temporary liquidity bottlenecks, and taking advantage of supplier credit as the main reasons for not meeting payment obligations. On the other hand, low order volumes did not play a significant role.

The number of consumer insolvencies in 2019 likewise declined significantly in comparison to the previous year. With 62,632 cases, it was 7.3% below the corresponding figure for the previous year of 67,597 cases. An increase in the number of consumer insolvencies was last observed in 2010. Unchecked consumerism, personal over-indebtedness, temporary liquidity bottlenecks and intentional non-payment were given as the main reasons for consumers failing to meet payment obligations. On the other hand, job losses played only a minor role in light of the continued strong growth of the German economy. In 2019, it was primarily companies in the online and mail-order retail sectors, the energy sector and the craft sector that were affected by poor payment behaviour at consumer level.

SERVICES

In 2019, the **German transport and logistics industry** was characterised by the fact that, overall, goods transport was able to sustain the continued positive development witnessed since 2010 (with a slight decrease in 2012). Total freight volume rose by 0.7% on average over the year (2018: 1.0%). Consequently, the strong performance of the German economy in 2019 also affected the transport sector.

In addition to the continuously intensely competitive market environment, crude oil prices and the development of wage costs in particular have a noticeable effect on the German transport and logistics sector. Overall, general cost levels in German goods transport continued to display an upward trend in 2019. While there was a further rise in personnel expenses, which are increasing as a result of collective wage agreements and the wage adjustments needed due to the increasing impact of driver shortages in large urban areas, crude oil prices over the course of 2019 were roughly the same as last year. Therefore, the development of fuel costs did not have a significant impact on the German transport and logistics sector.

As a result of the continuing dynamic growth in online and mail-order sales and the sharp increase in the volume of parcel deliveries to private households, German parcel-services providers continued to invest heavily in logistics infrastructure and further digitisation in 2019 in order to accommodate the increased number of deliveries. At the same time, new approaches continued to be developed and tested in order to respond to changing customer requirements, the noticeable driver shortages and the challenges of the traffic situation.

Course of Business

The Otto Group continued its targeted growth strategy in the 2019/20 financial year and was able to significantly increase its revenue and income from customer financing – hereafter referred to as a revenue for purposes of simplicity – by 4.8% to EUR 14.3 billion. Revenue showed positive development in all three segments. Overall, the focus companies recorded significant sales growth across all segments, with an increase of 6.5%.[5] Online retail, by far the Otto Group's most important distribution channel and a major future driver for the Group, also developed positively. Online revenue increased by 6.2% to approximately EUR 8.1 billion worldwide and by 7.5% to EUR 5.7 billion in Germany.

The revenue growth of slightly over 3.5% forecast in the 2018/19 Group Management Report for the 2019/20 financial year was clearly exceeded on a comparable basis. The increase in the 2019/20 financial year was 4.3% on a comparable basis, i.e. as adjusted for currency rate effects and changes in the scope of consolidation.

The major Group companies and sub-groups, such as the bonprix Group, the Crate and Barrel Group, the Witt Group and the EOS Group, were able to generate very positive results in operational terms. As expected, Group company OTTO's earnings continued to be negatively impacted by the reorganisation from a pure online retailer to an e-commerce platform. The myToys Group also had a slight negative impact on earnings, but showed very positive development in terms of revenue. SportScheck GmbH and its subsidiaries, which were sold at the end of the 2019/20 financial year and thus deconsolidated, diminished earnings for the last time. Against this backdrop, and despite the ongoing high level of investment in the further development of the Group, the Group's earnings before interest and tax (EBIT) in the amount of EUR 432.5 million, represented a significant increase compared to the EBIT of the previous year of EUR 222.1 million.

Earnings before tax (EBT) in the amount of EUR 290.7 million exceeded last year's EBT figure of EUR 277.6 million. In the 2019/20 financial year, in addition to the usual interest rates, the net financial result mainly consisted of the effects of deconsolidations. In the previous year, the net financial result included specific circumstances that had a significant, positive effect on the EBT.

The EBT forecast in the 2018/19 Group Management Report for the 2019/20 financial year, which was to be slightly improved compared to the previous year on an operational level, i.e. without taking into account the effects of the portfolio optimisation process, was achieved.

Overall, the course of the 2019/20 financial year may be described as highly successful. Following a consolidated annual profit of EUR 176.9 million in the 2018/19 financial year, the Otto Group recorded a consolidated annual profit of EUR 213.7 million. The Otto Group has thus remained profitable even in a dynamic and intensely competitive market environment, continued its investments in IT and logistics infrastructures and further digitisation at a high level, and thus reaffirmed its ambition to drive the transition to a fully digitised retail and services group.

The earnings levels reported in the consolidated income statement, in particular EBITDA, were substantially influenced by the initial adoption of IFRS 16 in the 2019/20 financial year and the associated shifts in expenses between earnings levels. IFRS 16 resulted in a significant positive impact in EBITDA and a slight positive impact in EBIT compared to the previous year. The effects produced by IFRS 16 in the consolidated income statement are as follows:

Initial application of IFRS 16

	2019/20 EUR Million	2018/19 EUR Million
Leasing expenses	51	350
Depreciation of right-of-use assets	279	0
Depreciation of assets under finance lease	0	15
Interest expenses from leases	41	0
Interest on finance leases	0	1

THE GROUP'S FINANCIAL PERFORMANCE

The Otto Group's revenue and earnings performance as a whole has been described above. The key indicators from consolidated income statement can be summarised as follows:

Consolidated income statement (summary)

	2019/20 EUR Million	2018/19 EUR Million
Revenue and income from customer financing	14,263	13,611
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,012	524
Earnings before interest und tax (EBIT)	432	222
Earnings before tax (EBT)	291	278
Profit for the year	**214**	**177**

Overall, 73.4% of the revenue recorded in the consolidated income statement by the Otto Group was obtained from the sale of merchandise (EUR 10,472.6 million, 2018/19: 74.7%), 6.0% from revenue from financial services (EUR 855.7 million, 2018/19: 6.0%), 19.3% from revenue from other services (EUR 2,751.5 million, 2018/19: 18.1%), and 1.3% from income from customer financing (EUR 183.6 million, 2018/19: 1.2%). The Group's development in terms of revenue in the 2019/20 financial year was

5 The revenue of ABOUT YOU GmbH, which continues to be one of the focus companies, is not included in the Otto Group revenue, because of the use of the equity method for recognition.

therefore characterised once again by the sale of merchandise through its online retail, catalogue business, and over-the-counter retail distribution channels.

With a slightly decreased share of 60.4% (2018/19: 61.2%) in the Otto Group's revenue, Germany remained the Group's most significant regional sales market in the 2019/20 financial year. While 23.2% (2018/19: 22.0%) of revenue was derived from Europe (excluding Germany and Russia), the North America region contributed 13.6% (2018/19: 13.6%) to the Otto Group's revenue. Russia followed with 1.5% (2018/19: 1.7%) and Asia with 1.1% (2018/19: 1.3%). Revenue by region is as follows:

Revenue by region

	2019/20	2018/19	Change	adjusted
	EUR Million	EUR Million	in %	in %
Germany	8,622	8,324	3.6	3.9
Europe (exlcuding Germany and Russia)	3,309	2,999	10.3	10.4
North America	1,940	1,856	4.5	-0.2
Russia	218	230	-5.3	-9.9
Asia	158	180	-11.9	-16.4
Other regions	16	23	-28.7	14.6
Group	**14,263**	**13,611**	**4.8**	**4.3**
Domestic	8,622	8,324	3.6	3.9
Foreign	5,641	5,286	6.7	4.9

Developments in revenue figures in the Group's individual sales markets were varied. In Germany, revenue growth of 3.6% was achieved in the past financial year. Group company OTTO in particular recorded above-average increase in revenue. Other focus companies in the Multichannel Retail segment, such as the Witt Group and the myToys Group, also contributed disproportionately to the positive development in the main sales market in Germany. The rest of Europe recorded a strong increase in revenue of 10.3%, measured in euro. This increase in revenue was achieved in France and the United Kingdom in particular, predominantly by Group companies in the Hermes Group in both cases. Revenues in North America reported an increase of 4.5%, mainly driven by the furniture and lifestyle group Crate and Barrel. The currency rate development in the 2019/20 financial year helped to support revenue development in all the Otto Group's primary regions.

Average revenue per employee rose considerably compared to last year, from EUR 260.1 thousand to EUR 274.4 thousand.

The Group's gross profit margin amounted to 46.3% (2018/19: 46.5%). In absolute terms, gross profit rose by EUR 278.8 million to EUR 6,602.8 million.

Other operating expenses were reduced by EUR 243.1 million. This decrease is primarily due to the initial application of IFRS 16. In the 2019/20 financial year, lease payments mainly relate to payments for short-term leases and leases for low-value assets. Payments for leases that were recognised in accordance with IFRS 16 are no longer recognised in other operating expenses. Income from equity investments in the 2019/20 financial year represents an increase of EUR 86.6 million. The increase of EUR 14.6 million is the result of investments by the EVC Group. Moreover, there was again a strong negative impact in the amount of EUR 63.3 million during the previous year, as a result of ABOUT YOU GmbH's losses, which must be recognised proportionately in the balance sheet. Measures taken as part of Group company OTTO's shift in business model from a pure online retailer to an e-commerce platform, which began in the 2018/19 financial year, resulted in a negative impact on earnings in the amount of approximately EUR 130 million. Furthermore, the portfolio optimisation measures in Multichannel Retail in Germany that are already in progress and will continue in the 2020/21 financial year adversely affected earnings with costs in the amount of EUR 30.7 million. In the previous year, the restructuring of the logistics infrastructure in Germany resulted in similar costs, amounting to EUR 28.7 million.

As a result of the above-mentioned effects, earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 1,012.5 million in the 2019/20 financial year, which was significantly above the previous year's EBITDA figure of EUR 524.4 million.

Depreciation, amortisation and impairments from intangible assets, property, plant and equipment as well as right-of-use assets rose by EUR 277.7 million to EUR 580.0 million in the past financial year. With a share of EUR 278.8 million, this increase is almost entirely attributable to the initial application of IFRS 16 and concerns depreciation, amortisation and impairments from right-of-use assets. The increase in depreciation, amortisation and impairments was primarily attributable to depreciation and amortisation. Amounting to a total of EUR 555.3 million, these were significantly above the previous year's figure of EUR 272.3 million. The impairment losses on intangible assets, property, plant and equipment and right-of-use assets fell by EUR 5.2 million. The decrease of EUR 10.1 million in impairment losses is attributable to property, plant and equipment and is partly compensated for by means of impairment losses on right-of-use assets. The impairment losses on property, plant and equipment in the 2019/20 financial year were primarily attributable to shop fittings, operating and office equipment and land, land rights and buildings. They mainly concern a German Group company in the Multichannel Retail segment and three Group companies in the Services segment. In the previous year, impairment losses were mainly attributable to land and buildings. They mainly concern a Russian Group company in the Services segment as well as a German, an American and a Japanese Group company in the Multichannel Retail segment.

As a result of the favourable business performance, and taking the above-mentioned effects into account, earnings before interest and tax (EBIT) significantly increased to EUR 432.5 million in the 2019/20 financial year (2018/19: EUR 222.1 million). Due to the stronger increase in EBIT in proportion to revenue, the EBIT margin increased significantly and amounted to 3.0% compared to 1.6% in the previous year.

The Group's net financial result in the 2019/20 financial year was EUR –141.7 million, which is significantly lower than the previous year's figure of EUR 55.5 million. Net interest income (expense) amounted to EUR –162.1 million (2018/19: EUR –119.1 million), well below the previous year, due to the initial adoption of IFRS 16 and the associated recognition of interest expenses from leases. Other net financial income shows a very significant decrease. It amounted to EUR 20.3 million compared to EUR 174.5 million in the previous year. In the 2019/20 financial year, in addition to bank charges, other net financial income primarily consists of the effects of the deconsolidation of two Group companies in the EOS Group, SportScheck GmbH and its subsidiaries, and income from the sale of 9.36% of the shares in COFIDIS S.A. In the 2018/19 financial year, gains resulting from the fair-value assessment of certain EVC Group investments as part of the initial application of IFRS 9 and positive effects of the deconsolidation of Zahnärztekasse AG and the associated companies of the Blue Yonder Group had a positive effect on the net financial result.

Earnings before tax (EBT) in the amount of EUR 290.7 million represent an increase in comparison to last year's figure of EUR 277.6 million.

The income tax expense for the 2019/20 financial year amounted to EUR 77.0 million and thus fell below the previous year's income tax expense of EUR 100.7 million. The decrease in tax expenses is primarily due to tax-reducing effects from domestic and foreign deferred tax. Current income taxes abroad developed in the opposite direction, which partially compensated for the decline.

The profit for the year experienced an increase of EUR 36.8 million to EUR 213.7 million (2018/19: EUR 176.9 million). Of the profit for the year, EUR 106.1 million (2018/19: EUR 100.7 million) was attributable to the owners of the parent company, EUR 88.1 million (2018/19: EUR 64.3 million) to non-controlling assets, and EUR 19.5 million (2018/19: EUR 11.9 million) to publicly listed equity and participation certificates.

FINANCIAL PERFORMANCE OF THE SEGMENTS

Revenue/EBIT

	Revenue		EBIT	
	2019/20	2018/19	2019/20	2018/19
	EUR Million	EUR Million	EUR Million	EUR Million
Multichannel Retail	10,828	10,485	83	25
Financial Services	866	824	368	322
Services	2,569	2,302	79	-33
Holding/consolidation	–	–	-97	-92
Group	**14,263**	**13,611**	**433**	**222**

MULTICHANNEL RETAIL

In the 2019/20 financial year, the Multichannel Retail segment achieved revenue of EUR 10,828.5 million (2018/19: EUR 10,484.9 million) and contributed 75.9% (2018/19: 77.0%) to the Otto Group's revenue. Revenue increased by 3.3%. On a currency-adjusted basis, and when adjusted for effects from changes to the scope of consolidation, sales increased by 2.4% compared to the previous year. The primary contributors to this increase were Group companies that were the subjects of targeted investments as part of the focused growth strategy. In the Multichannel Retail segment, apart from the Group company OTTO, these companies include the bonprix Group, the Crate and Barrel Group, the Witt Group and the myToys Group. In addition, ABOUT YOU GmbH continues to be one of the focus companies for the growth strategy. It is still developing very positively; however, due to the use of the equity method for recognition, the company is not included in the Otto Group's revenues and is therefore not included in the sections below.

In the 2018/19 Group Management Report, a revenue increase was forecast for the Multichannel Retail segment; this increase was set to be significantly higher than the growth rate in the 2018/19 financial year. At 2.4%, the adjusted increase in revenue in the 2019/20 financial year is close to that of the previous year, which amounted to 2.7%; however this means that the forecast was not achieved.

Online retail, the distribution channel with the strongest growth, had a significant influence on segment development once more in the past financial year. E-commerce revenue increased noticeably by 6.2% to EUR 8,113.6 million. On a comparable basis, i.e. adjusted for currency rate effects and changes in the scope of consolidation, the increase in e-commerce revenue was 5.6%. The segment's share in revenue amounted to 74.9%, thus exceeding the corresponding figure for the previous year of 72.7%. The Otto Group therefore continued to benefit noticeably from the very dynamic growth in the online retail market.

The above-mentioned focus companies in the Multichannel Retail segment represent revenue growth of 5.7% in the 2019/20 financial year overall. In this segment, Group company OTTO's performance in particular was exceptionally positive. Revenues increased significantly by 8.8% to approximately EUR 3.5 billion. Growth was achieved across all categories, most significantly in the area of home & living, followed by technology products. Despite its withdrawal from Brazil and Turkey the bonprix Group was able to increase its revenue by 2.4%. Otto Group Russia, which has been part of the bonprix Group since the 2019/20 financial year, is not yet taken into consideration here. The Witt Group increased its revenue by 4.9%. A substantial 8.2% revenue increase was achieved by the myToys Group, which specialises in the target groups of families and women. In this Group, the retail service limango in particular proved to be a growth driver, developing into a central platform for family shopping. For the Crate and Barrel Group, specialising in furnishings and lifestyle and operating in the USA and Canada, revenues increased by 5.7%. Adjusted for currency rate effects, the Crate and Barrel Group only increased its revenue by 0.9%.

As a result of this increase in revenue in the Multichannel Retail segment, it was possible to achieve an increase of EUR 54.6 million in gross profit, despite the disproportionate increase in purchased goods and services. In the 2019/20 financial year, the gross profit margin was 46.0%, slightly below the previous year's figure (2018/19: 47.0%). In addition to the improvement in operational results for various Group companies, the improvement in income from equity investments, attributable to the significant loss from equity investments recorded for ABOUT YOU GmbH in the previous year, had a positive impact on the financial performance of the Multichannel Retail segment. In addition to that, the segment's financial performance was significantly influenced by the initial adoption of IFRS 16. As planned, this was countered by measures – even more intensive in comparison to the previous year – relating to the transition of Group company OTTO's business model from a pure online retailer to an e-commerce platform, which was begun in the 2018/19 financial year; these measures had a negative impact on earnings amounting to approximately EUR 130 million, compared to approximately EUR 100 million in the previous year. The above-mentioned factors primarily lead to an increase in the EBIT figure for the Multichannel

Retail segment in the 2019/20 financial year from EUR 25.2 million to EUR 82.9 million.

In addition, the concentration of Schwab's activities on the sheego brand and the integration of the heine brand into the Witt Group resulted in extraordinary expenses in Germany amounting to EUR 30.7 million. These two portfolio activities are expected to be essentially concluded in the 2020/21 financial year.

FINANCIAL SERVICES

The Financial Services segment, which is strongly influenced by the internationally operating EOS Group's business operations, recorded an increase in revenue of 5.1% in the 2019/20 financial year, with revenues growing from EUR 823.6 million to EUR 866.0 million. Adjusted for currency rate effects and for the effects of changes to the scope of consolidation, revenue growth in the Financial Services segment was as high as 9.9%. The increase in revenue amounted to EUR 40.0 million in the case of the EOS Group, which represents an increase of 5.0%. However, on a comparable basis, i.e. adjusted for currency rate effects and changes in the scope of consolidation, the increase was 10.0%. The EOS Group continued its excellent business performance in the past financial year and once again benefited from purchases of receivables packages within the scope of expanding receivables management activities, especially in the region of Eastern Europe.

In the Group Management Report for last year, revenue levels for the 2019/20 financial year were forecast to be slightly above the revenue figures for the previous year. Revenue was EUR 42.4 million higher than the previous year. Therefore, the forecast was in fact exceeded. The segment's share in the Group's revenue was 6.1%, unchanged from the previous year.

The Financial Services segment's EBIT figure increased by EUR 45.8 million to EUR 368.0 million in the 2019/20 financial year. As in previous years, the high profitability of the EOS Group contributed to the excellent EBIT in this segment. EBIT continues to include start-up losses from the start-up activities of Otto Group Digital Services GmbH as planned.

SERVICES

In the Services segment, an increase in external revenue of EUR 2,302.5 million to EUR 2,568.9 million was recorded in the 2019/20 financial year, which represents growth of 11.6%. Adjusted for currency rate effects and effects from changes in the scope of consolidation, there was a strong increase of 10.9%. External revenue, i.e. revenue from customers outside the Group, contributed 67.0% of the total revenue of the Services segment. Their share increased by 1.6 percentage points compared to the previous year.

This overall very positive increase in revenues significantly exceeded the figure projected in the 2018/19 Group Management Report for the 2019/20 financial year, which forecast a considerable increase, but one that was still lower than the 7.1% achieved in the previous year. The share in the Group's revenue rose from 16.9% to 18.0%.

The segment is primarily characterised by the internationally operating Group companies under the Hermes umbrella brand. These benefit from the rise in e-commerce revenue and the increase in retail-related services in the service area in connection therewith. In the 2019/20 financial year, the Hermes Group was therefore able to significantly increase its external revenue in the distribution sector compared to the previous year, primarily in the major e-commerce markets of France and the UK, in addition to a slight increase in Germany. Overall, the Hermes Group increased by 10.1%.

The Hermes Group's growth in revenue was accompanied by, among other expenses, an increase in personnel expenses. Furthermore, in Germany, a combination of a high volume of parcels for delivery and an increasing shortage of delivery agents in urban areas in particular lead to an increase in wage costs, especially as regards delivery to end-consumers. In the previous year, the Services segment was still adversely affected to an extraordinary extent by the restructuring of the logistics infrastructure in Germany, with EUR 28.7 million in personnel expenses and other operating expenses. These measures were successfully concluded in the 2019/20 financial year. Primarily as a result of the positive impact of the quantitative growth in the segment and successful cost management in combination with a higher level of service, the segment's EBIT figure increased by EUR 112.4 million, from EUR – 33.3 million to EUR 79.1 million, in the 2019/20 financial year. This improvement in comparison to last year was supported by the fact that restructuring costs have ceased, and that the corresponding provisions have been dissolved.

HOLDING/CONSOLIDATION

Apart from the effects of inter-segment consolidation, the holding/consolidation item reported inter-divisional costs of Group functions amounting to EUR 97.5 million (2018/19: EUR 92.0 million), which could not be reliably allocated to the above-mentioned segments.

Financial Position and Net Assets

CONSOLIDATED CASH FLOW STATEMENT

The following shows the payments for the purchase of receivables and property portfolios by the EOS Group in the amount of EUR 721.1 million in the 2019/20 financial year (2018/19: EUR 683.1 million) separately, as these payments are of an investment nature. Adjusted for this amount, the cash flow from operating activities enables an accurate assessment of operational purchasing power and thus the Otto Group's ability to repay debts.

Consolidated cash flow statement (summary)

	2019/20	2018/19
	EUR Million	EUR Million
Cashflow from operating activities (adjusted for payments for purchases by the EOS Group)	1,699	673
Payments for the purchase of receivables and property portfolios by the EOS Group	–721	–683
Cash flow from operating activities (as reported)	**978**	**–10**
Cash flow from investing activities	–195	–203
Free cash flow	**783**	**–213**
Cash flow from financing activities	–830	80
Net increase in cash and cash equivalents	**–47**	**–133**
Changes in cash and cash equivalents due to foreign exchange rates	1	1
Reclassification with regard to disposal groups	–11	0
Cash and cash equivalents at beginning of period	386	518
Cash and cash equivalents at end of period	**329**	**386**

Reported cash flow from operating activities for the 2019/20 financial year amounted to EUR 978.2 million, which was significantly higher than the previous year's figure of EUR –9.7 million. The positive development can be attributed to a significantly improved business performance and an accordingly higher EBIT compared to the previous year, as well as a decrease in working capital for Group companies in the Multichannel Retail and Services segments. In spite of significant revenue growth, inventories were generally reduced, especially as a result of the measures taken in the context of the working capital project initiated in the 2018/19 financial year. Despite the sometimes significant expansion of operational activities by various Group companies in the Multichannel Retail and Services segments, the increase in (gross) trade receivables was significantly lower than in the previous year. As in previous years, the expansion of working capital was also influenced by the ongoing purchases of receivables packages in the case of the EOS Group as part of measures to expand receivables management activities. At EUR 721.1 million, payments for the purchase of receivables and property portfolios in the case of the EOS Group were higher than the previous year's figure of EUR 683.1 million.

The initial application of IFRS 16 in the 2019/20 financial year also had a significant, albeit presentation-related, effect on cash flow from operating activities. The new method used to account for leases in the balance sheet means that all payments for leases for which a right-of-use asset and a lease liability are recognised are now included in the cash flow from financing activities and are no longer the in cash flow from operating activities, as in previous years. In contrast to the previous year, the only payments that are included are those for short-term leases and leases for low-value assets, as well as for leasing agreements not covered by IFRS 16.

Cash flow from investing activities in the 2019/20 financial year was mainly influenced by the ongoing high level of investment in the IT and logistics infrastructures of various Group companies from the Multichannel Retail and Services segments. The following had a particularly significant effect: the expansion of the Hermes Group's logistics infrastructure (in Germany, the UK and France); the shift of Group company OTTO's business model from a pure online retailer to an e-commerce platform; and the investment in the Crate and Barrel Group's over-the-counter retail stores and online shops. Other equity investments were also made by the EVC Group. Proceeds from the sale of fully consolidated subsidiaries amounted to EUR 57.3 million in the 2019/20 financial year. This includes the sale of two Group companies from the EOS Group, the sale of SportScheck GmbH and its subsidiaries and the sale of controlling interest in two fully consolidated entities of the EVC Group. Further cash inflows resulted from disposals of equity investments held by the EVC Group.

Cash flow from financing activities in the 2019/20 financial year was mainly impacted by the above-mentioned initial application of IFRS 16, the net repayment of cash and cash equivalents and the payment of dividends, in particular to minority shareholders. The new method of accounting for leases means that all payments for leases recognised in accordance with IFRS 16 are now recognised under cash flow from financing activities. Overall, this resulted in lease payments amounting to EUR 325.0 million in the 2019/20 financial year, which can be divided into a principal component of EUR 284.1 million and an interest component of EUR 40.9 million. The payments made in the previous year for the finance lease recognised in accordance with IAS 17 amounted to only EUR 20.9 million. In addition, the decrease in the Otto Group's net financial debt, resulting from the adjustment for the effects of the initial application of IFRS 16, had an impact on cash flow from financing activities. After a net increase in cash and cash equivalents in the 2018/19 financial year, the Group achieved a significant net repayment of cash and cash equivalents in the 2019/20 financial year.

EQUITY AND FINANCING

A comparison between the Otto Group's consolidated balance sheet as at 29 February 2020 with that of the previous year is substantially influenced by two specific sets of circumstances. Firstly, all provisions and liabilities of the disposal group presented in accordance with IFRS 5 were reclassified as current provisions and liabilities ("liabilities held for sale") as at 29 February 2020. Secondly, IFRS 16 was applied in the 2019/20 financial year for the first time, which means that long-term and short-term lease liabilities are now reported very extensively in the consolidated balance sheet as at 29 February 2020. Due to the modified retrospective transition method, no adjustment was made to the previous year's figures. Liabilities from finance leases recognised in the previous year (in accordance with

IAS 17) were minimal and these continue to be recognised there under other financial liabilities.

Lease liabilities

	29.02.2020	28.02.2019
	EUR Million	EUR Million
Lease liabilities (before IFRS 5 reclassification)	1,403	0
Reclassification of IFRS 5 companies	– 547	0
Lease liabilities (as reported)	**856**	**0**
Thereof: Non-current lease liabilities	655	0
Thereof: Current lease liabilities	201	0
In addition: Finance lease liabilities	0	70

As at 29 February 2020, the Otto Group's consolidated balance sheet shows total equity and liabilities in the amount of EUR 10,740.6 million. This represents an increase of 11.6% compared to the previous year, due to the above-mentioned initial application of IFRS 16.

Financing

	29.02.2020		28.02.2019	
	EUR Million	in %	EUR Million	in %
Equity	1,452	13.5	1,706	17.7
Non-current provisions and liabilities	4,577	42.6	3,845	40.0
Deferred tax	89	0.9	96	1.0
Current provisions and liabilities	4,623	43.0	3,977	41.3
Thereof: Assets held for sale	1,169		84	
Total equity and liabilities	**10,741**	**100.0**	**9,624**	**100.0**

In absolute terms, equity was reduced by EUR 254.5 million to EUR 1,451.6 million in the 2019/20 financial year. The decline is primarily due to actuarial losses on pension provisions amounting to EUR 243.3 million being taken into account. These actuarial losses resulted almost entirely from a sharp drop in the actuarial interest rate. Equity growth was also negatively impacted by the payment of dividends, in particular to minority shareholders, in the amount of EUR 167.1 million. Furthermore, the initial application of IFRS 16 resulted in negative effects overall. Thus, all right-of-use assets were checked for indications of impairment losses at the time of the application of IFRS 16. At a German Group company in the Multichannel Retail segment, there were significant indications of impairment. At the time of transition to IFRS 16, right-of-use assets in the amount of EUR 72.1 million were offset against the consolidated retained earnings. The profit of EUR 213.7 million achieved in the 2019/20 financial year was not sufficient to fully offset the existing charges recognised at fair value through other comprehensive income.

Non-current provisions and liabilities increased by EUR 732.1 million, corresponding to 19.0%, to EUR 4,577.3 million in comparison to the previous year. The increase can be attributed to IFRS 16 being applied for the first time. In the 2019/20 financial year, non-current lease liabilities amounting to EUR 655.2 million were reported for the first time. However, in the previous year, non-current finance lease liabilities in the amount of just EUR 52.0 million were recognised.

In addition, the Otto Group took advantage of favourable capital market conditions to conclude new round of financing, which led to a significant increase in the corresponding non-current liabilities. In the 2019/20 financial year, the Group established a "Sustainable Finance Framework" that allows bonds to be classified as sustainable in accordance with the standards of the International Capital Markets Association. Overall, EUR 472.0 million of sustainable bonds were issued in the 2019/20 financial year. However, two bonds that will fall due in the 2020/21 financial year were reclassified as current provisions and liabilities. Bank liabilities included in non-current liabilities decreased compared to the previous year. However, when adjusted for the effects reclassification as current provisions and liabilities under IFRS 5, there was a slight increase that is mainly due to long-term investments projects.

Furthermore, there was an increase in provisions for pensions. Apart from an increase in provision allocations for vesting reasons, this is mainly due to changes in financial assumptions (fall in actuarial interest rate). The effects of the reclassification of IFRS 5-companies also had a significant offsetting effect here.

Offsetting and reducing effects on non-current provisions and liabilities resulted from a decrease in other liabilities in the 2019/20 financial year. This is primarily due to the settlement of pre-defined lease payments with right-of-use assets in the context of the initial application of IFRS 16 and mainly concerns Group companies in the Multichannel Retail segment in the USA and Canada.

Current provisions and liabilities increased by EUR 646.1 million, corresponding to 16.2%, to EUR 4,623.4 million in the 2019/20 financial year. The above-mentioned reclassification of all provisions and liabilities of IFRS 5 companies as current provisions and liabilities ("liabilities held for sale") was an influencing factor here. Moreover, in the 2019/20 financial year, short-term lease liabilities amounting to EUR 201.3 million were reported in the balance sheet for the first time as a result of the initial application of IFRS 16. In the previous year, short-term liabilities from finance leases amounted to just EUR 17.6 million. However, liabilities arising from the Otto Group's financing activities showed a significant decline under current provisions and liabilities. In the case of liabilities arising from bonds payable and notes payable, the decrease resulted from the settlement of two bonds that fell due in the 2019/20 financial year and a reduction in the use of commercial paper. Both effects represent a total figure of EUR 388.2 million. On the other hand, two bonds that will fall due in the 2020/21 financial year were reclassified under non-current provisions and liabilities. Current bank liabilities decreased significantly compared to the previous year. In addition to the effects of deconsolidation resulting from the sale of two Group companies in the Financial Services segment, this decrease can be primarily attributed to a reduction in short-term financing. Both the decrease in net financial debt (after adjustment for the initial application effects of IFRS 16) and cash inflows from the issuing of new long-term bonds had an effect here.

NET FINANCIAL DEBT

The Otto Group's net financial debt increased by EUR 531.6 million to EUR 3,270.6 million in the 2019/20 financial year. This represents an increase of 19.4%. This reported increase can be attributed to the application of IFRS 16 for the first time, as a result of which lease liabilities amounting to EUR 856.5 million were reported on the balance sheet for the first time. When adjusted for the lease liabilities reported as at 29 February 2020, a clear reduction in the net financial debt of the Group was achieved in the amount of EUR 324.9 million.

The main retail activities once again generated significant liquidity, which was considerably higher than in the previous year. This is due, among other things, to strong operational profitability. In addition, the measures taken by the Group-wide working capital project initiated in the 2018/19 financial year are starting to bear fruit. Despite continued investment in changing its business model from a pure online retailer to an e-commerce platform, this has also meant that the OTTO Group company has been able to generate liquidity again. In addition, the EVC Group's operations and investments contributed to strong cash inflows, and significant liquidity was also achieved in the Financial Services segment. These positive developments more than compensated for investments (mainly in the IT and logistics infrastructure of various Group companies in the Multichannel Retail and Services segments), for start-up financing for the development of new digital business models within the framework of the Group's internal "Company Builder" strategy, as well as for temporary costs resulting from portfolio optimisation measures either already completed or currently in progress, and as such have significantly contributed to the de facto repayment of debt.

Overall, the Group's net financial debt in the 2019/20 financial year changed as follows:

Net financial debt

	29.02.2020	28.02.2019
	EUR Million	EUR Million
Bonds and other notes payable	1,565	1,457
Bank liabilities	1,152	1,510
Lease liabilities	856	0
Other financing liabilities	29	158
Financial debt	**3,602**	**3,125**
Less securities	–20	–18
Less cash and cash equivalents	–312	–369
Net financial debt for the Group	**3,271**	**2,739**
Less net financial debt for Financial Services	–1,173	–1,086
Net financial debt for Retail and Services	**2,098**	**1,653**

ASSET STRUCTURE

A comparison between the Otto Group's consolidated balance sheet as at 29 February 2020 with that of the previous year is substantially influenced by two specific sets of circumstances. Firstly, all assets of the disposal group presented in accordance with IFRS 5 were reclassified as current assets ("assets held for sale") as at 29 February 2020. Secondly, IFRS 16 was applied for the first time in the 2019/20 financial year, which means that right-of-use assets are now reported very extensively in the consolidated balance sheet as at 29 February 2020. Due to the modified retrospective transition method, no adjustment was made to the previous year's figures. In the previous year, only a small number of assets were reported in the consolidated balance sheet as finance leases (according to IAS 17).

Right-of-use assets

	29.02.2020	28.02.2019
	EUR Million	EUR Million
Right-of-use assets (before IFRS 5 reclassification)	1,281	0
Reclassification of IFRS 5 companies	–541	0
Right-of-use assets (as reported)	**740**	**0**
In addition: Assets under finance lease	0	74

Total assets reported in the Otto Group's consolidated balance sheet increased by EUR 1,116.3 million to EUR 10,740.6 million in the 2019/20 financial year, as at 29 February 2020. This represents an increase of 11.6%. This can be attributed to the application of IFRS 16 for the first time.

Assets

	29.02.2020		28.02.2019	
	EUR Million	in %	EUR Million	in %
Fixed assets	3,380	31.5	2,993	31.1
Other non-current assets	1,878	17.5	1,731	18.0
Deferred tax	159	1.4	123	1.3
Current assets	5,324	49.6	4,778	49.6
Thereof: Liabilities classified as held for sale	1,258		421	
Total assets	**10,741**	**100.0**	**9,624**	**100.0**

Overall, non-current assets in the 2019/20 financial year amounted to EUR 5,257.8 million, which is significantly higher than the previous year's figure of EUR 4,723.6 million, and of which 114.7% (2018/19: 117.5%) is covered by long-term capital.

The increase in non-current assets can be primarily attributed to the development of fixed assets. The initial application of IFRS 16 in the 2019/20 financial year was a significant factor in this increase. As at 29 February 2020, right-of-use assets amounting to EUR 740.1 million were reported under fixed assets for the first time. If IFRS 5-companies whose right-of-use assets are reported under current assets are also taken into account, right-of-use assets would amount to EUR 1,280.9 million overall. They mostly concern the leasing of retail space (chain stores), particularly by Group companies in the Multichannel Retail segment in Germany, the USA and Japan, and the leasing of logistics facilities, transport vehicles and trucks by Group companies in the Services segment in Germany, the UK and France. Other financial investments reported under fixed assets also increased. This affected both the acquisition of further equity investments by the EVC Group as well as the measurement at fair value of existing equity investments. However, intangible assets and property, plant and equipment, which decreased significantly overall, had a clear offsetting effect on the level of fixed assets. This decline, despite the continued high level of investment in the IT and logistics infrastructure of various Group companies in the Multichannel Retail and Services segments, is due to the reclassification of all assets of IFRS 5-companies as short-term assets.

The increase in other non-current assets was primarily due to the continuing purchase of receivables packages in the case of the EOS Group within the scope of expanding receivables management activities.

Current assets increased by EUR 546.3 million, the equivalent of 11.4%, in the 2019/20 financial year. The above-mentioned reclassification of all assets of IFRS 5-companies as current assets contributed significantly to the increase in current assets. Furthermore, the purchase price receivable for the sale of shares in Cofidis which falls due in the 2020/21 financial year is included in other financial assets and amounts to EUR 222.0 million. Compared to the previous year, receivables from financial services showed an increase, largely as a result of the continuing purchase of receivables packages in the case of the EOS Group within the scope of expanding receivables management activities. Both inventories and trade receivables recorded a decline in the 2019/20 financial year. In addition to the deconsolidation of Group company SportScheck GmbH and its subsidiaries at the end of the financial year, the Otto Group's working capital project in particular also had an impact on inventories. The measures taken under this project have had a corresponding effect on many Group companies, including OTTO, the largest group company in the Multichannel Retail segment. Within current assets, trade receivables decreased as a result of the IFRS 5 reclassification, the deconsolidation of SportScheck GmbH and its subsidiaries as well as the working capital project.

INVESTMENT

Capital expenditure on intangible assets and property, plant and equipment in the 2019/20 financial year amounted to EUR 357.6 million, which is below the previous year's very high figure. These investments mainly concern the IT and logistics infrastructure of various Group companies in the Multichannel Retail segment and the Services segment and reaffirmed the Otto Group's ambition to focus on the transition to a fully digitised retail and service group.

In the Multichannel Retail segment, Group company OTTO continued to focus on changing its business model from a pure online retailer to an e-commerce platform during the 2019/20 financial year. Its IT landscape in particular was the subject of high levels of investment with the aim of adapt it to changing customer requirements and fully automating the process of onboarding new partners on the platform. In addition, the comprehensive modernisation measures carried out at the Hamburg-Bramfeld site were continued in order to further expand the availability of modern and flexible working environments. Against a background of strong business performance, the Crate and Barrel Group in the USA and Canada invested in IT infrastructure as well as in existing and new over-the-counter retail stores. A new online shop was also launched in the Canadian market. Furthermore, additional Group companies from the Multichannel Retail segment invested in the digitisation of their business models. Individual retail concepts focused their investment on the already ongoing transformation towards achieving even stronger levels of digitisation. In addition, other focus companies, such as the internationally active brands bonprix and Witt, made significant investments in the expansion of their brand concepts.

In the Services segment, both Hermes Germany GmbH (distribution) and Hermes Fulfilment GmbH (warehousing) continued to invest heavily in the ongoing expansion of the logistics infrastructure and in modernising the software landscape in order to further increase capacity and respond to a continuous rise in demand as a result of increasing customer requirements. Furthermore, other Group companies in the Hermes Group also undertook significant investments in distribution logistics in the other major European e-commerce markets of the United Kingdom (Hermes Parcelnet Limited) and France (MONDIAL RELAY). The investments made via the Hermes Group's parcel distribution companies in the 2019/20 financial year amounted to approximately EUR 95 million.

The EOS Group, which has a major influence in the Financial Services segment, invested in the digitisation of its business models in the 2019/20 financial year. However, the EOS Group's primary operational investment activities are aimed at the purchase of receivables and property portfolios within the scope of expanding its receivables management activities. These purchases are part of efforts to increase working capital and are not reported as a classic investment. As such, they are not included under capital expenditure on intangible assets and property, plant and equipment

Investment by segment

	2019/20	2018/19
	EUR Million	EUR Million
Multichannel Retail	203	228
Financial Services	28	42
Services	127	143
Group	**358**	**413**

FUNDS COMMITTED BY SEGMENT

In the 2019/20 financial year, the funds committed by the Otto Group continued to be characterised primarily by the Multichannel Retail and the Financial Services segments. The reported decrease in the Services segment can be attributed to IFRS 5 reclassification requirements.

Funds committed by segment

	29.02.2020	28.02.2019
	in %	in %
Multichannel Retail	60.1	54.9
Financial Services	34.1	32.1
Services	5.8	13.0
Group	**100.0**	**100.0**

Reporting the Financial Services Providers Using the “At Equity” Method

The following presentation shows, additionally, the Otto Group’s balance sheet based on reporting the Group companies in the Financial Services segment using the equity method – hereafter “FS at equity” – instead of by full consolidation, as is the case in the consolidated financial statements as at 29 February 2020. This approach presents the Otto Group’s Multichannel Retail and Services segments excluding the banking-type structures in the Financial Services segment. The presentation chosen permits a valid comparison with retail companies that do not have such financial services activities.

The key financial figures and indicators in “FS at equity” show that the Otto Group’s retail and services sectors continue to have a very sound financing structure. Total equity and liabilities rose sharply to EUR 9,104.1 million, up from EUR 8,060.8 million in the previous year. This represents an increase of 12.9%. A comparison between the Otto Group’s balance sheet as at 29 February 2020 with the previous year’s balance sheet is substantially influenced by two specific sets of circumstances: firstly, the initial application of IFRS 16 and secondly, the reclassification as current assets (“assets held for sale”) and current liabilities (“liabilities held for sale”) of all assets and liabilities of the disposal group presented in accordance with IFRS 5 as at 29 February 2020. The latter has limited the ability to compare the breakdown of non-current and current assets with that of the previous year.

The Group equity ratio amounts to 15.2% compared to a figure of 20.4% last year. The decline is primarily due to actuarial losses on pension provisions being taken into account. These actuarial losses resulted almost entirely from a sharp drop in the actuarial interest rate. Equity growth was also negatively impacted by the payment of dividends, in particular to minority shareholders. Furthermore, the initial application of IFRS16 resulted in negative effects overall. Thus, all right-of-use assets were checked for indications of impairment losses at the time of the application of IFRS16. At a German Group company in the Multichannel Retail segment, there were significant indications of impairment. When the transition to IFRS 16 occurred, the right-of-use assets were offset against the consolidated retained earnings without affecting either profit or loss. The profit of EUR 201.2 million achieved in the 2019/20 financial year was not sufficient to fully offset the existing charges recognised at fair value without affecting profit or loss.

In the “FS at equity” presentation, the net financial debt was up on the previous year, increasing by EUR 444.8 million to EUR 2,097.8 million. The reported increase can be attributed to IFRS 16 being applied for the first time, as a result of which liabilities arising from leases in the Multichannel Retail and Services segments amounting to EUR 807.9 million are recognised on the balance sheet in the “FS at equity” presentation for the first time. When adjusted for the liabilities arising from leases reported as at 29 February 2020, a clear reduction in the net financial debt of the Group “FS at equity”, totalling EUR 363.1 million, was achieved. The main retail activities were able to generate significant liquidity again, which was considerable higher than in the previous year. This is due, among other things, to strong operational profitability. In addition, the measures taken by the Group-wide working capital project initiated in the 2018/19 financial year are starting to bear fruit. In addition, high cash inflows were achieved through the EVC Group's operations and investments. These positive developments have more than compensated for investments and the temporary negative impact of portfolio optimisation efforts (including those efforts that have either already been completed or are currently in progress), thereby significantly contributing to the de facto repayment of debt.

Theoretically, that is, taking into account liabilities arising from leases, it would take 2.1 years to fully pay off the net financial debt using results from operations (EBITDA). The significant decrease in comparison to the previous year is primarily due to the major (operational) repayment of debt as a result of increased operational profitability. These operational improvements more than compensated for the negative impact brought about by applying IFRS 16 for the first time. The effects of this initial application on reported net financial debt were further reduced due to the recognition of the Hermes Group's principal parcel distribution entities as a disposal group, as required by IFRS 5, which resulted in the reclassification of liabilities from leases totalling EUR 547.0 million.

The leverage ratio increased both due to the rise in the net financial debt caused by IFRS 16, which the operational repayment of debt more than compensated for, and due to the decrease in equity. Among other things, this decrease can be attributed to the fact that actuarial losses relating to the valuation of pensions were recognised at fair value through other comprehensive income.

Otto Group "FS at equity"

	2019/20	2018/19
Group equity ratio (in %)	15.2	20.4
Net financial debt* (in EUR Million)	2,098	1,653
EBITDA (in EUR Million)	1,010	471
Debt service ratio (net financial debt/EBITDA) (in years)	2.1	3.5
Leverage ratio (net financial debt/Group equity) (in years)	1.5	1.0

* Due to the application of IFRS 16 for the first time, comparison with the previous year is only possible to a limited extent.

Balance sheet structure "FS at equity"

	29.02.2020		28.02.2019	
	EUR Million	in %	EUR Million	in %
Assets				
Fixed assets	4,099	45.0	3,424	42.5
Other non-current assets	645	7.1	639	7.9
Deferred tax	167	1.8	137	1.7
Current assets	4,193	46.1	3,862	47.9
Thereof: Assets held for sale	1,258		317	
Total assets	**9,104**	**100.0**	**8,061**	**100.0**
Financing				
Equity	1,382	15.2	1,648	20.4
Non-current provisions and liabilities	3,571	39.2	3,073	38.1
Deferred tax	62	0.7	72	0.9
Current provisions and liabilities	4,090	44.9	3,267	40.6
Thereof: Liabilities classified as held for sale	1,169		1	
Total equity and liabilities	**9,104**	**100.0**	**8,061**	**100.0**

Opportunities and Risks Report

The value-driven management of risk and opportunity is an integral element of the Otto Group's corporate strategy. Systematic, strategic corporate planning ensures that opportunities for growth and development and the potential to optimise the business can be comprehensively identified and evaluated in a targeted way. Any risks that arise are countered by means of a Group-wide Risk Management System – hereafter RMS. The RMS supports decision-makers in identifying and managing risks in good time and also in taking advantage of opportunities.

RISK MANAGEMENT SYSTEM

All Group companies in which the Otto Group directly or indirectly holds 50% or more of the voting rights, or over which it is able to exercise a controlling influence, are included in the RMS pursuant to Group-wide guidelines and directives. Risks are collated from the bottom up – incrementally from the individual Group companies through the sub-groups up to Group level. This approach ensures that risks are recorded where they arise. In the 2019/20 financial year, the Otto Group's risk management system was completely realigned: this involved bringing the existing control and management systems more closely into connection with each other, by harmonising methods and processes among other things. As a result, the overall view of relevant Group risks has been further improved. The new RMS enables risks to be identified even more quickly, so that where possible, targeted measures can be taken or checks can be established immediately in order to either reduce the likelihood of occurrence or limit the possible repercussions of these risks on the Group's financial position and financial performance in the event of such risks materialising. The high level of transparency provided by having risks and measures managed in a single tool enables Group companies to capitalise reciprocal synergy effects.

The relevant process implemented for this comprises the following steps:

Identification and measurement

The Group calls for risk assessment to be carried out once a year. In order to ensure comprehensive identification of the relevant risks, a risk inventory is carried out on the basis of a structured risk catalogue, with more detailed checklists for specific topics. Risks reported by the respective Group companies and/or divisions are assessed in terms of their likelihood of occurrence and possible impact. There are five different categories available for assessing the level of damage (financial, operational, strategic, compliance, reputation). This assessment is carried out both in gross terms before risk control measures, and in net terms after risk mitigation measures. The quality of the risk report content is further ensured by validation measures implemented by Group functions. In addition, the risks are examined for their potential to damage the Group's reputation, as well as violations in respect of compliance.

Management and monitoring

Group companies and/or functions safeguard the commercial success of their business operations by implementing countermeasures to avoid or mitigate risks, or to transfer risks to a third party through an insurance policy, for example. Monitoring is intensified for risks that are classified as material due to their assessment, as well as any indicators and countermeasures related to the risk.

Reporting

Risks are included in reporting according to individually established materiality limits or threshold values for classifying the possible scope of loss, which are dependent on company size. The risks reported in the annual risk inventory are updated during the year and presented at the meetings of the Advisory Boards of the relevant Group companies. The risks that are considered material from the Group's perspective are presented in a risk matrix. This classifies all risks by their probability of occurrence and their respective effects and thus ensures that the Otto Group's risk situation remains transparent. The Executive and Supervisory Boards are informed of relevant developments in risk management. Moreover, ad-hoc risk reporting ensures that the Group's Executive Board is immediately informed should new material risks occur at any other time than the official reporting times named.

Responsibility for risk management lies with the Group's Executive Board and the managing directors of the Group companies. The effectiveness of the RMS is ensured by its close interlocking with the Internal Control System and the Financial Controlling/Reporting divisions. Furthermore, the structure of the compliance management system and the regular monitoring performed on it ensure that the relevant legal requirements and internal company regulations are also complied with. The RMS is under constant development by the management division organisationally responsible, in cooperation with Risk Management, and is reviewed by Group Internal Audit.

Coordinated corporate communication is another central component of risk management at the Otto Group. There is an established system for identifying potential risks to the Group's reputation and responding to them at an early stage. There are binding regulations concerning the measures to be initiated in the event of an identified crisis. The Otto Group helps to generally obviate risks to its reputation by regularly issuing confidence-building PR communication on relevant subjects.

ECONOMIC OPPORTUNITIES AND RISKS

The overall economic conditions affect the Otto Group's business activities and consequently, its financial position and its financial performance. Unforeseeable disruptions within the interdependent global economy can have effects that are hard to predict. Risks to the overall economy may potentially lead to a reduction in purchasing power in the affected countries and regions, and could thereby bring about a decline in the demand for the Otto Group's products and services. Risks to national economies could be related to a high impact on earnings, due to the associated fluctuations in sales.

There is a high risk regarding the development of the global economy and the Otto Group's primary sales and procurement markets as a result of current developments against the backdrop of the coronavirus pandemic. The new coronavirus continues to spread worldwide and was declared to be a pandemic by the WHO on 11 March 2020. The extensive measures adopted to safeguard the population in many countries are intended to slow the spread of the coronavirus; however, in the process they have already lead to significant economic impact on companies, especially as a result of restrictions on production and retail, as well as limits on transport and travel. As a result, extensive governmental relief measures have been implemented in many national economies to lessen the overall negative economic impact. Against this backdrop, the global economic output can be expected to decline in 2020. Similarly, a significant decline in the worldwide trade flow and the global trade volume is expected. For key sales markets of the Otto Group, such as Germany, the rest of the Euro area and the US, noticeable economic downturns and concomitant recessions are expected to some extent in the current year.

Against this background, private-household consumption expenditure may fall significantly in all relevant sales markets to some extent, due to income loss, the decline in employment figures and general uncertainty, and the reduction in propensity to consume associated with the latter. The Otto Group's Executive Board, together with experts from the Group functions, is in close contact with the Group companies. Action plans have been developed and implemented to protect the employee health, to minimise risks to business processes, to maintain the Group's usual financial resources and to mitigate the external conditions. For example, large parts of the Group's staff are currently working from home. In addition, a temporary recruitment freeze was imposed at Group company OTTO, and investments that were not absolutely necessary were postponed in the short term. Measures such as short-time working are being implemented in some countries to compensate for short-term revenue losses, in particular as a result of the closure of over-the-counter retail locations. Precise predictions of the economic impact of the coronavirus pandemic can only be made to a limited extent at this time, as there is a high degree of uncertainty regarding how the virus will spread in future. The length and extent of the global economic downturn will depend on how the pandemic develops in future, i.e. specifically, on what further measures will be taken to slow it down and how long the return to normality (the "recovery phase") will last.

As a result of the decisions taken in relation to economic, trade and monetary policy in recent years, there is also still a high degree of uncertainty regarding global economic development in future, in particular with respect to possible restrictions on global trade. For example, further intensification of the protectionist measures originating in the USA could lead to a significantly more restrictive environment for international trade. However, with the conclusion of a partial trade deal between the USA and China in February 2020, trade policy conflicts have lost some of their explosiveness. The UK's departure from the European Union on 31 January 2020 also continues to be a source of risk. However, for the time being, the uncertainty regarding the way in which economic relations with the European Union will be structured at an institutional level persists, as it has yet to be decided what form the regulations will take once the transitional period has concluded at the end of 2020. The trade policy measures that may result, such as custom duties or non-tariff barriers to trade, would have a negative impact on the Otto Group. A cross-divisional Brexit project team has already implemented a number of preliminary measures aimed at limiting the potentially negative effects for the Freemans Grattan Group and the Otto Group as a whole. These measures are reviewed on a continuous basis for any adjustments that need to be made. Risks to the development of the global economy may also arise due to turbulence in the financial and raw materials markets, structural deficiencies, especially in many emerging economies, and existing geopolitical conflicts. The continuing high level of debt in the private and public sectors in many countries is having a negative effect on growth prospects and could also lead to a negative market response.

STRATEGIC AND SECTOR-SPECIFIC OPPORTUNITIES AND RISKS

The Otto Group's strategy – its international positioning and the servicing of different market segments through various sales channels – is instrumental in spreading risks in the long term. With its various business models the Group is capable of facing the challenges of regional market developments as they arise.

Active portfolio management allows strategic goals to be implemented successfully in the three segments, Multichannel Retail, Financial Services and Services. As part of Group portfolio analysis performed at regular intervals, the potential of each Group company is evaluated and the portfolio is adjusted as needed. Noticeable improvements have already been achieved by means of the measures implemented in recent financial years. The sale of SportScheck GmbH and its subsidiaries and the resulting deconsolidation of these Group companies in the 2019/20 financial year were a key component of the portfolio optimisation process in the 2019/20 financial year. Heinrich Heine GmbH will be managed by the Witt Group from the 2020/21 financial year onwards. In so doing, the aim is to ensure the future viability of the heine brand, to ensure a return to profitability and to retain the Karlsruhe location in the long term. The Group company SCHWAB VERSAND GmbH, domiciled in Hanau, is also facing extensive restructuring. In the future, the Group company will focus exclusively on the plus-size clothing brand sheego, founded in 2009, and will continue the brand as a vertical fashion label. Portfolio optimisation will continue to be one of the Otto Group's goals on an ongoing basis in the coming financial years. This may present opportunities as well as risks. Such risks arise primarily from the possibility of an unsuccessful turnaround in individual Group companies and the negative impact of the disposal of Group companies on liquidity and earnings.

Against the background of the digital revolution, the **Multichannel Retail** segment is influenced by a high rate of change and intense competition, especially in western European markets. Consequently, further digitisation is an essential factor for success in the development of growth opportunities. More than ever, the most important thing is to offer a wide range of products with the services to match, so as to make the customer experience special.

Group company OTTO has been numbered among the leading e-commerce companies in Germany for years, continually keeping up with the rapid pace of digital development. Creative campaigns, a mix of different sales channels and the inclusion of younger generations are a crucial part of this. As a result of these measures, significant customer growth was generated once again. In an effort to consolidate this strong market position in the long term, OTTO's focus for the 2019/20 financial year was the ongoing transition of its business model from a pure online retailer to an e-commerce platform. One of the biggest changes is the way in which the company has opened up more decisively to include more brands and retailers, so that customers are offered an even greater level of choice. Due to the growing level of choice, personalisation plays an important role, creating familiar features in the shopping experience for all users – from first-time buyers to existing customers. This can be achieved, for example, through personalised product recommendations based on a customer's respective usage and purchasing behaviour. This data is also used to give visitors a personalised view when the online shop is displayed to them. In addition, the push notification format was launched in the OTTO app for the first time. The "price alert" notifies users as soon as the price of a product on their wish list is reduced. In this regard, OTTO is an interdisciplinary collaboration programme with Otto Group Holding colleagues from the Marketing, E-commerce and Business Intelligence divisions.

The "Connected Commerce" project represents another stage in the expansion of the e-commerce platform. OTTO and the shopping centre operator ECE (ECE Projektmanagement G.m.b.H. & Co. KG) are connecting their shopping worlds to create a shared shopping experience. When shopping on otto.de, customers can find out which products are also available in an ECE shopping centre near them. In the medium term, a comprehensive, nationwide offer is to be implemented, that will also make it possible to reserve and pay for products from physical shops via otto.de. There are even plans to provide same-day delivery of these products from shops to addresses in the area. This collaboration between otto.de and over-the-counter retail sites will make shopping even more convenient.

All of the above measures may create opportunities to access new customer groups, expand interaction with existing customers further and so achieve further revenue growth.

ABOUT YOU GmbH continued the success story that it started in 2014 by recording a strong performance yet again in the past financial year. The fashion and technology company once again succeeded in achieving high double-digit revenue growth in the 2019/20 financial year. The company is already operating profitably in the DACH region. For ABOUT YOU, the focus continues to be on international expansion, especially growth in Eastern Europe. In the 2019/20 financial year, ABOUT YOU was successfully launched in the Slovakian, Hungarian and Romanian markets, meaning that it now has an online presence in ten European markets. Overall, the international markets are showing strong growth and now account for a significant portion of total revenue. In addition to breaking into new markets, efforts continued as regards the development of new business segments. For example, in the area of tech-driven B2B products, ABOUT YOU added other Group companies to its own e-commerce infrastructure, ABOUT YOU CLOUD, in the previous financial year and also gained its first external customers. Furthermore, since the first quarter in 2018, the product range has also almost been doubled, with more than 300,000 products online today. The Otto Group remains the largest shareholder in ABOUT YOU GmbH and has included the fashion tech company in the consolidated financial statements based on the equity method. The Otto Group continues to envisage significant growth opportunities for this company due to the sharply increasing share of the total retail trade held by e-commerce business.

Over-the-counter retailers are also taking advantage of the numerous opportunities arising from digital transformation. At the Stores of the Year 2020 awards, bonprix was awarded a special prize for its "fashion connect store" concept. The special prize is awarded in recognition of particularly exceptional approaches that represent a clear added value compared to classic store concepts. Visitors to the pilot store in Hamburg can do their shopping via smartphone, and the bonprix app guides customers through the purchasing process. Since day one, the technology has been running reliably and showing the opportunities that modern processes and digital assistance can open up for over-the-counter retail. The customers continuously provide feedback, thus giving rise to important findings for the further development of the concept, which, as a "learning store", is constantly changing and being expanded to include new features. This will enable the systematic elimination of characteristic vulnerabilities in over-the-counter retail, making the shopping experience more and more convenient. Currently, bonprix is focusing on maximising the concept's potential regarding the multichannel model and retargeting. An important milestone in this will be the introduction of endless aisle features, enabling customers to place online orders from within the store.

Market opportunities for profitable growth continue to be seen in the **Financial Services** segment. For the EOS Group in particular, it is expected that its very strong performance will continue and that the high level of investment in debt purchasing can be sustained. In addition, the expansion of secured receivables purchasing has opened up a new business segment in recent years in which additional growth is expected. Given the Group's experience with the valuation and recovery of property, property portfolios are another asset class of the EOS Group that present opportunities. On the other hand, competitive pressures resulting from persistently low interest rates in the EOS Group's major markets remain strong. Furthermore, the potential tightening of legal conditions, among other things, presents risks that may affect the Multichannel Retail segment. The legal conditions affecting debt-collection companies are changing constantly. In particular, insolvency law has an impact on the EOS Group's development as changes in this area, such as reductions in good conduct periods or caps on payments by debtors, can make the realisation of receivables significantly more difficult. The EOS Group has dedicated working groups for specific areas so that it can respond to impending changes in the law by taking appropriate measures. The relevant working groups clarify the risk by comprehensively reviewing the relevant issue with the assistance of external experts, and insofar as possible, they limit the scope of this risk by means of suitable contractual arrangements.

Otto Group Digital Solutions GmbH serves both as an umbrella under which existing digital and retail-related B2B business models are grouped as well as a site for the development of new business models by means of the Group's internal "Company Builder" strategy. Thus, the Otto Group's goal is to use innovative technologies to develop new marketable brands right across the Group portfolio's value chain, and to fully capitalise on the continuously growing opportunities in digitisation.

In the **Services** segment, the Hermes Group – hereafter Hermes – has firmly consolidated its position as an important player in the fast-growing services segment of what continues to be a very dynamic e-commerce sector. Now that it has consolidated its position within this competitive landscape, Hermes is in a position to capitalise on this market growth but must also contend with the specific challenges presented by these individual markets.

As in previous years, significant growth rates are expected in the main e-commerce markets in which Hermes provides its services. This concerns the major European retail markets of Germany, France and the United Kingdom in particular. An increase in cross-border business can also be expected. Given its position in the major European retail markets, Hermes may continue to benefit significantly from this increase.

In particular, the growing shortage of delivery agents for distribution logistics, especially in urban areas, presents a risk. This shortage of delivery agents has made hiring employees more difficult and has resulted in higher wage costs, and thus a higher last mile unit cost. Hermes Germany GmbH in particular reacted to this situation at an early stage by implementing significant price increases for customers during the 2018/19 financial year; they also continued this initiative in the 2019/20 financial year. This has naturally increased the risk of losing customers, which is an inherent risk of competitive environments.

High levels of competitive pressure and legal requirements are creating new challenges in the areas of digitisation and mobility. Hermes is responding to these challenges and optimising digital services for end customers on an ongoing basis. This includes, for example, using chatbots, digitising notification cards and developing innovations in the returns process, as well as using route planning to secure even greater efficiencies. Hermes is investing heavily in e-mobility, in an effort to counter the increasing threat of driving bans in major cities due to nitrogen oxide and fine dust pollution, and to meet its own sustainability goals. The Group is exploring an alliance with a strategic partner in order to accelerate the success of the Hermes Group's parcel distribution companies and to target new growth opportunities.

OPPORTUNITIES AND RISKS FROM GROUP OPERATION AREAS

PROCUREMENT AND LOGISTICS

The Otto Group's various operations give rise to opportunities and risks in the areas of procurement and logistics. The ability to provide high-quality delivery services is a crucial competitive factor.

Group company OTTO is counteracting this challenge with BI tools for calculating projected order quantities and streamlined inventory management. This is supported by the "open-to-buy" approach used in relation to order volumes, which ensures that goods are readily available for customers, delivery promises are kept, logistical management is optimised and the working capital management goals are achieved. In addition, a newly introduced dashboard for inventory control allows the "Day inventory held" KPI to be monitored and managed right down to the product level. The processes are optimised further through the use of dynamic pricing for inventory, revenue and earnings management. Monitoring delivery statements provides transparency concerning the availability of goods. Essentially, systems and processes for trading transactions at OTTO regularly undergo further development. These are not developed within the line organisation structure, but in cross-functional teams such as Business Capability Purchasing & Production and Business Capability Order & Logistics.

In purchasing management, there is a special emphasis on the selection of suppliers. Potential quality deficits are minimised through close collaboration with suppliers and manufacturers and through constant quality controls. The Otto Group also places particular emphasis on ensuring socially acceptable working conditions by means of a social management system and the inclusion of suppliers of own brands and licensed brands in the social programme. The Group's treatment of its suppliers as partners within the framework of long-term relationships and its broad diversification as regards suppliers have proved to be a major competitive edge for the Group in the past and also recently in the crisis triggered by the coronavirus pandemic.

Individual customer requirements and the different needs of the Otto Group companies lead to opportunities and challenges along the entire supply chain.

On the one hand, challenges mainly result from continuously increasing customer requirements. Customer demand for rapid delivery of goods, i.e. through next- and same-day delivery, has increased. In addition, customers expect a high degree of accuracy regarding deliveries – promised delivery time periods absolutely must be adhered to. The concentration of consumers in large cities means that other aspects such as air pollution and the high incidence of delivery vehicles in inner-city areas must be taken into account. However, this concentration not only has a spacial dimension, i.e. it occurs in large cities, but is also associated with ever more pronounced fluctuations in volume (such as Black Friday and Christmas shopping). These particularly high quantities of orders occurring within short timeframes mean that it must be possible to scale logistical capacity flexibly. Intelligent route planning and the use of innovative delivery options make it possible to deal with these challenges.

On the other hand, supply chain management can be classified as a significant contributor to competitive differentiation. When the supply chain operates efficiently, this creates various opportunities for the Otto Group companies to provide the best possible customer experience and so to set themselves apart from the competition. The construction of new Group sites has reduced distances to end customers, which has had a positive effect on delivery times. The supporting role that the Supply Chain Management department of Otto Group Holding played in logistics activities has also had a positive effect. Projects are being jointly implemented across the Group, resulting in even greater synergies for the Group as a whole. An overarching technology strategy is enabling the use of uniform, yet individually usable IT systems. The increased demand for sustainability in the supply chain should be considered as an additional opportunity, as innovations reduce CO_2 emissions and even greater focus is directed towards sustainable sourcing. For example, the Otto Group is contributing to the improvement of supply chain participants' environmental and social performance, by providing suppliers with training on the topics of human rights and the use of chemicals. Procuring sustainable materials, such as certified cotton or certified wood for furniture, is also an integral part of the sustainability strategy.

INFORMATION SECURITY AND IT

Against the background of the strategic importance of e-commerce and the ongoing digitisation of the Otto Group both internally and externally, a Group-wide technology strategy was developed in the 2018/19 financial year for the purposes of creating greater technology-based efficiencies and reinforcing synergies between the Group companies within the Otto Group along the value chain. The importance of this strategic orientation was also emphasised at an organisational level with the creation of the "Technology Strategy & Governance" division within Otto Group Holding. In this way, the technological conditions needed for the Otto Group to capitalise on and benefit from the market opportunities offered by digitisation and growing e-commerce are created.

The pronounced use of information technology, particularly in confidential business processes such as e-commerce and logistics processing, increases the need for protection against unauthorised access to and misuse of data (cybercrime). The Otto Group safeguards against these risks by implementing comprehensive security strategies. In addition to organisational measures, the security strategy comprises other elements such as installing firewall systems at a variety of levels and deploying virus scanners and access controls at both operating system and application level. Furthermore, security tests are regularly carried out by internal and external specialists, and the resulting measures are rigorously implemented and monitored. For the past three years, the Otto Group's IT system has been audited by TÜV Rheinland. It has also been awarded ISO 27001 certification, which affirms the Group's compliance with the most demanding information security standards.

The strategic restructuring and modernisation of data centre operations was completed in the 2019/20 financial year. This work involved the construction of an externally operated co-location as a primary data centre as well as the modernisation of data centre operations at the Hamburg-Bramfeld site for use as a secondary data centre. In addition, all back-end network components and infrastructure at the Hamburg-Bramfeld site have been redesigned and are now fully redundant. The external co-location as well as the new network back-end infrastructure corresponds to the highest tier 3+ standards. The robustness and business continuity of the Otto Group's own data centres, operated under its own responsibility, are ensured by fire protection and emergency power supply systems, even after a fire or power interruption has occurred. Network connection and power supply are provided by two separate sets of house lead-ins. Business-critical systems are stored based on a redundant model in two data centres. This also applies to vital data that is permanently mirrored across both data centres. Data is also regularly backed up. Data centres are protected in a number of ways and can only be accessed via an access control system.

The IT emergency management procedure that has been put in place, which includes optional integration into the crisis management procedure, also provides for the ongoing development of IT emergency precautionary measures. Regular emergency exercises are carried out in order to test the performance of the extensive security measures, both individually and as a group. During these exercises, modern communication methods are used, such as SMS Ticker, a cloud-based incident blog and Office 365 teams.

In this context, and against the background of increasing cooperation within the Otto Group, the rollout of Office 365 should also be mentioned. The migration of already 14 Group companies and sub-groups to the Otto Group Office 365 environment is making it possible for the Group to bring collaboration to the next level and in general, to realise the principles of its Culture change programme, such as #Transparency. In the exceptional circumstances brought about the pandemic, this also made it possible for large numbers of employees to seamlessly shift to working from home without a hitch and within a very short period of time.

With a view to minimising risks, it is a basic principle that all systems developments are carried out in separate environments and are subjected to a comprehensive range of tests before being adopted for operation in live situations. They only enter into current operation once the responsible members of management from the specialist and IT departments have given their approval. The majority of the domestic SAP systems are hosted at the data centres of a strategic partner who is regularly audited in accordance with defined criteria, including their processes and service performance. This also includes reviewing by Group Internal Audit. The Otto Group's IT division has been certified as an SAP Customer Center of Expertise (CCoE), which attests to its technical and functional expertise as well as its excellence in terms of process.

In addition to providing the best possible support to Group companies using the most advanced IT solutions, the question of digital sustainability is also a matter of high importance for the Otto Group IT division. The transparency regarding the evaluation of the Group's digital CO_2 footprint is intended to raise awareness on the one hand and to be used to draft approaches for reducing or offsetting CO_2 in the coming years on the other.

FINANCIAL RISKS AND OPPORTUNITIES

The Otto Group's worldwide orientation also exposes it to a number of financial risks. These risks are identified, controlled and managed with appropriate countermeasures. The Otto Group has to consider in particular the counterparty risk, the liquidity risk and the market risk. A Group-wide binding directive provides a framework for the handling of financial risks.

The Group is exposed to a **counterparty risk** when contractual partners default on agreements. In a narrower sense, counterparty credit risk refers to the risk inherent in a borrower or counterparty defaulting or partly defaulting on liabilities due to a deterioration in its financial situation.

Adequate credit control systems are used to hedge credit risks, taking into account a reasonable risk segmentation of the customer's portfolio. Risk segmentation is continuously reviewed. Risk management also includes regularly reviewing credit activities for business model-specific risks arising from changes in the macroeconomic environment. Existing response mechanisms are adjusted as needed. Furthermore, to reduce counterparty credit risk, the Otto Group only works with commercial banks that have an adequate rating. Thanks to this qualitative selection process and a balanced banking portfolio, the counterparty credit risk is reduced to a reasonable level. The Financial Risk Controlling department regularly reviews the ratings of the Group's banks.

The **liquidity risk** for the Otto Group concerns not having sufficient funds at its disposal to meet its fixed payment obligations, or when the liquidity required cannot be obtained based on anticipated terms.

The financial management system ensures that the Otto Group's liquidity is maintained at all times. This ensures that the Otto Group has sufficient funds at its disposal for its operations and investments. Financing instruments may include money market products as well as leasing and factoring. Due to its balanced banking portfolio, the Otto Group is facing the current difficulties brought about in the overall economic environment by the coronavirus pandemic with a good buffer of free credit lines. Thanks to the measures introduced in recent financial years for the purpose of strengthening the Group's financial capability and thanks to its close, long-term relationships with banks, the Otto Group is in a position to react flexibly to changing conditions and to hedge its liquidity needs, even in a volatile financial market environment. No financial covenants are in place for the contracts concluded as part of central Group financing activities. However, a risk may arise from the ongoing tightening of banking sector regulations. This may lead to banks offering fewer credit options and being less willing to grant credit in the future. This risk was taken into account with the bonds issued and the Group's ability to access the capital market was demonstrated. In the 2019/20 financial year, the Otto Group took advantage of favourable capital market conditions to issue several bonds with a total volume of EUR 487 million. The "Sustainable Finance Framework" launched in the 2019/20 financial year made it possible to issue some of these bonds as sustainable financing instruments corresponding to the "Green Bond Principles" and "Social Bond Principles" of the International Capital Market Association for the first time.

Since the 2016/17 financial year, the Otto Group has also had access to a commercial paper programme for the issuing of short-term securities. This enables the company group to also cover short-term financing requirements through the capital market in addition to the use of existing credit lines with banks. The Otto Group's liquidity needs are based on a rolling monthly liquidity budget with a twelve-month horizon, and a daily budget with a horizon of four weeks or more. Both types of budget are regularly reviewed for variances.

In the Otto Group, **market risks** within the meaning of the IFRS 7 categories are restricted to currencies and interest rates. Foreign exchange risks arise from payments received in a foreign currency from customers and also from payment obligations to suppliers which must be settled in a foreign currency. The latter primarily occurs when goods are purchased in US dollars or Hong Kong dollars and subsequently sold in euro. Interest rate fluctuation risks arise in connection with the gains or losses incurred on interest-bearing items when interest rates change. Currency and interest rate fluctuation risks are hedged by funding the underlying amounts in the same currency and with the same maturity. Any remaining risks from open foreign currency and interest rate positions are assessed using appropriate risk assessment methods. They are then further reduced as needed by the use of forward exchange and currency option options, as well as interest rate swaps. The fundamental goal of risk management is to limit the impact of market price fluctuations on cash flow to an acceptable level. An independent risk monitoring team examines the appropriateness and effectiveness of the control measures, and compliance with reference rates and/or internal rates of exchange. Appropriate reporting structures have been set up to ensure independent, regular risk reporting to the various management teams. These guarantee both regular information about the current risk position and also ad hoc reports.

Regarding the concentration of financial risks, refer to the Notes to the consolidated financial statements (see Notes to the consolidated financial statements as at 29 February 2020, Note (37) Financial instruments).

LEGAL AND REGULATORY RISKS

As a group of companies operating internationally with a heterogeneous portfolio, the Otto Group is exposed to a large number of legal and supervisory risks. These include, in particular, risks from the areas of product liability, competition and anti-monopoly law, anti-corruption measures, tax law and environmental protection measures. In addition, trade restrictions such as export control regulations, embargoes or economic sanctions must be observed with regard to certain countries.

The Otto Group analyses possible risks in the area of competition and anti-monopoly law on an ongoing basis, taking into account new developments in competitive environment conditions, for example, in the platform economy or in the e-commerce sector. The Otto Group has developed appropriate courses of action and training programmes, which the Group companies have used as a basis for taking a variety of measures, including organisational and technical measures, to address potential risks. The necessity and suitability of these measures is assessed on an ongoing basis.

Compliance, in the sense of adhering to laws and regulations, is an integral element of the Otto Group's business processes. This also includes identifying and evaluating relevant legal and regulatory requirements and changes at an early stage. For this purpose, the Otto Group has established a compliance management system (CMS) in which all the measures, structures and processes that are necessary for ensuring legal compliance and counteracting infringements are defined. In addition, binding requirements have been defined for all Group companies.

Data protection requirements increased further as the General Data Protection Regulation entered into force in May 2018. The Otto Group is aware of its great responsibility in this regard and continues to make data protection a high priority. Within its Group companies, the Otto Group has rolled out a comprehensive course of action and has implemented the provisions of the GDPR through numerous on-site workshops and regular self-assessment initiatives. Implementation of these measures has been validated and monitored by an intensive risk control process which includes monthly reporting to the Executive Board. This rigorous level of monitoring allows the Otto Group to identify any remaining risks as early as possible and take appropriate action.

Compliance regarding working conditions and the terms of social legislation is also an important factor for the Otto Group. To this end, Hermes has also signed up to the Otto Group's code of conduct, and has had its own supplementary code of practice in place since 2011. It defines Hermes' basic employment standards and regulates issues such as worker protection, working conditions and minimum wages for service partners involved in last-mile distribution. The code of practice forms an integral part of each contract underlying our business relationship with all contractual partners. In terms of long-distance travel, Hermes voluntarily signed up to the FairTruck code in 2016. The aim of this code is to establish fair working conditions for all professional drivers. Working with an auditing company, Hermes also operates a comprehensive auditing system that provides for the regular, repeat auditing of all service partners. This audit also encompasses companies that commission transport services from their own service partners, i.e. service partners that do not have a direct contract with Hermes. The main focus of these audits is working conditions. The German law for protecting parcel delivery drivers (Paketboten-Schutz-Gesetz), adopted in

2019, introduced regulations with industry-wide scope to better ensure good working conditions. In cooperation with the German association for parcel delivery and express logistics (Bundesverband Paket und Expresslogistik e.V. – BIEK), Hermes is participating intensively in devising a pre-qualification procedure to be introduced across the industry, i.e. a standardised test for determining the suitability of contract partners in advance.

OTHER RISKS

Further risks originating outside the above-mentioned areas have also been identified within the framework of the central Risk Management System. They are analysed as to their relevance and evaluated and steered with appropriate measures.

NO DISCERNIBLE OVERALL RISK TO THE GROUP

Based on the information currently available, an overall assessment of the Group's risk situation does not indicate any risks that would threaten the Otto Group's continued existence, either at present or in the future.

Corporate Responsibility

EMPLOYEES

Employees are one of the decisive factors in the Otto Group's success. Their wide range of skills, their experience, their capabilities and their commitment are very instrumental to the further development of the Group.

The Otto Group employed an average of 51,982 staff – calculated on a full-time equivalent basis – in the 2019/20 financial year (2018/19: 52,326).

Employees

	2019/20	2018/19	Change
	number	number	in %
Multichannel Retail	23,811	23,911	– 0.4
Financial Services	6,770	6,842	– 1.1
Services	21,087	21,230	– 0.7
Holding	314	343	– 8.5
Group	**51,982**	**52,326**	**– 0.7**

The continuous professional development and training of staff has always been a matter of great importance to the Otto Group. Against the backdrop of the digital revolution, demographic and social change, and the shortage of skilled workers, there is a continued need for a successful human resources management strategy. A core objective of the Group-wide human resources strategy is therefore to support and promote the development of existing employee potential in a concrete way by ensuring that the right framework conditions and growth opportunities are available.

As a signatory to the "Diversity Charter" (http://www.charta-der-vielfalt.de/en/diversity-charter.html), the Otto Group is committed to providing equal opportunities to each and every employee, regardless of gender, nationality, ethnic background, religion or world view, physical ability, age, sexual orientation and identity. As official partners of Hamburg Pride 2019, the Otto Group once again demonstrated its active commitment to tolerance, acceptance and visibility. Diversity also makes it possible to contend with increasing complexity in an innovative way and to play an active part in shaping digital transformation. For this reason, Group-wide Diversity Management focuses on the individual perspectives and capabilities of all employees. To support this effort, the Group companies' own specific diversity goals are continuously monitored and supported using Group-wide diversity assessment measures.

Digital transformation transforms culture in particular, and in this age of digitisation, diversity within the digital sector is now more important than ever – for the Otto Group as well. Having heterogeneous teams is crucial, because bringing differing perspectives and skills together lays the foundations for success. In the past financial year, various initiatives therefore continued to focus on ways of living and integrating diversity into everyday working life to an even greater extent. In addition, the "Boost your Career" programme was specifically developed to promote the careers of up-and-coming female executives. This programme is one of the Otto Group

Academy's strategic development programmes and was successfully run for the seventh time in 2019.

In accordance with the German law on equal participation of men and women in managerial roles, the Otto Group has set itself the following goals: The Group's Supervisory Board intends to achieve a minimum quota of 25% by 28 February 2023. For the Executive Board of Verwaltungsgesellschaft Otto mbH, a minimum target quota of 30% has been set for 28 February 2023. Efforts are also being made by the management boards of Group companies subject to this law to ensure that at least one seat on every board is filled by a woman by 31 December 2021. In terms of top-level management, these Group companies have set themselves the objective of achieving a minimum average target quota of 23%. In terms of second-tier management, a minimum target quota of 33% was set. The target quotas for the first two management levels are set to be achieved by 31 December 2021.

A decisive factor for the successful growth of the Group and its future human resources strategy is and continues to be the "Culture change 4.0" initiative, which has been running since 2015 with great success. In order to facilitate this change, full involvement of and discussion with all colleagues will be crucial. Since the 2018/19 financial year, the socially topical issue of courage has also been the subject of much work in this context. The objective of this initiative is to encourage employees to continue to drive the Group's digital transformation as part of their day-to-day activities. After the #Mut-Festival ("Courage Festival") held in August 2018, 2019 saw the Group companies hosting #Mut-Expeditionen ("Voyages of Courage"), workshops that used tools and concrete practices to bring the concept of courage to life for employees.

For the Otto Group, the willingness to engage in lifelong learning is a matter of course. Consequently, the Otto Group Academy's development programmes for executives and professionals that are systematically geared towards the needs of the Group, among other things, constitute an essential pillar of the Otto Group's human resources strategy. Using different Group-wide formats, renewed emphasis is placed on conveying the mindset and methods used in agile organisations and on promoting a shared understanding of the many aspects involved in digitisation.

Learning and digital education, in particular, should become a natural part of daily working life in the Otto Group, but also overall. A key factor for success is the professional development initiative "TechUcation", which was launched Group-wide in the 2019/20 financial year. As part of this initiative, the Otto Group is cooperating with Masterplan.com, an innovative learning platform for professional development training founded in Germany in 2017. On Masterplan.com, digital experts from all over the world share their knowledge in short, engaging videos, using illustrative examples from their practical experience. The video-based introductory course on the topics of mindset and organisation forms both the jumping-off point and the central component of TechUcation. The course helps users to gain a basic understanding of new work environments in the context of digitisation and creates a link with their own working reality within the Otto Group. Once employees complete the introductory course, they can all access a comprehensive range of follow-up courses, which is continuously expanded and updated. In contrast to previous models of gaining qualifications, which only targeted individual groups of people, with TechUcation, all of the Otto Group's approximately 52,000 employees can progressively gain equal access to the training system, all along the hierarchy and across divisions.

SUSTAINABILITY

The Otto Group manages sustainability as a combination of economic, ecological and social requirements for the entire value chain using the impACT management process. The measures that result from this process are implemented under the umbrella of the binding CR Strategy 2020.

CR STRATEGY 2020

The CR Strategy 2020 is an integral part of the Group strategy and consists of five sub-strategies. These strategies call for the use of sustainably grown cotton and wood products from environmentally responsible forestry. They also focus on maintaining social standards in the supply chain and reducing CO_2 emissions on site and during transport. As of the 2014/15 financial year, the annual variable remuneration for members of the Group's Executive Board is linked to the achievement of the targets in the CR Strategy 2020.

Since 2013[6], the CR Strategy 2020 has been implemented across all major Group companies based in Germany and Austria (with an annual external revenue of more than EUR 100 million)[7]. Together, these companies generate close on 59 % of Group revenue (for the 2019/20 financial year) and are responsible for approximately 80% of the Group's adverse environmental impacts.

TARGET-ACHIEVEMENT STATUS AND FORECASTS FOR THE SUB-STRATEGIES

Four of the five key indicators defined in the CR Strategy 2020 showed positive development in the past year. Thus, the forecasts for these key indicators for development in 2019 have been achieved. The key indicator relating to the Social Programme sub-strategy has declined slightly, with a decrease of one per cent. The Otto Group expects positive overall development to continue in the final year of the CR Strategy 2020 programme.

The **Textile Strategy** promotes the sustainable production of cotton: By 2020, sustainable cotton is to be exclusively used for the Group companies' own and licensed brands. In terms of sustainably grown cotton, focus will be placed on the use of organic cotton and recycled cotton, and in particular, cotton from the "Cotton made in Africa" initiative – hereafter "CmiA". The share of sustainable cotton used increased to 96 % in 2019 (2018: 93%), which indicates the Otto Group's success in consistently moving closer to its overall target of 100%. This is largely attributable to the Group's continually increasing use of cotton from the CmiA initiative, as well as its

6 These key indicators are assessed on a calendar-year basis.

7 In the 2015/16 financial year, the major Group companies Freeman Grattan Holdings (UK) and the Crate and Barrel Group (USA and Canada) as well as the foreign Group companies of the bonprix Group (USA, France, Italy, Poland) were integrated into the CR Strategy 2020. Separate targets have been applied to these Group companies as of the 2017 calendar year, so their target achievements will not be included in the figures from the CR Strategy 2020.

use of organic and recycled cotton. bonprix Handelsgesellschaft mbH, the Group companies of the Witt Group and OTTO played a key role in this, due to the large amounts of cotton. As a result of the continuing increase in the volume of CmiA cotton procured, the share of sustainable cotton is expected to rise again slightly in 2020, and thus the Group is expected to achieve its overall goal of 100% almost entirely.

The goal of the Otto Group's **Furniture Strategy** is to ensure that by 2025 all products in its range of wooden furniture, for its own and for licensed brands as well as strategically significant third-party brands, are derived from responsible forestry certified by the Forest Stewardship Council® – hereafter "FSC". In 2019, FSC-certified wood as a percentage of the total wooden furniture product range accounted for 79% (2018: 59%). meaning that the projected sharp increase was achieved. This is the result of long-term agreements concluded in previous years between the Group companies and major furniture suppliers. A slightly less significant increase in the FSC share in the wooden furniture product range is expected for 2020.

The **Paper Strategy** aims to increase the share of FSC-certified paper used in catalogues to at least 60% by 2020. This applies to catalogue paper printed using the gravure process as well as the offset process. In 2019, the share of FSC-certified paper in use increased to 64% (2018: 54%). meaning that the overall target of the Paper Strategy has been achieved as of 2019. This forecasted significant increase was due to long-term agreements negotiated with suppliers by Group company OTTO, which coordinates the procurement of the majority of catalogue paper within the Group. As a result of these supply agreements, for 2020, the share of FSC-certified paper used in catalogues is expected to remain the same, meaning that the overall target of 60% is expected to be exceeded by a significant amount in the final year of the CR Strategy 2020 programme.

The goal of the Otto Group's **Social Programme** is to create greater transparency regarding working conditions in suppliers' factories, and to continually improve on these conditions. All suppliers of Group companies' own and licensed brands that have factories (final production) located in risk countries[8] are to be integrated into this programme. A supplier is deemed to be integrated if, at the time of production, they can provide valid and accepted evidence of social audits or certificates for all active factories. In 2019, this applied to 95% of suppliers (2018: 96%). In 2019, myToys was included in the scope for the first time as an additional Group company, and was thus also included in the key indicator figure. For the final year of the strategy, the Otto Group expects to maintain this target level, and in this way, to integrate almost all suppliers into the Social Programme. This forecast is based on the integration of additional Group companies into the key indicator figure and the continued systematic termination of relationships with suppliers who do not meet our requirements. It is expected that this sub-strategy will fall just short of the overall target of 100%, as this goal cannot be achieved due to process issues.

The goal of the **Climate Strategy** is to reduce CO_2 emissions at the value chain level of trade. By 2020, adjusted[9] CO_2 emissions at the Group's own sites as well as in goods-procurement and goods-distribution transport are to be halved in comparison to the base year of 2006. In 2019, absolute (unadjusted) CO_2 emissions fell in comparison to 2018, dropping from 213,828 t to 205,814 t. During the same period, adjusted CO_2 emissions fell from 166,392 t to 154,730 t. This corresponds to a reduction of 51% in relation to the base year of 2006 (2018: – 47%), meaning that the climate target has already been achieved. As a result of the introduction of a new model for calculating CO_2 emissions at Hermes in 2019, which served as the basis for calculating CO_2 emitted due to distribution activities (one-man delivery) in 2019 and for the corresponding recalculation of emissions for the previous year 2018, and the base year 2006, the values are different from those presented in reports from previous years and can therefore no longer be compared. With the development of the new values, the slight reduction forecast for 2019 is exceeded. This is attributable in particular to further improvements in energy efficiency as well as the shift away from air freight towards less CO_2-intensive forms of transport such as maritime, road and rail transport in the procurement of goods from producing countries. In addition, the increase in high-quality, certified green energy purchased by German Group companies (accounting for approximately 40% of the total volume of electricity) contributed to the reduction in CO_2 emissions. A further slight reduction in total CO_2 emissions is expected in 2020, meaning that the overall target will continue to be exceeded.

During the reporting period, the Otto Group's new CR Strategy was developed; the new strategy is to begin in 2021 and covers seven topics, including such new topics as "Circularity", "Digital Responsibility", "Empowered Employees" and "Conscious Customers", together with the setting of corresponding qualitative targets. The quantitatively measured and externally audited KPIs are still drawn from the following topics: "Supply Chain", "Climate" and "Sustainable Materials". These have been expanded and added to in comparison to the CR 2020 strategy; for example, a sustainable packaging target has been newly added. In order to ensure a seamless transition between the current strategy and the new strategy, this new CR strategy will be implemented across the Group in 2020.

8 The classification of risk countries is determined in accordance with the amfori Business Social Compliance Initiative (BSCI). http://www.amfori.org/sites/default/files/amfori%20BSCI%20CRC%20V2018_HM_AD.pdf

9 For CO_2 adjustment factors, see Sustainability Report 2015, p. 48.

Value-adding stage	Sub-strategy	Target	Actual 2018	Forecast 2019	Actual 2019	Forecast 2020
			in %		in %	
Raw Materials and Processing	Textile	100% sustainable cotton in own and licensed brands	93	slight rise	96	slight rise
	Furniture	100% FSC®-certified furniture products (until 2025)*	59	clear rise	79	slight rise
	Paper	60% FSC®-certified catalogue paper	54	slight rise	64	unchanged
Final Production	Social Programme	100% integration of suppliers of own and licensed brands in the social porgramme	96	slight rise	95	unchanged
Trade	Climate	50% reduction of CO_2 emissions**	– 47***	slight reduction	– 51****	slight reduction

* In consultation with the relevant NGOs and the auditing firm PwC, the target year was changed from 2020 to 2025 as the availability of German FSC-certified engineered wood (chipboard/MDF) was not in line with market requirements.

** The target refers to adjusted CO_2 emissions in comparison to the base year of 2006.

*** At Hermes, a new model for calculating CO_2 emissions in the sub-category of distribution logistics (one-man delivery) was introduced in 2019, and the values for previous years and the base year were also adjusted as a consequence. For the base year, i.e. 2006, and the previous year, i.e. 2018, CO_2 emissions for distribution logistics (one-man delivery) were recalculated using the new calculation model. This did not change the value for 2018 (– 47 %).

**** At Hermes, a new model for calculating CO_2 emissions in the sub-category of distribution logistics (one-man delivery) was introduced in 2019.

Outlook

The outlook and forecasts for the coming 2020/21 financial year are heavily influenced by the global coronavirus pandemic. The coronavirus continues to spread worldwide and was declared to be a pandemic by the WHO, the World Health Organization, in March 2020. The extensive measures adopted to safeguard the population in many countries are intended to slow the spread of the coronavirus; however, in the process they have already lead to significant economic impact on companies, especially as a result of restrictions on production and retail, as well as limits on transport and travel. In many national economies, extensive governmental relief measures have been implemented to lessen the negative impact on the overall economy and specific sectors. In view of the economic downturn and mostly recessionary trends that are emerging in almost all countries relevant to the Group against this background, the established economic reports and industry studies can only be used for a realistic projection of the further development in the forecast year to a limited extent. At present, there are major risks associated with creating a forecast of the economic impact of the coronavirus pandemic; such a forecast can only be based on simplistic assumptions, as there is a high degree of uncertainty regarding how the virus will spread in future, what measures countries will take to contain the pandemic and the duration and intensity of the return to normality (the "recovery phase").

Nevertheless, for the assessment of overall economic development, on a global scale, in Germany, in the Euro area and in the USA, as well as the sector development assessment, the standard expert reports and assessments by professional associations, such as the Kiel Institute for the World Economy's spring report on economic outlook, are used below. Where they were available, assessments that have been updated based on the further development of the coronavirus pandemic have been taken into account.

OVERALL ECONOMIC DEVELOPMENT

According to the Kiel Institute for the World Economy's assessment of 12 March 2020, **global economic development** in 2020 was set to be characterised by a price-adjusted increase in global GDP of only 2.0% (2019: 3.0%), instead of a previously projected gradual upturn in the world economy [10]. However, the impact of the coronavirus pandemic is showing itself to be much more serious, according to the recent Joint Economic Forecast issued by leading German economic research institutes on 8 April 2020. In this assessment, a decline in worldwide production in the amount of is 2.5% is now expected [11]. A decisive factor in this is the reduced labour supply caused by the spreading of the new coronavirus, the measures adopted to protect the population, which restrict public life, and the comparatively high potential for production losses due to disrupted supply chains. Moreover, there is a significant risk of an even more intense and sustained slowdown in global economic growth. Initially, it was assumed that the negative effects were likely to be felt more strongly in Asia and Europe, as the spread of the coronavirus there had reached an advanced stage much earlier. Now, the virus is spreading worldwide. In the Euro area, the economic outlook has accordingly taken a sharp turn for the worst. Current developments in the USA have now also been taken into account in the Joint Economic Forecast, meaning that in the advanced economies as a whole, a significant decline in overall economic output during the forecast year is now expected. In addition, it is expected that the rate of overall economic expansion in emerging economies may also weaken significantly and stagnate as a whole. Growth in this group of countries is likely to be especially hampered by the significant slowdown in the Chinese economy. A significant decline is forecast for international trade as a whole. In this case, the change in world trade volume, which may consist of a fall of 2.4%, or 7.4% on the basis of the Joint Economic Forecast, would be significantly higher than the previous year's decline of 0.4% and would lead to a significant contraction in worldwide trade flow.

In the forecasting period, growth in both worldwide production and global trade volumes is likely to experience considerable upheaval. As described above, the primary risk factor for the forecast period clearly results from the global crisis that has been caused by the coronavirus pandemic. In addition, even though they are no longer the dominant issues, existing factors continue to present a risk, such as the many uncertainties associated with the decisions taken in relation to economic, trade and monetary policy, the impact of the development in crude oil prices and ongoing geopolitical crises.

As early as 12 March 2020, the Kiel Institute for the World Economy anticipated that the overall economic output of the **German economy** would fall again in 2020 for the first time since the financial and economic crisis in 2009, with a decline in price-adjusted GDP of 0.1% (2019: +0.6%)[12]. This forecast was revised in the Joint Economic Forecast report of 8 April 2020 and the expected decline in overall economic output was changed to the significant figure 4.2%, when adjusted for inflation [13]. However, this forecast assumed that the freezing of large parts of the economy would only last for five weeks, from mid-March to mid-April. There are a variety of influencing factors causing this severe recession. Among other things, the propensity to consume in private households is expected to be restrained, which is likely to be primarily due to precautionary measures and reduced income effect. Regarding the labour market, it is expected that the recession in the German economy will have a significant impact on work volume, reducing it considerably. This is likely to affect employment levels and consequently the average annual unemployment level; however, due to stabilising factors, the annual figure will just experience a slight increase from 3.2% in 2019 to 3.8% in the forecast year. Against this background, private consumer spending in Germany is likely to decline significantly in the forecast year, falling by 5.7%. Corporate investment is also expected to decline,

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[10] Kiel Institute for the World Economy: "World Economy Under Strain", 12 March 2020.

[11] Joint Economic Forecast project group: "Economy in Shock – Fiscal Policy to Counteract", 8 April 2020.

[12] Kiel Institute for the World Economy: "German economy: V(irus)-shaped recession ahead", 12 March 2020.

[13] Joint Economic Forecast project group: "Economy in Shock – Fiscal Policy to Counteract", 8 April 2020.

as investments will be cut back or postponed to a later date in almost all economic sectors. As to Germany's export markets, the overall economic environment, which already experienced low levels of growth in 2019, is also likely to incur more serious damage, meaning that German exports are likely to contract for the first time since 2009. As the forecasted imports will not be as heavily affected as exports, foreign trade will have a significant negative impact on growth during the forecasting period.

In the **Euro area**, a general reduction in overall economic output was expected in 2020 on the basis of the assessments released on 12 March 2020, with the price-adjusted GDP likely to decrease by 1.0% (2019: +1.2%)[14]. On the basis of the Joint Economic Forecast from 8 April 2020, this decrease is now estimated at 5.3%[15]. Private-household consumption expenditure is likely to be negatively affected by the slowdown in the labour market as well as slowing wage growth and is expected to contract significantly. The employment situation in the Euro area is expected to deteriorate significantly in the forecasting period, leading to growth in the average annual unemployment rate amounting to 9.3% (2019: 7.6%), according to the latest estimates. Corporate investment is also set to decrease again due to a comparatively low capacity utilisation and deteriorating financing conditions. This is also likely have a clear impact on the decrease in overall economic output. In addition, the external economic environment is likely to give rise to significant dampening factors. In the other **European Union** countries, recessive developments in respect of overall economic output are also expected in the forecasting period. In the UK, the uncertainty relating to Brexit was only partly alleviated by the completion of the country's exit from the European Union; this uncertainty – in addition to the direct impact of the coronavirus pandemic – is also likely to have an adverse effect on the economy in 2020.

According to the economic forecast released on 12 March 2020, overall economic development in the **USA** in 2020 would have grown at a slower pace than in the previous year, with the price-adjusted GDP expected to grow by 1.5% (2019: 2.3%)[16]. However, the assessments released on 8 April 2020 now assume that a severe recession will occur in 2020, reflected in a significant decline in real GDP of 4.0% compared to the previous year[17]. Negative stimuli are expected to result from the decline in consumption, which is likely to be characterised by a decrease in private consumer spending of 4.4%. In the forecast released on 12 March 2020, the annual average unemployment level was still expected to be 3.9%, only slightly above the previous year's level of 3.7%. However, according to the adjustments made in the Joint Economic Forecast, the coronavirus pandemic will have a much more serious impact on the US labour market, with unemployment levels rising significantly to 10.7%. The spread of the coronavirus pandemic and deteriorating financing conditions are also expected to significantly reduce US companies' investment activities, at least in the first half of the forecast year. Among other things, the trade deal concluded between the USA and the People's Republic of China in January 2020 is expected to have a positive effect on corporate investment and exports, as it will reduce trade policy uncertainties at least partially. As a result of this, unlike in previous years, foreign trade is likely to have a slight positive impact on the development of overall economic output.

SECTOR DEVELOPMENT

MULTICHANNEL RETAIL

Development in the **German retail sector** in 2020 will be strongly influenced by the impact of the coronavirus pandemic. On the basis of current forecasts, private-household disposable income is set to decline for the first time since the financial and economic crisis in 2009. In addition to income loss, this is also due, among other things, to the fact that employment growth will not continue, meaning that employment figures are likely to decline and a corresponding increase in the annual average unemployment level is expected in 2020. The rise in consumer prices was significantly lower in comparison to the previous year, which may have a slight supportive effect on private-household purchasing power. Against the background of this overall economic development, the changes in consumer behaviour and the ongoing uncertainty regarding further overall economic development, there will be a significant negative impact on private-household consumption expenditure in Germany in 2020; it is highly likely that this figure will fall by 5.7% when adjusted for inflation[18]. Consequently, private consumption is not having a stabilising effect in the forecast period, as it usually does, but is plummeting even more sharply than the overall economic output in Germany.

In its yearly forecast published in January 2020[19], the German E-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel [bevh]) expected a continuation of the successful performance seen in **German online and mail-order sales** in previous years. According to the forecast, sales of goods in the **e-commerce sector** were expected to amount to approximately EUR 80 billion in 2020, (2019: EUR 72.6 billion), which would have constituted an increase of around 10% (2019: 11.6%). However, the actual developments in the e-commerce sector in the first quarter of 2020 suggest that these expectations are no longer realistic. In a press release in April 2020,[20] the German E-Commerce and Distance Selling Trade Association (bevh) pointed out that the e-commerce sector has experienced only slight growth in the first quarter of 2020, compared to the same quarter of the previous year, with March in particular having a strong negative impact. The development in individual classes of products has been very heterogeneous during this time. In April 2020, on the other hand, the demand side displayed a slight upward trend once again.

[14] Kiel Institute for the World Economy: "Euro area faces recession", 12 March 2020.

[15] Joint Economic Forecast project group: "Economy in Shock – Fiscal Policy to Counteract", 8 April 2020.

[16] Kiel Institute for the World Economy: "World Economy Under Strain", 12 March 2020.

[17] Joint Economic Forecast project group: "Economy in Shock – Fiscal Policy to Counteract", 8 April 2020.

[18] Joint Economic Forecast project group: "Economy in Shock – Fiscal Policy to Counteract", 8 April 2020.

[19] Press release, German E-Commerce and Distance Selling Trade Association (bevh), 21 January 2020.

[20] Press release, German E-Commerce and Distance Selling Trade Association (bevh), 6 April 2020.

As a normal shopping channel, the e-commerce sector in Germany may also be negatively affected by the forecast decline in private consumer spending. At the same time, however, in the context of the temporary closures of over-the-counter retail sites, e-commerce is ensuring that the supply lines are maintained for the general population in many product areas, meaning that individual product groups will increase sharply. In addition, the fact that many consumers have been obliged to switch from over-the-counter purchasing to ordering via the Internet could have a positive effect on the e-commerce sector in the medium term. Nevertheless, producing a revenue development forecast for the e-commerce sector in the forecast year is proving to be difficult, due to the ongoing uncertainties regarding current developments. However, when the full forecast year is taken into account, it is not expected that revenue will decline overall.

FINANCIAL SERVICES

The impact of the coronavirus pandemic on German economic development in 2020 may lead to a recession and a decline in overall economic output. This development is also affecting the **German Financial Services sector**. In its forecasts from November 2019[21], the federal association of German collection agencies (Bundesverband Deutscher Inkasso-Unternehmen – BDIU) saw a deterioration occurring in payment behaviour at corporate and consumer level, depending wholly on market conditions, and so a deterioration in the correct and timely repayment of bills generally in Germany. In light of recent developments, it is now to be expected that, despite governmental support measures for companies and employees, there will be an increase in company and consumer insolvencies in Germany in 2020. Due to the payment moratoriums introduced in some countries as a result of the current crisis, a temporary decrease is expected in relation to impaired receivables that have been handed over to collection agencies. Once these moratoriums come to an end, a significant growth of this market is expected.

SERVICES

Following the mid-term forecast of the German Federal Office for Goods Transport in February 2020[22], the **German transport and logistics sector** was anticipating an upward trend across all transport-intensive sectors in 2020. Total goods traffic was set to grow by 1.0% in the forecasting period (2019: 0.7%). This forecast did not allow for any direct effects resulting from developments related to the coronavirus pandemic. Due to the severe recession forecast in Germany and the significant decline in the volume of international trade that is also expected, it can now be assumed that goods traffic in Germany will decline during the forecast period.

The distribution operations of the German parcel-service providers represent a major component of goods traffic. These are directly related to revenue development in the online and mail-order trade in Germany. In the forecast that it published in January 2020, the German E-Commerce and Distance Selling Trade Association (bevh) was still expecting significant revenue increases in 2020. Due to the current developments in relation to the coronavirus pandemic, revenue growth in the online and mail-order sales sector is likely to be less pronounced; however, continued growth is expected overall for this sector during the forecast period. This means that German parcel-service providers are still facing serious challenges during the forecasting period in terms of handling the increasing number of deliveries sent by companies to private households. For German parcel-service providers, the number of deliveries will continue to increase in 2020.

In the short and especially medium term, development in the German online and mail-order sales sector requires a consistently high level of investment in parcel distribution, in particular for the expansion of the logistics infrastructure as well as further digitisation. At the same time, work on the development of new (digital) solutions will continue in order to accommodate the increasing number of deliveries, in spite of considerable customer requirements, the continuing impact of driver shortages and the escalating traffic situation.

DEVELOPMENT OF THE OTTO GROUP

The future business growth of the Otto Group will take place in the context of a rapidly changing and increasingly digitised retail market. Customers of the Otto Group expect a process that is highly streamlined and easy to use. Shopping should be inspiring and more convenient, and retail-related services should offer tangible benefits for customers and partners. For Group companies of the Otto Group in the Multichannel Retail, Financial Services and Services segments, this is the guiding principle for all retail activities. A rigorous entrepreneurial mindset, use of advanced, innovative technology, rapid turnaround times, strong digital competence as well as greater levels of openness and collaboration are just some of the factors that will be pivotal to the growth of the Otto Group in the coming financial years. All are drivers that will help to advance the Group on its journey towards becoming a fully digitised retail and service group.

In the area of retail and retail-related services, the Otto Group operates very different business models today than it did in the past. Its increased focus on selected Group companies (focused growth strategy), which began almost three years ago, is already yielding results. Up to now, sales growth in these focus companies has been very healthy. In the medium term, revenue of EUR 17 billion is still expected to be achieved by 2022/23, which is on a comparable basis with the 2016/17 consolidated financial statements. In the coming financial years, investment will continue to be concentrated in the focus companies of the Otto Group. In order to strengthen financial performance, as measured by the debt service ratio (net financial debt/EBITDA) and the leverage ratio (net financial debt/Group equity) – on the basis of the “FS at equity” presentation of the Otto Group – the Otto Group’s Executive Board is accelerating the implementation of existing measures and projects. These include the Group-wide working capital project, cash management and consistent implementation of the portfolio strategy which involves assessing the profitability and future viability of each individual Group company on an ongoing basis in order to ensure the long-term performance of the Group.

For decades, the Otto Group has firmly subscribed to the principle of responsible behaviour; whereby all business activities are focused on a commitment

21 Press release, Bundesverband Deutscher Inkasso-Unternehmen (BDIU), 19 November 2019.

22 German Federal Office for Goods Transport: “Rolling Mid-Term Forecast for Goods and Passenger Traffic – Winter 2019/20”.

to operate a sustainable business that respects both the environment and the individual. This includes the way that we partner with suppliers and other Otto Group counterparties. In terms of the environment, the Otto Group will implement further concrete measures in the coming years aimed at preventing or reducing CO_2 emissions, with the goal, among others, of becoming climate neutral by 2030. This will represent another clear step forward for the Otto Group's sustainability strategy.

The starting point for the forecasted development of the Otto Group and its segments in the 2020/21 financial year is based on the expectations for overall economic development and sector development. The outbreak of the coronavirus pandemic and the restrictions that it has imposed on public life are having a massive impact on global economic development in the forecast year. The crisis will have a significant adverse impact not only on the Otto Group's relevant sales markets in Germany, the rest of Europe and the USA but also on procurement markets.

Due to the coronavirus pandemic, 2020/21 is expected to be a difficult financial year for the Group overall. However, the coronavirus pandemic is likely to have the greatest impact in the Multichannel Retail segment.

The shareholders, Executive Board and entire staff of the Otto Group are working together with great energy, creativity and solidarity to meet the challenges of the coronavirus pandemic. They are convinced that the Group will emerge from the crisis in an even stronger position and as an important e-commerce player in the medium and long term. Protecting staff and ensuring the continuation of business processes is a top priority. Initiatives undertaken to protect staff include extensive protective measures within logistics operations as well as widespread home-working arrangements in numerous administrative areas. However, the continuation of core operational processes has ensured that the general population is supplied with the goods that it needs, and as a whole, customers of the Otto Group are receiving the same level of good service as before. Ahead of schedule, the "Culture change 4.0" initiative launched in the Otto Group in 2015 is already providing the technical and cultural conditions required to enable networked, agile and mobile work practices, which in the context of the coronavirus pandemic in particular is really paying off. For example, the rollout of mobile working in administrative areas and in customer relation centres coupled with the associated realignment of the necessary IT infrastructure as well as short, fast decision-making paths, especially in the midst of the crisis, has delivered some very encouraging results.

The information and conclusions presented for the Otto Group and its segments are based on the assumption that business performance will not be influenced by currency exchange rate effects. In addition, all forecasts have been adjusted to allow for changes in the scope of consolidation. As the impact of the coronavirus pandemic is difficult to assess, any sales-related forecasts are subject to a high degree of uncertainty. For forecast reporting purposes, it has been assumed that the slow and cautious return of social and economic life observed in Germany toward the end of April will continue in the months to come. This recovery phase is expected to occur in a similar way in other countries. However, it is expected that the second half of the financial year will see a certain level of consumer reticence as a consequence of the deteriorating economic situation and the decline in household disposable incomes.

Adjusted revenue from the **Multichannel Retail segment** grew by 2.4% in 2019/20. This segment is not expected to grow in the 2020/21 forecast year as the impact of the coronavirus pandemic will continue to be clearly felt. While over-the-counter retail is likely to continue to be significantly impacted for the entire financial year due to the temporary closure of businesses, the e-commerce sector and mail-order retail market are showing a mixed picture. The Otto Group has recorded a temporary significant increase in demand for product ranges that enable or facilitate living and working from home. However, revenue from some product ranges, such as textiles, is falling sharply in some cases. Business performance within the Group companies of the Otto Group varies greatly and is also very volatile on a week-to-week basis. The general reluctance to buy that is seen across the entire retail sector is also in evidence in the Otto Group. If the coronavirus pandemic is not taken into account, segment growth could have been similar to that achieved in the 2019/20 financial year. If the coronavirus pandemic is taken into account, the Otto Group is forecasting a decline in sales in the Multichannel Retail segment, which could be in the low to mid single-digit percentage range.

The influence of the focus companies on segment growth varies according to the individual focus company. At Group company OTTO, the current crisis is having a different impact on different product ranges. In the first few weeks of the crisis, seasonal spring and summer fashions as well as swimwear collections experienced significant declines. However, other product ranges like electronics, computers and household appliances such as refrigerators and freezers as well as games consoles, household items and home furnishing experienced very strong demand from customers at times. The coronavirus pandemic aside, the transformation of the business model from a pure online retailer to an e-commerce platform is set to gain momentum in the 2020/21 financial year. In the coming months, OTTO will be onboarding around 1,000 new partners. Once signed up, these partners will be able to offer their product ranges online on otto.de. The product and item portfolio has been expanded to include the automatic sign-up of partners to the platform's self-service tool, which will enable OTTO to expand its home & living offering in a consistent, managed way.

As brands with an international presence, the Crate and Barrel Group, Witt Group and bonprix Group are expected to experience an adverse impact on sales due to the coronavirus pandemic. The Crate and Barrel group is particularly affected because a considerable amount of its revenue is attributable to over-the counter retail sales. Although the international fashion company bonprix is more affected by the crisis because of its textile-heavy product range, the Witt Group will also have to contend with adverse effects, most notably because of the high percentage of its revenue obtained from the catalogue business. Growth at the myToys Group, which recently recorded increased demand, is proving very resilient.

The **Financial Services segment** is mostly dominated by the internationally active EOS Group. In the coming financial years, the EOS Group will continue to be the main focus in the area of debt purchasing. In comparison to previous years, secure debt purchasing will play an increasingly important role here. Given the Group's experience with the valuation and recovery of property, property portfolios are another asset class that present opportunities for the EOS Group. It is not possible to clearly determine the impact of the coronavirus pandemic on the Financial Services segment for the current 2020/21 financial year. Non-performing receivables will increase as a result of the pandemic. However, the payment moratoriums introduced by various countries will have the effect of making these receivables packages temporarily unavailable for purchase. Once these moratoriums end, it is expected that there will again be a significant increase in the supply of receivables packages. After an initial sharp decline in the short term, revenue is expected to normalise.

The Otto Group's Digital Solutions Group, which is part of the Financial Services segment, operates the Corporate Company Building for the Otto Group and intends to establish new start-ups in the e-commerce, fintech and logistics fields in the 2020/21 financial year.

In the 2019/20 financial year, the Financial Services segment recorded adjusted revenue growth of 9.9%, which equates to EUR 866.0 million. For the 2020/21 financial year, the Otto Group is expecting this segment to experience a sharp decline in revenue compared to the very high revenue recorded in the previous year. Prior to the outbreak of the coronavirus pandemic, the Otto Group had been expecting revenue in the Financial Services segment for the 2020/21 financial year to be on a par with that achieved in the previous financial year.

The **Services segment** is mainly dominated by the Hermes Group. The Group companies of the Hermes Fulfilment Group will further optimise the service offering for the Otto Group's trading companies, in particular warehousing and returns processing services. Hermes' distribution business is continuously developing custom and tailor-made delivery solutions in order to serve customers and partners in the best possible way. This includes the Europe-wide expansion of its network of parcel collection hubs as well as the development of its international, cross-border parcel business. For the 2020/21 financial year, it is planned to find a partner for the Hermes Group's parcel distribution business in order to be optimally prepared for the market challenges of the future. The process of searching for a partner was initiated in the past 2019/20 financial year and is already at such an advanced stage that Corporate planning is assuming a loss of consolidation control and, by extension, a deconsolidation of the relevant Group companies. As a result, revenue as at the date of deconsolidation will no longer be reported in the Otto Group's consolidated income statement. As things stand currently, the Otto Group is planning for this deconsolidation to take place in the second half of the 2020/21 financial year. For reasons of simplification, the revenue forecast for the Services segment is based on the assumption that deconsolidation will take place at the end of the 2020/21 financial year. Although the segment reported adjusted external revenue growth of 10.9% in the 2019/20 financial year, the Otto Group is expecting a smaller yet still significant increase in external revenue in the 2020/21 forecast year. Hermes Germany GmbH in Germany and Hermes Parcelnet Limited in the UK are experiencing an increase in orders, not least due to the temporary fall-off affecting parts of the over-the-counter retail sector as a result of the pandemic, and are also winning many new customers outside the Otto Group. However, in individual sub-markets, the coronavirus pandemic is also having a dampening effect on the parcel distribution business. In France, for example, MONDIAL RELAY has had to contend with revenue losses, as parcel collection hubs are currently closed in France. Otherwise, global logistics operations in warehousing and distribution are stable as a result of effective crisis management and are also providing employees with the greatest possible protection in terms of operational processes.

At **Group level**, the Otto Group achieved overall adjusted revenue growth of 4.3% in the 2019/20 financial year. Taking into account the aforementioned coronavirus pandemic, which is likely to have a significant impact on the Multichannel Retail segment in particular, – which generates the highest volume of revenue – the creation of a forecast for the 2020/21 financial year is challenging. Prior to the global outbreak of the coronavirus, the Group had assumed that revenue growth would be on a par with that of the previous financial year, all things remaining as they were. However, due to the difficult macroeconomic situation and some challenging conditions in certain sectors, revenue levels are now expected to be slightly below the previous year's level, adjusted for changes in the scope of consolidation.

With regard to the profit situation, the coronavirus pandemic will have an adverse effect on the Otto Group in the forecast year, especially in the Multichannel Retail segment. In particular, this concerns the brand concepts of the focus companies, i.e. the Crate and Barrel Group, the Witt Group and the bonprix Group. Due to macroeconomic uncertainties, it is virtually impossible to provide a reliable income forecast for the Group at this time.

Apart from the direct effects of the coronavirus pandemic, the OTTO Group company's EBT will continue to be adversely affected by its restructuring from a pure online retailer to an e-commerce platform. The EOS Group will continue to make a strong contribution to EBT. Otto Group Digital Solutions GmbH will continue to have a dampening effect on the Otto Group's EBT due to planned losses attributable to its start-up activities. The sale of SportScheck GmbH and its subsidiaries at the end of the 2019/20 financial year will have a favourable effect on EBT as of the 2020/21 financial year.

Without taking into account the anticipated impact of deconsolidating the Hermes Group's package distribution business, the Executive Board is expecting Group-level EBT for the 2020/21 financial year to be very significantly impacted by the coronavirus pandemic in comparison to the 2019/20 financial year just gone by.

STATEMENT BY THE EXECUTIVE BOARD ON THE OTTO GROUP'S FUTURE PERFORMANCE

Targeted, cross-segment investment in business models in relevant markets, which the Executive Board believes are capable of delivering particularly strong performance and high growth levels, will continue to be the guiding principle for managing investments in the future. The goal of the Executive Board is to achieve ambitious growth and ROI targets for the Otto Group, and will be monitoring the Otto Group's key financial pillars at all times.

In addition to its financial goals, the Otto Group stands firmly by its traditional values and in so doing will consolidate its position in the market. This includes corporate responsibility in relation to customers, partners, suppliers and employees, as well as respect for the environment and nature. Especially in light of the current coronavirus pandemic, the Otto Group is keenly aware of its responsibilities. Every effort is being made to protect the workforce first and foremost, but also to ensure that business processes continue to adhere to the same quality standards when it comes to fulfilling the needs of our customers. Because of its effective crisis management strategy, the Otto Group is in a strong position and can look to the future with confidence, even in these difficult times.

The exact way in which the forecast year will unfold remains highly uncertain due to the coronavirus pandemic. The current 2020/21 financial year will be challenging, but given the extensive measures already taken, the Executive Board is of the view that from a revenue and income perspective, the Otto Group is in a strong position to navigate challenges of the coming years.

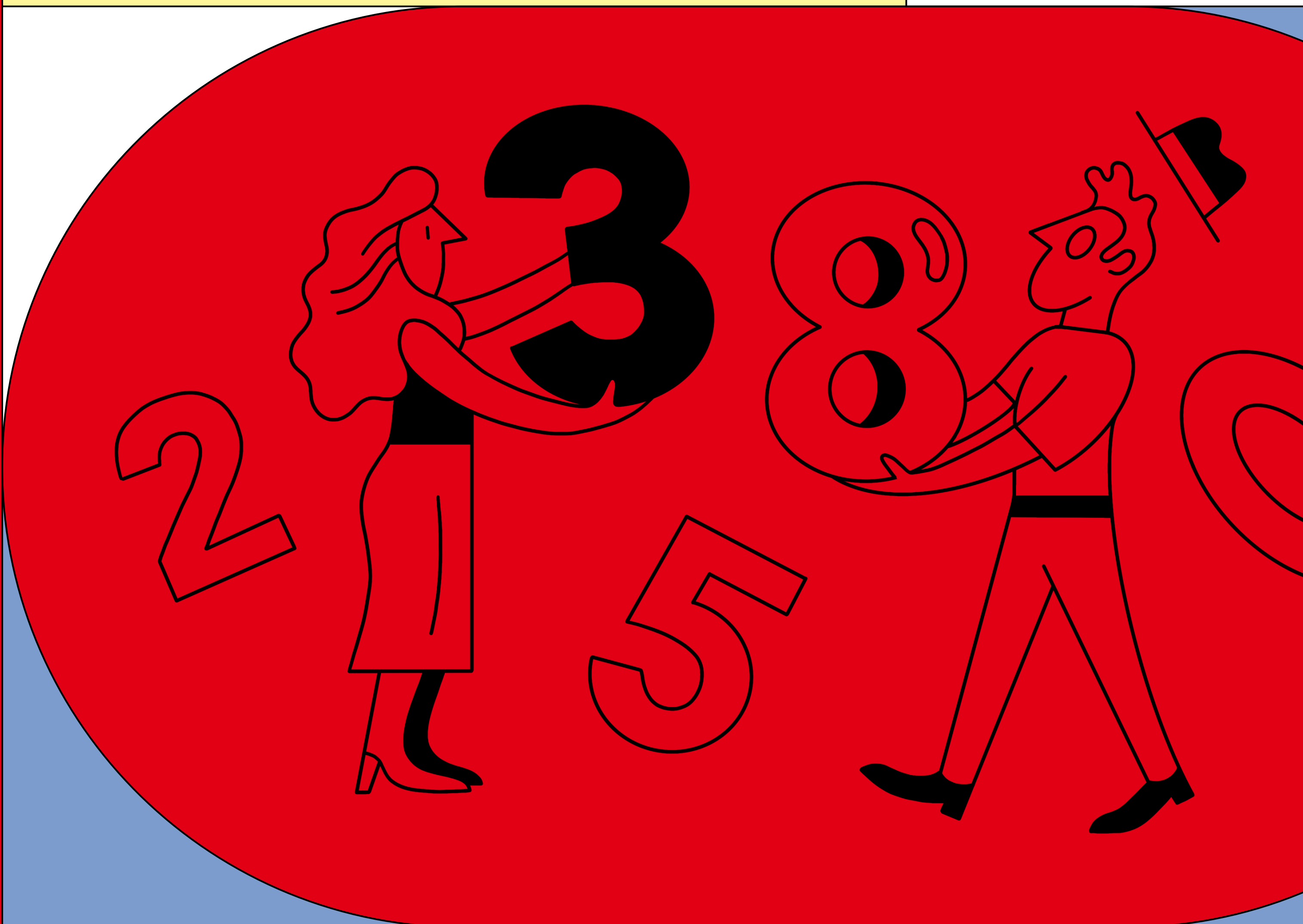
The net assets and financial position of the Otto Group is solid.

The Executive Board takes a positive view of the Group's business situation.

Hamburg, 6 May 2020

The Executive Board of Verwaltungsgesellschaft Otto mbH

Alexander Birken	Sebastian Klauke
Dr Marcus Ackermann	Petra Scharner-Wolff
Sergio Bucher	Kay Schiebur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Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

1 March 2019 to 29 February 2020

	2019/20	2018/19
	EUR 000	EUR 000
Profit for the year	**213,676**	**176,865**
Items that may be reclassified subsequently to profit or loss		
Gains and losses arising from translation of financial statements in foreign currencies	6,961	35,911
Gains and losses arising from changes in fair values of derivatives held as cash flow hedges after tax	–32,510	14,987
Gains and losses in other comprehensive income	–13,396	23,724
Gains and losses reclassified to profit or loss	–19,114	–8,737
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method after tax	27,264	25,406
Items that will not be reclassified to profit or loss		
Gains and losses arising from changes in other financial investments after tax	23,576	1,718
Remeasurements of the net defined benefit liability after tax	–248,643	–52,247
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method (net defined benefit liability)	–711	–5,465
Other comprehensive income for the year	**–224,063**	**20,310**
Total comprehensive income for the year	**–10,387**	**197,175**
Total comprehensive income attributable to the owners of Otto (GmbH & Co KG)	–109,476	121,608
Total comprehensive income attributable to non-controlling interests	79,605	63,646
Total comprehensive income attributable to publicly listed equity and participation certificates	19,484	11,921

Consolidated Income Statement

1 March 2019 to 29 February 2020

	Note	2019/20	2018/19
	[No.]	EUR 000	EUR 000
Revenue and income from customer financing	[6]	**14,263,366**	**13,611,059**
Revenue		14,079,743	13,446,382
Income from customer financing		183,623	164,677
Other operating income	[7]	633,941	647,403
Change in inventories and other internal costs capitalised		51,342	41,761
Purchased goods and services	[8]	-7,660,551	-7,287,038
Personnel expenses	[9]	-2,530,986	-2,414,394
Other operating expenses	[10]	-3,846,679	-4,089,821
Income (loss) from equity investments	[11]	102,033	15,438
Income from associates and joint ventures		98,673	13,504
Income from other equity investments		3,360	1,934
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,012,466**	**524,408**
Depreciation and amortisation	[12]	-555,250	-272,334
Impairment losses	[13]	-24,760	-29,975
Earnings before interest and tax (EBIT)		**432,456**	**222,099**
Interest and similar income	[14]	13,922	20,898
Interest and similar expenses	[14]	-176,015	-139,955
Other net financial income (expense)	[14]	20,348	174,534
Earnings before tax (EBT)		**290,711**	**277,576**
Income tax	[15]	-77,035	-100,711
Profit for the year		**213,676**	**176,865**
Profit attributable to the owners of Otto (GmbH & Co KG)		106,088	100,660
Profit attributable to non-controlling interests		88,104	64,284
Profit attributable to publicly listed equity and participation certificates		19,484	11,921

Consolidated Balance Sheet

As at 29 February 2020

Assets

	Note	29.02.2020	28.02.2019
	[No.]	EUR 000	EUR 000
Non-current assets			
Fixed assets		3,380,111	2,993,002
Intangible assets	[16]	644,930	744,723
Property, plant and equipment	[17]	1,165,738	1,439,562
Right-of-use assets	[39]	740,056	0
Investments in associated companies and joint ventures	[18]	700,991	706,450
Other financial investments	[18]	128,396	102,267
Trade receivables	[20]	130,779	167,405
Receivables from financial services	[20]	1,163,015	1,064,178
Receivables from related parties	[21]	13,275	0
Other assets	[22]	570,607	498,969
		5,257,787	**4,723,554**
Deferred tax	[15]	**159,010**	**123,234**
Current assets			
Inventories	[19]	1,595,328	1,778,038
Trade receivables	[20]	980,847	1,341,343
Receivables from financial services	[20]	479,591	377,667
Receivables from related parties	[21]	60,918	74,290
Income tax receivables		22,363	43,254
Other assets	[22]	595,369	356,062
Securities		19,806	17,537
Cash and cash equivalents		311,938	368,728
Assets held for sale	[5c]	1,257,619	420,609
		5,323,779	**4,777,528**
Total assets		**10,740,576**	**9,624,316**

Equity and liabilities

	Note	29.02.2020	28.02.2019
	[No.]	EUR 000	EUR 000
Equity			
Equity attributable to the owners of Otto (GmbH & Co KG)		415,192	673,913
Capital provided by the limited partners in Otto (GmbH & Co KG)		820,000	820,000
Consolidated retained earnings		742,683	804,968
Net cost in excess of net assets acquired in step acquisitions		–223,470	–223,532
Accumulated other comprehensive income		–936,498	–740,088
Accumulated other equity		12,477	12,565
Non-controlling interests		601,903	609,186
Publicly listed equity and participation certificates		434,503	422,984
	[23]	**1,451,598**	**1,706,083**
Non-current provisions and liabilities			
Profit and loss participation rights	[24]	22,941	24,001
Provisions for pensions and similar obligations	[25]	1,589,429	1,477,998
Other provisions	[26]	130,858	151,363
Bonds and other notes payable	[27]	1,170,659	954,569
Bank liabilities	[27]	812,064	858,209
Other financing liabilities	[28]	0	52,024
Trade payables		545	34,232
Lease liabili-ties	[39]	655,170	0
Liabilities to related parties	[29]	461	739
Other liabilities	[30]	195,144	292,028
		4,577,271	**3,845,163**
Deferred tax	[15]	**88,271**	**95,706**
Current provisions and liabilities			
Profit and loss participation rights	[24]	1,640	2,189
Other provisions	[26]	117,776	174,765
Bonds and other notes payable	[27]	393,846	502,460
Bank liabilities	[27]	340,232	651,937
Other financing liabilities	[28]	29,002	106,050
Trade payables		1,447,745	1,594,304
Liabilities to related parties	[29]	46,514	44,836
Income tax liabilities		27,366	40,100
Lease liabili-ties	[39]	201,327	0
Other liabilities	[30]	849,328	776,282
Liabilities classified as held for sale	[5c]	1,168,660	84,441
		4,623,436	**3,977,364**
Total equity and liabilities		**10,740,576**	**9,624,316**

Consolidated Cash Flow Statement

1 March 2019 to 29 February 2020

	2019/20	2018/19
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	432,456	222,099
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets, property, plant and equipment and right-of-use assets	577,236	300,966
Profits (–)/losses (+) from associated companies and joint ventures	–98,673	–13,505
Dividends received from associated companies and joint ventures	60,694	10,328
Increase (+)/decrease (–) in allowances on loans, receivables and inventories	91,908	105,902
Gains (–)/losses (+) on disposals of items in intangible assets and property, plant and equipment	–5,720	–27,349
Pension payments exceeding (–)/less than (+) pension expense	–18,951	–4,649
Other non-cash income (–) and expenses (+)	461	383
Gross cash flow from operating activities	**1,039,411**	**594,175**
Increase (–)/decrease (+) in working capital	5,090	–519,548
Decrease (+)/increase (–) in inventories (gross)	135,914	–92,120
Decrease (+)/increase (–) in trade receivables (gross)	–10,496	–203,303
Decrease (+)/increase (–) in receivables from financial services (gross)	–187,879	–275,859
Increase (+)/decrease (–) in provisions	–14,975	22,530
Increase (+)/decrease (–) in trade payables	68,885	121,678
Increase (+)/decrease (–) in receivables due from related parties/ in payables due to related parties	8,833	19,169
Changes in other assets/liabilities	4,808	–111,643
Net cash generated from operating activities	**1,044,501**	**74,627**
Income tax paid	–75,510	–96,080
Interest received	8,056	11,166
Cash inflows/outflows from non-current financial assets and securities	1,125	627
Cash flow from operating activities	**978,172**	**–9,660**

	2019/20	2018/19
	EUR 000	EUR 000
Cash flow from operating activities	**978,172**	**– 9,660**
Capital expenditures on purchases of intangible assets and property, plant and equip-ment	– 351,127	– 385,461
Capital expenditures on purchases of other financial investments	– 52,089	– 105,964
Proceeds from disposals of intangible assets and property, plant and equipment	29,108	63,811
Proceeds from disposals of consolidated subsidiaries	57,337	49,292
Proceeds from disposals of other financial investments	122,041	174,963
Cash flow from investing activities	**– 194,730**	**– 203,359**
Free cash flow	**783,442**	**– 213,019**
Dividends paid	– 167,095	– 212,766
of which, attributable to the owners of Otto (GmbH & Co KG)	– 73,947	– 91,759
Interest paid and bank charges	– 209,875	– 141,034
Proceeds from additions to equity	10,000	301,350
Payments for step acquisitions in subsidiaries	0	– 4,925
Payments (net) for repurchases of profit and loss participation rights	– 2,279	– 1,854
Payments of principal on finance leases	0	– 19,656
Payments of principal on lease payments	– 284,076	0
Proceeds from assumption of other financial liabilities	599,975	375,338
Repayments of other financial liabilities	– 776,838	– 216,034
Cash flow from financing activities	**–830,188**	**80,419**
Cash and cash equivalents at beginning of period	385,952	517,745
Net increase in cash and cash equivalents	– 46,746	– 132,600
Changes in cash and cash equivalents due to foreign exchange rates	1,140	807
Reclassification with regard to disposal groups	– 10,888	0
Cash and cash equivalents at end of period (see Note (33))	**329,458**	**385,952**

Statement of Changes in Consolidated Equity

	Capital provided by the limited partners in Otto (GmbH & Co KG)	Consolidated retained earnings	Net cost in excess of net assets acquired in step acquisitions	Gains and losses arising from translation of financial statements in foreign currencies	Gains and losses arising from changes in fair values of derivatives held as cash flow hedges
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
2019/20					
1 March 2019	**820,000**	**804,967**	**– 223,532**	**– 123,337**	**2,828**
Changes in accounting according to IFRS 16	–	– 72,135	–	–	–
1 March 2019 (adjusted)	**820,000**	**732,832**	**– 223,532**	**– 123,337**	**2,828**
Total comprehensive income	–	106,088	–	6,689	– 28,853
Profit for the year	–	106,088	–	–	–
Other comprehensive income for the year	–	–	–	6,689	– 28,853
Capital increase/repayment	–	–	–	–	–
Changes in entities consolidated	–	– 18,761	62	–	–
Dividends paid	–	– 73,947	–	–	–
Other changes recognised directly in equity	–	– 3,529	–	–	–
29 February 2020*	**820,000**	**742,683**	**– 223,470**	**– 116,648**	**– 26,025**
2018/19					
1 March 2018	**820,000**	**813,903**	**– 215,626**	**– 158,974**	**– 13,504**
Total comprehensive income	–	100,660	–	35,637	16,332
Profit for the year	–	100,660	–	–	–
Other comprehensive income for the year	–	–	–	35,637	16,332
Capital increase/repayment	–	–	–	–	–
Changes in entities consolidated	–	– 7,757	2,050	–	–
Step acquisitions/partial disposals	–	–	– 9,956	–	–
Dividends paid	–	– 91,759	–	–	–
Other changes recognised directly in equity	–	– 10,080	–	–	–
28 February 2019	**820,000**	**804,967**	**– 223,532**	**– 123,337**	**2,828**

* Accumulated other comprehensive income and expenses relating to disposal groups amounted to EUR – 78,514 thousand as at 29 February 2020, of which EUR – 68,972 thousand results from the remeasurement of the net defined liability, and EUR – 9,542 thousand from gains and losses arising from translation of financial statements in foreign currencies.

Remeasurements of the net defined liability	Gains and losses arising from other financial investments	Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method	Accumulated other equity	Equity attributable to the owners of Otto (GmbH & Co KG)	Non-controlling interests	Publicly listed equity and participation certificates	Total
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
–653,930	**4,935**	**29,415**	**12,565**	**673,911**	**609,188**	**422,984**	**1,706,083**
–	–	–	–	–72,135	–	–	–72,135
–653,930	**4,935**	**29,415**	**12,565**	**601,776**	**609,188**	**422,984**	**1,633,948**
–243,257	23,576	26,281	–	–109,476	79,605	19,484	–10,387
–	–	–	–	106,088	88,104	19,484	213,676
–243,257	23,576	26,281	–	–215,564	–8,499	–	–224,063
–	–	–	–	–	–	10,000	10,000
–4,461	23,616	–	–85	371	–11,588	–	–11,217
–	–	–	–	–73,947	–75,183	–17,965	–167,095
–	–	–	–3	–3,532	–119	–	–3,651
–901,648	**52,127**	**55,696**	**12,477**	**415,192**	**601,903**	**434,503**	**1,451,598**
–603,775	**4,154**	**9,123**	**15,118**	**670,419**	**650,253**	**116,985**	**1,437,657**
–52,094	781	20,292	–	121,608	63,646	11,921	197,175
–	–	–	–	100,660	64,284	11,921	176,865
–52,094	781	20,292	–	20,948	–638	–	20,310
–	–	–	–	–	1,350	300,000	301,350
1,939	–	–	2	–3,766	2,730	–	–1,036
–	–	–	–	–9,956	5,031	–	–4,925
–	–	–	–	–91,759	–115,085	–5,922	–212,766
–	–	–	–2,555	–12,635	1,263	–	–11,372
–653,930	**4,935**	**29,415**	**12,565**	**673,911**	**609,188**	**422,984**	**1,706,083**

Consolidated Statement of Changes in Fixed Assets

2019/20

	Historical cost						
	01.03.2019*	Additions	Disposals	Reclassifications	Reclassification IFRS 5	Foreign currency translation	29.02.2020
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets							
Internally generated intangible assets	471,478	51,983	–101,066	29,026	–106,179	4,003	349,245
Purchased intangible assets	787,470	41,500	–65,631	15,623	–110,433	6,263	674,792
Goodwill	443,731	3,935	–1,930	–	–6,894	9,904	448,746
Advance payments on intangible assets	53,439	40,753	–5,605	–43,416	–4,694	472	40,949
Total	**1,756,118**	**138,171**	**–174,232**	**1,233**	**–228,200**	**20,642**	**1,513,732**
Property, plant and equipment							
Land, land rights and buildings	1,571,233	45,706	–59,529	27,176	–46,827	24,169	1,561,928
Technical plant and machinery	607,132	29,931	–27,291	26,482	–189,854	708	447,108
Other plant, operating and office equipment	852,845	82,999	–80,326	1,582	–229,827	8,408	635,681
Advance payments and construction in progress	80,822	60,815	–3,588	–56,473	–4,737	234	77,073
Assets under finance lease	–	–	–	–	–	–	–
Total	**3,112,032**	**219,451**	**–170,734**	**–1,233**	**–471,245**	**33,519**	**2,721,790**
Right-of-use assets							
Land, land rights and buildings	1,147,672	297,187	–119,413	–	–480,816	8,688	853,318
Technical plant and machinery	75,281	18,652	–104	–	–58,637	256	35,448
Other plant, operating and office equipment	95,293	34,643	–1,879	–	–103,287	1,283	26,053
Total	**1,318,246**	**350,482**	**–121,396**	**–**	**–642,740**	**10,227**	**914,819**

* The first-time application of IFRS 16 resulted in an adjustment as at 1 March 2019 (see Note (3)(r)).

Accumulated depreciation, amortisation and impairments									Carrying amount	
01.03.2019	Disposals	Depreciation and Amortisation	Impairments	Reclassifications	Reversals of impairment losses	Reclassification IFRS 5	Foreign currency translation	29.02.2020	29.02.2020	28.02.2019
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
–327,147	97,013	–51,991	–1,223	–3	–	34,234	–2,896	–252,013	97,232	144,331
–561,953	61,648	–66,949	–12,505	–5	–	89,517	–4,296	–494,543	180,249	225,517
–120,779	1,809	–	–	–	–	18	–1,539	–120,491	328,255	322,952
–1,516	–	–	–160	–	–	–	–79	–1,755	39,194	51,923
–1,011,395	**160,470**	**–118,940**	**–13,888**	**–8**	**–**	**123,769**	**–8,810**	**–868,802**	**644,930**	**744,723**
–790,659	57,103	–59,026	–3,329	–1,647	2,591	20,285	–18,404	–793,086	768,842	780,574
–387,445	26,801	–28,385	–576	–2,138	136	79,265	–524	–312,866	134,242	219,687
–567,645	76,792	–74,745	–2,318	3,793	47	120,940	–6,738	–449,874	185,807	285,200
–222	–	–	–	–	–	–	–4	–226	76,847	80,600
–	–	–	–	–	–	–	–	–	–	73,501
–1,745,971	**160,696**	**–162,156**	**–6,223**	**8**	**2,774**	**220,490**	**–25,670**	**–1,556,052**	**1,165,738**	**1,439,562**
–	3,389	–217,935	–3,661	–	–	58,822	–1,517	–160,902	692,416	–
–	36	–23,460	–299	–	–	18,456	–129	–5,396	30,052	–
–	366	–32,759	–689	–	–	24,889	–272	–8,465	17,588	–
–	**3,791**	**–274,154**	**–4,649**	**–**	**–**	**102,167**	**–1,918**	**–174,763**	**740,056**	**–**

Consolidated Statement of Changes in Fixed Assets

2018/19

	Historical cost					
	01.03.2018	Additions	Disposals	Reclassifica-tions	Foreign currency translation	28.02.2019
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets						
Internally generated intangible assets	397,797	37,339	–6,021	35,976	6,387	471,478
Purchased intangible assets	758,744	46,988	–37,526	15,371	3,893	787,470
Goodwill	426,433	10,315	–6,243	–	13,226	443,731
Advance payments on intangible assets	54,203	58,125	–6,151	–53,518	780	53,439
Intangible assets under finance lease	2,715	–	–2,709	–	–	6
Total	**1,639,892**	**152,767**	**–58,650**	**–2,171**	**24,286**	**1,756,124**
Property, plant and equipment						
Land, land rights and buildings	1,500,369	45,935	–28,440	17,882	35,487	1,571,233
Technical plant and machinery	601,283	22,764	–23,614	6,518	181	607,132
Other plant, operating and office equipment	809,856	89,898	–67,878	5,035	15,934	852,845
Advance payments and construction in progress	37,267	82,060	–6,859	–31,758	112	80,822
Assets under finance lease	164,823	19,967	–7,091	4,494	1,598	183,791
Total	**3,113,598**	**260,624**	**–133,882**	**2,171**	**53,312**	**3,295,823**

Accumulated depreciation, amortisation and impairments								Carrying amount	
01.03.2018	Disposals	Depreciation and Amortisation	Impairments	Reclassifications	Reversals of impairment losses	Foreign currency translation	28.02.2019	28.02.2019	28.02.2018
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
–282,775	4,572	–40,750	–3,231	–365	–	–4,598	–327,147	144,331	115,023
–522,573	36,146	–63,970	–9,176	341	88	–2,809	–561,953	225,517	236,170
–124,689	5,052	–	–	–	–	–1,142	–120,779	322,952	301,744
–241	–	–	–1,251	–	–	–24	–1,516	51,923	53,962
–1,210	1,806	–602	–	–	–	–	–6	–	1,505
–931,488	**47,576**	**–105,322**	**–13,658**	**–24**	**88**	**–8,573**	**–1,011,401**	**744,723**	**708,404**
–712,048	18,822	–58,799	–12,875	–629	1,130	–26,260	–790,659	780,574	788,321
–381,285	22,807	–28,530	–664	147	–	80	–387,445	219,687	219,998
–552,586	63,516	–64,825	–2,675	483	125	–11,683	–567,645	285,200	257,270
–319	204	–	–103	–	–	–4	–222	80,600	36,948
–99,225	5,080	–14,858	–	23	–	–1,310	–110,290	73,501	65,598
–1,745,463	**110,429**	**–167,012**	**–16,317**	**24**	**1,255**	**–39,177**	**–1,856,261**	**1,439,562**	**1,368,135**

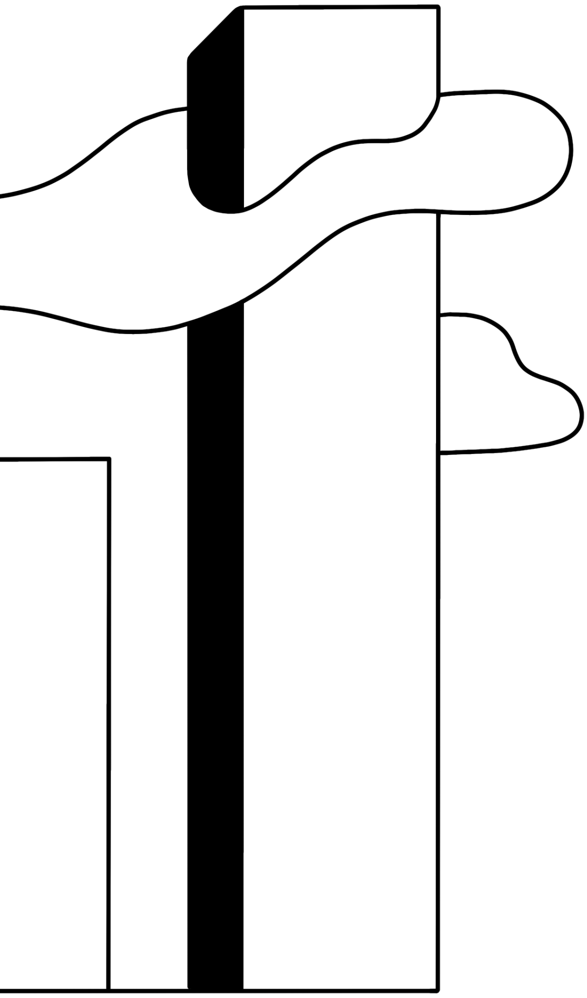
Segment Reporting

	Multichannel Retail		Financial Services	
	2019/20	2018/19	2019/20	2018/19
	EUR 000	EUR 000	EUR 000	EUR 000
Revenue and income from customer financing	10,828,492	10,484,944	865,958	823,592
External revenue	10,644,869	10,320,267	865,958	823,592
Income from customer financing	183,623	164,677	–	–
Internal revenue (inter-segment)	3,146	14,444	21,486	22,385
Purchased goods and services	– 5,851,223	– 5,573,555	–	–
Gross profit	**4,980,415**	**4,925,833**	**887,444**	**845,977**
Operating income and expenses	– 3,299,634	– 3,450,994	– 293,111	– 305,107
Personnel expenses	– 1,310,395	– 1,228,369	– 291,891	– 283,664
Income (loss) from equity investments	17,916	– 59,658	83,425	75,958
Income from associates and joint ventures	16,345	– 61,582	83,425	75,948
Income from other equity investments	1,571	1,924	–	10
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**421,112**	**214,430**	**401,357**	**345,877**
Depreciation and amortisation	– 321,029	– 173,642	– 33,306	– 20,731
Impairment losses	– 17,199	– 15,571	– 96	– 3,000
Earnings before interest and tax (EBIT)	**82,884**	**25,217**	**367,955**	**322,146**
Segment assets	**5,516,700**	**5,014,608**	**3,126,837**	**2,941,840**
Thereof, attributable to investments in associated companies and joint ventures	236,431	133,028	466,578	583,539
Capital expenditure on intangible assets and property, plant and equipment	**202,648**	**227,744**	**27,792**	**42,508**
Gross cash flow from operating activities	**465,718**	**319,728**	**366,877**	**300,554**
Employees (average number)*	**23,811**	**23,911**	**6,770**	**6,842**

* Prior year adjusted

	Services		All Segments		Holding/Consolidation		Group	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
	2,568,916	2,302,523	14,263,366	13,611,059	–	–	14,263,366	13,611,059
	2,568,916	2,302,523	14,079,743	13,446,382	–	–	14,079,743	13,446,382
	–	–	183,623	164,677	–	–	183,623	164,677
	1,267,603	1,219,909	1,292,235	1,256,738	–1,292,235	–1,256,738	–	–
	–1,960,120	–1,865,089	–7,811,343	–7,438,644	150,792	151,606	–7,660,551	–7,287,038
	1,876,399	**1,657,343**	**7,744,258**	**7,429,153**	**–1,141,443**	**–1,105,132**	**6,602,815**	**6,324,021**
	–712,343	–751,065	–4,305,088	–4,507,166	1,092,349	1,064,748	–3,212,739	–3,442,418
	–880,253	–850,663	–2,482,539	–2,362,696	–48,447	–51,698	–2,530,986	–2,414,394
	692	–862	102,033	15,438	–	–	102,033	15,438
	–1,097	–862	98,673	13,504	–	–	98,673	13,504
	1,789	–	3,360	1,934	–	–	3,360	1,934
	287,470	**56,104**	**1,109,939**	**616,411**	**–97,473**	**–92,003**	**1,012,466**	**524,408**
	–200,915	–77,961	–555,250	–272,334	–	–	–555,250	–272,334
	–7,465	–11,404	–24,760	–29,975	–	–	–24,760	–29,975
	79,090	**–33,261**	**529,929**	**314,102**	**–97,473**	**–92,003**	**432,456**	**222,099**
	531,482	**1,185,219**	**9,175,019**	**9,141,667**	**–312,986**	**–575,412**	**8,862,033**	**8,566,255**
	–	1,362	703,009	717,929	–2,018	–11,479	700,991	706,450
	127,182	**143,139**	**357,622**	**413,391**	**–**	**–**	**357,622**	**413,391**
	304,279	**65,283**	**1,136,874**	**685,565**	**–97,463**	**–91,390**	**1,039,411**	**594,175**
	21,087	**21,230**	**51,668**	**51,983**	**314**	**343**	**51,982**	**52,326**

Notes



Accounting Principles and Policies applied in the Consolidated Financial Statements

Otto (GmbH & Co KG), Werner-Otto-Straße 1–7, 22179 Hamburg, Germany (Hamburg District Court (Amtsgericht), Commercial Register No. HRA 62024) and its subsidiaries (the Otto Group) is a retailing and services group mainly operating in three economic regions: Europe, North America and Asia.

The Group's business segments comprise multichannel retail, financial services and other activities in the fields of logistics and services. The financial services include services in connection with debt collection services.

OTTO Aktiengesellschaft für Beteiligungen, Hamburg, is the parent and at the same time ultimate parent company of Otto (GmbH & Co KG). The consolidated financial statements and the Group management report of OTTO Aktiengesellschaft für Beteiligungen and of Otto (GmbH & Co KG) are published in the German Federal Gazette. The Executive Board approved the consolidated financial statements and the Group management report of Otto (GmbH & Co KG) for publication on 6 May 2020.

(1) Principles

The consolidated financial statements for the year ended 29 February 2020 of Otto (GmbH & Co KG) were prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated and issued by the International Accounting Standards Board (IASB), as adopted by the European Union, in application of the regulations contained in Directive (EC) No. 1606/2002 of the European Parliament and Council dated 19 July 2002, in conjunction with § 315e (3) of the German Commercial Code (HGB). In addition, the supplementary commercial law regulations pursuant to § 315e (3) HGB in conjunction with § 315e (1) HGB were taken into account.

The IFRS requirements were met completely and give a true and fair view of the Otto Group's financial position and financial performance.

The consolidated financial statements were prepared in principle on the basis of the recognition of assets and liabilities at amortised cost. This excludes certain non-derivative financial instruments, all derivative financial instruments as well as investments in equity instruments, which are measured at their respective fair values on the balance sheet date.

On the basis of the elective right contained in IAS 1, income and expenses recognised in profit or loss are reported in the income statement, while reconciliation of the net result for the period to total comprehensive income through other comprehensive income is recorded in a separate statement of comprehensive income.

Selected items in the income statement and balance sheet have been combined to improve clarity. These are explained in detail in the notes to the consolidated financial statements. The income statement is arranged according to the nature of expense method.

(2) Consolidation

(a) CONSOLIDATION PRINCIPLES

The Otto Group's consolidated financial statements include all significant domestic and foreign subsidiaries over which Otto (GmbH & Co KG) has complete control, as per IFRS 10, or joint control together with other parties, as per IFRS 11 and IAS 28. In accordance with IFRS 10, control is considered to exist when Otto (GmbH & Co KG) has decision-making power over the relevant activities, is exposed to variable returns, and has the ability to use its power to influence the amount of these returns.

The equity is consolidated at the acquisition date, using the acquisition method. The acquisition date is the date on which the Otto Group obtains the ability to control the acquired company's net assets and its financial and operating activities. Under the acquisition method, the cost of an acquired equity interest, including any contingent consideration, is offset against the acquirer's share of the fair value of the subsidiary's acquired assets, liabilities and contingent liabilities at the acquisition date. Any remaining differences are capitalised as goodwill. Negative differences resulting from equity consolidation at the acquisition date are immediately recognised in the income statement. Costs incurred in acquiring the equity interest are immediately expensed.

Any undisclosed reserves or charges recognised in measuring assets and liabilities at fair value upon initial consolidation are carried forward, amortised or depreciated, or reversed in subsequent periods, depending on the development of the related assets and liabilities. Goodwill is regularly reviewed for impairment in subsequent periods and is written down to its recoverable amount if appropriate.

The regulations of IFRS 3 with regard to the complete remeasurement of assets and liabilities at the time control is acquired are applied to step acquisitions of interests in companies in which the Otto Group acquires control. The fair value of equity interests previously held by the Otto Group are included in any measurement of acquisition costs. Any differences in the previous measurements of these interests are recognised in the income statement together with amounts contained in accumulated other comprehensive income.

By contrast, step acquisitions at subsidiaries in which Otto (GmbH & Co KG) already had direct or indirect control before the purchase are accounted for as transactions between shareholders. Any difference between the purchase price and the share of net assets previously attributable to non-controlling interests resulting from the purchase is shown under consolidated equity as net cost in excess of net assets acquired in step acquisitions. For such transactions, no undisclosed reserves and charges are recognised and no goodwill is reported.

In the event of a loss of control of subsidiaries in which Otto (GmbH & Co KG) continues to retain significant influence, the assets and liabilities of the subsidiaries and any non-controlling interests in those subsidiaries will be derecognised. The fair value of the remaining shares also represents the initial recognition value for subsequent reporting using the equity method.

Expenses and income as well as receivables and payables between consolidated companies are eliminated. Any material intercompany profits or losses are eliminated.

Significant associated companies and joint ventures are recognised in the consolidated financial statements using the equity method. Jointly controlled operations must be recognised with their share of assets and liabilities as well as their share of income and expenses. In accordance with IFRS 11, joint control is considered to exist when the management of a company is contractually agreed and collectively performed.

Associated companies are entities over whose financial and operating policies Otto (GmbH & Co KG) has the ability to exercise significant influence, usually because it owns between 20% and 50% of the voting rights. In accordance with IFRS 11, joint arrangements are divided into either joint ventures or joint operations, depending on the arrangement of the contractually agreed sharing of control. A joint venture is a legally independent company whereby the joint controlling parties have rights to the net assets of the company. A joint operation is considered to exist when the joint controlling parties have direct rights to assets and are directly responsible for liabilities. At the moment, there are no joint operations within the Otto Group as the Otto Group has no residual interest in the individual assets and liabilities of the joint operations of any company.

Disproportionate capital increases in return for contributions at associated companies that result in a reduction in the Otto Group's ratio of participation in these companies lead to an adjustment of the carrying amount of these investments affecting profit or loss.

Consolidation methods are applied when determining goodwill and the Group's share of the fair value of assets and liabilities. Losses from associated companies and joint ventures which exceed the carrying amounts of these companies or other non-current receivables from the financing of such companies are recognised only where there is an obligation to provide additional capital contributions. Costs incurred in the acquisition of the equity interest are capitalised as a component of the acquisition costs.

The financial statements of Otto (GmbH & Co KG) and all subsidiaries, associated companies and joint ventures included in the consolidated financial statements have been prepared using uniform accounting policies.

The financial year-end date of the financial statements of companies included in the consolidated financial statements is normally the same as that of the parent company. Group companies with different financial year-end dates are included based on the financial statements as at their own year-end dates, provided the date is no more than three months earlier than the Group's financial year-end date. Any significant events that occur between the different balance sheet dates are taken into account.

(b) TRANSLATION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCIES

The consolidated financial statements were prepared in euros. Unless otherwise specified, all amounts are stated in thousands of euros (EUR 000).

Assets and liabilities of subsidiaries whose functional currency is not the euro are translated using the closing rate as at balance sheet date. Goodwill is also translated at the closing rate, as are fair value adjustments to assets and liabilities of subsidiaries recognised at the time of initial consolidation. Items in the income statement are translated using the weighted average exchange rate for the year concerned. Equity components of subsidiaries are translated at the corresponding historical exchange rate at the time they arise. Exchange differences resulting from the translation of foreign currencies are recognised as foreign currency translation adjustments under accumulated other comprehensive income or non-controlling interests.

The exchange rates used for translating relevant foreign currency financial statements into euros were as follows:

	Average rate		Closing rate	
1 Euro in foreign currencies	2019/20	2018/19	29.02.2020	28.02.2019
US dollar (USD)	1.113	1.167	1.098	1.142
Russian ruble (RUB)	71.422	75.041	73.610	75.089
British pound (GBP)	0.872	0.884	0.853	0.858
Japanese yen (JPY)	121.370	128.821	119.360	126.440
Polish zloty (PLN)	4.291	4.284	4.326	4.309
Canadian dollar (CAD)	1.476	1.526	1.476	1.504
Brazilian real (BRL)	4.483	4.356	4.923	4.269
Hong Kong dollar (HKD)	8.709	9.149	8.555	8.961
Swiss franc (CHF)	1.102	1.150	1.061	1.134

(3) Accounting policies

(a) INTANGIBLE ASSETS

Internally generated intangible assets are recognised at cost incurred during the development phase, i.e. after the technical and economic feasibility of the asset's development was determined and until its completion. Costs capitalised comprise all costs directly and indirectly attributable to the development phase.

Acquired intangible assets are measured at cost.

With the exception of goodwill and recognised trademark rights and domains in the Multichannel Retail segment totalling EUR 26,172 thousand (28 February 2019: EUR 26,197 thousand), the Otto Group has no intangible assets with indefinite useful lives. Appropriate maintenance investment is made to uphold the lasting recoverability of these trademarks. All other internally-generated and acquired intangible assets are amortised on a straight-line basis over their useful lives commencing at the time they are initially used, as follows:

	Useful life in years
Software	2–12
Licences	Term of licence agreement
Franchises	max. 20
Websites	max. 1

Gains or losses from the disposal of intangible assets are reported under other operating income or expenses.

(b) PROPERTY, PLANT AND EQUIPMENT

Assets included in property, plant and equipment are capitalised at cost and depreciated applying the straight-line method over their estimated useful lives. Changes in residual values or useful life during use are taken into account in the measurement of depreciation. The cost of property, plant and equipment produced internally within the Group includes all direct costs and overheads directly attributable to their production. Subsequent expenses are capitalised if these lead to a change in the purpose of the use or to an increase in the value in use of the asset. Gains or losses from disposals of intangible assets and property, plant and equipment are reported under other operating income or expenses.

Depreciation is based on the following Group-wide useful lives:

	Useful life in years
Buildings	15–50
Leasehold improvements	Rental term, max. 28
Technical plant and machinery	4–30
Operating and office equipment	2–30

(c) IMPAIRMENT LOSSES ON INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Impairment losses on intangible assets, including goodwill, and on property, plant and equipment as well as right-of-use assets are recognised when the carrying amount of an asset is no longer covered by the estimated proceeds from its disposal, or the discounted net cash flow from its future use. If the recoverable amount cannot be determined for an individual asset, cash flow is calculated for the next highest identifiable group of assets and for which such cash flows can be determined. Goodwill is allocated to the relative cash-generating units based on the Group's internal reporting system.

Net cash flow from future use (value in use) is generally determined using the Group's projections over a three-year period, based on which net cash flow trends are inferred for the subsequent periods based on a growth factor of 0.50% to 1.00%. Projected net cash flows are discounted on an after-tax basis using a risk-adjusted, country-specific interest rate. Other parameters are taken from standardised industry data. Discount rates of between 4.65% and 9.41% (28 February 2019: 5.88% to 8.83%) were used for the impairment tests.

Impairment losses are reversed in subsequent periods if the reason for impairment no longer applies. Such reversals may not raise the carrying amount of the asset above the amount that would have been determined had no impairment loss been recognised for the asset in earlier years. An impairment loss recognised for goodwill is not reversed.

(d) FINANCIAL INSTRUMENTS

The Otto Group uses non-derivative and derivative financial instruments. These include cash and cash equivalents, receivables, other financial investments, other financial assets, financial liabilities as well as forward exchange transactions, currency swaps, currency options and interest rate swaps.

The Otto Group accounts for financial assets on delivery, i.e. on settlement date. Derivative financial instruments, which are accounted for on the trading date, are an exception. Initial recognition of a financial asset is based on the asset's classification under one of the following three IFRS 9 categories: "Measured at amortised cost (AC)", "Measured at fair value through other comprehensive income (FVOCI)" and "Measured at fair value through profit or loss (FVPL)". In the Otto Group, a financial asset is recognised initially at fair value plus any directly attributable transaction costs, provided the financial asset does not fall under the FVPL category. Trade receivables without significant financing components form an exception here and are measured at the transaction price. In accordance with IFRS 9, financial assets are subsequently measured either at amortised cost using the effective interest method or at fair value through other comprehensive income or through profit or loss.

Financial liabilities are initially measured at fair value taking into consideration premiums, discounts and transaction costs. Subsequent measurement is carried out at amortised cost. Non-current liabilities are measured at amortised cost using the effective interest method. Financial liabilities (FVPL) are measured at fair value both on initial and subsequent recognition.

In accordance with IFRS 9, impairment losses on financial assets are calculated using an expected credit loss model. This requires discretionary decisions to be taken in terms of assessing the extent to which expected credit losses are influenced by changes in economic factors. Trade receivables and contract assets without significant financing components are to be measured based on lifetime credit losses at all times, and this approach should also be applied if the credit risk of a financial asset as at the closing date has increased significantly since it was first recognised. The Otto Group uses the simplified procedure for the classification of risk prevention for trade receivables, whereby the amount of the value allowance since initial recognition of the trade receivable is measured using the expected credit losses over the term. In the case of receivables from financial services, the special provision for financial assets for which there is objective evidence of impairment losses on receipt is applied. These are to be reported at their carrying amount reduced by the credit losses expected over the entire term, and amortised accordingly using a risk-adjusted effective interest rate. At the financial year-end date, only the cumulated changes to the expected credit losses over the term since initial recognition are to be reported as a value allowance.

Financial assets and financial liabilities are derecognised if either the rights to cash flows generated from the assets expire, or substantially all risks are transferred to third parties in such a manner that meets the criteria for derecognition. The Otto Group sells receivables with terms of up to three years in the form of ABS (asset-backed securities) transactions. Regardless of whether such receivables have been legally transferred to the transferee, the Otto Group must continue to recognise them as long as any Group company substantially retains all the risks and rewards of ownership under the terms of the contract concerned. As long as the receivable is still recognised by the Group, any funds the Group company receives from the sale are treated as a liability until the customer has settled the receivable sold in full. Another aspect of ABS transactions concerns the Otto Group's obligation to service the receivables sold. Appropriate provisions amounting to EUR 5,520 thousand (28 February 2019: EUR 5,109 thousand) are recognised for these obligations as at the balance sheet date.

Financial liabilities are derecognised if the corresponding obligations are fulfilled, lapse, or are cancelled, or if significant changes are made to the contract terms.

Pursuant to IFRS 13, all financial instruments that are accounted for in the financial statements at fair value are categorised into three levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the company can access;

Level 2: input factors other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: factors for the measurement of the asset or liability that are not based on observable market data (unobservable inputs).

Reclassifications between the various levels are recognised at the end of the reporting period in which the change is made.

(i) FINANCIAL ASSETS MEASURED AT AMORTISED COST

Cash and cash equivalents consist of cash on hand and bank deposits. They are recognised at their nominal value.

Trade receivables, receivables from financial services and other non-derivative financial assets are initially recognised at fair value. Receivables from financial services include purchased receivables.

Subsequent measurement is carried out at amortised cost, using the effective interest method.

Impairment losses on receivables and other non-derivative financial assets are recorded on a value allowance account. Allowances are recognised as soon as objective evidence points to the existence or expected existence of a credit risk in relation to the financial asset. A financial asset is considered to be at risk of default if the borrower is not expected to fully meet its obligations to the Otto Group or if the financial asset is handed over to a collection agency. At the balance sheet date, the impairment of the financial assets measured at amortised cost is reviewed within the Group. An impairment exists if at least one event has an adverse effect on the estimated future cash flow of the financial asset. Indications of an impairment loss can be, for example, default or delinquency in interest or principal payments, deterioration of creditworthiness, high probability that the debtor will become insolvent, or a change or expected change to political or macroeconomic conditions. The amount of the value allowance is based on historical values in addition to projections in relation to future economic conditions and events as well as individual risk assessments. If irrecoverability is to be assumed, the items are derecognised.

In the 2019/20 financial year, no changes were made to significant assumptions concerning value allowance estimates.

(ii) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Convertible notes included in other financial assets are measured at fair value through profit or loss as they do not result in interest and principal payments per se, and thus a specific cash flow. In addition, this category includes earn-out agreements for which the fair value can vary according to certain variables.

Securities traded on the capital market are also included in this category.

(iii) INVESTMENTS IN EQUITY INSTRUMENTS

Shares in companies that do not follow IFRS 10, IFRS 11 or IAS 28 accounting rules are reported under other financial investments. For such investments in equity instruments, IFRS 9 provides for measurement at fair value through profit or loss as well as the option to have value changes recognised in other comprehensive income. Each financial instrument is to be classified on an individual basis.

The Otto Group recognises investments in equity instruments through other comprehensive income as well as through profit or loss. Investments for which changes in value cannot be recorded in other comprehensive income are measured through profit and loss. This is the case if the shares do not fulfil the criteria defined in IAS 32 in relation to equity classifications or if the shares are not held for strategic reasons. All other investments can be measured at fair value through other comprehensive income. The decision to classify an investment based on FVOCI or FVPL is made on a case-by-case basis. Subsidiaries that are not included in the consolidated financial statements due to their minor significance are accounted for at fair value through profit or loss.

Investments in equity instruments are measured at amortised cost if the fair value can neither be determined based on quoted prices or by reference to comparable instruments nor calculated by means of appropriate valuation models in cases where cash flows are volatile or cannot be reliably determined.

If equity instruments that were recognised through other comprehensive income are disposed of or are depreciated based on permanent impairment, the profit or loss not recognised up to this point is reclassified as consolidated retained earnings through other comprehensive income, taking into account the corresponding tax implications. For investments recognised at fair value through profit and loss, the profit or loss resulting from the change in fair value is recorded directly through profit and loss.

(iv) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

The Otto Group uses derivatives as hedges against foreign exchange and interest rate risks. Derivative financial instruments are recognised at fair value.

Accounting for changes in the fair value of derivative financial instruments depends on whether they are designated as hedging instruments and fulfill the conditions for classification as a hedging relationship under IFRS 9.

If these conditions are not fulfilled, despite the presence of an underlying economic hedging relationship, changes in the fair value of the derivatives are recognised directly through profit and loss.

The effective portion of the change in fair value of a derivative financial instrument designated and qualifying as a cash flow hedging instrument (cash flow hedge) is recognised directly in accumulated other comprehensive income, taking into account the related tax effect. The ineffective portion is recognised in the income statement. The effective portion is then recognised through profit or loss or included directly in the cost of purchased goods and services when the expected cash flows from the underlying transaction affect profit or loss.

In addition, there are options on shares held by the Otto Group in associated companies, in particular with respect to shares in COFIDIS PARTICIPATIONS, Villeneuve d'Ascq, France. These options are measured at fair value in accordance with IFRS 9. Changes in fair value are recognised through profit or loss under other net financial income.

(v) NET INVESTMENT IN A FOREIGN OPERATION

A change in the fair value of a monetary item classified as part of a net investment in a foreign operation that is attributable to changes in the exchange rate is accounted for in accumulated other comprehensive income. Gains or losses recognised in accumulated other comprehensive income are to be reclassified from consolidated equity to the consolidated income statement when the foreign company is sold or liquidated. The monetary item represents a component of net investment in the foreign operation if the settlement of the item is neither planned nor probable in the foreseeable future.

(vi) FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction on which the price is based takes place either in the principal market or in the most advantageous market to which the Otto Group has access. The price is measured using the assumptions that market participants would use when establishing pricing and takes into account the relevant credit risk.

The fair value of financial instruments is calculated on the basis of appropriate market values or by applying other suitable measurement methods. For cash and cash equivalents and other non-derivative short-term financial instruments, it is assumed that the fair value corresponds to the carrying amount.

The fair values of non-current receivables and other assets and of non-current liabilities are calculated based on expected cash flows using reference interest rates in effect on the balance sheet date. The fair value of derivative financial instruments is determined based on forward foreign exchange rates and reference interest rates on the balance sheet date. The credit default risk of the respective counterparty risk is determined using the add-on method taking into account the default probability of the specific counterparty risk. The probability of default is determined on the basis of liquid CDS spreads or market-listed bond prices.

When determining the fair value of put options, contractually agreed payments are taken into account. Where planned income components are relevant to the fair value, these will be determined based on the discounted cash flow method taking the relevant company planning into account. The discount rates are based on weighted average capital costs. Relevant unobservable inputs for determining the fair value include planned income components. The Group regularly reviews the key unobservable inputs and measurement adjustments.

Interest rate swaps are measured by discounting future cash flows based on the applicable market interest rates at the balance sheet date for the remaining term of the contracts. Market values of forward exchange transactions are determined by comparing the contracted forward price with the forward price on the balance sheet date for the remaining term. The resulting value is then discounted, taking account of current market interest rates for the respective currency on the balance sheet date. Currency options are measured using a recognised actuarial method (Black-Scholes option pricing model), taking into account currency rates and volatilities applicable as at balance sheet date. The Otto Group only concludes derivative contracts with banks that have at least an acceptable credit rating. The Group's own and counterparty-specific default risks are regularly monitored and are taken into account when calculating the fair value of derivative financial instruments.

(e) INVENTORIES

Inventories are measured as at balance sheet date at the lower of acquisition or production cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs necessary to make the sale.

The cost of merchandise and raw materials, consumables and supplies included in inventories is determined on the basis of a weighted average price or with the use of the standard cost method.

The production cost of work in progress includes all direct and overhead costs attributable to producing the goods and services.

(f) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions and similar obligations are calculated using the projected unit credit method pursuant to IAS 19, taking expected future salary and pension increases into account. The measurement of pension obligations is on the basis of expert opinions on pensions, including any plan assets held to cover these obligations. Remeasurements of the net defined benefit liability are recognised directly in other comprehensive income. Remeasurement includes the actuarial gains and losses, the return on plan assets (excluding interest included in net interest expenses) and the effects of any asset limit (excluding interest included in net interest expenses). The Group calculates the net interest expenses on the net defined benefit liability for the reporting period by applying the discount rate which was used for the measurement of the defined benefit obligation at the beginning of the annual period. The net interest expenses and the current and past service cost are taken to the income statement.

(g) OTHER PROVISIONS

Other provisions cover all of the Otto Group's legal and constructive obligations to third parties at the balance sheet date as a result of past events for which settlement is probable and the amount of which can be estimated reliably. The provisions are measured at their probable settlement amount, taking all foreseeable risks into account. This represents the best possible estimate of the cost of settling the present obligation at the balance sheet date. Non-current provisions are recognised at their settlement value, discounted to the balance sheet date using appropriate market interest rates.

Provisions for restructuring expenses are recognised if the restructuring plans have raised a valid expectation at the balance sheet date and have already been communicated to the parties affected by the restructuring, or their representatives.

(h) LEASES

(i) LESSEE

At the start of a lease, an assessment is carried out to determine whether the underlying contract constitutes or contains a lease within the meaning of IFRS 16. This is deemed the case if the contract authorises control over use of an identified asset in return for payment of a consideration for a certain period of time. At the start date or amendment date of a lease, the contractually agreed consideration is allocated on the basis of the relative individual selling prices and a distinction is made between lease components and non-lease components. If this is not possible, the exemption rule is exercised whereby the requirement to separate the lease into lease and non-lease components is waived.

As of 1 March 2019, the Otto Group, as the lessee, has systematically recorded an asset for the granted right-of-use asset, and a lease liability for the payment obligations entered into at the start date of the lease.

The right-of-use asset is initially measured at cost, which corresponds to the initial measurement of the lease liability. In addition, an adjustment is made to take into account payments already made on or before the lease start date, plus any initial direct costs and the estimated cost of dismantling or disposing of the underlying asset, less any incentive payments received by the lessor. The right-of-use asset is depreciated on a straight-line basis from the lease start date until the end of the lease period. However, if ownership of the underlying asset passes to the lessee at the end of the lease term, or if the cost of the right-of-use asset takes into account exercise of a purchase option, the right-of-use asset is depreciated over the expected economic useful life of the underlying asset. Moreover, the right-of-use asset is continuously adjusted for impairment losses, where necessary, and to take into account certain reassessments or modifications to the lease liability.

The lease liability is recognised based on the present value of the outstanding lease payments as at the lease start date, which are discounted at the Group's incremental borrowing interest rate. The lease payments included in the measurement of the lease liability include fixed payments and de facto fixed payments as well as variable index-linked lease payments. The variable lease payments are measured based on the index value applicable on the lease start date. Amounts likely to be paid under a residual value guarantee are also included, as are exercise prices for a purchase option or lease payments for a renewal option, provided there is a sufficient degree of certainty that these options will be exercised.

The lease liability is measured at the amortised carrying amount using the effective interest method. The liability is revalued if there are changes to future lease payments due to an index adjustment or if the estimated value of expected payments is modified under a residual value guarantee. A reassessment is also carried out if the lessee changes its assessment in relation to the exercise of a purchase, renewal or termination option or if a de facto fixed leasing payment changes. The lease liability is modified if there is a change made to lease payments that was not included in the original lease.

If a reassessment or modification is applied to a lease liability, a corresponding adjustment is made to the carrying amount for the right-of-use asset. This adjustment is made at fair value through profit and loss if the carrying amount of the right-of-use asset is zero, or if the reduction in the carrying amount of the right-of-use asset differs from the reduction in the lease liability in absolute terms.

The Otto Group exercises the exemption option that is provided for lease contracts for short-term leases and leases for low-value assets, and does not recognise any right-of-use asset or lease liability for these leases. The lease payments related to these leases are recognised as an expense on a straight-line basis over the term of the lease.

According to the recognition and measurement principles contained in IAS 17, leased assets beneficially owned by the Group (finance leases) were recognised at the present value of the lease payments or, if lower, at the fair value of the leased item, and depreciated on a straight-line basis. The present value of payment obligations arising from future lease payments was recognised as a liability. If it was reasonably certain that ownership of the asset leased under a finance lease would pass to an Otto Group company at the end of the lease term, the asset was depreciated over its useful life.

(ii) LESSOR

In a very small number of cases, the Otto Group acts as a lessor. In such cases, the lease is classified as a finance or operating lease within the meaning of the definition contained in IFRS 16. Compared to IAS 17, the application of IFRS 16 within the Group has not involved any significant change to the recognition and valuation principles applied to lessor accounting.

As the lessor in an operating lease, the Otto Group recognises the leased object as an asset at amortised cost under property, plant and equipment. Lease payments received from operating leases are reported under other operating income.

(i) DEFERRED TAX

Deferred tax assets and liabilities are recognised to account for the future tax effects of all temporary differences between the carrying amounts reported for tax purposes and those recognised in the IFRS consolidated financial statements, and also on tax loss carry-forwards. Deferred tax is measured on the basis of the laws and regulations enacted by the end of the financial year for those financial years in which the differences will be reversed or the losses carried forward will probably be used. Deferred tax assets are recognised on temporary differences or tax loss and/or interest carry-forwards only if it is considered sufficiently sure that they will be realised in the near future.

Deferred tax is recognised on temporary differences resulting from assets and liabilities measured at fair value when accounting for business combinations.

Deferred tax is recognised on temporary differences in derivative goodwill only if the amortisation of derivative goodwill is deductible for tax purposes.

Deferred tax assets and liabilities are offset, providing that they refer to income taxes raised by the same tax authority and current taxes are eligible to be offset.

Current and deferred tax liabilities for which there is uncertainty in relation to income tax treatment are only recognised in cases where it is likely that the corresponding tax amounts will be paid or reimbursed. Here it is to be assumed that the tax authorities will exercise their right to review declared amounts and will have full knowledge of all related information. In applicable cases, the Otto Group always takes an individual view of the tax situation and evaluates it based on the most likely amount.

(j) RECOGNITION OF INCOME AND EXPENSE

Revenue is recognised when performance obligations have been met by transferring control of the asset or service to the customer.

In the Multichannel Retail segment, revenue is recognised at the time at which the performance obligation is fulfilled. The revenue is therefore recognised when control of the asset is transferred to the end customer in tandem with transfer of the asset. The Otto Group generates a portion of its revenue by providing trading platforms to external sellers. The resulting brokerage services are recognised when the respective sales contract is entered into with the end consumer.

In most cases, payment is received from the customer before the end of the payment term. The payment terms are based on the applicable general terms and conditions of the respective Group company. However, the claim for payment does not fall due until a maximum of 90 days after delivery. Financed purchases based on market interest rates are offered based on a term of up to 68 months. Payments received prior to provision of the contractual service are recognised as contractual liabilities. As a rule, they result from advance payments from customers, customer loyalty programmes, customer vouchers not yet redeemed and extended warranties not yet claimed. Interest income from customer financing is reported separately in the income statement.

The transaction price contains variable components in the form of return rights and discounts granted. The forecasted returns are determined based on the projections for the individual product categories. Return obligations for expected refunds are reported as liabilities. Claims for goods returns are reported as other assets.

Revenue in the Financial Services segment is primarily recognised through escrow collection at the time of service provision. The service is considered to be provided on receipt of payment. The agreed commission is withheld from the payment and reduces the amount that is paid to the customer. Income from purchased receivables is recognised as revenue once payment has been received. Revenue corresponds to payment receipts from purchased receivables, reduced by the repayment amounts determined using the effective interest method.

In the Services segment, revenue is primarily generated through transport and fulfillment services and is recognised in the period in which it is generated. The customer benefits from these services as they are being performed. Revenue is therefore recognised in line with the degree to which the performance obligation is met. Transport revenue corresponds, for example, to the distance travelled compared to the overall distance. In the case of revenue from private end-consumers, payment is received when the transport goods item is handed over to the delivery company. The payment is recognised as a liability based on the degree to which the performance obligation is met. In the B2B sector, payment terms of up to 100 days (2018/19: 100 days) are granted. Most payments are generally received before the end of this term.

Contractually defined incentives are included in the transaction price as a variable component based on expected values.

In all three segments, the Otto Group divides contractual liabilities into outstanding performance obligations with a term of up to one year and outstanding performance obligations with a term of more than one year. The latter primarily include customer loyalty programmes, customer vouchers and extended warranties. In the case of customer loyalty programmes and customer vouchers, the revenue is recognised at the time of redemption. Redemption typically occurs between 2 and 12 months (2018/19: 2 and 12 months) after the voucher was purchased, or between 0 and 12 months (2018/19: 1 and 12 months) after the bonus points were earned. In the case of warranty extensions, the revenue is recognised over the remaining term on a straight-line basis. Other performance obligations that have not yet been fulfilled have a term of up to one year and are not reported separately through application of the simplified options.

The acquisition costs for contracts with a useful life of up to one year are recognised directly as an expense.

Other operating income is recognised at the performance date, provided that the amount can be reliably measured and that it is probable that the economic benefits will flow to the entity.

Income from sale and leaseback transactions is immediately recognised through profit or loss.

Interest income accruing to the Otto Group when merchandise is purchased on credit is recorded for the period using the effective interest method. Fees from banking and other financial services, such as receivables management or collection activities, are recorded as income from financial services as soon as the service in question has been performed.

Operating expenses are charged to the income statement at the time the service is rendered, or when the costs are incurred. Expenses for advertising and promotion activities are charged when the Otto Group acquires the ability to control the goods and services used in connection with these activities. In accordance with IAS 38, advertising and promotion activities also cover the catalogues used in the Multichannel Retail segment.

Interest is recorded as an expense or income in the period to which it relates. Interest expenses incurred in connection with the purchase or production of qualifying assets are capitalised in compliance with IAS 23. At the Otto Group, a qualifying asset is an asset for which a period of more than one year is usually intended for its purchase or production.

The interest advantages of low-interest public-sector loans are recognised in the income statement and accrued to the relevant period, whereby the portion for future years is posted to a deferred income item.

Dividends are normally recognised at the date on which legal entitlement to payment arises.

(k) SHARE-BASED COMPENSATION

The share-based payment arrangements in the form of share options or share appreciation rights for management at Group companies in the United States are recognised in accordance with IFRS 2. The relevant plans in the form of share options or shares grant employees the right to tender shares acquired and/or received on exercising their share options at the prevailing value of the shares. Thus, such plans and the stock appreciation rights granted to the employees are measured at fair value, recognised as an expense over the vesting period and classified as other liabilities in the balance sheet.

(l) CLASSIFICATION OF PARTNERS’ CAPITAL IN LIMITED PARTNERSHIPS

Otto (GmbH & Co KG), the Group’s parent company, is organised as a limited partnership (Personenhandelsgesellschaft) under German law. Its limited partners have a statutory right of cancellation that cannot be precluded by the partnership agreement and may therefore require the company to repay capital contributions, and a related share of profits, under a carrying amount clause.

According to IAS 32, puttable financial instruments are to be classified as equity, providing they fulfil certain conditions. These conditions include the assignment of the instrument to the class of instruments that is the most subordinate, the entitlement of the holder to a pro-rata share of the entity’s net assets on liquidation and the dependency of the total expected cash flows attributable to the instrument on the profit or loss or from the change in the recognised net assets of the entity. These criteria apply to the limited partners’ shares in Otto (GmbH & Co KG) pursuant to the statutory regulations and the provisions of the shareholders’ agreement with limited partners’ shares recognised in consolidated equity. Profits distributed to limited partners are therefore expensed in the statement of changes in shareholders’ equity as a shareholder transaction outside the total comprehensive income for the year.

Non-controlling interests in consolidated partnerships where such rights of cancellation apply are to be classified as liabilities and are recognised as other financial liabilities, since these shares do not fulfil the criteria defined in IAS 32 with respect to the classification as equity. Changes in the value and interest components of liabilities are either expensed or recognised as a gain in the income statement.

(m) PUBLICLY-LISTED EQUITY AND PARTICIPATION CERTIFICATES

Any financial instruments that the Otto Group issues on capital markets are classified as equity as long as there are termination rights that could obligate the Otto Group to repay the capital paid in by the holder. Accordingly, interest or dividends on such instruments are not reported as interest expense, but as part of the appropriation of net income for the year.

Profit and loss participation certificates issued by the Otto Group are a component of consolidated equity as long as the terms and conditions governing the profit and loss participation certificates do not result in a repayment obligation on the part of the Otto Group, the emergence of which is outside the Otto Group's discretionary power. The benefits arising from these profit and loss participation certificates are accordingly shown as an appropriation of net income. The transaction costs are accounted for as a deduction from equity.

(n) PROFIT AND LOSS PARTICIPATION RIGHTS

The profit and loss participation rights that the Otto Group issues to employees are classified as financial liabilities under IAS 32, because a repurchase obligation can arise for the Otto Group on expiry of a six-year waiting period at the request of the holder of the profit and loss participation certificate, and these financial instruments, which are classified as puttable, may have to be satisfied prior to the claims of the partners on liquidation. The company allowances granted on the basis of issued profit and loss participation rights are included under personnel expenses, and performance-related profit and loss participation is reported under interest and similar income or expenses.

(o) TRANSACTIONS IN FOREIGN CURRENCIES

Purchases and sales in foreign currencies are translated using the exchange rate on the day of delivery. Assets and liabilities in foreign currencies are translated into the functional currency using the closing rate at the balance sheet date. Any resulting gains and losses are recognised in the income statement.

(p) ASSETS HELD FOR SALE AND DISPOSAL GROUPS

Assets or disposal groups are reported under assets held for sale, provided the likelihood of the assets or disposal groups being sold within the next twelve months is very high and provided the assets are available for sale and are not realised through continued use. These assets or disposal groups are measured at the lower of the carrying amount and fair value less costs to sell. An impairment loss for a disposal group would first be proportionately assigned to goodwill and then, taking into account the requirements of IFRS 5, to the remaining assets and liabilities, with the exception that no loss is assigned to inventories, financial assets, deferred tax assets, and assets associated with employee benefits that will continue to be measured according to other Group accounting methods.

Intangible assets and property, plant, and equipment are no longer subject to scheduled depreciation or amortisation. Impairment losses that arise at the time of initial classification as held for sale, as well as subsequent gains and losses that arise from remeasurement until the sale takes place, are recognised in profit or loss. Reporting will no longer be carried out using the equity method provided that investments in associated companies and joint ventures, which up to now have been included in the consolidated financial statement and calculated using the equity method, are reclassified as assets held for sale due to the criteria listed in IFRS 5.

A group of assets held for sale is classified as a discontinued operation under IFRS 5 if it can be clearly distinguished from the rest of the Otto Group's components in terms of business operations and cash flow, and if it represents a major line of business. If a business operation is reported as a discontinued operation, it is presented separately in the income statement. The comparative information in the income statement is adjusted retrospectively as if the operation had been classified as a discontinued operation at the beginning of the comparative period.

Also presented under assets held for sale are groups of assets whose disposal is associated with a plan to abandon a business operation and which will be disposed of within one year of being designated as held for sale.

(q) USE OF ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in accordance with IFRS involves making estimates and assumptions that affect the recognition of assets and liabilities, contingent liabilities at the balance sheet date, and the recognition of income and expenses. Actual amounts may differ from the amounts arrived at using these estimates and assumptions.

In particular, material estimates and assumptions were made in determining uniform depreciation and amortisation periods for the Group on property, plant and equipment, intangible assets and right-of-use assets (Notes (16), (17) and (39)), the valuation of investments within the framework of venture activities (Note (18)), value allowances for merchandise and receivables (Notes (19) and (20)), return rates for measuring delivery claims from expected returns (Note (22)), the parameters for measuring pension provisions (Note (25)), determining the fair value of obligations under put/call options and share-based remuneration (Note (31)) and the likelihood that deferred tax assets can be utilised (Note (15)). The measurement of intangible assets and property, plant and equipment in connection with impairment testing under IAS 36 was based on budget data for forecasting cash flow and standardised sector information for determining discount rates.

Numerous lease contracts that include renewal and/or termination options have been concluded. Renewal and/or termination options mainly arise in the case of lease contracts classified as land, land rights and building assets. The degree to which the exercise or non-exercise of an option is reasonably certain is a discretionary decision that takes into account all facts and circumstances that provide an economic incentive to exercise renewal options or to not exercise termination options. If a significant event or change in circumstances occurs, the lease term is redefined.

Following guidelines provided for in IFRS 7, pro forma currency and interest curves that may deviate from actual market values on the balance sheet date were used for sensitivity analyses in Note (37)(c).

The coronavirus, which has been spreading worldwide since January 2020 (coronavirus pandemic), has been presented as a non-adjusting event in the consolidated financial statements as at 29 February 2020. The consolidated financial statement takes into account coronavirus-related information that was available at the time of preparing the statements as well as the possible effects of the coronavirus pandemic on the valuation of the Otto Group's assets and liabilities as at 29 February 2020. In particular, this creates additional uncertainty in relation to estimates in the area of allowances on merchandise and receivables, impairment loss testing on intangible assets and property, plant and equipment, the recognition and valuation of provisions as well as the availability of earnings subject to tax in the future as a prerequisite for capitalising deferred taxes assets. In the analyses that had to be included, it was assumed that business activities would return to normal within the 2020/21 financial year. As at the balance sheet date of 29 February 2020, the effects on the valuation of assets and liabilities could be discerned to a minimal extent only. However, the Executive Board expects the coronavirus pandemic to have a strong negative impact on earnings before taxes (EBT) for the 2020/21 financial year. The longer the pandemic lasts, the greater the possible impact on global economic development. However, at present, it is not possible to estimate how the coronavirus situation will develop.

(r) NEW IASB PRONOUNCEMENTS

The standards that are required to be applied in the 2019/20 financial year for the first time had no material effects on the presentation of the Group’s financial position or financial performance, with the exception of IFRS 16.

Application of the following Standards published by the IASB which may have a possible effect on the Otto Group’s IFRS consolidated financial statements is not yet obligatory, either because they have not yet been endorsed by the European Union or because the date of first-time application has not yet been reached. If they have already been endorsed by the EU, the Otto Group has not applied them early. The Standards or amendments to existing Standards are to apply to financial years beginning on or after the date of application indicated.

		Applies from
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IAS 1/IAS 8	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 3*	Business Combinations (Amendments to IFRS 3)	1 January 2020
IFRS 17*	Insurance Contracts	1 January 2021

* Standard or amendments to a standard have not yet been endorsed by the EU.

In the 2019/20 financial year, the Otto Group applied the new IFRS 16 accounting standard for the first time. The provisions of IFRS 16 were implemented retrospectively, so that the opening balance sheet values of the consolidated balance sheet as at 1 March 2019 were adjusted. The cumulative effect of the initial application was reported as retained earnings under consolidated retained earnings. No adjustments were made to the previous year's comparative figures. The 2018/19 financial year is presented unchanged in accordance with IAS 17 and the associated interpretations.

The Otto Group has exercised the exemption rule that allows the assessment of which transactions constitute leases to be retained. The provisions of IFRS 16 have only been applied to contracts that were already identified as leases under IAS 17 and IFRIC 4. Contracts that were identified as not constituting a lease under IAS 17 and IFRIC 4 have not been assessed to determine whether they constitute a lease within the meaning of IFRS 16.

As the lessee, the Group allocates the leased assets to the various asset classes for right-of-use assets. Previously, under IAS 17, leases were classified as operating leases or finance leases based on an assessment of whether all risks and opportunities associated with ownership of the underlying asset were essentially transferred to the lessee through the lease. In accordance with the provisions of IFRS 16, the Otto Group now recognises right-of-use assets and lease liabilities for the majority of these leases.

For leases that were previously classified as operating leases under IAS 17, the lease liabilities were measured at the present value of the outstanding lease payments within the scope of transitioning to the provisions of IFRS 16. The discount was applied based on the applicable incremental borrowing interest rate as at 1 March 2019. The average interest rate at the time of initial application varied between 2% and 4%, depending on the currency area. The right-of-use assets were measured based on an amount equal to the liabilities entered for these leases. The right-of-use assets, where these existed, were adjusted to take into account pre-paid or deferred lease payments. This resulted in significant adjustment requirements for Group companies in the USA and Canada in both the Multichannel Retail segment and the Financial Services segment.

The Otto Group has checked all right-of-use assets as at the initial application date of IFRS 16 for indications of impairment requirements. An impairment requirement for right-of-use assets was identified for one German Group company in the Multichannel Retail segment. The right-of-use assets were offset against consolidated retained earnings at the time of the transition to IFRS 16.

The Group has exercised the exemption rules in relation to application of the new standard to contracts previously classified as operating leases under IAS 17. For leases with a term ending within 12 months of the initial application date, and leases for which the underlying asset is of low value, neither a right-of-use asset nor a lease liability was recognised as at 1 March 2019. Moreover, initial direct costs were not taken into account when measuring the right-of-use asset.

Within the scope of implementing IFRS 16, the Group chart of accounts was restructured, resulting in the reclassification of previous years' figures (see Note (10)).

For leases previously classified as finance leases under IAS 17, the right-of-use assets and lease liabilities are recognised based on their residual carrying amount at the initial application date.

As at the time of transition to IFRS 16, the impact on the consolidated balance sheet was as follows:

	01.03.2019 before Restatement	Restatement IFRS 16	01.03.2019 Restated
	EUR 000	EUR 000	EUR 000
Property, plant and equipment	1,439,562	-73,501	1,366,061
Right-of-use assets	0	1,318,246	1,318,246
Consolidated retained earnings	804,968	-72,135	732,833
Other financing liabilties	158,074	-69,647	88,428
Lease liabilities	0	1,513,688	1,513,688
Prepaid expenses and deferred income*	107,286	-107,286	0

* The amount includes prepaid expenses as well as deferred income.

As at the time of transition to IFRS 16, the right-of-use assets, broken down by asset class, were as follows:

	Historical cost	Accumulated depreciation, amortisation and impairmentsw	01.03.2019 before Restatement Carrying Amount	Reclassification finance leases*	Initial recognition right-of-use assets	01.03.2019 Restated Historical cost
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Property, plant and equipment						
Assets under finance lease	183,791	-110,290	73,501	-73,501	0	0
Right-of-use assets						
Land, land rights and buildings	0	0	0	2,003	1,145,669	1,147,672
Technical plant and machinery	0	0	0	41,782	33,499	75,281
Other plant, operating and office equipment	0	0	0	29,483	65,810	95,293

* The variance of EUR 233 thousand between the carrying amount reported for finance leases as at 28 February 2019 and the amount at which they were reclassified as right-of-use assets as at 1 March 2019 is based on adjustments made during the transition period that is provided for when applying the new standard.

Obligations arising from operating leases in the previous year were transferred to lease liabilities at the initial application date of IFRS 16 as follows:

	01.03.2019
	EUR 000
Obligations from operating lease according to IAS 17 as of 28 February 2019	**1,633,730**
Short-term leases	– 26,172
Low-value leases	– 1,012
Other	18,269
Obligations from operating lease (undiscounted)	**1,624,815**
Discounting with incremental borrowing rate at the first application of IFRS 16	– 180,162
Obligations from operating lease (discounted)	**1,444,653**
Carrying amount from liabilities of finance lease according to IAS 17 as of 28 February 2019*	69,035
Carrying amount from lease liabilities according to IFRS 16 as of 1 March 2019	**1,513,688**

* The variance of EUR 611 thousand between the carrying amount reported for finance leases as at 28 February 2019 and the amount included under liability leases as at 1 March 2019 is based on adjustments made during the transition period that is provided for when applying the new standard.

Scope of Consolidation

(4) Scope of consolidation

An overview of the composition of Otto Group's scope of consolidation may be derived from the following list:

	29.02.2020	28.02.2019
Fully consolidated subsidiaries		
Germany	171	175
Other countries	176	184
Total	**347**	**359**
Associates and joint ventures reported under the equity method		
Germany	13	10
Other countries	17	14
Total	**30**	**24**

In the 2019/20 financial year, 10 companies were merged within the Otto Group (2018/19: 9 companies).

The consolidated financial statements include 11 companies (28 February 2019: 14 companies) with a different balance sheet date, normally 31 December. The inclusion of the companies with a different closing date had no significant effect on the Otto Group's financial position or financial performance, as major events that occurred after the different balance sheet date were taken into account.

The Otto Group holds 49% of the shares in Baur Versand (GmbH & Co KG) and can exercise control under company contractual regulations.

A wholly owned subsidiary of Otto (GmbH & Co KG) holds 1% of the shares in one of the subsidiaries of FORUM Grundstücksgesellschaft m.b.H., Hamburg. Furthermore, the Otto Group does not have any controlling interest in FORUM Grundstücksgesellschaft m.b.H, Hamburg, but can exercise control via the company and its subsidiaries under company contractual regulations. The Otto Group is not at any risk from guarantees or warranties. The Forum Group is involved in the Group's cash pooling arrangement and can benefit from inter-Group loans.

(5) Changes in the scope of consolidation

(a) ACQUISITIONS

In the 2019/20 financial year, companies were consolidated for the first time which in total are of only subordinate significance for the financial position and financial performance of the Otto Group.

(b) DECONSOLIDATIONS

Within the scope of the contract dated 20 December 2018, the Otto Group sold all shares in EOS Health Honorarmanagement Aktiengesellschaft, Hamburg, Germany, to an investor. As the sales contract for the shares in EOS Health Honorarmanagement Aktiengesellschaft was not yet in effect at the previous year's balance sheet date, this company as well as the associated refinancing company SPV Health Finanzierungs-GmbH, Berlin, Germany were classified as held for sale (see Note (5)(c)). The companies were deconsolidated during the first quarter of the 2019/20 financial year. They were allocated to the Financial Services segment.

In addition, Group companies eVenture Fonds 2 GmbH & Co. KG, Hamburg, Germany and BV eVenture Fund II L.P. Wilmington, USA, which had been classified as a disposal group the previous year in accordance with IFRS 5, were also deconsolidated during the first quarter of the 2019/20 financial year (see Note (5)(c)). They were allocated to the Multichannel Retail segment. As the Otto Group continues to hold a significant number of shares in these companies, these shares are reported under shares in associated companies and have been included in the consolidated financial statements using the equity method.

Within the scope of the contract dated 10 December 2019, all shares in SportScheck GmbH, Munich, Germany, and its subsidiaries were sold with effect from 29 February 2020. The companies were assigned to the Multichannel Retail segment.

The assets and liabilities of the above-named companies derecognised in the consolidated balance sheet within the framework of the deconsolidation are as follows:

	29.02.2020
	EUR 000
Assets	
Fixed Assets	230,629
Trade receivables	13,560
Receivables from financial services	97,109
Receivables from related parties	108,686
Other receivables and assets	8,224
Cash and cash equivalents	124,301
Provisions and liabilities	
Provisions for pensions and similar obligations	4,410
Other provisions	7,622
Bank liabilities	40,198
Other financing liabilities	48,450
Trade payables	58,107
Liabilities to related parties	121,032
Lease liabilities	65,927
Other liabilities	21,507
Deferred tax	1,958

In the past financial year up to the time of deconsolidation, the deconsolidated companies generated revenue of EUR 268,550 thousand, with earnings before tax amounting to EUR – 26,527 thousand.

The deconsolidation of the above-mentioned companies resulted in a loss of EUR – 2,642 thousand, which is reported under other net financial income (expenses).

In addition, further companies were deconsolidated in the 2019/20 financial year, which in total are only of subordinate significance for the Otto Group's financial position and financial performance.

(c) DISPOSAL GROUPS

In the 2019/20 financial year, the Otto Group decided for strategic reasons to further develop the Hermes Group's parcel distribution business by bringing in an external partner. Negotiations are already at such an advanced stage that it is highly likely that the transaction will close during the 2020/21 financial year. Accordingly, the Group companies are presented as a disposal group pursuant to IFRS 5. The companies are assigned to the Services segment.

As at 29 February 2020, the disposal group reported the following assets and liabilities:

	29.02.2020
	EUR 000
Intangible assets and property, plant and equipment	355,185
Right-of-use assets	540,573
Non-current other assets	4,053
Current trade receivables	296,614
Current other assets	61,057
Deferred tax assets	137
Assets held for sale	**1,257,619**
Pensions and similar obligations	169,569
Non-current lease liabilities	446,685
Non-current other liabilities	96,077
Current other provisions and current bank liabilities	69,856
Current trade payables	213,830
Current other liabilities	68,918
Current lease liabilities	100,267
Deferred tax liabilities	3,458
Liabilities classified as held for sale	**1,168,660**

Reclassification of these companies as a disposal group did not result in any impairment requirements.

In the previous year, EOS Health Honorarmanagement Aktiengesellschaft, Hamburg, Germany, as well as the associated refinancing company SPV Health Financing GmbH, Berlin, Germany, were presented as a disposal group in accordance with IFRS 5. Within the scope of the contract dated 20 December 2018, the shares in the company were sold. Required as part of the ownership control procedure, the regulatory approvals needed to transfer control of the shares were outstanding as at the closing date. Regulatory approval was granted on 17 April 2019. Asset disposal occurred in the first quarter of the 2019/20 financial year. Both companies had been allocated to the Financial Services segment.

As at 28 February 2019, the disposal group reported the following assets and liabilities:

	28.02.2019
	EUR 000
Intangible assets, property, plant and equipment and other financial investments	4,950
Non-current receivables from financial services	15,826
Current receivables from financial services	81,282
Income tax receivables and current other assets	1,690
Cash and cash equivalents	17
Assets held for sale	**103,765**
Pensions and similar obligations and other non-current provisions	586
Current other provisions	13
Current bank liabilities	40,198
Current other financing liabilities	22,330
Current trade payables	14,051
Income tax liabilities and current other liabilities	5,177
Deferred tax liabilities	990
Liabilities classified as held for sale	**83,345**

Reclassification of these companies as a disposal group did not result in any impairments.

On 28 February 2019, an agreement was concluded in relation to the disposal of 51% of eVenture Fonds 2 GmbH & Co. KG, Hamburg, Germany and BV eVenture Fund II L.P., Wilmington, USA, which provided for the transfer of control of these companies during the 2019/20 financial year. At the previous year's balance sheet date, the regulatory approvals for transferring control of the shares were still outstanding. Accordingly, the companies were presented as a disposal group in the 2018/19 financial year pursuant to IFRS 5. The companies were allocated to the Multichannel Retail segment.

Assets and liabilities held for disposal as at 28 February 2019 are broken down as follows:

	28.02.2019
	EUR 000
Other financial investments	313,751
Current trade receivables	388
Current other financial assets	908
Cash and cash equivalents	1,797
Assets held for sale	**316,844**
Current trade liabilities	116
Current liabilities to related parties	12
Deferred tax liabilities	968
Liabilities classified as held for sale	**1,096**

As part of the reclassification as a disposal group, an impairment loss of EUR 15,267 thousand was incurred in the 2018/19 financial year.

Notes to the Consolidated Income Statement

(6) Revenue and income from customer financing

Revenue and income from customer financing is broken down as follows:

	Multichannel Retail		Financial Services		Services		Total	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Germany	7,107,140	6,815,382	98,610	87,571	1,051,613	1,035,231	8,257,363	7,938,184
Europe (excluding Germany and Russia)	1,380,048	1,352,945	110,233	129,196	1,455,659	1,206,464	2,945,940	2,688,605
North America	1,879,151	1,794,963	37,458	34,504	9,865	12,302	1,926,474	1,841,769
Russia	151,022	203,377	57	122	4,525	2,897	155,604	206,396
Asia	111,100	130,603	0	0	40,402	38,811	151,502	169,414
Other regions	16,407	22,997	0	0	0	0	16,407	22,997
Revenue from contracts with customers (IFRS 15)	**10,644,868**	**10,320,267**	**246,358**	**251,393**	**2,562,064**	**2,295,705**	**13,453,290**	**12,867,365**
Revenue from customer financing	183,623	164,677	–	–	–	–	183,623	164,677
Other revenue according to IFRS 9	–	–	619,601	572,199	6,851	6,818	626,452	579,017
Revenue according to IFRS 9	**183,623**	**164,677**	**619,601**	**572,199**	**6,851**	**6,818**	**810,075**	**743,694**
Revenue and income from customer financing	**10,828,491**	**10,484,944**	**865,959**	**823,592**	**2,568,915**	**2,302,523**	**14,263,365**	**13,611,059**

In the Otto Group's consolidated income statement, revenue from contracts with customers in accordance with IFRS 15, and other revenue in accordance with IFRS 9, was presented as an aggregated figure of EUR 14,079,742 thousand (2018/19: EUR 13,446,382 thousand). Revenue from customer financing in the amount of EUR 183,623 thousand (2018/19: EUR 164,677 thousand) is shown separately and exclusively results from interest revenue from instalment credit business. Revenue from contracts with customers in the Financial Services segment included revenue from leases in the amount of EUR 17,136 thousand (2018/19: EUR 11,679 thousand).

Revenue from e-commerce in the Multichannel Retail segment amounted to EUR 8,113,581 thousand (2018/19: EUR 7,637,721 thousand), which includes revenue from brokerage services in the amount of EUR 117,261 thousand (2018/19: EUR 73,380 thousand). Revenue in the Services segment amounted to EUR 2,377,330 thousand (2018/19: EUR 2,103,931 thousand) from transportation services and EUR 125,588 thousand (2018/19: EUR 148,106 thousand) from fulfilment.

(7) Other operating income

Other operating income is made up as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Advertising subsidies	99,825	103,110
Income from debt collection services	83,824	92,101
Income from ancillary business	74,319	76,350
Income from reversal of provisions and liabilities	60,673	37,733
Income from costs recharged to related parties and third parties	59,695	67,182
Income from amortised receivables	25,082	34,725
Income from reversal of allowances on receivables	17,148	19,779
Income from leases	14,907	14,798
Income from charges to suppliers	13,064	14,421
Income from disposal of assets	11,201	31,795
Miscellaneous	174,203	155,409
Other operating income	**633,941**	**647,403**

Miscellaneous operating income includes income from factoring settlements with the Hanseatic Bank GmbH & Co KG (see Note (41)).

(8) Purchased goods and services

Purchased goods and services breaks down as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Costs of merchandise	5,686,628	5,421,191
Costs of services received	1,954,506	1,846,723
Packing and shipping materials	19,417	19,124
Purchased goods and services	**7,660,551**	**7,287,038**

(9) Personnel expenses

Personnel expenses are composed as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Wages and salaries	2,094,543	1,988,783
Social security contributions	382,555	361,093
Retirement benefit costs	53,888	64,518
Personnel expenses	**2,530,986**	**2,414,394**

Wages and salaries include expenses of EUR 1,340 thousand (2018/19: EUR 22,194 thousand) resulting from termination and compensation agreements as part of intra-Group restructuring, particularly in the Multichannel Retail segment (2018/19: Services segment).

Retirement benefit costs include the Otto Group's expenses arising from defined contribution and defined benefit pension plans, as well as pension-like obligations. The interest component in the increase of pension provisions is included in net financial result. Employer contributions to statutory pension insurance are included under social security contributions.

In the 2019/20 financial year, the average number of employees in the Otto Group calculated on a full-time equivalent basis was 51,982 (2018/19: 52,326 employees). The distribution of employees by segment is shown in the report on the segments.

(10) Other operating expenses

Other operating expenses are composed as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Catalogue and advertising costs	1,463,340	1,542,288
Shipping costs	395,333	384,611
Costs of contract staff	294,087	267,189
Maintenance and repairs	248,563	215,595
Order processing, warehousing and picking costs	157,255	160,668
Commissions and fees	132,326	111,220
Ancillary building costs	128,843	119,440
Derecognitions and changes in allowances on receivables	120,976	125,320
Legal expenses and audit fees	114,984	105,547
Office and communication costs	100,545	95,799
Vehicle costs	97,345	89,154
IT consultancy	74,663	82,147
General consulting costs	68,578	64,979
Leasing expenses	51,400	350,220
Other	398,441	375,676
Other operating expenses	**3,846,679**	**4,089,821**

The decrease in leasing expenses is due to the initial application of IFRS 16. The lease expenses reported for the 2019/20 financial year mainly relate to lease payments for short-term leases and leases for low-value assets.

(11) Income from equity investments

Income or loss from equity investments reflects the Group's share of income or loss from associated companies and joint ventures reported using the equity method. This item also includes income and expenses in connection with entitlements to dividends and profits and the absorption of the losses of non-consolidated subsidiaries.

(12) Depreciation and amortisation

Depreciation and amortisation relate to:

	2019/20	2018/19
	EUR 000	EUR 000
Amortisation of internally generated intangible assets	51,991	40,750
Amortisation of other intangible assets	66,949	64,572
Depreciation of property, plant and equipment	162,156	167,012
Depreciation of right-of-use assets	274,154	0
Depreciation and amortisation	**555,250**	**272,334**

(13) Impairment losses

	2019/20	2018/19
	EUR 000	EUR 000
Impairment losses on other intangible assets	13,888	13,658
Impairment losses on property, plant and equipment	6,223	16,317
Impairment losses on right-of-use assets	4,649	0
Impairment losses	**24,760**	**29,975**

Goodwill is written down on the basis of annual impairment tests. As a rule, the discounted net cash flows from the value in use were used to determine the recoverable amount for the measurement of impairment losses. In the 2019/20 financial year, as was the case in the previous year, there were no impairment losses on goodwill.

In the 2019/20 financial year, impairment losses on other intangible assets, property, plant and equipment as well as right-of-use assets were primarily attributable to software developed in-house, purchased software, shop fittings, operating and office equipment as well as land, land rights and buildings. They mainly concern a German Group company, a Dutch Group company and a Japanese Group company in the Multichannel Retail segment as well as two Group companies in the Services segment. The impairment losses relating to the previous year were primarily attributable to software developed in-house, purchased software as well as land and buildings. They mainly concerned a Russian Group company in the Services segment as well as two German Group companies and a Japanese Group company in the Multichannel Retail segment. The future value in use was the basis for determining the impairment loss due to the inadequate development of earnings.

(14) Net financial result

The net financial result is made up as follows:

	2019/20 EUR 000	2018/19 EUR 000
Interest income from loans and securities	7,298	11,235
Income from interest rate derivatives	5,110	8,023
Interest income from bank deposits	1,047	967
Other interest income	467	673
Interest and similar income	**13,922**	**20,898**
Interest expenses for bank liabilities and bonds	–70,084	–62,050
Interest expenses from lease liabilities	–40,943	0
Net interest expense on defined benefit plans	–27,718	–26,209
Expenses from interest rate derivatives	–6,802	–8,295
Interest on finance leases	0	–1,239
Other interest expenses	–30,468	–42,162
Interest and similar expenses	**–176,015**	**–139,955**
Net interest income (expense)	**–162,093**	**–119,057**
Income from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	122,188	252,723
Foreign currency gains and losses	–5,577	–7,948
Expenses from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	–29,094	–11,154
Bank charges	–64,287	–59,479
Miscellaneous financial income (expense)	–2,882	392
Other net financial income (expense)	**20,348**	**174,534**
Net financial result	**–141,745**	**55,477**

Income from financial investments and securities and from the disposal of shares in consolidated companies, associated companies and joint ventures resulted from the deconsolidation of subsidiaries (see Note (5)(b)).

Income from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures included further income from the disposal of 9.36% of the shares in COFIDIS PARTICIPATIONS, Villeneuve d'Ascq, France, due to the exercise of a put option for these shares in January 2020.

Moreover, as a result of the initial adoption of IFRS 9, measurement changes to investments in equity instruments recognised at fair value were reported through profit and loss in the 2018/19 financial year for the first time. Gains from the change to fair value in the previous year mostly affected venture activities.

(15) Income tax

The current income tax paid or owed in the various countries and also deferred tax are recognised as income tax. Income tax comprises trade tax, corporation tax, solidarity surcharge and the corresponding foreign income taxes.

Income tax expense is classified by origin as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Current income tax, Germany	18,505	29,221
Current income tax, other countries	65,784	44,965
Current income tax	**84,289**	**74,186**
Deferred tax, Germany	–9,596	6,060
Deferred tax, other countries	2,342	20,465
Deferred tax	**–7,254**	**26,525**
of which, deferred tax on temporary differences	–10,796	14,700
of which, deferred tax on loss carryforwards	3,542	11,825
Income tax	**77,035**	**100,711**

Income tax includes income taxes for prior years amounting to EUR –7,200 thousand (2018/19: EUR 5,010 thousand), of which EUR –342 thousand (2018/19: EUR 3,827 thousand) results from current income tax for the previous year and deferred tax for previous years amounting to EUR –6,858 thousand (2018/19: EUR 1,183 thousand).

In the 2019/20 and 2018/19 financial years, existing tax loss carry-forwards amounting to EUR 9,201 thousand and EUR 37,975 thousand respectively were utilised. In the year under review, current tax expenses were reduced by EUR 6,472 thousand (2018/19: EUR 1,856 thousand) due to tax losses and tax credits not previously taken into account, or due to a temporary difference from a previous period that was not taken into account before now.

The income tax can be reconciled as follows with the notional income tax that would have resulted had the 15% tax rate for the Group's parent company Otto (GmbH & Co KG) been applied to the IFRS consolidated earnings before tax:

	2019/20	2018/19
	EUR 000	EUR 000
Earnings before tax (EBT)	290,711	277,576
Tax rate for Otto (GmbH & Co KG)	15%	15%
Pro forma income tax expenses	**43,607**	**41,636**
Corrections in deferred taxes	38,682	64,119
Non-deductible expenses	18,469	17,943
Income taxes for prior years	–6,933	2,557
Foreign withholding tax	1,822	822
Effects of consolidation adjustments recognised in income	7,345	–6,907
Change in applicable tax rate	–8,403	–2,134
Additions and deductions for trade tax	–7,206	–3,235
Non-taxable income	–72,731	–63,544
Permanent differences	–26,471	–1,509
Differences in tax rates	89,373	50,270
Other	–519	693
Total differences	**33,428**	**59,075**
Income tax	**77,035**	**100,711**

As a limited partnership, the Group's parent company, Otto (GmbH & Co KG), is subject only to trade tax in Germany. The tax rate is 15%.

Subsidiaries domiciled in Germany in the legal form of a corporation are additionally subject to corporation tax of 15% and also a solidarity surcharge of 5.5% on the corporation tax owed.

Loss carry-forwards for corporation and trade tax purposes can be utilised without restriction by domestic companies having a positive tax base of up to EUR 1 million. Any positive tax bases in excess of this amount may only be reduced by up to a maximum of 60%. In Germany, companies are no longer entitled to deduct interest expenses for taxation purposes if the interest expense exceeds EUR 3 million, the net interest expense exceeds 30% of taxable earnings before interest, depreciation and amortisation and if certain exceptions do not apply. There is no limit to the non-deductible interest expense that may be carried forward as an interest carry-forward and offset in future periods against positive tax interest earnings.

The corporation tax and solidarity surcharge, along with the effects of differences between foreign income tax rates and the tax rate paid by the Group's parent company Otto (GmbH & Co KG) are reported in the reconciliation table under differences in tax rates between Germany and other countries.

Corrections in deferred taxes essentially relate to deferred tax on the loss carry-forwards of domestic and foreign Group companies. In the year under review, deferred tax expenses were increased by EUR 2,690 thousand (2018/19: EUR 35,546 thousand) due to tax losses and tax credits not previously taken into account or due to a temporary difference from a previous period that was not taken into account before now.

The following deferred tax assets and liabilities result from temporary differences and tax loss carry-forwards:

	29.02.2020		28.02.2019	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets	2,875	82,960	6,294	80,004
Property, plant and equipment and right-of-use assets	52,331	74,892	20,964	67,170
Inventories	6,304	5,978	4,571	9,458
Receivables and other assets	21,231	41,520	23,310	41,206
Securities and financial investments	3,939	6,620	333	2,053
Provisions	176,010	24,089	152,213	37,904
Liabilities	61,578	44,769	51,088	7,563
Changes to the scope of consolidation due to IFRS 5	– 30,857	– 17,097	0	0
Temporary differences	**293,411**	**263,731**	**258,773**	**245,358**
Loss carry-forwards	27,299	0	14,113	0
Offset	– 192,557	– 192,557	– 149,652	– 149,652
Offset due to changes to the scope of consolidation due to IFRS 5	30,857	17,097	0	0
Total	**159,010**	**88,271**	**123,234**	**95,706**

Accumulated other comprehensive income and expenses contains tax expenses from changes in temporary differences for financial instruments in the fair value through other comprehensive income (FVOCI) category amounting to EUR 662 thousand (2018/19: EUR – 983 thousand), tax expenses from changes in the temporary differences for cash flow hedge derivatives amounting to EUR – 6,688 thousand (2018/19: EUR 2,069 thousand) and tax expenses from changes in temporary differences for provisions for pensions amounting to EUR – 26,627 thousand (2018/19: EUR – 2,503 thousand).

Deferred tax assets are recognised for tax loss carry-forwards only if it appears sufficiently likely that they can be realised in the near future. No deferred tax assets were recognised for tax loss carry-forwards of EUR 3,542,816 thousand and EUR 3,355,877 thousand in the 2019/20 and 2018/19 financial years respectively. Of these tax loss carry-forwards, EUR 3,510,704 thousand and EUR 3,311,727 thousand respectively can be carried over indefinitely; EUR 5,905 thousand and EUR 34,432 thousand respectively can be carried over subject to a useful life of between five and ten years; and EUR 26,207 thousand and EUR 9,718 thousand respectively can be carried over subject to a useful life up to five years.

The recognition of deferred tax assets for the group of companies consolidated for tax purposes under Otto (GmbH & Co KG) amounts to EUR 120,645 thousand (2018/19: EUR 84,192 thousand) and is based on specific forecasting for the tax group. The surplus of deferred tax assets was recognised as at the closing date to the extent that it is expected to be usable in the coming years.

Deferred tax expenses from the occurrence and reversal of temporary differences amount to EUR 10,203 thousand (2018/19: EUR 24,338 thousand).

In the year under review, an interest carry-forward of EUR 72,603 thousand (2018/19: EUR 73,837 thousand) arose in Germany for which no deferred tax assets were recognised. This sum can be carried forward indefinitely within the meaning of § 4h of the German Income Tax Act (Einkommensteuergesetz – EStG). From today's point of view, retained profits at Group companies are to remain predominantly invested. For retained profits and profits not intended for dividend payments for foreign Group companies, a deferred tax liability in the amount of EUR 2,077 thousand (2018/19: EUR 0 thousand) was recognised. As a rule, dividend payments would result in an additional tax expense. Determining the temporary differences subject to tax would involve a disproportionate effort.

The actual income taxes are calculated on the basis of the respective national taxable earnings and regulations for the relevant year. In addition, the actual taxes reported in the financial year also include adjustment amounts for any tax payments or refunds for years that have not yet been definitively assessed. However, they do not include interest payments or interest refunds and penalties for tax payments. In the event that amounts reported in tax returns are unlikely to be realised (uncertain tax positions), tax liabilities will be recognised. The amount is calculated based on the best possible estimate of the expected tax payment (expected or most likely value of tax uncertainty). Tax receivables from uncertain tax positions are therefore accounted for when it is very likely and therefore sufficiently certain that they can be realised.

Within the Group, a number of financial years are awaiting definitive tax assessments. The Otto Group has made sufficient provisions for these open tax years. However, the possibility of a demand for tax payments that exceeds the provisions made in the consolidated financial statements cannot be excluded. On the basis of future case law or changes in opinion by the tax authorities, the possibility of tax refunds for previous years cannot be ruled out either.

Notes to the Consolidated Balance Sheet

(16) Intangible assets

Advance payments on intangible assets include EUR 30,479 thousand (28 February 2019: EUR 35,957 thousand) for internally-generated intangible assets that are still in development.

Of the goodwill recognised under intangible assets, EUR 191,745 thousand (28 February 2019: EUR 180,303 thousand) is attributable to companies in the Multichannel Retail segment, EUR 114,819 thousand (28 February 2019: EUR 113,534 thousand) is attributable to companies in the Financial Services segment and EUR 21,691 thousand (28 February 2019: EUR 29,114 thousand) is attributable to companies in the Services segment.

There are contractual obligations for the acquisition of intangible assets amounting to EUR 16,429 thousand (28 February 2019: EUR 22,034 thousand).

(17) Property, plant and equipment

As a result of the reclassification of existing property, plant and equipment finance lease as right-of-use assets as at 1 March 2019 due to the initial application of IFRS 16, there are no property, plant and equipment finance leases at the balance sheet date.

The carrying amounts of property, plant and equipment held under finance leases are broken down as follows:

	28.02.2019
	EUR 000
Property	2,230
Technical plant	41,617
Computers and other IT equipment	28,020
Other business and office equipment	1,634
Property, plant and equipment under finance leases	**73,501**

Contractual obligations for the acquisition of property, plant and equipment (purchase commitments) amounted to EUR 3,696 thousand (28 February 2019: EUR 19,355 thousand).

(18) Investments in associated companies and joint ventures and other financial investments

The key figures for the principal associated company COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, and its subsidiaries are as follows (based on 100%):

	2019/20	2018/19
	EUR 000	EUR 000
Non-current assets	9,786,294	8,983,683
Current assets	5,146,859	4,226,701
Non-current liabilities	5,740,616	5,336,666
Current liabilities	7,476,917	6,286,307
Net assets	**1,715,620**	**1,587,411**
Group's share of carrying amount	**343,124**	**466,064**
Revenue	1,409,327	1,352,438
Profit for the year	213,964	211,738
Other comprehensive income for the year	–10,633	–2,582
Total comprehensive income for the year	**203,331**	**209,156**
of which, attributable to Group	59,702	61,412
Dividends received by the Group	22,032	0

COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, and its subsidiaries are included in the consolidated financial statement based on a shareholding of 20.00% (28 February 2019: 29.36%) calculated using the equity method. These associated companies have a different reporting date of 31 December, which corresponds to the reporting date of their parent company. The companies operate within the Financial services sector, particularly in the area of consumer credit.

ABOUT YOU Holding GmbH, Hamburg, with its operating subsidiary ABOUT YOU GmbH, Hamburg, is another important associated company. ABOUT YOU Holding GmbH has two different classes of share – ordinary shares and preference shares. For recognition based on the equity method, only ordinary shares are relevant as preference shares do not establish a pro-rata claim on the net assets and results of ABOUT YOU Holding GmbH. The preference shares, which carry a fixed, preferential, yearly interest rate as well as voting rights, are accounted for pursuant to IFRS 9 and reported under other long-term financial assets. Changes in value are reported under other comprehensive income.

The Otto Group's (overall) voting shares amount to 53.48% (28 February 2019: 50.29%). The relevant shareholding for ordinary shares that was used for recognition based on the equity method was 44.73% (28 February 2019: 44.91%).

ABOUT YOU GmbH is an online mail-order company for clothing, shoes and accessories. Its business model is characterised by a personalised offering for shoppers based on the use of social media channels and the active involvement of influencers.

The key figures for ABOUT YOU Holding GmbH and ABOUT YOU GmbH (based on 100%) with reconciliation of the values included in the consolidated financial statements are as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Non-current assets	37,955	17,732
Current assets	280,298	277,704
Non-current liabilities	8,530	157
Current liabilities	208,923	118,174
Net assets	**100,800**	**177,105**
Proportional equity (calculated)	45,088	79,538
Negative difference allocated to individually identifiable assets and liabilities and resutling from transitional consolidation in FY 2019/20 after deferred tax – in particular brand* (before depreciation/reversal)*	53,534	53,534
Negative difference allocated to goodwill and resulting from transitional consolidation in FY 2017/18	341,154	341,154
Breakdown into ordinary shares and preference shares in FY 2018/19	–411,631	–411,631
Dilution of shares and other share transactions/Other	–28,145	–62,595
Group's share of carrying amount	**0**	**0**
Revenue (100%)	738,865	457,093
Loss for the year (100%)	–81,242	–114,647
Loss for the year attributable to Group	0	–63,311
Unrecognised losses**	–44,848	–7,488

* After planned depreciation/reversal, and breakdown into ordinary shares and preference shares, an amount of EUR 4,217 thousand remained as at 29 February 2020 (EUR 5,237 thousand as at 28 February 2019).
** Including depreciation of assets resulting from purchase price allocation in the financial year 2017/18.

For the other associated companies and joint ventures that are individually insignificant for the Group and that have been accounted for using the equity method, the key figures (based on 100%) are as follows:

	2019/20		2018/19	
	Joint ventures	Associated companies	Joint ventures	Associated companies
	EUR 000	EUR 000	EUR 000	EUR 000
Carrying amount of the investment	20,532	337,335	18,295	222,091
Loss/Profit for the year	8,824	111,736	–5,984	56,749
Other comprehensive income for the year	–71	252	99	–70
Total comprehensive income for the year	**8,753**	**111,988**	**–5,885**	**56,679**

The recoverability of the carrying amount of shares in associated companies and joint ventures that have been accounted for using the equity method will be reviewed if there is any indication of impairment. If the carrying amount of a shareholding exceeds its recoverable amount, an impairment amounting to the difference between the two amounts should be recorded.

Shares held in companies that are not consolidated or accounted for using the equity method and financial instruments included under other financial investments are measured as at the balance sheet date at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVPL) in accordance with IFRS 9.

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Fair Value, FVOCI	97,777	80,085
Fair Value, FVPL	30,619	22,182
Other financial investments	**128,396**	**102,267**

Other financial investments that were measured at fair value through other comprehensive income mainly include investments in innovative companies with a focus on Internet and mobile applications, TV shopping, customer acquisition and search engine marketing. These investments will support start-ups in innovative growth markets and participation in new digital media networks. They constitute strategic investments for which there are no short-term profit-making goals. Acquisitions and disposals of these investments are based on business policy investment decisions.

In the 2019/20 financial year, dividends from shares in companies measured at FVOCI in the amount of EUR 1,368 thousand (2018/19: EUR 1,706 thousand) were reported under other net financial income (see Note (14)). The dividends are entirely related to existing investments as at the reporting date. The fair value of investments discontinued during the reporting period amounted to EUR 20,850 thousand at the time of the derecognition. In the reporting period, income of EUR 3,057 thousand was reclassified from income and expenses recognised through other comprehensive income to consolidated retained earnings. This results exclusively from the disposal of investments and is included in Group equity under other changes recognised directly in equity.

(19) Inventories

Inventories are composed as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Merchandise	1,572,565	1,756,901
Raw materials, consumables and supplies	17,296	17,523
Finished goods and services and work in progress	5,467	3,614
Inventories	**1,595,328**	**1,778,038**

Inventory stock includes obsolescence allowances amounting to EUR 187,986 thousand (28 February 2019: EUR 207,227 thousand).

(20) Trade receivables and receivables from financial services

These receivables are composed as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Trade receivables, gross	1,236,114	1,653,914
Allowances on trade receivables	– 124,488	– 145,166
Trade receivables	**1,111,626**	**1,508,748**
Receivables from financial services, gross	1,614,486	1,432,030
Revaluation of receivables from financial services according to IFRS 9	32,236	18,188
Allowances on receivables from financial services	– 4,116	– 8,373
Receivables from financial services	**1,642,606**	**1,441,845**

Receivables from financial services include, in particular, receivables purchased from third parties in the amount of EUR 1,609,472 thousand (28 February 2019: EUR 1,409,907 thousand).

The remaining terms of receivables as at 29 February 2020 are as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Trade receivables	980,847	130,779	0	**1,111,626**
Receivables from financial services	479,591	806,885	356,130	**1,642,606**

As at 28 February 2019, the remaining terms of receivables were as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Trade receivables	1,341,343	167,405	0	**1,508,748**
Receivables from financial services	377,667	753,768	310,410	**1,441,845**

Value allowances recognised on existing trade receivables developed as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Allowances as at 1 March	**145,166**	**156,857**
Exchange rate changes	187	653
Changes to the scope of consolidation	–1,336	–143
Changes to the scope of consolidation due to IFRS 5	–11,353	0
Utilisation	–110,930	–104,505
Reversals	–17,111	–19,516
Additions	119,865	111,820
Allowances as at 29/28 February	**124,488**	**145,166**

The value allowances recognised on existing receivables from financial services developed in detail as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Allowances as at 1 March	**8,373**	**8,225**
Exchange rate changes	–219	17
Changes to the scope of consolidation	–2,980	–767
Utilisation	–2,132	–7,212
Reversals	–37	–263
Additions	1,111	8,373
Allowances as at 29/28 February	**4,116**	**8,373**

The risk of default from trade receivables was primarily assessed on the basis of arrears information. The gross carrying amounts of these receivables were broken down into the following arrears bands:

	Carrying amount receivables, gross	Allowances	Carrying amount receivables
	EUR 000	EUR 000	EUR 000
Not overdue	942,219	–33,136	909,083
Overdue up to 30 days	144,242	–8,934	135,308
Overdue for more than 30 and up to 90 days	29,519	–11,989	17,530
Overdue for more than 90 days	120,134	–70,429	49,705
Balance as at 29 February 2020	**1,236,114**	**–124,488**	**1,111,626**

At the reporting date of the comparative period, the risk of default for trade receivables and services was as follows:

	Carrying amount receivables
	EUR 000
Not overdue	1,046,535
Overdue up to 30 days	174,304
Overdue for more than 30 and up to 90 days	124,537
Overdue for more than 90 days	308,538
Balance as at 28 February 2019	**1,653,914**

(21) Receivables from related parties

Receivables from related parties are composed as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Receivables from unconsolidated subsidiaries	15,199	19,520
Receivables from associated companies and joint ventures	51,763	48,444
Receivables from other related parties	7,231	6,326
Receivables from related parties	**74,193**	**74,290**

Receivables from associated companies and joint ventures have primarily resulted from receivables from ABOUT YOU GmbH, Hamburg, and from the settlement of goods and services.

The detailed value allowances recognised on existing receivables from related parties changed as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Allowances as at 1 March	**7,841**	**9,011**
Disposals	0	–1,808
Additions	1,875	638
Allowances as at 29/28 February	**9,716**	**7,841**

Remaining terms as at balance sheet date are as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Remaining term of up to 1 year	60,918	74,290
Remaining term of more than 1 to 5 years	13,275	0
Remaining term of more than 5 years	0	0
Receivables from related parties	**74,193**	**74,290**

(22) Other assets

Other assets consist of the following:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Deposits	42,565	48,443
Amounts owed by suppliers	39,980	36,109
Derivatives at fair value	20,046	26,738
Receivables from employees	1,814	2,184
Other	820,392	499,014
Other financial assets	**924,797**	**612,488**
Expected returns of merchandise	71,922	67,869
Receivables from other taxes	65,421	64,901
Prepaid expenses	61,940	78,169
Other	41,896	31,604
Miscellaneous other assets	**241,179**	**242,543**
Other assets	**1,165,976**	**855,031**

The legal right to recover expected returns of merchandise to the amount of EUR 71,922 thousand (28 February 2019: EUR 67,869 thousand) corresponds to the purchase costs of the delivered goods expected to be returned, less the cost of processing the returns and any losses incurred during disposal. Other financial assets includes, among other items, the purchase price receivable for the sale of shares in COFIDIS PARTICIPATIONS, Villeneuve d'Ascq, France, which falls due during the next financial year, in the amount of EUR 222,062 thousand, as well as preference shares in a company included in the consolidated financial statements using the equity method in the amount of EUR 422,267 thousand (28 February 2019: EUR 411,631 thousand) (see Note (18)).

The remaining terms of other financial assets are broken down as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Balance as at 29 February 2020	363,782	130,597	430,418	**924,797**
Balance as at 28 February 2019	128,194	63,660	420,634	**612,488**

Allowances to the amount of EUR 3,157 thousand (28 February 2019: EUR 1,202 thousand) were recognised for other assets.

(23) Equity

An essential objective of the Otto Group's capital management is to ensure the sustained availability of long-term capital. The main control measure used here is the debt coefficient (net financial debt in relation to Group equity). Given the different capital requirements of financial services and retail activities, the coefficient is calculated in a different manner for these activities. Here, management draws on the consolidated financial statements in which the financial services companies are accounted for in accordance with the equity method (see Note (40)). With regard to the characteristics of these figures, the reader is referred to the Group Management Report.

Changes in the Otto Group's equity are presented in the statement of changes in equity.

(a) LIMITED PARTNERS' CAPITAL

In accordance with IAS 32, the limited partners' shares in Otto (GmbH & Co KG) are to be classified as puttable instruments. In accordance with the partners' agreement, the following amounts – which are determined under German commercial law – comprise the limited partners' capital:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	–131,836	83,869
Puttable financial instruments	**701,331**	**903,869**

Given the prevailing partnership structure, characterised by an indirect allocation of all shares to members of the Otto family and the Michael Otto Foundation, to which the majority of Otto (GmbH & Co KG) shares were allocated during the 2014/15 financial year, the puttable financial instruments have a virtually unlimited holding period. Given the absence of market transactions and the Foundation's intention to retain the shares as long-term foundation assets, it is impossible to provide a reliable assessment of fair value at the balance sheet date.

(b) CONSOLIDATED RETAINED EARNINGS

Consolidated retained earnings include the profit or loss generated by companies included in the consolidated financial statements, unless these amounts have been distributed. Offsets for goodwill undertaken in the consolidated financial statements under the German Commercial Code (HGB) up to 28 February 2002 and retained pursuant to IFRS 1 have a reducing effect.

In compliance with legal requirements and the articles of association, an amount of EUR 35,968 thousand (28 February 2019: EUR 36,872 thousand) of consolidated retained earnings was not available for distribution as at 29 February 2020.

(c) NET COST IN EXCESS OF NET ASSETS ACQUIRED IN STEP ACQUISITIONS

The adjustment item contains differences arising from the step acquisition of shares in companies in which the Otto Group already had the power of control. Such acquisitions are to be treated as transactions at partner level.

The effects of changes in investments in subsidiaries which have not led to the loss of control are listed below:

	2019/20	2018/19
	EUR 000	EUR 000
Consideration paid (–) or received (+)	0	–4,926
Increase (–)/decrease (+) in non-controlling interests	0	–5,030
Changes in net cost in excess of net assets acquired in step acquisitions	**0**	**–9,956**

(d) ACCUMULATED OTHER EQUITY

Accumulated other equity is composed as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Revaluation surplus from fair value increments within the scope of step acquisitions with the transfer of control	13,603	13,603
Other taxes recognised in equity	–1,126	–1,038
Accumulated other equity	**12,477**	**12,565**

(e) NON-CONTROLLING INTERESTS

The non-controlling interests in equity primarily relate to external shareholders in ARGOSYN, Croix, France, and its subsidiaries, based on a non-controlling interest of 46.32%, as well as FORUM Grundstücksgesellschaft m.b.H., Hamburg, Germany, based on a non-controlling interest of 100%, and its subsidiaries.

The summarised financial information for the Argosyn Group and Forum Group (based on 100%, before offsetting within the Group) is presented below:

	Forum Group*		Argosyn Group	
	2019/20	2018/19	2019/20	2018/19
	EUR 000	EUR 000	EUR 000	EUR 000
Non-current assets	429,581	414,129	361,445	484,882
Current assets	79,296	86,645	382,074	217,830
Non-current liabilities	206,167	183,772	11,863	2,196
Current liabilities	65,939	70,850	43,396	47,701
Net assets	**236,771**	**246,152**	**688,260**	**652,815**
thereof attributable to non-controlling interests	236,397	245,779	319,086	302,360
Revenue	0	0	10,916	10,939
Profit for the year	13,873	15,352	120,008	63,865
thereof attributable to non-controlling interests	13,846	15,235	55,588	29,580
Other comprehensive income for the year	–2,526	–1,669	642	–215
Total comprehensive income for the year	**11,347**	**13,683**	**120,650**	**63,650**
thereof attributable to non-controlling interests	11,320	13,567	55,885	29,480
Net increase (decrease) of cash and cash equivalents	**0**	**0**	**–38,421**	**–117,190**
Dividends paid to non-controlling interests	20,702	37,588	39,365	58,839

* A wholly owned subsidiary of Otto (GmbH & Co KG) holds 1% of the shares in a subsidiary of FORUM Grundstücksgesellschaft m.b.H.

(f) PUBLICLY-LISTED EQUITY AND PARTICIPATION CERTIFICATES

Publicly listed equity includes a subordinate bond in the amount of EUR 300,000 thousand placed on the Luxembourg Stock Exchange in July 2018.

During the 2019/20 financial year, the nominal value of participation certificates previously issued by EOS Holding GmbH, Hamburg, increased by EUR 10,000 thousand to EUR 55,000 thousand. In February 2016, bonprix Handelsgesellschaft mbH, Hamburg, issued participation certificates totalling EUR 70,000 thousand. These participation certificate transactions are classified as equity under IAS 32 due to their characteristics.

As at 29 February 2020, the as yet unpaid remuneration on the equity components named amounting to EUR 9,503 thousand (28 February 2019: EUR 7,984 thousand) is likewise included in this item.

(24) Profit and loss participation rights

The Otto Group offers employees at selected Group companies in Germany a capital participation plan in the form of participation rights. Each year, each employee at these companies has the option of buying a package that may comprise up to 20 profit-sharing rights at a par value of EUR 250.00 each. Under the terms and conditions governing profit and loss participation rights dated 10 April 2007, these rights share in all Group profits and losses based on the IFRS consolidated financial statements of Otto (GmbH & Co KG). However, in some cases the loss allocation is limited to 30% of the par value of the profit and loss participation rights. In principle, these packages are to be held for a period of at least six years, with the participation right recognised as non-current corresponding to the proportion attributable to this period.

As at 29 February 2020, 28,312 packages worth EUR 24,581 thousand (28 February 2019: 28,950 packages worth EUR 26,190 thousand) had been subscribed to.

(25) Pensions and similar obligations

Occupational pensions in the Group take the form of both defined contribution plans as well as defined benefit plans. The expenses of defined contribution obligations and defined benefit obligations are included in personnel expenses, except for net interest income. The compounding of the net pension obligation acquired in prior years is reported in net financial result. The retirement plans are organised in compliance with the legal, tax and economic conditions prevalent in the respective countries.

Under defined contribution pension plans, Otto Group companies make payments to external pension institutions and have no further benefit obligations to the beneficiaries. Expenses for defined contribution pension plans, excluding payments made to statutory pension plans, amounted to EUR 16,364 thousand in the 2019/20 financial year (2018/19: EUR 14,294 thousand).

Provisions for defined benefit pension plans are recognised for obligations arising from accrued rights and current benefits payable to former and active Otto Group employees and their survivors. The structure of the plans is normally based on the length of service, remuneration, status and the contributions of employees.

The principal defined benefit pension plans are in place at the Otto Group companies domiciled in Germany and the United Kingdom. Pension plans in Germany are normally unfunded. These comprise employer financed benefit obligations and defined contribution obligations financed by both the employer and the employee. A major part of the employer-financed benefit obligations were closed as at 1 January 2014 for new entries. At the companies domiciled in the United Kingdom most pension plans are funded. These plans are predominantly based on the frozen average salaries of employees. The plans in the United Kingdom were closed with effect from 28 February 2009 for new entries. The plans benefits in Germany and the United Kingdom are predominantly rendered in the form of pension payments.

The Otto Group is exposed to various risks in connection with the defined benefit plans. Besides general actuarial risks, such as the longevity risk and the interest rate fluctuation risk, the Otto Group is exposed to the currency risk and the capital market or investment risk. Pension payments in Germany are secured against the consequences of insolvency in accordance with the Occupational Pensions Act. For this, annual contributions are paid to the Pensions-Sicherungs-Verein VVaG (Pensions Security Association Mutual Insurance Association).

The main part of the plan assets held in the Otto Group relates to the companies domiciled in the United Kingdom. The plan assets serve only to fulfil the benefit obligations. The underpinning of these benefit obligations with cash and cash equivalents represents a reserve for future cash outflows. The plan assets are invested and managed by an independent trustee. The overriding investment policy and investment strategy are based on the aim of generating a yield from the plan assets which, together with the contributions, is sufficient to meet the benefit obligations. In view of the present shortfall, the company has undertaken to eliminate this deficit in the long term by means of regular endowment. The level of the endowments is renegotiated every three years within the framework of the Funding Discussions. The pension payments are to a large extent legally secured against the consequences of an insolvency. For this purpose, annual contributions are made to the Pension Protection Fund. In the United Kingdom, the independent trustee is entitled to have a portion of the pension plan secured via insurance. The probability of this right being exercised has been classified as very low. Taking this assumption into account, it was decided not to recognise an additional liability in the amount of EUR 28,483 thousand as at 29 February 2020 (28 February 2019: EUR 38,096 thousand).

Calculation of the provisions for pensions for the defined benefit plans is on the basis of actuarial assumptions, pursuant to IAS 19. Measurement is based on the following weighted assumptions:

	2019/20	2018/19
	in %	in %
Discount rate	1.3	2.1
Salary trend	1.4	1.4
Pension trend	1.8	1.8
Inflation	1.9	1.9
Fluctuation	8.0	8.0

The present value of pension obligations is broken down as follows:

	29.02.2020 EUR 000	28.02.2019 EUR 000
Defined benefit obligation, unfunded plans	1,739,912	1,452,491
Defined benefit obligation, funded plans	693,978	624,487
Reversals with regard to IFRS 5	-169,569	-536
Present value of pension obligations	**2,264,321**	**2,076,442**

The net defined benefit liability has developed as follows:

	Defined benefit obligations		Plan assets		Provisions for pensions	
	2019/20 EUR 000	2018/19 EUR 000	2019/20 EUR 000	2018/19 EUR 000	2019/20 EUR 000	2018/19 EUR 000
Status as at 1 March	**2,076,442**	**1,993,044**	**598,444**	**587,559**	**1,477,998**	**1,405,485**
Current service cost	24,899	24,250	0	0	24,899	24,250
Past service cost	10,020	22,313	0	0	10,020	22,313
Effects of plan curtailments and settlements	-443	-66	0	0	-443	-66
Interest income (expense)	43,255	42,257	15,537	16,048	27,718	26,209
Changes recognised in profit or loss	**77,731**	**88,754**	**15,537**	**16,048**	**62,194**	**72,706**
Actuarial gains and losses						
arising on demographic assumptions	-9,898	17,215	0	0	-9,898	17,215
arising on financial assumptions	342,980	10,295	0	0	342,980	10,295
arising on experience adjustments	1,353	17,490	0	0	1,353	17,490
Return on plan assets less interest income	0	0	60,041	-10,076	-60,041	10,076
Foreign exchange rate changes	6,628	18,607	5,907	17,255	721	1,352
Changes recognised in other comprehensive income	**341,063**	**63,607**	**65,948**	**7,179**	**275,115**	**56,428**
Payments to beneficiaries	-57,303	-58,445	-25,224	-26,288	-32,079	-32,157
Transfers	2	75	0	0	2	75
Contributions from employer	0	0	20,574	22,430	-20,574	-22,430
Changes to the scope of consolidation	-4,045	-10,057	0	-8,484	-4,045	-1,573
Reversals with regard to IFRS 5	-169,569	-536	0	0	-169,569	-536
Sonstige Changeen	**-230,915**	**-68,963**	**-4,650**	**-12,342**	**-226,265**	**-56,621**
Status as at 29/28 February	**2,264,321**	**2,076,442**	**675,279**	**598,444**	**1,589,042**	**1,477,998**
thereof provisions for pensions					1,589,429	1,477,998
thereof net defined benefit asset					-387	0

Plan assets available to finance pension obligations are structured as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Securities	561,097	487,355
Property	26,430	35,845
Cash and cash equivalents	14,769	13,747
Loans	8,205	4,194
Other	64,778	57,303
Plan assets	**675,279**	**598,444**

The costs of managing the plan assets diminish the income for the plan assets. The remaining administrative costs are not deducted from the income from plan assets.

In the 2020/21 financial year, the Group expects to pay EUR 23,116 thousand into the defined benefit plans and also anticipates that EUR 60,970 thousand will be paid out from these plans.

The weighted average term of the present value of the defined benefit obligation is 20.1 years (28 February 2019: 19.0 years).

The relative effect of singular parameter changes on the present value of the defined benefit obligation is shown below:

		2019/20	2018/19
		in %	in %
Discount rate	+ 0.5%	– 9.2	– 8.7
	– 0.5%	10.7	9.9
Pension trend	+ 0.25%	2.3	2.2
	– 0.25%	– 2.2	– 2.1
Life expectancy	Increase of one year	2.0	1.7
	Decrease of one year	– 2.2	– 1.8

There is no material dependence of the plans on salary. Approximately 98% by volume of the obligations was taken into account in calculating the sensitivities. Each change in one of the material actuarial assumptions was analysed separately. Interdependencies were not taken into account.

(26) Other provisions

Other provisions are composed as follows:

	01.03.2019	Exchange rate changes/reclassifications/changes in the scope of consolidation	Utilisation	Reversals	Additions	Compounding	Reclassification IFRS 5	29.02.2020
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Personnel expenses	69,571	–94	–3,627	–2,743	5,820	10,147	–10,942	68,132
Operational provisions	51,009	–6,017	–10,137	–4,682	12,929	859	–7,056	36,905
Contractual provisions	31,046	24	–1,538	–4,159	8,613	0	–7,685	26,301
Restructuring obligations	56,024	–243	–22,922	–26,215	11,046	86	–1,500	16,276
Other	118,478	506	–16,835	–9,112	51,806	208	–44,031	101,020
Other provisions	**326,128**	**–5,824**	**–55,059**	**–46,911**	**90,214**	**11,300**	**–71,214**	**248,634**

The provisions for personnel expenses mainly comprise top-up amounts for partial retirement obligations as well as anniversary bonus entitlements.

Provisions for restructuring obligations include expected severance payments and other restructuring-related personnel expenses incurred based on programmes to avert hardship for employees affected by downsizing and collective bargaining agreements in Germany, France, Italy and Great Britain, for example. These provisions additionally include anticipated expenses in connection with the premature termination of lease contracts owing to restructuring measures.

Operational provisions mostly consist of provisions for asset removal or site restoration as well as provisions for claims relating to warranties and customer goodwill payments. Provisions for asset removal and site restoration, which apply especially to leasehold improvements, were recognised at the present value of the anticipated costs. These costs were correspondingly capitalised as a component of the purchase or production costs of the assets at the time the obligation was incurred. Provisions for warranties and customer goodwill payments are recognised for the probable total claim amounts, for warranties established by law or contract or undertaken voluntarily, and for customer warranty claims on delivered merchandise.

Obligations arising from ongoing or anticipated legal disputes are reported under contractual provisions, among others.

The other provisions refer to a large number of identifiable individual risks and contingent liabilities that are included on the basis of an amount determined by their probable occurrence.

The remaining terms of other provisions are broken down as follows as at 29 February 2020:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Personnel expenses	604	57,201	10,327	**68,132**
Operational provisions	13,691	13,006	10,208	**36,905**
Contractual provisions	26,240	61	0	**26,301**
Restructuring obligations	13,841	2,435	0	**16,276**
Other	63,400	37,620	0	**101,020**
Other provisions	**117,776**	**110,323**	**20,535**	**248,634**

(27) Liabilities under bonds and other notes payable and bank liabilities

The remaining terms of bonds, other notes payable and bank liabilities as at 29 February 2020 are broken down as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Bonds and other notes payable	393,846	711,954	458,705	**1,564,505**
Bank liabilities	340,232	578,139	233,925	**1,152,296**

The remaining terms of bonds, other notes payable and bank liabilities as at the closing date of the comparative period are broken down as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Bonds and other notes payable	502,460	607,000	347,569	**1,457,029**
Bank liabilities	651,937	632,626	225,583	**1,510,146**

The principal bonds outstanding as at 29 February 2020 have the following nominal values, interest rates and maturities:

Company	Financing commitment	Utilisation until 29.02.2020	Nominal interest rate	Re-offer yield	Maturity
		EUR 000			
Otto (GmbH & Co KG)	Bearer bond (XS0972058175)	225,000	3.750%	3.875%	17.09.2020
Otto (GmbH & Co KG)	Bearer bond (XS1031554360)	50,000	Euribor + mark-up	Euribor + mark-up	18.02.2021
Otto (GmbH & Co KG)	Bearer bond (XS1123401579)	45,000	Euribor + mark-up	Euribor + mark-up	05.11.2021
Otto (GmbH & Co KG)	Bearer bond (XS1567447609)	40,000	1.500%	1.500%	08.03.2022
Otto (GmbH & Co KG)	Bearer bond (XS1433512891)	250,000	2.500%	2.625%	16.06.2023
Otto (GmbH & Co KG)	Bearer bond (XS1625975153)	300,000	1.875%	1.950%	12.06.2024
Otto (GmbH & Co KG)	Bearer bond (CH0511961390)*,**	77,273	1.500%	1.418%	09.12.2024
Otto (GmbH & Co KG)	Bearer bond (XS1979274708)*	250,000	2.625%	2.625%	10.04.2026
Otto (GmbH & Co KG)	Bearer bond (XS1979274708)*	50,000	2.625%	2.300%	10.04.2026
Otto (GmbH & Co KG)	Bearer bond (XS1660709616)	50,000	Euribor + mark-up	Euribor + mark-up	24.08.2026
Otto (GmbH & Co KG)	Registered Bond	15,000	3.400%	3.400%	25.03.2031
Otto (GmbH & Co KG)	Bearer bond (XS2028841489)*	30,000	3.400%	3.400%	17.07.2031
Otto (GmbH & Co KG)	Registered Bond*	10,000	3.000%	3.000%	24.01.2032
Otto (GmbH & Co KG)	Bearer bond (XS2111951690)*	40,000	3.000%	3.000%	30.01.2032
Otto (GmbH & Co KG)	Bearer bond (XS2063541358)*	15,000	3.180%	3.180%	10.10.2034

* Sustainable bonds.
** Foreign currency bond with an utilisation of CHF 85 million.

Since the 2013/14 financial year, the Otto Group has had an EMTN programme with a total volume of EUR 2,000,000 thousand on the Luxembourg stock exchange. As at 29 February 2020, the total volume of bonds issued within the framework of the EMTN programme amounted to EUR 1,422,000 thousand (28 February 2019: EUR 980,000 thousand).

In addition, a commercial paper programme has been in place since the 2016/17 financial year which has a total value of EUR 1,000,000 thousand. As at 29 February 2020, the total volume of outstanding commercial paper amounts to EUR 97,800 thousand (28 February 2019: EUR 166,000 thousand).

In the 2019/20 financial year, the Otto Group launched a Sustainable Finance Framework that allows bonds to be issued as sustainable in accordance with the standards of the International Capital Markets Association. Overall, bonds with a nominal value of EUR 472,000 thousand were issued in the 2019/20 financial year.

As at 29 February 2020, there are the following material liabilities to various German and foreign banks (in order of maturity):

Segment	Currency	Utilisation until 29.02.2020	Interest rate	Maturity
		EUR 000		
Multichannel Retail	EUR	304,817	1.0–6.0%	2020–2025
	EUR	133,490	Euribor + variable mark-up	2020–2039
	EUR	204,176	1.5–6.9%	2025–2041
Financial Services	EUR	12,500	Euribor + variable mark-up	2020–2025
	EUR	140,833	1.4–2.7%	2021–2025
	EUR	40,000	1.5%	2027
Services	EUR	0	–	–

These are broken down based on segment allocation based on fixed or variable interest rates, and by maturity of up to five years (28 February 2025) or over five years (as of 1 March 2025).

For financial liabilities, the interest rate reported corresponds to the effective interest rate.

(28) Other financing liabilities

Other financing liabilities consist of the following:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
ABS liabilities	25,000	82,632
Loans payable	3,909	4,441
Bills payable	93	1,355
Finance lease liabilities	0	69,646
Other financing liabilities	**29,002**	**158,074**

Remaining terms as at 29 February 2020 are as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
ABS liabilities	25,000	0	0	**25,000**
Loans payable	3,909	0	0	**3,909**
Bills payable	93	0	0	**93**
Other financing liabilities	**29,002**	**0**	**0**	**29,002**

The remaining terms of other financing liabilities as at the closing date of the comparative period were as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
ABS liabilities	82,632	0	0	**82,632**
Finance lease liabilities	17,622	50,654	1,370	**69,646**
Loans payable	4,441	0	0	**4,441**
Bills payable	1,355	0	0	**1,355**
Other financing liabilities	**106,050**	**50,654**	**1,370**	**158,074**

Finance lease liabilities as at the closing date of the comparative period were reconciled as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Lease payments outstanding	18,910	52,240	1,374	**72,524**
Interest component	1,288	1,586	4	**2,878**
Principal component	**17,622**	**50,654**	**1,370**	**69,646**

(29) Liabilities to related parties

Liabilities to related parties consist of the following:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Liabilities to unconsolidated subsidiaries	9,234	16,500
Liabilities to associated companies and joint ventures	36,116	26,308
Liabilities to other related parties	1,625	2,767
Liabilities to related parties	**46,975**	**45,575**

The remaining terms were as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Remaining term of up to 1 year	46,514	44,834
Remaining term of 1 to 5 years	0	277
Remaining term of more than 5 years	461	464
Liabilities to related parties	**46,975**	**45,575**

(30) Other liabilities

The other liabilities are composed as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Liabilities to employees	243,358	251,820
Debtors with credit balances	90,768	88,561
Liabilities to puttable equity interest	63,649	104,697
Negative fair values of derivatives	53,300	38,069
Obligation to acquire equity interests	27,030	27,989
Other	125,587	59,244
Other financial liabilities	**603,692**	**570,380**
Contractual Liabilities	230,579	214,302
Liabilities for other taxes	159,160	146,193
Deferred income	28,126	107,096
Social security liabilities	13,177	17,686
Liabilities for other charges	8,049	9,900
Other	1,689	2,753
Miscellaneous other liabilities	**440,780**	**497,930**
Other liabilities	**1,044,472**	**1,068,310**

Liabilities to employees consist primarily of wage and salary obligations, holidays not taken and accrued holiday pay and also under partial retirement agreements.

In accordance with IAS 32, the obligation – on the exercise of options granted to certain shareholders of subsidiaries – to purchase their shares at their proportional equity value, is to be recognised as a liability to purchase shares at the level of the probable settlement amount.

If liabilities are incurred within the scope of a business combination in which the Otto Group has acquired control, amounts are treated as contingent consideration, less interest, and, where necessary, accounted for in goodwill.

The other financial liabilities are composed as follows (in order of maturity):

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Remaining term of up to 1 year	435,364	383,110
Remaining term of more than 1 to 5 years	153,120	170,340
Remaining term of more than 5 years	15,208	16,930
Other financial liabilities	**603,692**	**570,380**

Contractual liabilities changed as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Contractual liabilities as at 1 March	**214,302**	**199,290**
Additions	210,609	189,645
Revenues realised in the reporting period	–193,432	–177,608
Exchange rate changes/changes to the scope of consolidation	–832	2,975
Changes to the scope of consolidation due to IFRS 5	–68	0
Contractual liabilities as at 29/28 February	**230,579**	**214,302**

As at 29 February 2020, the total value of unfulfilled performance obligations that are expected to be fulfilled in more than 12 months amounted to EUR 20,927 thousand (28 February 2019: EUR 19,347 thousand).

(31) Employee participation programmes

In the 2006/07 and 2017/18 financial years, a Group company in the United States established virtual share option programmes as a long-term employee incentive plan. Under IFRS 2, these programmes are classified as cash-settled share-based payments. The transaction currency for grants and repurchases of the appreciation rights is the US dollar.

The appreciation rights granted annually under these plans vest pro rata temporis over a period of 60 months. At the end of this vesting period, the amount of appreciation is paid out on the basis of the rights that have vested. This amount of appreciation is defined based on a fair value of the company, arrived at by applying an EBIT multiplier and taking into account a net financial position defined in the contract.

The plan launched in the 2006/07 financial year allows for a maximum of 590,000 appreciation rights to be issued. The last issue of appreciation rights took place in the 2017/18 financial year. Movements in employee share option plan amounts are summarised as follows:

Year granted	Number of rights granted	Number of forfeitures	Number of rights paid	Number of rights vested	Value of right at date granted in USD	Change of value in comparison to date granted in USD
2006	103,650	–7,609	–96,042	0	81.66	31.44
2007	111,500	–13,170	–98,330	0	105.09	8.01
2008	77,650	–15,466	–62,184	0	104.06	9.04
2009	105,130	–21,098	–84,032	0	33.08	80.02
2010	120,395	–32,551	–87,844	0	32.04	81.06
2011	131,890	–43,154	–88,736	0	67.92	45.18
2012	121,765	–37,129	–84,636	0	53.31	59.79
2013	124,200	–42,763	–81,437	0	38.26	74.63
2014	122,595	–40,658	–81,937	51,260	0.00	95.41
2015	148,860	–57,276	–45,891	47,485	0.00	100.11
2016	157,770	–69,301	–33,304	40,539	23.36	79.40
	1,325,405	**–380,174**	**–844,373**	**139,284**		

The plan launched in the 2017/18 financial year allows for a maximum of 300,000 appreciation rights to be issued. Movements in employee share option plan amounts are summarised as follows:

Year granted	Number of rights granted	Number of forfeitures	Number of rights paid	Number of rights vested	Value of right at date granted in USD	Change of value in comparison to date granted in USD
2017	56,920	–34,960	0	0	99.22	1.97
2018	25,440	–19,840	0	0	110.66	3.12
2019	0	0	0	0	–	–
	82,360	**–54,800**	**0**	**0**		

Taking into account the vesting period pursuant to IFRS 2, a liability of EUR 10,327 thousand was recognised for both employee participation programmes as at balance sheet date (2018/19: EUR 12,147 thousand), owing to the performance of the value. Expenses amounting to EUR 5,144 thousand arose the reporting year (2018/19: EUR 3,076 thousand).

In the 2019/20 financial year, payments of EUR 21,969 thousand were made to former employees for rights that had already vested when they left the company (2018/19: EUR 14,245 thousand).

Notes to the Consolidated Cash Flow Statement

(32) Definitions

In the Otto Group gross cash flow is an internal control measure for managing the Group companies' and segments' contributions to liquidity. Gross cash flow corresponds to earnings before interest and tax, adjusted for the profits, losses and dividends of associated companies and joint ventures and also for material non-cash income and expenses.

(33) Components of cash and cash equivalents

Cash and cash equivalents are made up of the following components:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Cash	311,938	368,728
Securities with maturities of three months or less	17,520	17,224
Cash and cash equivalents	**329,458**	**385,952**

Of the cash and cash equivalents reported in the consolidated cash flow statement, EUR 4,970 thousand have been deposited as collateral (28 February 2019: EUR 4,098 thousand). The limited availability is primarily due to contractual agreements in connection with ABS transactions.

(34) Non-cash transactions

In the 2019/20 financial year, material non-cash financing and investment transactions relate to the conclusion of leases within the meaning of IFRS 16 in the amount of EUR 350,482 thousand. In the 2018/19 financial year, a finance lease within the meaning of IAS 17 amounting to EUR 19,967 thousand was concluded.

Notes to the Segment Reporting

(35) Principles

In accordance with the provisions of IFRS 8, segment reporting is based on the management approach. This harmonises segment reporting with internal reporting to the relevant primary decision makers, which contains information presented to these decision makers in the course of regular reporting that is then used to allocate resources for the divisions within the Group. In accordance with the Group's internal management structure, segment reporting is based on the Group's business segments.

To supplement the business segments, additional information is provided on the geographical regions.

(a) BUSINESS SEGMENTS

The Otto Group conducts business in the following business segments:

MULTICHANNEL RETAIL

The Multichannel Retail segment includes all of the Group's operations that involve selling consumer goods to retail customers. Business is conducted by means of a multichannel strategy that covers online and distance selling as well as over-the-counter retail, whereby e-commerce sales form the main focus of this segment.

FINANCIAL SERVICES

The Financial Services segment includes receivables and liquidity management services.

SERVICES

The Otto Group's Services segment comprises logistics and purchasing services. Logistics services include a wide range of activities, from procurement and transport services through to home deliveries to end customers and services related to delivered merchandise.

(b) GEOGRAPHICAL REGIONS

In addition to Germany, the Otto Group is especially active in other European countries, as well in North America, Russia and Asia. Other regions covers operations in all remaining regions.

(36) Segment information

Segment data is determined on the basis of accounting and measurement policies used for preparing the consolidated financial statements, which are reported as operating leases. Receivables, expenses and income resulting from transactions between the individual segments are eliminated in the Holding/consolidation column. Such transactions are conducted on normal market terms. The Holding/consolidation column also includes expenses for central corporate functions that cannot be reliably assigned to individual segments.

Third-party revenue results from the sale of merchandise and the provision of services including financial services. Internal revenue relates to the exchange of products and services between segments.

Earnings figures show the segments' contribution to the Group's earnings. Here, EBITDA represent earnings before taking the net financial result, income tax and depreciation and amortisation into account. Taking into account the depreciation and amortisation sustained, EBIT constitutes earnings before interest and before income taxes.

Segment assets include non-current assets for the relevant segment, i.e. intangible assets (including goodwill), property, plant and equipment, right-of-use assets and interests in associated companies and joint ventures, as well as current assets. Segment assets do not include other investments, finance receivables, current income tax credits, deferred tax assets and cash and cash equivalents. Only in the Financial Services segment are finance receivables included under segment assets.

Segment gross cash flow is based on EBIT, from which all non-cash income and expenses are eliminated.

Segment assets can be reconciled with Group assets as follows:

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Segment assets	**8,862,033**	**8,566,255**
Other financial investments	118,825	90,706
Receivables and other assets	31,151	54,783
Cash and cash equivalents	311,938	368,728
Deferred tax assets	159,010	123,234
Assets held for sale	1,257,619	420,609
Consolidated assets	**10,740,576**	**9,624,315**

For geographical information, revenue (excluding revenue from customer financing) is broken down by the location of the Group company, which usually also corresponds to the location of its customers. Assets are also calculated based on the Group company's location and include the non-current assets for the geographical region and thus comprise intangible assets, property, plant and equipment, and right-of-use assets:

	Umsatzerlöse mit Dritten		Langfristiges Vermögen	
	2019/20	2018/19	29.02.2020	28.02.2019
	EUR 000	EUR 000	EUR 000	EUR 000
Germany	8,522,219	8,243,568	1,481,371	1,377,628
Europe (excluding Germany and Russia)	3,225,241	2,914,738	307,251	398,411
North America	1,940,056	1,855,722	687,017	356,703
Russia	217,468	229,668	2,171	1,693
Asia	158,352	179,690	71,549	48,819
Other regions	16,407	22,996	1,365	1,032
Group	**14,079,743**	**13,446,382**	**2,550,724**	**2,184,286**

Other Disclosures

(37) Financial instruments

(a) NON-DERIVATIVE FINANCIAL INSTRUMENTS

The Otto Group uses a wide range of financial instruments in its various lines of business.

The tables below list the financial assets and liabilities in accordance with the categories of financial instruments outlined in IFRS 9. Cash flow hedges are recognised separately.

In the 2019/20 financial year, reclassifications from Level 2 to Level 3 of the fair value hierarchy in accordance with IFRS 13 were carried out in the case of other financial investments and within other financial assets.

Other financial investments classified as Level 3 correspond to investments in companies and in investment funds. The fair value is determined using a measurement method for which the main input factors are based on unobservable market data. Measurement is carried out in accordance with the measurement method deemed most appropriate in each case. In most cases, the best indication is provided by information from recent financing rounds. In addition, market multiples are also used to determine fair value. Due to the large number of investments, it is not possible for sensitivities to be presented in a meaningful way.

Other financial assets classified as Level 3 include preference shares which, in addition to voting rights, attract a fixed and senior annual interest rate. Expected dividend payments are discounted at the balance sheet date by average capital costs. During the current financial year, the fair value of these financial assets increased by EUR 10,636 thousand to EUR 422,267 thousand. A change in interest rates of one percentage point in each case would result in a change in the fair value amounting to either an increase of EUR 39,148 thousand or a reduction of EUR 35,382 thousand.

In addition, other financial assets include a variable, conditional purchase price component based on the sale of shares in a Group company that was completed in the 2017/18 financial year and which amounts to EUR 30,000 thousand. The amount of this purchase price component is essentially dependent on the operational growth of the former Group company. It is also dependent on other transaction-related components. The actual settlement amount could be less than the recognised asset value; or in a best-case scenario, it could amount up to EUR 95,000 thousand.

Other financial liabilities classified as Level 3 are contingent purchase price components for mergers in the form of put options on shares of other shareholders. These are regularly measured at fair value at the time of acquisition and at subsequent recognition. Measurements are carried out on a transaction basis and are mainly based on unobservable market input data. As a rule, multiples or contractually agreed flat rates are used for the calculation. The amounts expected at the time of the option being exercised are discounted at the measurement date based on a maturity and risk-appropriate borrowing interest rate. Accumulated other comprehensive income includes EUR 1,592 thousand (28 February 2019: EUR 970 thousand) from foreign currency translation. Because the amounts are contractually fixed, it is not possible to represent overall sensitivities.

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their classification in the fair value hierarchy, as at 29 February 2020. It does not contain any information about the fair value of financial assets and liabilities which were not measured at fair value if the carrying amount represents an adequate approximation of the fair value.

Assets	Measurement according to IFRS 9					Fair value hierarchy			
	Carrying amount	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI)	Fair value recognised in equity (FVOCI) without recycling	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Other financial investments	128,396	0	30,619	0	97,777	128,396	0	0	128,396
Trade receivables	1,111,626	1,111,626	0	0	0	0	0	0	0
Receivables from financial services	1,642,606	1,642,606	0	0	0	0	0	0	0
Receivables from related parties	74,193	74,193	0	0	0	0	0	0	0
Other financial assets	904,751	452,484	30,000	422,267	0	452,267	0	0	452,267
Securities	19,806	2,375	17,431	0	0	17,431	17,431	0	0
Cash and cash equivalents	311,938	311,938	0	0	0	0	0	0	0
Derivatives not designated as hedging instruments	9,324	0	9,324	0	0	9,324	0	9,324	0
Cash flow hedges	10,721	0	0	10,721	0	10,721	0	10,721	0

Liabilities	Measurement according to IFRS 9				Fair value hierarchy			
	Carrying amount	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI) without recycling	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	24,581	24,581	0	0	0	0	0	0
Bonds and other notes payable	1,564,505	1,564,505	0	0	1,605,410	1,119,077	486,333	0
Bank liabilities	1,152,296	1,152,296	0	0	1,211,069	0	1,211,069	0
Other financing liabilities	51,518	51,518	0	0	0	0	0	0
Lease liabilities	856,497	856,497	0	0	0	0	0	0
Trade payables	1,448,290	1,448,290	0	0	0	0	0	0
Liabilities to related parties	46,975	46,975	0	0	0	0	0	0
Other financial liabilities	527,877	500,847	0	27,030	27,030	0	0	27,030
Derivatives not designated as hedging instruments	15,376	0	15,376	0	15,376	0	15,376	0
Cash flow hedges	37,924	0	0	37,924	37,924	0	37,924	0

As at the closing date of the comparative period, in accordance with IAS 39, the carrying amounts and fair values of financial assets and liabilities together with their corresponding classification in the fair value hierarchy were as follows:

Assets	Measurement according to IFRS 9					Fair value hierarchy			
	Carrying amount	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI)	Fair value recognised in equity (FVOCI) without recycling	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Other financial investments	102,267	0	22,182	0	80,085	102,267	0	102,267	0
Trade receivables	1,508,748	1,508,748	0	0	0	0	0	0	0
Receivables from financial services	1,441,845	1,441,845	0	0	0	0	0	0	0
Receivables from related parties	74,290	74,290	0	0	0	0	0	0	0
Other financial assets	585,750	173,724	395	0	411,631	411,631	0	411,631	0
Securities	17,537	403	17,134	0	0	17,134	17,134	0	0
Cash and cash equivalents	368,728	368,728	0	0	0	0	0	0	0
Derivatives not desig-nated as hedging instruments	5,792	0	5,792	0	0	5,792	0	5,792	0
Cash flow hedges	20,945	0	0	20,945	0	20,945	0	20,945	0

Liabilities	Measurement according to IFRS 9				Fair value hierarchy			
	Carrying amount	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI) without recycling	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	26,189	26,189	0	0	0	0	0	0
Bonds and other notes payable	1,457,029	1,457,029	0	0	1,474,414	1,103,865	370,549	0
Bank liabilities	1,510,146	1,510,146	0	0	1,554,711	0	1,554,711	0
Other financing liabilities	88,428	88,428	0	0	0	0	0	0
thereof finance lease liabilities	69,646	69,646	0	0	0	0	0	0
Trade payables	1,628,536	1,628,536	0	0	0	0	0	0
Liabilities to related parties	45,575	45,575	0	0	0	0	0	0
Other financial liabilities	532,312	504,323	0	27,989	27,989	0	0	27,989
Derivatives not designated as hedging instruments	10,555	0	10,555	0	10,555	0	10,555	0
Cash flow hedges	27,514	0	0	27,514	27,514	0	27,514	0

The net gain/loss from financial instruments includes effects from value allowances, currency translation, measurement at fair value and disposal of financial instruments and is broken down into the individual IFRS 9 measurement categories as follows:

	29.02.2020		
	Recognised in equity	Recognised in income	Total
	EUR 000	EUR 000	EUR 000
Financial investments measured at amortised cost	0	790,558	790,558
Financial liabilities measured at amortised cost	0	–878	–878
Financial investments measured at fair value through profit or loss	0	30,227	30,227
Financial liabilities measured at fair value through profit or loss	0	–39,159	–39,159
Financial investments measured at fair value recognised in equity without recycling	23,576	1,368	24,944
Net gain/net loss	**23,576**	**782,116**	**805,692**

At the reporting date of the comparative period, the breakdown was as follows:

	28.02.2019		
	Recognised in equity	Recognised in income	Total
	EUR 000	EUR 000	EUR 000
Financial investments measured at amortised cost	0	776,488	776,488
Financial liabilities measured at amortised cost	0	–892	–892
Financial investments measured at fair value through profit or loss	0	153,362	153,362
Financial liabilities measured at fair value through profit or loss	0	–30,068	–30,068
Financial investments measured at fair value recognised in equity without recycling	6,641	0	6,641
Net gain net loss	**6,641**	**898,890**	**905,531**

The financial instruments mentioned above were recognised in revenue, in other operating income and expenses, in income from equity investment, and in other net financial income (expense) depending on their effects on income.

As at 29 February 2020, and the reporting date for the previous period, no assets from ABS transactions were recognised.

(b) DERIVATIVE FINANCIAL INSTRUMENTS

Owing to its international activities, the Otto Group is particularly exposed to risks from fluctuations in foreign exchange and interest rates. The Group companies of the Otto Group use derivative financial instruments to limit these risks.

The use of derivative financial instruments within the Otto Group is governed by specific guidelines and is permitted only for hedging existing underlying transactions, or forecasted transactions that are sufficiently probable. These binding guidelines define responsibilities, areas of authority, reporting requirements and the strict separation of trading, settlement and control functions. According to this guideline, trading transactions with derivative financial instruments may be entered into only with banks of sufficient creditworthiness.

The Otto Group uses foreign currency forwards, currency swaps and currency options to hedge completed or forecasted business transactions. As part of the Group's interest rate hedging, risks are minimised through interest rate derivatives in the form of interest rate swaps.

The derivative transactions that the Otto Group accordingly enters into are reported to a trade repository pursuant to the provisions of the European Market Infrastructure Regulation (EMIR). Compliance with EMIR is regularly verified and confirmed by an auditing company.

(i) CURRENCY RISK

Within the Otto Group, risks arise from foreign currency transactions for receipts and payments denominated in currencies other than the functional currency of the Group companies. These concern cash flows from highly probable future transactions that mainly relate to merchandise purchasing and revenue as well as refinancing. The euro is the predominant functional currency. The transactions in question are primarily denominated in the euro, the US dollar, the Swiss franc and the Hong Kong dollar. The main currency risk exposure is hedged. From the point of view of the individual company, hedging can cover up to 100% of the estimated foreign currency risks from highly probable future transactions. Foreign currency risk is hedged using foreign exchange transactions that are generally classified as cash flow hedges. An overview of the movement of currencies that have a material and relevant effect on the consolidated financial statements can be found under Note (2)(b).

The Otto Group designates the spot component of qualified foreign exchange derivatives as the hedging instrument based on a 1:1 ratio. The forward components of foreign exchange derivatives are not taken into account here. These are reported separately as hedging costs and are included under Group equity.

The existence of an economic relationship between the hedging instrument and the hedged underlying transaction is established on the basis of currency, amount and the timing of their respective cash flows. The Group uses the hypothetical derivative method together with the dollar offset method to assess whether any material ineffectiveness has occurred in relation to the designated hedging relationships. Ineffectiveness is not expected to occur for these hedging relationships as it is not assumed that the currency, amount or timing of the corresponding cash flows from the underlying transaction will change before maturity.

(ii) INTEREST RATE RISK

The hedging strategy pursued by Otto Group for loans received involves the conversion of all variable interest rate loans and bonds to fixed interest payments by means of appropriate interest rate derivatives. The Group applies a 1:1 hedge ratio here.

When preparing the consolidated financial statements, the effectiveness of the hedging relationships was tested using the critical term match method. Important criteria (critical terms) used to test the appropriateness of the hedging instrument for the underlying transaction when hedging interest rate risks include the reference interest rate, nominal amount, interest rate agreement as well as the timing and amount of the cash flows. The main interest-rate risk exposure is therefore 100% hedged.

The Group uses the hypothetical derivative method together with the dollar offset method to assess whether any material ineffectiveness has occurred in relation to the designated hedging relationships. The main causes of ineffectiveness in the context of these hedging relationships result from taking into account the credit loss risks of the corresponding counterparties when determining the fair value of the swaps included in the hedge as well as the interest rate hedging of variable interest rate loans through interest rate swaps that already had an intrinsic value when they were included in the consolidated financial statements for the first time (late designation).

(iii) CASH FLOW HEDGING

As at the closing date, the remaining terms of the nominal values of instruments held by the Otto Group for the purposes of hedging against exchange rate and interest rate fluctuations were as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years
	EUR 000	EUR 000	EUR 000
Assets			
Currency derivatives	649,656	143,655	0
Total	**649,656**	**143,655**	**0**
Liabilities			
Currency derivatives	606,807	367,984	0
Interest rate derivatives	51,000	130,550	159,027
Total	**657,807**	**498,534**	**159,027**

In the previous year, the nominal values and fair values of interest rate derivatives and foreign exchange derivatives were composed as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years
	EUR 000	EUR 000	EUR 000
Assets			
Currency derivatives	577,154	101,907	0
Interest rate derivatives	0	0	0
Total	**577,154**	**101,907**	**0**
Liabilities			
Currency derivatives	686,230	263,241	0
Interest rate derivatives	24,636	167,559	599,607
Total	**710,866**	**430,800**	**599,607**

The Otto Group recognises certain derivatives that meet the hedging relationship requirements of IFRS 9 as cash flow hedges. At the balance sheet date, the following hedging instruments meet these criteria:

	29.02.2020			28.02.2019		
	Nominal value	Fair value assets	Fair value liabilities	Nominal value	Fair value assets	Fair value liabilities
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Currency derivatives						
Revenue	336,287	2,774	13,317	264,528	2,446	3,819
Refinancing	177,343	2,943	2,487	100,053	0	1,023
Inventories	239,431	5,005	2,869	475,860	18,500	1,944
Interest rate derivatives						
Interest rate swaps	339,578	0	19,252	779,166	0	20,728
Derivatives in cash flow hedges	**1,092,639**	**10,722**	**37,925**	**1,619,607**	**20,946**	**27,514**

Positive fair values are recorded under other assets and securities (see Note (22)), while negative fair values are recorded under other liabilities (see Note (30)).

As at 29 February 2020, the amounts relating to items designated as hedging instruments, and the ineffective portions of the hedging relationships, were as follows:

	Designated risk component			Cost of hedging		
	Recognised in equity	Reclassified to cost of inventory	Reclassified to profit or loss	Recognised in equity	Reclassified to cost of inventory	Reclassified to profit or loss
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Currency derivatives						
Revenue	–12,872	0	7,151	761	0	–66
Refinancing	3,450	0	–3,450	2,367	0	–2,341
Inventories	8,545	–18,272	0	3,086	–8,008	0
Interest rate derivatives						
Interst rate swaps	–21,416	0	1,918	0	0	0
Changes in fair value of derivatives in cash flow hedges	**–22,293**	**–18,272**	**5,619**	**6,214**	**–8,008**	**–2,407**

Amounts from foreign exchange derivatives that were reclassified as profit or loss are recorded under revenue (see Note (6)) or other net financial income (expense) (see Note (14)). Amounts from interest rate swaps that were reclassified at fair value through other profit and loss are taken into account under net interest income (expense) (see Note (14)).

Hedging transaction ineffectiveness in foreign exchange derivatives amounted to EUR –54 thousand (28 February 2019: EUR –54 thousand) and relates solely to refinancing. This is included under other net financial income (expense) (see Note (14)). Furthermore, hedge ineffectiveness also occurred for interest rate derivatives in the amount of EUR –976 thousand (28 February 2019: EUR 220 thousand). These are recorded under net interest income (expense) (see Note (14)).

As at 29 February 2020, a change in value was recorded for foreign exchange derivatives in the amount of EUR 20,419 thousand for the hedged underlying transaction (28 February 2019: EUR 27,659 thousand) and for interest rate derivatives in the amount of EUR 17,029 thousand (28 February 2019: EUR 16,981 thousand). The hedged underlying transaction serves as a basis for recording the ineffectiveness of the hedging relationship. As at 29 February 2020, the remaining balance of the cash flow hedge reserve for hedging relationships for foreign exchange derivatives for which the recognition of hedging transactions is no longer applied amounted to EUR 252 thousand (28 February 2019: EUR 3,880 thousand).

The following table shows the risk categories of the equity components and the corresponding analysis of the items under other comprehensive income for the year after tax that result from cash flow hedge accounting:

	Designated risk component	Cost of hedging Forward exchange transaction	Cost of hedging Option transactions
	EUR 000	EUR 000	EUR 000
Fair value of derivatives in cash flow hedges as at 1 March	**1,800**	**877**	**151**
Changes in fair values			
Currency derivatives – inventories	8,458	4,825	–1,739
Currency derivatives – revenue	–12,872	761	0
Currency derivatives – refinancing	3,450	2,367	0
Interest rate derivatives – interest rate swaps	–21,416	0	0
Reclassified to profit or loss			
Currency derivatives – revenue	7,151	–66	0
Currency derivatives – refinancing	–3,450	–2,341	0
Interest rate derivatives – interest rate swaps	1,918	0	0
Reclassified to cost of inventory under inventories			
Currency derivatives – inventories	–18,272	–9,397	1,389
Fair value of derivatives in cash flow hedges before tax	**–33,233**	**–2,974**	**–199**
Fair value of derivatives in cash flow hedges attributable to non-controlling interests	4,554	–187	0
Fair value of derivatives in cash flow hedges attributable to the owners of Otto (GmbH & Co KG) before tax	**–28,679**	**–3,161**	**–199**
Deferred tax effects	5,383	593	38
Fair value of derivatives in cash flow hedges as at 29 February	**–23,296**	**–2,568**	**–161**

The hedging costs concern transaction-related hedged underlying transactions.

The underlying transactions hedged eventuate in a period of up to five years in the case of foreign exchange derivatives and up to 20 years in the case of interest rate derivatives. The probable cash flow effects will occur in the same period. The nominal volumes of the hedging transactions have already been offset by recognised underlying transactions in the amount of EUR 118,787 thousand (28 February 2019: EUR 72,697 thousand) for foreign exchange derivatives, EUR 290,578 thousand (28 February 2019: EUR 316,802 thousand) for interest rate derivatives as well as planned transactions. For recognised underlying transactions for a hedging relationship with foreign exchange derivatives, the sum of EUR 2,159 thousand (28 February 2019: EUR 2,158 thousand) from accumulated other comprehensive income was reclassified as acquisition costs. Of this, EUR 2,262 thousand (28 February 2019: EUR 1,297 thousand) relates to designated risk components and EUR –103 thousand (28 February 2019: EUR 861 thousand) to hedging costs.

The Otto Group concludes derivative transactions within the scope of the existing German Master Agreement for Financial Derivatives Transactions (Rahmenvertrag für Finanztermingeschäfte). If certain credit events occur, such as a payment default or the termination of transactions concluded under this agreement, all outstanding transactions relating to the derivative transactions that are in default are terminated and the value as at the termination date is determined. A single net amount should be used to offset all transactions. As there is currently no specific credit event such as a default on a bank loan and, consequently, no legal entitlement to offset the recognised amounts, the agreements concluded do not meet the criteria for offsetting in the balance sheet.

The following financial instruments are subject to the German Master Agreement for Financial Derivatives Transactions:

	29.02.2020			28.02.2019		
	Gross and net amount presented in the balance sheet	Amount not set off in the balance sheet	Net amount	Gross and net amount presented in the balance sheet	Amount not set off in the balance sheet	Net amount
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Financial assets						
Interest rate and currency derivatives	20,046	14,649	5,397	26,738	8,711	18,027
Financial liabilities						
Interest rate and currency derivatives	53,300	14,649	38,651	38,069	8,711	29,358

(c) FINANCIAL RISKS

Due to its international positioning, the Otto Group is exposed to financial risks. These include in particular the effects of fluctuations in foreign exchange and interest rates. These risks are reduced through existing treasury and risk management processes.

All material interest rate fluctuation and foreign exchange risks are fundamentally limited by refinancing in the same currency and/or with the same maturity. Any remaining risks from open foreign currency and interest rate positions are further reduced by the use of derivatives such as foreign exchange forward transactions and interest rate swaps.

Owing to the nature of its business activities, the Otto Group is essentially exposed to currency risks arising from fluctuations in the US dollar, the Hong Kong dollar and the Swiss franc. In calculating the sensitivities presented below, a hypothetical revaluation/devaluation of the euro against all currencies by +/- 10% was carried out as at 29 February 2020. All other variables remain unchanged. Under these conditions, the major effects on the earnings before tax (EBT) and equity of the Otto Group would have been as follows:

		EBT		Equity	
		2019/20	2018/19	2019/20	2018/19
		EUR 000	EUR 000	EUR 000	EUR 000
Fluctuation indes USD	+10%	–121	12,849	–22,505	–30,049
	-10%	–3,204	–12,794	28,854	31,445
Fluctuation in HKD	+10%	–829	–1,951	–328	953
	-10%	1,067	1,943	329	–942
Fluctuation in CHF	+10%	1,979	1,241	26,989	18,081
	-10%	–1,987	–1,224	–27,010	–18,020
Total effects	+10%	**1,029**	**12,139**	**4,156**	**–11,015**
	-10%	**–4,124**	**–12,075**	**2,173**	**12,483**

Exchange rate hedges are accounted for in the Otto Group as cash flow hedges to the greatest extent possible, in accordance with IFRS 9. The associated fluctuations in market value are shown under Group equity.

The reported effects on earnings primarily result from fluctuations in the measurement of derivatives that were concluded to hedge cash flows from operations or customer financing but that were not designated as a recognised hedging relationship in accordance with IFRS 9. These derivatives are also associated with contracts that are planned but not yet concluded and for which the currency exchange risk follows a counter trend. When calculating the earnings effects, these cash flows are not included in the underlying operating transactions. The actual risk of the net position is thus much lower.

The Otto Group is also exposed to interest rate risks from variable interest-bearing receivables and liabilities.

A hypothetical increase/reduction in the market interest rate of 50 base points for all currencies (parallel shift of the interest rate curve) with all other variables remaining constant would result in the following effects on the earnings before tax (EBT) and equity of the Otto Group, which would principally effect the net financial result:

		EBT		Equity	
		2019/20	2018/19	2019/20	2018/19
		EUR 000	EUR 000	EUR 000	EUR 000
Shift in level of interest	+ 50 bp	1	10	6,552	22,958
	–50 bp	–1	–10	–6,696	–23,970

There is no risk concentration relating to the above-mentioned financial risks.

(d) DEFAULT RISK

The Otto Group is exposed to the risk of its business partners not being able to meet their obligations. Within the Group, a financial asset is considered to be in default if it is expected that the financial partner will not fully meet their obligations to the Otto Group or if the financial asset has been handed over to a collection agency. Credit checks are performed to reduce the default risk, the maximum amount of which corresponds to the carrying amounts recognised for the relevant financial assets. For identifiable default risks, especially in trade receivables and receivables from financial services, appropriate value allowances are made using the model to be applied to expected credit defaults in accordance with IFRS 9. Cash and cash equivalents are also subject to IFRS 9 impairment rules; however, the impairment loss is not significant.

Trade receivables and receivables from financial services are essentially due from private customers and are normally not hedged by special instruments, with the exception of the usual retention of title typical for the retailing business. Because receivables are widely spread, only small amounts are actually allotted to individual customers. The risk of maximum default is thus highly improbable.

Deposits at banks and financial assets are only ever held with partners that have a sufficient credit rating on a par with rankings from an internationally recognised rating agency.

Overdue loans and receivables are monitored intensively in the various lines of business. In Multichannel Retail and for financial services companies, credit management is a crucial element in operational processes.

The determination as to whether or not the default risk of a financial asset has increased significantly is based on a regular assessment of the probability of default, which takes into account external rating information as well as internal information relating to the credit quality of the financial asset.

There are only very few receivables with a remaining term of up to one year which have only not been classed as impaired or overdue because of subsequent negotiations and overdue financial instruments which are not impaired. There are no objective indications that the debtors are unable to meet their obligations. Receivables are automatically written-down in a standardised process when there are delays in payment.

The Group uses an impairment matrix to measure the expected credit losses of receivables from trade receivables. Default rates are largely calculated using the roll rate method, which is based on the probability that a receivable will enter into arrears in successive stages. The expected default rates are based on the default history over previous years as well as forecasts in relation to future economic events. The default risk of trade receivables is explained in Note (20).

In the Financial Services segment, receivables primarily comprise fiduciary debt collection and receivables purchased. In the context of fiduciary activities, there are no material financial assets or financial instruments that are classed as overdue but not impaired. Receivables purchased generally relate to receivables classed as impaired which are already overdue.

In the Financial Services segment, the main default risks result from the purchase of payment-impaired receivables. From a risk management perspective, methods have therefore been developed in order to systematically manage these risks. Important considerations when managing risk include contractual arrangements, analyses of portfolio structures and investment calculations as part of due diligence procedures as well as the regular calculation of actual costs. The payment history of debtors is also monitored continuously so that structural changes can be identified early and taken into account.

The calculation of actual costs serves to test and, where necessary, adapt the forecast quality of the receivables management systems on an ongoing basis. Furthermore, structural changes in payment history are monitored by debt collection and reported to risk management on a continuous basis. This ensures that timely adjustments can be made to the underlying measurement assumptions and that this information can be taken into account when analysing future purchases. The adjustment of underlying measurement principles ensures that default risks within the scope of existing accounting and measurement guidelines are already included in the carrying amounts of the purchased receivables.

Because of the high number of individual receivables in the respective portfolios of purchased payment-impaired receivables, the risk of default is not tied to a small number of debtors.

A number of these purchased payment-impaired receivables are materially secured. Property is disposed of through sale on the open market or through foreclosure, however this does not always result in full settlement of the receivable in question. The disposal of property through foreclosure plays a role in supporting debt collection.

The carrying amount of the individual receivables packages purchased are regularly tested using a standardised measurement model. This measurement model is based on the estimated net cash receipts from the respective receivable package over the remaining term as at the measurement date. Future net cash receipts are discounted using the original effective interest rate.

Expected credit losses are determined based on the respective portfolio level that applied on purchase. In this respect, there have been no changes to the instrument summary.

(e) LIQUIDITY RISK

The Otto Group's financial management system ensures that the Group's liquidity is maintained at all times. It also ensures that the Otto Group has sufficient funds at its disposal for its operations and investments. Minimising financing costs is an essential ancillary condition for effective financial management. The basic principle is to match open positions through natural hedging. Financing instruments may include money and capital market products such as loans, bonds or ABS (asset-backed securities), as well as guarantees, leasing, sale and lease back, and factoring. The requisite underlying data is generated as a rolling monthly liquidity budget with a 12-month planning horizon, and a daily budget with a horizon of at least four weeks. Both types of budget are regularly reviewed for variances. There is no risk concentration relating to the above-mentioned liquidity risks.

The following table shows the outflow of funds in the form of repayment and interest payments for financial liabilities fixed by contract as at 29 February 2020:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Bonds and other notes payable	408,631	808,930	503,050	**1,720,611**
Bank liabilities	359,699	619,226	259,798	**1,238,723**
Trade payables	1,447,745	545	0	**1,448,290**
Liabilities to related parties	46,514	0	461	**46,975**
Lease liabilties	201,327	483,838	171,332	**856,497**
Other financing liabilities	51,518	0	0	**51,518**
Other financial liabilities	412,848	153,120	15,208	**581,176**
thereof derivative financial instruments	22,793	33,602	6,885	**63,280**

As at 28 February 2019, the outflow of funds from financial liabilities fixed by contract were as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Bonds and other notes payable	521,688	673,529	357,956	**1,553,173**
Bank liabilities	716,651	680,945	253,579	**1,651,175**
Trade payables	1,594,304	34,232	0	**1,628,536**
Liabilities to related parties	44,836	277	463	**45,576**
Other financing liabilities	106,050	50,654	1,370	**158,074**
Other financial liabilities	383,110	170,340	16,930	**570,380**
thereof derivative financial instruments	16,490	34,170	–499	**50,161**

(38) Cash and non-cash changes to liabilities arising from financing activities

Changes in liabilities arising from financing activities as at the closing date were as follows:

			Non-cash changes					
	01.03.2019	Cash changes	Effects from changes of the scope of consolidation	Effects from exchange rate changes	Effects from lease contracts	Effects from IFRS 5	Effects from accrued interests	29.02.2020
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	26,189	–1,608	0	0	0	0	0	24,581
Bonds and other notes payable	1,457,029	101,427	0	0	0	0	6,049	1,564,505
Bank liabilities	1,510,146	–269,978	0	778	0	–87,965	–685	1,152,296
ABS liabilities	82,632	–57,632	0	0	0	0	0	25,000
Lease liabilities*	1,513,688	–284,076	–65,927	9,732	230,032	–546,952	0	856,497
Other financing liabilities	5,796	24,268	–26,120	58	0	0	0	4,002
Liabilities from financing activities	**4,595,480**	**–487,599**	**–92,047**	**10,568**	**230,032**	**–634,917**	**5,364**	**3,626,881**

* Lease liabilities include the finance lease liabilities that existed as at 28 February 2019 and which at the time of transition to IFRS 16 were reclassified as lease liabilities in the amount of EUR 69,646 thousand.

(39) Leases

Leases identified as important leases within the Otto Group relate especially to the leasing of retail space (chain stores), particularly by Group companies in the Multichannel Retail segment in Germany, the USA and Japan, and the leasing of logistics facilities, swap bodies, transport vehicles and truck by Group companies in the Services segment in Germany, Great Britain and France. Important leases also arise from the leasing of office space and office buildings by a large number of Group companies across all three segments.

The contractual arrangement of the leases is generally carried out by the individual Group companies, taking into account country-specific practices. The basic term of existing leases varies according to the lease class; and in the case of property, according to the respective location.

As a rule, leases for property include renewal options that can be extended up to a certain point in time before expiry of the non-cancellable basic term. The exercise of renewal options, which have not been recognised as lease liabilities as at 29 February 2020, would result in a potential lease payment of EUR 907,942 thousand. When concluding new leases, the inclusion of renewal options should be agreed wherever possible to ensure a high level of operational flexibility.

As at 29 February 2020, right-of-use assets within the meaning of IFRS 16 have been shown in the consolidated balance sheet for the first time. Based on the asset class, these right-of-use assets have been allocated as follows:

	29.02.2020
	in Mio. EUR
Land, land rights and buildings	692,416
Technical plant and machinery	30,052
Other plant, operating and office equipment	17,588
Right-of-use assets	**740,056**

As at the balance sheet date, the remaining terms for lease liabilities reported for the first time are as follows:

	29.02.2020
	EUR 000
Remaining term of up to 1 year	201,327
Remaining term of more than 1 to 5 years	483,838
Remaining term of more than 5 years	171,332
Lease liabilities	**856,497**

In the 2019/20 financial year, depreciation and amortisation on right-of-use assets amounted to EUR 274,154 thousand while impairment losses amounted to EUR 4,649 thousand.

In accordance with the provisions of IFRS 16, the consolidated income statement for the 2019/20 financial year includes expenses for short-term leases in the amount of EUR 19,584 thousand and expenses for leases for low-value assets in the amount of EUR 1,952 thousand under other operating expenses. In addition, income from the subleasing of right-of-use assets in the amount of EUR 9,070 thousand is reported under other operating income. Interest expenses from lease liabilities included in net financial result amounts to EUR 40,943 thousand. For the 2018/19 financial year, the consolidated income statement included lease payments in the amount of EUR 350,220 thousand, of which EUR 4,057 thousand related to contingent rental payments.

For leases accounted for in accordance with IFRS 16, total cash outflows in the 2019/20 financial year amounted to EUR 325,019 thousand and are shown under cash flow from financing activities. Of this amount, EUR 284,076 thousand is attributable to repayments and EUR 40,943 thousand to interest payments. Gross cash flow includes disbursements of EUR 19,584 thousand for short-term leases, and EUR 1,952 thousand for leases for low-value assets.

(40) Consolidated financial statement accounting for the Financial Services segment under the equity method (FS at equity)

(a) GENERAL COMMENTS

The business undertaken by Group companies in the Financial Services segment differs fundamentally from the Otto Group's retail and services activities. To provide an even more differentiated insight into the financial position and financial performance of the Otto Group's trading and service activities by eliminating the structures in the Financial Services segment, another view was added to the IFRS consolidated financial statements for the year ended 29 February 2020.

It eliminates the assets, liabilities, expenses and income of Group companies in the Financial Services segment from the consolidated financial statements, and instead reports the interests in Financial Services companies using the equity method. This reporting of interests in Group companies in Financial Services using the equity method is based on the overall percentage held at the level of the parent companies concerned which are not allocated to the Financial Services segment. Hence, non-controlling interests in the share of earnings or share of net assets of Group companies in the Financial Services segment are only reported if these interests are held by third-party shareholders of parent companies in other segments. Furthermore, for the purposes of the balance sheet, financial liabilities are offset against receivables from companies in the Financial Services segment, which result from centralised financing in the Financial Services segment.

The procedure described here deviates from IFRSs in that it forgoes the full consolidation of companies in the Financial Services segment that would have to be consolidated pursuant to IFRS 10 (and is reported in the IFRS consolidated financial statements), based on the Otto Group's ability to exercise control over such companies. Furthermore, financial liabilities are offset against receivables from companies in the Financial Services segment, which result from centralised financing in the Financial Services segment.

All other matters were reported in conformity with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB), and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC).

Financial services at equity consolidated income statement 1 March 2019 to 29 February 2020

	2019/20	2018/19
	EUR 000	EUR 000
Revenue and income from customer financing	**13,397,989**	**12,787,794**
Revenue	13,214,366	12,623,117
Income from customer financing	183,623	164,677
Other operating income	622,166	625,605
Change in inventories and other internal costs capitalised	35,852	29,049
Purchased goods and services	–7,660,891	–7,287,311
Personnel expenses	–2,239,095	–2,130,730
Other operating expenses	–3,563,521	–3,785,355
Income (loss) from equity investments	417,428	231,455
Income from associates and joint ventures	414,068	229,531
Income from other equity investments	3,359	1,924
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1,009,929**	**470,507**
Depreciation and amortisation	–521,945	–251,603
Impairment losses	–24,664	–26,975
Earnings before interest and tax (EBIT)	**463,320**	**191,929**
Interest and similar income	30,337	32,372
Interest and similar expenses	–169,460	–132,086
Other net financial income (expense)	–77,909	138,995
Earnings before tax (EBT)	**246,288**	**231,210**
Income tax	–45,123	–64,828
Profit for the year	**201,165**	**166,383**
Profit attributable to the owners of Otto (GmbH & Co KG)	106,088	100,660
Profit attributable to non-controlling interests	77,784	55,872
Profit attributable to publicly listed equity and participation certificates	17,293	9,850

Financial services at equity consolidated balance sheet as at 29 February 2020

	29.02.2020	28.02.2019
	EUR 000	EUR 000
ASSETS		
Non-current assets		
Fixed assets	4,099,314	3,423,919
Intangible assets	470,306	571,468
Property, plant and equipment	1,129,094	1,401,777
Right-of-use assets	692,933	0
Investments in associates and joint ventures	1,680,869	1,351,635
Other financial investments	126,112	99,039
Trade receivables	130,779	167,405
Receivables from related parties	350	0
Other assets	513,643	471,035
	4,744,086	**4,062,359**
Deferred tax	**167,256**	**136,655**
Current assets		
Inventories	1,416,705	1,594,527
Trade receivables	840,457	1,213,989
Receivables from related parties	52,252	61,285
Income tax receivables	19,925	37,287
Other assets	336,737	320,320
Securities	19,716	17,447
Cash and cash equivalents	249,385	300,038
Assets held for sale	1,257,619	316,846
	4,192,795	**3,861,739**
Total assets	**9,104,137**	**8,060,753**

	29.02.2020	28.02.2019
	EUR 000	EUR 000
EQUITY AND LIABILITIES		
Equity		
Equity attributable to the owners of Otto (GmbH & Co KG)	415,193	673,913
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	742,683	804,968
Net cost in excess of net assets acquired in step acquisitions	–223,470	–223,532
Accumulated other comprehensive income	–936,498	–740,088
Accumulated other equity	12,477	12,565
Non-controlling interests	587,509	596,868
Publicly listed equity and participation certificates	379,033	377,590
	1,381,735	**1,648,370**
Non-current provisions and liabilities		
Profit and loss participation rights	22,941	24,001
Pensions and similar obligations	1,498,851	1,404,060
Other provisions	122,083	135,879
Bonds and other notes payable	729,890	667,523
Bank liabilities	406,408	464,943
Other financing liabilities	0	52,009
Trade payables	545	34,232
Liabilities to related parties	461	739
Lease liabilities	620,160	0
Other liabilities	169,892	290,020
	3,571,231	**3,073,405**
Deferred tax	**61,694**	**72,026**
Current provisions and liabilities		
Profit and loss participation rights	1,640	2,189
Other provisions	76,849	150,327
Bonds and other notes payable	245,558	351,366
Bank liabilities	173,082	411,137
Other financing liabilities	4,002	23,336
Trade payables	1,396,396	1,550,808
Liabilities to related parties	46,239	43,939
Income tax liabilities	20,183	29,836
Lease liabilities	187,759	0
Other liabilities	769,109	702,916
Liabilities classified as held for sale	1,168,660	1,097
	4,089,478	**3,266,951**
Total equity and liabilities	**9,104,137**	**8,060,753**

Financial services at equity consolidated cash flow statement 1 March 2019 to 29 February 2020

	2019/20	2018/19
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	463,320	191,929
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets, property, plant and equipment and right-of-use assets	543,834	277,242
Profits (–)/losses (+) from associates and joint ventures	–414,068	–229,531
Dividends received from associates and joint ventures	326,321	155,261
Increase (+)/decrease (-) in allowances on loans, receivables and inventories	79,972	86,508
Gains (–)/losses (+) on disposals of items in intangible assets and property, plant and equipment	–4,808	–27,553
Pension payments exceeding (–)/less than (+) pension expenses	–19,989	–5,849
Other non-cash income (–) and expenses (+)	422	317
Gross cash flow from operating activities	**975,003**	**448,324**
Decrease (+)/increase (–) in working capital	198,509	–174,922
Decrease (+)/increase (–) in inventories (gross)	134,431	–27,631
Decrease (+)/increase (–) in trade receivables (gross)	11,358	–185,558
Increase (+)/decrease (–) in provisions	–24,044	21,542
Increase (+)/decrease (–) in trade payables	61,335	131,293
Increase (+)/decrease (–) in receivables due from related parties/in payables due to related parties	9,605	35,067
Changes in other assets/liabilities	5,824	–149,635
Net cash generated from operating activities	**1,173,512**	**273,401**
Income tax paid	–44,400	–59,441
Interest received	24,472	22,648
Cash inflows/outflows from non-current financial assets and securities	1,109	628
Cash flow from operating activities	**1,154,693**	**237,237**

	2019/20	2018/19
	EUR 000	EUR 000
Cash flow from operating activities	**1,154,693**	**237,237**
Capital expenditures on purchases of intangible assets and property, plant and equipment	–323,416	–342,990
Payments for acquisition of subsidiaries	0	–600
Capital expenditures on purchases of other financial investments	–507,393	–251,366
Proceeds from disposals of intangible assets and property, plant and equipment	19,407	61,707
Proceeds from disposals of consolidated subsidiaries	32,853	0
Proceeds from disposals of other financial investments	332,481	200,285
Cash flow from investing activities	**–446,068**	**–332,964**
Free cash flow	**708,625**	**–95,727**
Dividends paid	–156,827	–200,849
of which, attributable to the owners of Otto (GmbH & Co KG)	–73,947	–91,759
Interest paid and bank charges	–205,123	–134,752
Proceeds from additions to equity	0	301,350
Proceeds for issues and repurchases of profit and loss participation rights	–2,239	–1,706
Payments of principal on leasing liabilities	–272,030	0
Payments of principal on finance lease (IAS 17)	0	–19,546
Proceeds from assumption of other financial liabilities	643,765	249,242
Repayments of other financial liabilities	–756,774	–198,973
Cash flow from financing activities	**–749,228**	**–5,234**
Cash and cash equivalents at beginning of period	317,172	417,858
Net increase in cash and cash equivalents	–40,603	–100,962
Changes in cash and cash equivalents due to foreign exchange rates	1,133	275
Reclassification with regard to disposal groups	–10,888	0
Cash and cash equivalents at end of period	**266,815**	**317,172**

(b) NOTES ON THE RECONCILIATION OF THE CONSOLIDATED INCOME STATEMENT

As the point of departure for the consolidated income statement reconciliation, column 1 contains the amounts for the Otto Group, including the companies in the Financial Services segment, fully consolidated.

Column 2 shows the income statement of the Financial Services segment separated at this point from the consolidated income statement. The income statement of the Financial Services segment shown includes all intercompany transactions between the Otto Group's retail and services companies.

Column 3 reinstates the income statement effects of intercompany transactions between the Otto Group's retail and services companies and the Financial Services segment that had been eliminated on consolidation.

Column 4 adds the share of the profit for the year contributed by the Financial Services segment.

Column 5 shows the financial statements of the Otto Group FS at equity.

Reconciliation of consolidated income statement (FS at equity)

	2019/20				
	Otto Group (1)	Financial Services segment (2)	I/E-consolidation (3)	Other (4)	Otto Group FS at Equity (5)
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Revenue and income from customer financing	**14,263,366**	**–887,444**	**22,067**	**0**	**13,397,989**
Revenue	14,079,743	–887,444	22,067	0	13,214,366
Income from customer financing	183,623	0	0	0	183,623
Other operating income	633,941	–16,755	4,981	0	622,166
Changes in inventories and other internal costs capitalised	51,342	–15,490	0	0	35,852
Purchased goods and services	–7,660,551	1	–341	0	–7,660,891
Personnel expenses	–2,530,986	291,891	0	0	–2,239,095
Other operating expenses	–3,846,679	309,866	–26,708	0	–3,563,521
Income (loss) from equity investments	102,033	–83,425	0	398,820	417,428
Income from associates and joint ventures	98,673	–83,425	0	398,820	414,068
Income from other equity investments	3,359	0	0	0	3,359
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1,012,466**	**–401,357**	**0**	**398,820**	**1,009,929**
Depreciation and amortisation	–555,250	33,306	0	0	–521,945
Impairment losses	–24,760	96	0	0	–24,664
Earnings before interest and tax (EBIT)	**432,456**	**–367,956**	**0**	**398,820**	**463,320**
Interest and similar income	13,922	–4,503	20,918	0	30,337
Interest and similar expenses	–176,015	27,473	–20,918	0	–169,460
Other net financial income (expense)	20,348	–98,257	0	0	–77,909
Earnings before tax (EBT)	**290,711**	**–443,243**	**0**	**398,820**	**246,288**
Income tax	–77,035	31,912	0	0	–45,123
Profit for the year	**213,676**	**–411,331**	**0**	**398,820**	**201,165**
Profit attributable to the owners of Otto (GmbH & Co KG)	106,088	–346,050	0	346,050	106,088
Profit attributable to non-controlling interests	88,104	–63,090	0	52,770	77,784
Profit attributable to publicly listed equity and participation certificates	19,484	–2,191	0	0	17,293

(c) NOTES ON THE RECONCILIATION OF THE CONSOLIDATED BALANCE SHEET

As the point of departure for the consolidated balance sheet reconciliation, column 1 contains the amounts for the Otto Group, including the companies in the Financial Services segment, fully consolidated. Furthermore, financial liabilities are offset against receivables from companies in the Financial Services segment, which result from centralised financing in the Financial Services segment.

Column 2 shows the balance sheet of the Financial Services segment, separated at this point from the consolidated balance sheet. The balance sheet of the Financial Services segment shown includes all intercompany transactions between the Otto Group's retail and services companies.

Column 3 reinstates the effects of intercompany transactions between the Otto Group's retail and services companies and the Financial Services segment that had been eliminated on consolidation.

Column 4 shows the interests in the companies of the Financial Services segment measured using the equity method. Furthermore, financial liabilities are offset against receivables from companies in the Financial Services segment, which result from centralised financing in the Financial Services segment.

Column 5 shows the financial statements of the Otto Group FS at equity.

Reconciliation of consolidated balance sheet (FS at equity)

	29.02.2020				
	Otto Group (1)	Financial Services segment (2)	I/E-consolidation (3)	Other (4)	Otto Group FS at Equity (5)
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
ASSETS					
Non-current assets					
Fixed assets	3,380,111	–727,552	0	1,446,756	4,099,314
Intangible assets	644,930	–174,908	0	284	470,306
Property, plant and equipment	1,165,738	–36,644	0	0	1,129,094
Right-of-use assets	740,056	–47,123	0	0	692,933
Investments in associates and joint ventures	700,991	–466,578	0	1,446,456	1,680,869
Other financial investments	128,396	–2,298	0	15	126,112
Trade receivables	130,779	0	0	0	130,779
Receivables from financial services	1,163,015	–1,163,015	0	0	0
Receivables from related parties	13,275	–15,390	172,072	–169,607	350
Other assets	570,607	–56,964	0	0	513,643
	5,257,788	**–1,962,921**	**172,071**	**1,277,149**	**4,744,086**
Deferred tax	**159,010**	**–13,240**	**21,486**	**0**	**167,256**
Current assets					
Inventories	1,595,328	–178,623	0	0	1,416,705
Trade receivables	980,847	–140,391	0	0	840,457
Receivables from financial services	479,591	–479,591	0	0	0
Receivables from related parties	60,918	–106,874	968,452	–870,244	52,252
Income tax receivables	22,363	–2,438	0	0	19,925
Other assets	595,369	–258,650	18	0	336,737
Securities	19,806	–90	0	0	19,716
Cash and cash equivalents	311,938	–62,553	0	0	249,385
Assets held for sale	1,257,619	0	0	0	1,257,619
	5,323,779	**–1,229,209**	**968,470**	**–870,245**	**4,192,795**
Total assets	**10,740,576**	**–3,205,370**	**1,162,027**	**406,905**	**9,104,137**

	29.02.2020				
	Otto Group (1)	Financial Services segment (2)	I/E-consolidation (3)	Other (4)	Otto Group FS at Equity (5)
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
EQUITY AND LIABILITIES					
Equity					
Equity attributable to the owners of Otto (GmbH & Co KG)	415,194	-567,431	0	567,431	415,193
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	0	0	0	820,000
Consolidated retained earnings	742,683	-608,595	0	608,595	742,683
Net cost in excess of net assets acquired in step acquisitions	-223,470	-3,998	0	3,998	-223,470
Accumulated other comprehensive income	-936,498	46,126	0	-46,126	-936,498
Accumulated other equity	12,477	-964	0	964	12,477
Non-controlling interests	601,902	-270,518	0	256,125	587,509
Publicly listed equity and participation certificates	434,503	-55,470	0	0	379,033
	1,451,599	**-893,419**	**0**	**823,556**	**1,381,735**
Financing the investments outside the segment	**0**	**-623,221**	**0**	**623,221**	**0**
Non-current provisions and liabilities					
Profit and loss participation rights	22,941	0	0	0	22,941
Pensions and similar obligations	1,589,429	-90,578	0	0	1,498,851
Other provisions	130,858	-8,775	0	0	122,083
Bonds and other notes payable	1,170,659	0	0	-440,769	729,890
Bank liabilities	812,064	-160,233	0	-245,423	406,408
Other financing liabilities	0	0	0	0	0
Trade payables	545	0	0	0	545
Liabilities to related parties	461	-169,607	172,074	-2,465	461
Lease liabilities	655,170	-35,010	0	0	620,160
Other liabilities	195,144	-25,252	0	0	169,892
	4,577,271	**-489,455**	**172,072**	**-688,657**	**3,571,231**
Deferred tax	**88,271**	**-48,063**	**21,486**	**0**	**61,694**
Current provisions and liabilities					
Profit and loss participation rights	1,640	0	0	0	1,640
Other provisions	117,776	-40,927	0	0	76,849
Bonds and other notes payable	393,846	0	0	-148,288	245,558
Bank liabilities	340,232	-62,628	0	-104,522	173,082
Other financing liabilities	29,002	-25,000	0	0	4,002
Trade payables	1,447,745	-51,349	0	0	1,396,396
Liabilities to related parties	46,514	-870,339	968,470	-98,406	46,239
Income tax liabilities	27,366	-7,183	0	0	20,183
Lease liabilities	201,327	-13,568	0	0	187,759
Other liabilities	849,328	-80,217	-2	0	769,109
Liabilities classified as held for sale	1,168,660	0	0	0	1,168,660
	4,623,436	**-1,151,213**	**968,468**	**-351,216**	**4,089,478**
Total equity and liabilities	**10,740,576**	**-3,205,370**	**1,162,027**	**406,905**	**9,104,137**

(41) Related party transactions

Related parties of the Otto Group, as defined in IAS 24, are persons or companies who control the Group or exercise significant influence over it, or over whom the Otto Group has control or exercises significant influence. Accordingly, the members of the Otto family and the Michael Otto Foundation, the businesses controlled or subject to significant influence by this family and the Foundation, the members of the Executive Board of Otto (GmbH & Co KG), and subsidiaries of the Otto Group, its associated companies and joint ventures are defined as related parties. In addition to transactions with subsidiaries that are fully consolidated in the consolidated financial statements, there were the following transactions with related parties:

	2019/20	2018/19
	EUR 000	EUR 000
Income Statement		
Revenue	201,147	172,482
Other operating income	37,306	40,546
Purchased goods and services	3,907	6,735
Personnel expenses	13,592	15,158
Other operating expenses	35,702	34,682
Net financial income (expense)	–1,094	2,663

	29.02.2020	28.02.2019
	EUR 000	EUR 000
Balance Sheet		
Receivables from related parties	74,193	74,290
Cash and cash equivalents	9,401	10,622
Pension obligations to related parties	66,764	59,040
Liabilities to related parties	46,975	45,575

(a) TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

Revenues from associated companies and joint ventures in the 2019/20 financial year amount to EUR 191,521 thousand (2018/19: EUR 162,210 thousand) and result from revenues from ABOUT YOU GmbH, Hamburg, in the amount of EUR 135,840 thousand (2018/19: EUR 108,310 thousand) as well as from income from factoring settlements with Hanseatic Bank GmbH & Co KG in the amount of EUR 46,711 thousand (2018/19: EUR 45,498 thousand).

Other operating income amounts to EUR 16,563 thousand in the 2019/20 financial year (2018/19: EUR 17,974 thousand), of which EUR 13,399 thousand (2018/19: EUR 14,862 thousand) results from transactions with ABOUT YOU GmbH, Hamburg.

Various Group companies in the Multichannel Retail segment sell trade receivables to Hanseatic Bank GmbH & Co KG, Hamburg. The receivables are transferred on normal market conditions and are fully derecognised from the balance sheets of the selling companies. In the 2019/20 financial year, receivables totalling EUR 1,985,784 thousand (2018/19: EUR 1,696,672 thousand) were sold. The value of these receivables as at the closing date was EUR 1,610,801 thousand (29 February 2019: EUR 1,353,390 thousand). As at 29 February 2020 the cash and cash equivalents held at Hanseatic Bank GmbH & Co KG, Hamburg, amounted to EUR 9,401 thousand (28 February 2019: EUR 10,622 thousand).

Information regarding the amount of the receivables and liabilities from associated companies and joint ventures is set out in Notes (21) and (29). The receivables and liabilities result mainly from transactions in goods and services between Otto Group companies and associated companies and joint ventures, and from short-term financing between companies.

(b) RELATED PARTY TRANSACTIONS WITH PARTNERS

As at 29 February 2020 and as at 28 February 2019, there were no loans granted to partners of Otto (GmbH & Co KG).

(c) RELATED PARTY TRANSACTIONS WITH OTHER COMPANIES

Otto Group companies have concluded various agreements under normal market terms for the leasing of properties and land that are owned or managed by subsidiaries of ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg.

There were no further material transactions with related party companies during the financial year.

(d) RELATED PARTY TRANSACTIONS WITH INDIVIDUALS

The total remuneration of the Executive Board of Otto (GmbH & Co KG) in the 2019/20 financial year amounts to EUR 9,557 thousand (2018/19: EUR 11,121 thousand), of which EUR 8,249 thousand (2018/19: EUR 11,121 thousand) is due in the short term, and EUR 1,308 thousand (2018/19: EUR 778 thousand) is due in the long term. The total remuneration is comprised of a fixed element amounting to EUR 3,488 thousand (2018/19: EUR 3,415 thousand), and a variable element amounting to EUR 6,069 thousand (2018/19: EUR 7,706 thousand). In the 2017/18 financial year, a long-term incentive agreement was concluded for Otto directors (GmbH & Co KG). This agreement comes into effect on 1 March 2018 and has a term of three years. It consists of a combination of two variable components, which are based on a fixed threshold value and then increased linearly. The sales and ROCE of the Otto Group serve as benchmarks here. The amounts set aside for the long-term incentive scheme in the current financial year amount to EUR 1,308 thousand (2018/19: EUR 778 thousand). As at the balance sheet date, a liability was recorded for this.

The pension obligations to members of the Executive Board amount to EUR 8,824 thousand (28 February 2019: EUR 12,846 thousand). Allocations to pension provisions amount to EUR 950 thousand (2018/19: EUR 1,194 thousand).

The remuneration of former members of the Executive Board and their survivors amounts to EUR 3,085 thousand (2018/19: EUR 2,843 thousand). Provisions of EUR 57,940 thousand (28 February 2019: EUR 46,194 thousand) have been recognised for pension obligations to former members of the Executive Board and their survivors.

The total remuneration of the Supervisory Board of Otto (GmbH Co KG) in the 2019/20 financial year amounts to EUR 278 thousand (2018/19: EUR 280 thousand).

(42) Contingent liabilities

The Otto Group's contingent liabilities are composed of guarantees and other obligations that, together, amount to EUR 2,499 thousand (28 February 2019: EUR 2,639 thousand).

(43) Auditors' fees

Total fees paid to Otto Group auditors are broken down as follows:

	2019/20	2018/19
	EUR 000	EUR 000
Fees for auditing the financial statements	2,267	2,228
Fees for other auditing services	150	75
Fees for tax consultancy services	252	190
Fees for other services	680	332
Auditors' fees	**3,349**	**2,825**

Of other services, EUR 37 thousand (2018/19: EUR 10 thousand) relate to the previous year.

(44) List of shareholdings

The list of Otto Group shareholdings as at 29 February 2020, including those Group companies exempt from publishing their financial statements pursuant to the provisions of § 264 (3) and § 264b of the German Commercial Code (Handelsgesetzbuch, HGB) is published on the Otto Group's website at www.ottogroup.com/konzerngesellschaften. Otto (GmbH & Co KG) makes use of the exemptions stipulated in § 264b HGB.

(45) General partner

The general partner is Verwaltungsgesellschaft Otto mbH, Hamburg, with subscribed capital of EUR 50,000.

The general partner has the following executive bodies:

Supervisory Board

Prof Dr Michael Otto, Hamburg	Chairman, Businessman
Alexander Otto, Hamburg	Chairman of the Management Board ECE Projektmanagement G.m.b.H & Co. KG
Benjamin Otto, Hamburg	Chairman of the Foundation's Board Holistic Foundation
Birgit Rössig, Hittbergen*	Deputy Chairwoman, Group Works Council Chairwoman Otto (GmbH & Co KG), as of 01 March 2019
Thomas Armbrust, Reinbek	General Manager (retired), until 29 February 2020
Frederic Arndts, Hamburg	Member of the Board GSV Aktiengesellschaft für Beteiligungen
Anita Beermann, Ahrensburg	Employee Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.
Horst Bergmann, Michelau*	Member of the Works Council, Baur Versand (GmbH & Co KG)
Marius Marschall von Bieberstein, Zossen	Managing Partner, evoreal Holding GmbH & Co. KG, as of 01 March 2020
Olaf Brendel, Hamburg*	Member of the Works Council, Hermes Fulfilment GmbH
Jürgen Bühler, Hanau*	Chairman of the Works Council, Schwab Versand GmbH, as of 01 March 2020
Petra Finnern, Jesteburg*	Chairwoman of the Works Council, EOS Region Germany
Thorsten Furgol, Magdeburg*	Regional Specialist ver.di Trade Union, Sachsen-Anhalt Nord
Michael Häberle, Karlsruhe*	Member of the Works Council Heinrich Heine GmbH, until 29 February 2020
Dr Rainer Hillebrand, Hamburg	Independent management and strategy consultant, as of 01 June 2019
Heike Lattekamp, Hamburg*	ver.di Trade Union Secretary Commerce
Dr Wolfgang Linder, Hamburg	General Manager (retired), until 31 May 2019
Heinrich Reisen, Grevenbroich*	Chairman of the General Works Council Hermes Germany GmbH
Lars-Uwe Rieck, Hamburg*	Regional Specialist ver.di Trade Union Secretary Post and Logistic
Hans-Otto Schrader, Hamburg	Chairman of the Board OTTO Aktiengesellschaft für Beteiligungen
Dr Winfried Steeger, Hamburg	General Manager Jahr Holding GmbH
Sandra Widmaier-Gebauer, Hamburg*	Executive Employee, Group Vice President Human Resources
Prof Dr Peer Witten, Hamburg	Chairman of the Board GSV Aktiengesellschaft für Beteiligungen

* Employee representative

Executive Board

Alexander Birken, Hamburg	Chairman of the Executive Board and Chief Executive Officer (CEO)
Dr Rainer Hillebrand, Hamburg	Vice Chairman of the Executive Board Otto Group, Member of the Executive Board, Corporate Strategy, E-Commerce & Business Intelligence Otto Group, until 30 April 2019
Dr Marcus Ackermann, Hamburg	Member of the Executive Board, Multichannel Distance Selling Otto Group
Sergio Bucher, Hamburg	Member of the Executive Board, Brands and Retail Otto Group, as of 01 February 2020
Sebastian Klauke, Reinbek	Member of the Executive Board, E-Commerce, Technology, Business Intelligence and Corporate Ventures Otto Group, as of 01 May 2019
Petra Scharner-Wolff, Hamburg	Chief Financial Officer (CFO), Member of the Executive Board, Finance, Controlling, Human Resources Otto Group
Kay Schiebur, Hamburg	Member of the Executive Board, Services Otto Group
Sven Seidel, Talheim	Member of the Executive Board, Multichannel Retail Otto Group, until 31 October 2019

(46) Events after the reporting period

No events of major significance to the Otto Group occurred after the balance sheet date of 29 February 2020.

Hamburg, 6 May 2020

The Executive Board of Verwaltungsgesellschaft Otto mbH

Alexander Birken

Sebastian Klauke

Dr Marcus Ackermann

Petra Scharner-Wolff

Sergio Bucher

Kay Schiebur

Independent Auditor's Report

To Otto (GmbH & Co KG), Hamburg

OPINIONS

We have audited the consolidated financial statements of Otto (GmbH & Co KG), Hamburg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 28 February 2019, and the consolidated statement of comprehensive income, the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows including segment reporting for the financial year from 1 March 2019 to 29 February 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Otto (GmbH & Co KG) for the financial year from 1 March 2019 to 29 February 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of 29 February 2020, and of its financial performance for the financial year from 1 March 2019 to 29 February 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

OTHER INFORMATION

Management is responsible for the other information.

The other information comprises the annual report. The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the aforementioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

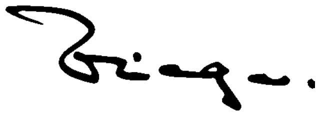
- Perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hamburg, 12 May 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Becker
Wirtschaftsprüfer
[German Public Auditor]



Prof Dr Zieger
Wirtschaftsprüfer
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