Annual Report 2020/21

otto group

Key Data

The Otto Group can look back on the 2020/21 financial year as very successful in terms of revenues and earnings, but also challenging due to the COVID-19 pandemic. Thanks to the consistent digitisation of business models and the corresponding sales channels, as well as the changing purchasing behaviour of consumers during the COVID-19 pandemic, the Group was able to increase its worldwide revenues by 17.2 percent to around EUR 15.6 billion on a comparable basis. Pure e-commerce revenue increased significantly on a comparable basis by 25.6 percent to around EUR 9.9 billion. In addition, all relevant profit levels improved year-on-year. In the 2020/21 financial year, the Otto Group continued its high investments in IT and logistics infrastructure as well as further digitisation.

Group in total		2020/21	2019/20
Revenue	in EUR billion	15.6	14.3
Increase	in percent	+9.7	
Increase on a comparable basis*	in percent	+17.2	
E-commerce revenue	in EUR billion	9.9	8.1
Increase	in percent	+22.3	
Increase on a comparable basis*	in percent	+25.6	
EBITDA	in EUR million	1,294	1,012
EBIT	in EUR million	688	432
EBT	in EUR million	1,104	291
Profit for the year	in EUR million	971	214
Group equity	in EUR million	2,223	1,452
Net financial debt	in EUR million	1,423	3,271
Free cash flow	in EUR million	2,547	783
Employees (on a comparable basis)**	number	49,895	48,756

Credit metrics* **		2020/21	2019/20
Cash EBITDA	in EUR million	1,730	1,493
Group equity quota	in percent	20.8	13.5
Debt service ratio	ratio	0.8	2.2
Debt to equity ratio	ratio	0.6	2.3

Sustainability indicators (CR Strategy 2020)******		2020	2019
Share of sustainable cotton in own and licensed brands	in percent	98	96
Share of FSC®-certified furniture products	in percent	74	79
Share of FSC®-certified catalogue paper	in percent	68	64
Share of integrated suppliers of own and licensed brands in the Social Programme	in percent	90	95
Reduction of CO_2 emissions (compared to the base year 2006)	in percent	–56	–51

* The increase on a comparable basis represents revenue development adjusted for exchange rate effects as well as effects arising from changes in the scope of consolidation.
** An explanation of the number of employees on a comparable basis can be found in the Group Management Report under “Corporate Responsibility”.
*** A definition of these financial key figures can be found in the Group Management Report under “Credit Metrics”.
**** Includes all major Group companies based in Germany and Austria.

Annual Report

2020/21

Dear partners and friends of the Otto Group,
ladies and gentlemen,

Almost at the same time as the beginning of the Otto Group's financial year in March 2020, we had to learn how to live, work and operate in all our markets with the COVID-19 pandemic. It was a year that demanded a lot from all colleagues and also from me personally. A year of ups and downs, challenges and opportunities, courage and humility. A roller coaster ride.

After the first lockdown, huge insecurity and great uncertainty about the economic and consumption-related consequences, we were able to gain a positive foothold and play to our strengths during the course of the financial year. Our focus on high-growth digital business models, our high investment in technology and our Kulturwandel (cultural change) that has been an intrinsic part of us for years have paid off.

> We are using our great economic position to set ambitious goals.

In terms of revenues, cash flow, customer growth, earnings and equity ratio, we were even able to achieve goals ahead of schedule; goals that we had only set ourselves for later years. I am particularly pleased that in the past financial year we were able to increase the number of our almost 50,000 colleagues in a comparable circle of Group companies. The Otto Group is emerging stronger from the crisis.

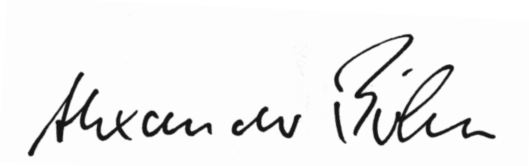
In the first year with the COVID-19 pandemic, we not only mastered the short-term challenges in an agile and energetic way, but also took advantage of the Group's excellent economic situation to position ourselves sustainably for the future. For the coming years, we have set ourselves ambitious goals with regard to our performance: growth, profitability, investment volume, continued solid capital structure.

With our focused growth strategy, we continue to focus on eight high-performing Group companies in promising digital business areas. We are increasingly entering partnerships such as those in the distribution logistics sector. And we are transforming existing business models with increased speed and consistency, even if it sometimes involves tough decisions.

We are going along this Otto Group path in order to live up to our responsibilities for our colleagues, for our partners and for society and the environment in a time that remains uncertain. That is why, in parallel with our economic performance, we have also further refined our value orientation. Together with our colleagues, we have developed a Code of Ethics and set down the high sustainability goals in a new CR strategy. Climate neutrality in 2030 remains our goal. Values determine our actions.

I would like to thank all colleagues within the Otto Group for their incredible achievement. But I would also like to thank all the other people connected to us who have made this success possible in the first place, especially our business partners and customers.

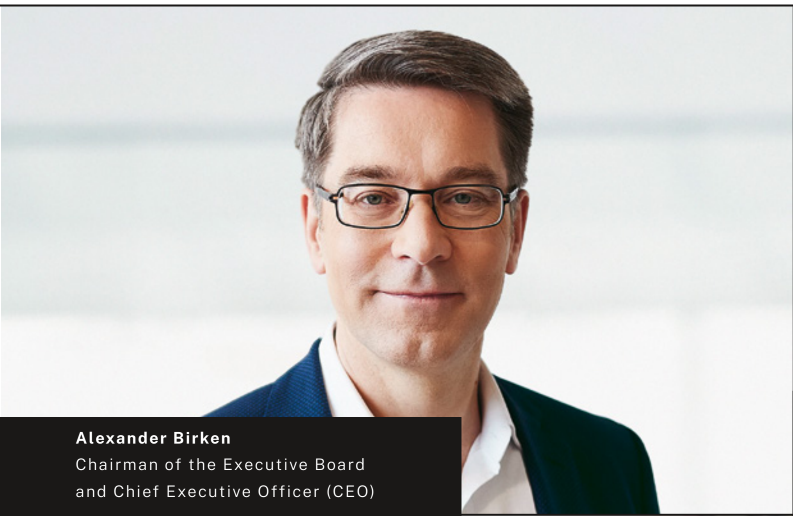
Yours



Alexander Birken

Chairman of the Executive Board and Chief Executive Officer (CEO)

The Executive Board



Alexander Birken
Chairman of the Executive Board
and Chief Executive Officer (CEO)

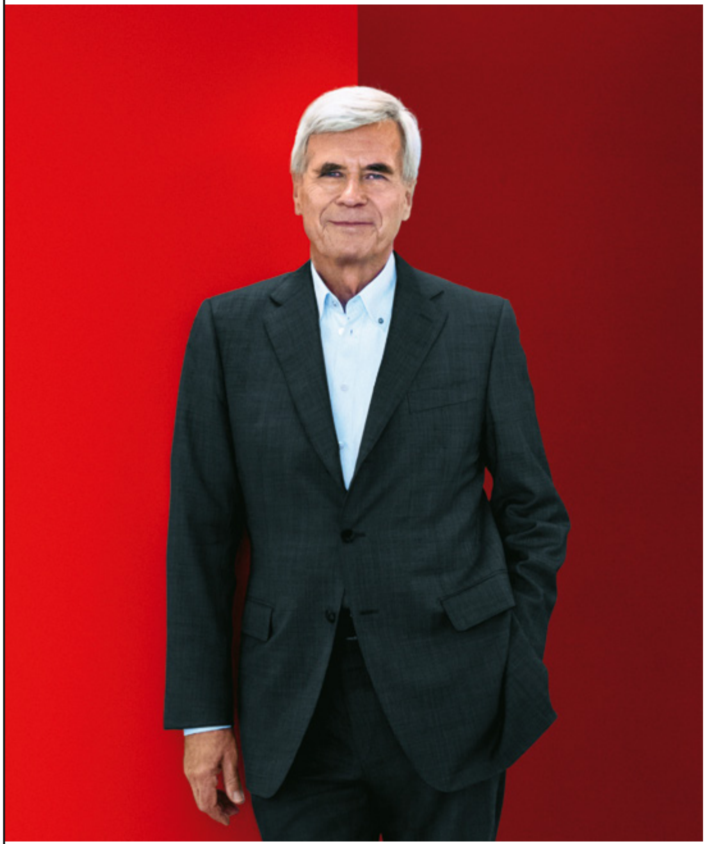
Sebastian Klauke
Member of the Executive Board
E-Commerce, Technology, Business
Intelligence and Corporate Ventures

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

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



Dear partners and friends of the Otto Group,
ladies and gentlemen,

Despite major challenges, the Otto Group has come through the first year of the COVID-19 crisis very well. We are aware of the pressures to which we are all exposed. The Executive Board, managers and employees have handled the situation excellently, for which shareholders and Supervisory Board would like to thank them.

I found it particularly impressive how the health of employees and customers could be protected. Those responsible in the various crisis task forces of the Group and the Group companies and many, many others have ensured this health protection in an incredibly consistent way.

Possibilities for mobile working were used, the rules of the "Hands. Face. Space." campaign were enforced in logistics companies and call centres, regular tests and contactless delivery to customers were introduced. Most recently, we have taken the opportunity to set up vaccination centres at our sites. We hope that this will also enable us to make a contribution to society in getting the pandemic under control.

I think it's fantastic to see the consistency, speed and professionalism with which the Otto Group has prepared itself for the challenges ahead. The Group's excellent economic and financial situation allows us to invest considerable resources in further digital transformation and to drive Kulturwandel (cultural change). Many people know that my majority shares in the Otto Group are held in a family foundation. Because we have always been about securing the future – the future of sustainable trade, of the Group and that of our employees.

> More than ever, we need to change faster and in a more agile way than in normal times.

For this reason, we are pushing ahead with the digitisation of our businesses and processes in a very comprehensive and long-term programme. In doing so, we are doing all we can to retrain employees in vacant business areas and keep them in the Group. It would be foolish to refrain from such processes of change or to stop them because of the pandemic. More than ever, we need to change faster and in a more agile way than in normal times.

This also applies to the challenge of continued climate change. It is the primary task of entrepreneurs and businesses in particular to make their contribution to tackling this crisis. We have been doing this since the 1980s and have achieved impressive CO_2 reduction targets. "Responsible commerce that inspires" is our corporate vision and I am pleased that the management and many employees of the Otto Group are working with their heads and hearts to make the Group truly climate neutral by 2030 at the latest.

Yours

Michael Otto

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 Group GmbH & 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)

Frederic Arndts
HAMBURG
Member of the Board
GSV Aktiengesellschaft für Beteiligungen

Anita Beermann
AHRENSBURG
Employee Kommanditgesellschaft CURA
Vermögensverwaltung G.m.b.H. & Co.
Retired
until 28 February 2021

Horst Bergmann*
MICHELAU
Member of the Works Council
Baur Versand (GmbH & Co KG)
until 31 October 2020

Marius Marschall von Bieberstein
BERLIN
Managing Partner
evoreal Holding GmbH & Co. KG

Olaf Brendel*
HAMBURG
Member of the Works Council
Hermes Fulfilment GmbH
until 15 September 2020

Jürgen Bühler*
HANAU
Chairman of the Works Council sheego GmbH

Petra Finnern*
JESTEBURG
Chairwoman of the Works Council
EOS Region Germany
until 31 October 2020

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

Dr Rainer Hillebrand
HAMBURG
Independent management and strategy consultant

Heike Lattekamp*
HAMBURG
ver.di Trade Union Secretary Commerce

Thomas Mort*
LUHE-WILDENAU
Deputy Chairman of the Works Council Witt Group
Deputy Chairman of the Works Council Otto Group
as of 1 November 2020

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

Benjamin Schaper
HAMBURG
Managing Director GFH Gesellschaft für
Handelsbeteiligungen m.b.H.
as of 1 March 2021

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

Dr Winfried Steeger
HAMBURG
Attorney

Monika Vietheer-Grupe*
BARSBÜTTEL
Chairwoman of the Works Council
bonprix Handelsgesellschaft mbH
as of 1 November 2020

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

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

Inka Wolff*
HALDENSLEBEN
Deputy Chairwoman of the Works Council
Hermes Fulfilment GmbH
as of 16 September 2020

* Employee Representative

Otto Group Path

Our strategy

Those who know their destination will find their way. The Otto Group Path, which was established in 2017, has clearly set the direction in recent years – with success. It has enabled us to achieve our primary goals early for revenues (on a comparable basis) and profitability up to the financial year 2022/23. We have also largely achieved the goals set out in our CR Strategy 2020 launched in 2012.

But we do not and, above all, cannot rest on our laurels – which is why a new, focused strategy will guide us in the coming years. It is based on the foundation of the vision that our shareholders Prof Dr Michael Otto and Benjamin Otto developed together with the Executive Board for the Otto Group: "Responsible commerce that inspires". The further developed Otto Group Path provides clarity for the coming years and shows with what ambition, which values and in which ways we want to bring the vision of the shareholders to life. With a view to our performance, we will focus on ambitious goals: increase in revenues, profitability and investment volume with continued solid capital structure. At the same time, we have also sharpened up our value orientation.

With the new Otto Group Path, we are laying an excellent foundation for our future, for all our business models and for all companies in the Otto Group. It underpins our ambition to consistent, sustainable and value-orientated economic activity and the vision of responsible consumption.

OUR COMMON GOALS

Growth

We achieve ambitious growth through a focused expansion in high-yield businesses as well as through the development of new and innovative concepts.

Profitability

We generate sustainable profits to finance the development of our Group with a goal to reach a double-digit ROCE* in the midterm.

Investments

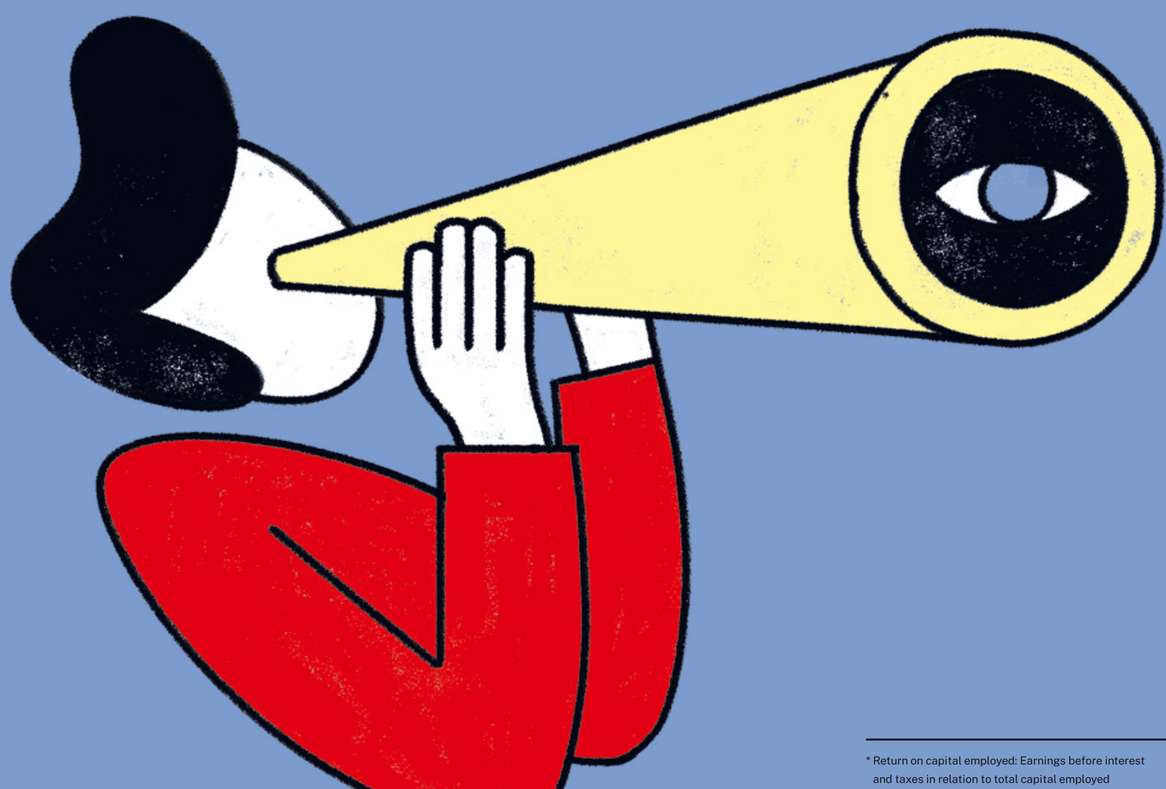
We are increasing our investments in existing businesses, operational excellence, innovative concepts and attractive markets, taking advantage of possible opportunities offered by mergers & acquisitions.

Financial framework

We maintain our entrepreneurial freedom and flexibility through a healthy balance sheet structure with an equity ratio of over 25 percent and good credit metrics.

Corporate responsibility

We act sustainably in all of our areas of activity and pursue clear and ambitious goals such as climate neutrality 2030.



* Return on capital employed: Earnings before interest and taxes in relation to total capital employed

Our shareholder vision

Responsible commerce that inspires

Our ambition

- We combine social and ecological responsibility with economic success.
- Together we shape exceptional customer experiences.
- We provide digital entrepreneurs with a home to pursue big ideas that give us a competitive edge.

Our attitude

- We are a family business and act with conviction and integrity in line with the values embraced in our Code of Ethics.
- We persistently and creatively strive for operational excellence for our customers.
- We live Kulturwandel, our cultural change, with courage and passion to secure our future.

Our path

- We pursue a focused growth strategy and make high investments in our existing strengths, both national and international.
- Innovation is the driving force that helps us expand and build new businesses.
- We set clear and ambitious goals to drive social and ecological responsibility.

Our mission statement

Together we push the limits

We challenge ourselves and have set ourselves ambitious goals. We call this our ambition. As part of society, we take responsibility and thus also respond to a growing social expectation for companies to act ethically. The fact that we want to remain economically successful in this process may certainly lead to conflicting goals. We are aware of this and want to keep discussing these conflicts. In terms of our customers, our ambition remains to exceed their expectations at best. This requires an inspiring digital environment. In terms of our employees, this means: it is also a principle of corporate culture to give digital entrepreneurs space to develop.

Our attitude indicates how we want to achieve these goals, in order to meet our ambition. The Code of Ethics sets out our non-negotiable values; in the commitment to continuous cultural change lies the realisation that we must remain open to change in order to secure our future (see also pages 9 and 10). And operational excellence towards our customers remains a firm benchmark for us.

Our path is clearly defined: in addition to focused growth on the one hand and a new CR Strategy that is consciously anchored in the overall strategy on the other (see also pages 8 and 11 as well as from page 19), a firm will to develop innovations and new business ideas will guide us into the future.

Focused growth strategy

Due to digitisation, the business environment in retail is changing rapidly. Our customers expect a high level of convenience, reliability and service quality today and in the future. Shopping should be inspiring, personalised and more convenient, and should offer tangible benefits for customers and partners.

For the Group companies of the Otto Group, the ambition to shape exceptional customer experiences is a fundamental guideline for their actions. The increased focus on selected Group companies and groups of companies in the Otto Group, which began about four years ago, has paid off.

Therefore, from the strong position of our highly successful financial year 2020/21, we will continue to consistently pursue our focused growth strategy and make targeted high investments in the development and expansion of both existing and new business ideas and fields and drive innovation throughout the Group.

In this way, we will align ourselves with the future of sustainable trade while bearing in mind financial stability, so that with continued good credit metrics and a balanced capital structure, we can ensure the necessary flexibility for the future development of the Otto Group.

BUSINESS AREAS IN WHICH WE INVEST

Platforms

The development of our platforms is driven by high growth investment at OTTO and About You. Through their reach, both contribute to the Shareholders' Vision as fair and responsible trading platforms and inspirational hubs for customers and partners.

Brand concepts

Substantial investment in international expansion and the targeted development or acquisition of new concepts for our established brands serve to strengthen this profitable brand-business segment.

Retailer

The individual positioning of retailers ensures competitiveness while strengthening the ecosystem around our platforms or increasing the Group's reach.

Services

Flexible and customer-centric services enable us to achieve high profitability with distinctive competitive products and to strengthen the market position of our platforms, retailers and brands.

Financial services

Financial services continue to grow profitably, providing a competitive edge through their professionalism and fair and responsible products.

Kulturwandel

Kulturwandel is anchored as an integral part of our attitude in the Otto Group Path. It describes a permanent process that we started in 2015 in order to ensure the long-term success of the Otto Group. It enables us to transform and change across all units and business models of the Otto Group.

Kulturwandel 4.0 at the Otto Group has not only become a well-established concept internally, but is also associated with us in society. That makes us proud. Because we see cultural change as a necessity in order to be capable of performance and future viability as a Group. In doing so, we are constantly breaking out of our own comfort zone and trying new things. That requires courage. Courage from us as an organisation, but also courage from each and every one of our employees. But only in this way can we remain agile, fast and flexible enough to meet upcoming challenges.

Even more than the jointly developed Code of Ethics, the successful cooperation of the Otto Group in the pandemic year is proof of this. Our performance in the past financial year is largely due to the fact that the cultural change was tackled in good time and has become part of the self-image of our organisation at all levels. This was particularly evident in four areas:

Remote work

With the lockdown in March 2020, large parts of the world's workforce moved very quickly into mobile work – thanks to the initial technological and cultural situation. Around 90 percent, or in some cases even almost 100 percent, of employees working in administrative areas are still working from home.

Collaboration

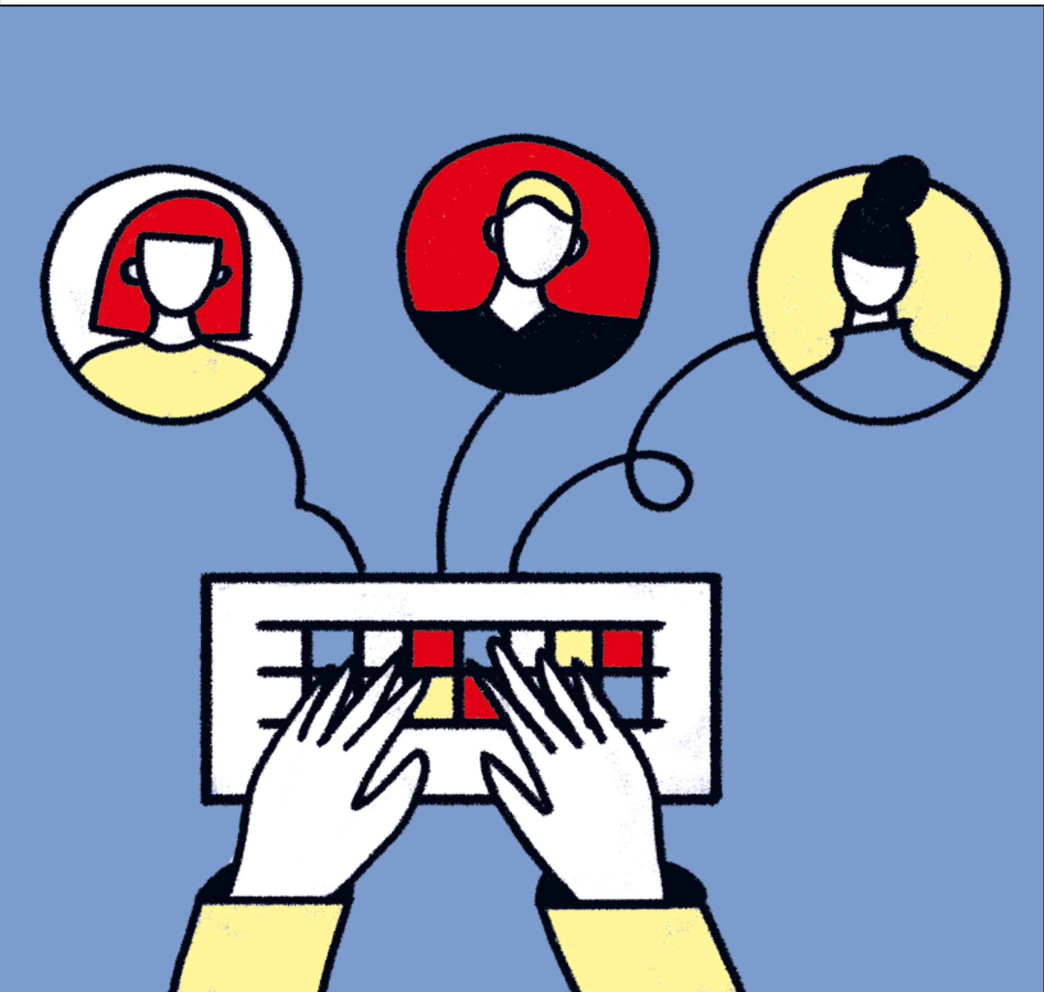
We are committed to collaboration and leverage the size and diversity of the Group: digital collaboration across division, corporate and national borders is a lived cultural change. Virtual formats such as daily stand-ups, team workshops, learning events, employee events and international management meetings become a matter of course.

Culture of trust

Mutual trust enables us to continue to be effective in the crisis. Employees who take responsibility without hesitation, and managers who delegate responsibility, need a climate of trust and transparency in order to successfully re-organise their cooperation.

Technical infrastructure

The early, group-wide roll-out of Microsoft 365 and the corresponding provision of equipment for employees facilitated remote work and flexible cooperation independently of location. The focus on the digitisation of our business models ensured business even in challenging times.



We will continue to drive Kulturwandel forward with courage and passion in the future. Among other things, we are working on solutions for the post-corona period. Hybrid working models will be the most obvious next step. But the continuous anchoring of our Kulturwandel logic in our systems, a commitment to an even higher test-and-learn mentality in top management too and the participatory transformation of business processes are also important elements for shaping the future of work in the Otto Group.

Code of Ethics

Responsibility has been part of the Otto Group's self-image for more than thirty years – lived for decades, mirrored in the shareholder vision "Responsible commerce that inspires". We have now recorded in a Code of Ethics the values that have shaped us as a family business and our actions and which we want to continue to live in the future. We started the discussion in 2020 with a version of the Code of Ethics, which was formulated by the Group Executive Board together with colleagues from various departments and which we deliberately declared as a work in progress. On this basis, all colleagues worldwide were invited to give feedback. In a participatory process, we held intensive discussions with representatives of various Group companies, departments and committees for months and developed a revised version of the Code of Ethics based on the findings – regardless of the Group company and the location.

The eight values of our Code of Ethics are deeply rooted in our mindset and translate into high standards that shape our daily thoughts and actions. They provide orientation for all colleagues worldwide and should help to identify the conflicting priorities between responsibility and profitability and create space for discussions in order to find answers and solutions together. Living out our Code of Ethics in daily life remains an ongoing process that requires courage, openness and ongoing dialog. Because the values of our Code of Ethics are essentially non-negotiable.

Environmental and climate protection
We consistently balance the sustainable use of resources and climate-neutral action with economic growth.

Well-being
We are committed to promoting the physical, mental and social health of the people within our sphere of influence.

Fairness
We are considered, respectful and reliable in our interactions with each other as well as with our partners and customers.

Diversity
We take a stance and are proudly committed to diversity in all its dimensions, drawing innovative strength from it.

Collaboration
We rely on team spirit and constructive collaboration to facilitate better decision-making in line with our corporate goals.

Data responsibility
We handle the data entrusted to us with responsibility and care.

Intergenerational responsibility
We are passionate about seizing opportunities for the long-term success of our family business.

Social responsibility
We foster a value-orientated conversation and have a positive impact on the future of our society.

Responsibility

For more than 30 years, it has been a matter of course for us to shape our business activities according to sustainability principles. We have largely achieved our CR Strategy 2020 targets, introduced in 2012; significant improvements have been made in the field of environment and society (more on this from page 23).

With our new CR strategy, which we have anchored very clearly and very visibly in our overall strategy, we are further developing the classic topic areas, expanding their scope and at the same time adding new ones. We see this as an opportunity to respond to the growing awareness of sustainability in society and to make an even stronger active contribution to urgent issues such as climate change, environmental protection, human rights and digitisation (for a more detailed presentation, see from page 28). The seven topic areas and the associated long-term "Transformational Goals" serve as an action framework for the Group companies. We will regularly review and develop these and – where necessary – adjust them flexibly. But the targets remain binding.

To become climate neutral in our own business by 2030 is our declared goal. A significant increase in the proportion of sustainable materials and further improvement of our sustainability performance along our entire value chain remain high priorities. In addition to "Circularity", "Empowered Employees" and "Conscious Customers", the newly defined topics also include "Digital Responsibility". Digital transformation is not only a process that has occupied us as a company in recent years and will continue to occupy us, but a social revolution that is taking place continuously. As a Group, we are not only part of the economy, but also part of society. That is why we want to actively help shape this revolution in a value-orientated way.

THE SEVEN TOPIC AREAS OF THE NEW CR STRATEGY

Climate
We achieve climate neutrality in our whole value chain.

Sustainable Materials
We apply sustainable raw materials in all our products.

Supply Chain
We continuously improve the social and ecological performance together with our suppliers along our whole supply chain.

Circularity
We incorporate circular principles and ensure circular solutions.

Empowered Employees
We empower our employees to experience and actively shape sustainability.

Conscious Customers
We enable and inspire our customers to make conscious and sustainable decisions.

Digital Responsibility
We shape value-orientated digitisation for people and society.

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 Group

Bonprix Group

Crate and Barrel Group

Eddie Bauer Japan

Eventures*

Freemans Grattan Group

Frankonia

Heine

Küche & Co

Lascana

Limango

Manufactum

Mytoys Group

OTTO

Otto Group Brazil

Project A*

Sheego

Unito

Venus

Witt Group

Financial Services

Cofidis*

EOS Group

Hanseatic Bank*

Hanseatic Versicherungs-dienst (HVD)

Services

Baur Fulfillment

Girard Agediss

Hermes Einrichtungs Service

Hermes Fulfilment

Hermes Germany*

Hermes Parcelnet*

Mondial Relay

Otto International

* Investment companies

Chronicle 2020/21

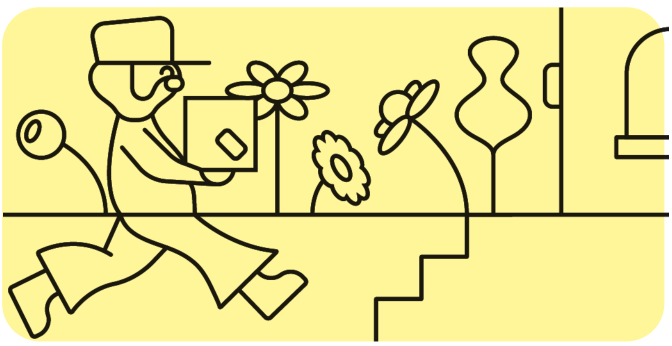
The start of the 2020/21 financial year coincided with the outbreak of a global pandemic that is still dominating our lives and our business. A year full of challenges and uncertainties caused by lockdowns and restrictions. But also a year with many opportunities taken that show how the Otto Group has stayed on course thanks to its early digital transformation: for example, when it came to getting the employees into mobile working on a large scale – even in completely new areas such as customer service. When it came to organising working conditions for colleagues in logistics in such a way that their health was not endangered. Or when it came to how original stationary retailers of the Otto Group have strengthened their digital channels. A look back at a volatile year.

2020

March

Hermes introduces contactless delivery

In order to protect the health of couriers and customers in the best possible way after the outbreak of the COVID-19 pandemic, Hermes Germany introduces contactless delivery at front doors and in parcel shops within a few days. For this purpose, the company develops a solution that doesn't require a signature on the scanner; documentation is carried out with a photo of the signature on the address label.



April

Protective masks at About You

In response to the COVID-19 pandemic, About You establishes its own shop category for non-medical, textile face masks at short notice and sells them at cost price.

Special premium for logistics

Employees of the Otto Group logistics companies receive a net bonus of 500 euros for their high commitment in pandemic times. The work in the companies safeguards the revenues and results of the entire Group.

May

Otto Group donates COVID-19 protective material

In a concerted campaign, the Otto Group companies OTTO, Bonprix and Hermes Germany donate 175,000 face and respiratory masks, 25,000 face shields and 3,300 overalls to the two hospitals Universitätsklinikum Hamburg-Eppendorf (UKE) and Marienkrankenhaus as well as to retirement and care homes in Hamburg.

Manufactum opens new department store

Under special conditions, Manufactum opens its 13th branch in the arcades in Münster for customers. The renovation of the 330-square-meter department store has already taken place under strict hygiene conditions.

New e-transporters at Hermes

Hermes Germany continues to drive forward the electrification of its vehicle fleet: 15 e-sprinters from series production are now being used in Hamburg in addition to the existing e-fleet. This means that Hermes Germany can almost double the proportion of emission-free journeys and is electric on almost one in five journeys in the Hanseatic city. This saves around 137 tonnes of CO_2 in a year.

June

Consistently on course for expansion

About You consistently continues its successful international expansion: with market entries in Slovenia, Estonia, Latvia and Lithuania, About You is now represented in 23 European countries.

Change of management at Mytoys

With effect from 15 June, the Mytoys Group is managed by Martin Schierer as CEO and Tobias Nieber as CFO. The long-standing managing directors Dr Oliver Lederle, Florian Forstmann (both also founders) and Alexander Lederle leave the company at their own request.

July

Otto Group passes on VAT reduction to customers

In order to stimulate consumption and the economy, the German Federal Government decides on a temporary reduction in VAT on 1 July in the fight against the consequences of the COVID-19 crisis. The German trading companies of the Otto Group support the decision and pass on the VAT reduction to their customers. Hermes Germany also lowers the prices for private parcel shipping in the same period.

Mytoys Group expands partner program

The Mytoys Group is consistently developing into a central platform for family products: the company announces that it will increase the number of affiliated manufacturers and suppliers to 400 this year alone, and 1,000 next year.

Sale of Otto Japan

With effect from 31 July, the Otto Group sells the Group company Otto Japan in a so-called management buy-out to the company Legego Inc. owned by former CEO Seiki Maenosono. Through the joint venture with the US outdoor specialist Eddie Bauer, Eddie Bauer Japan, which has been in existence for almost thirty years, the Otto Group remains active in Japan.

August

Strategic partnership

One of the largest and most experienced investment companies, Advent International, acquires 25 percent of the shares in Hermes Germany and 75 percent in Hermes Parcelnet in the UK. The aim of this partnership is to give the Otto Group's parcel logistics companies new opportunities to expand their leading position in Europe's two most important delivery markets.

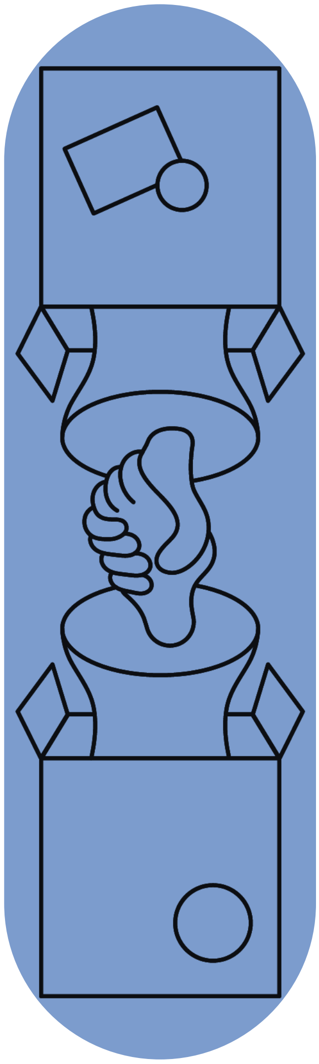
New online shop platform for the Witt Group

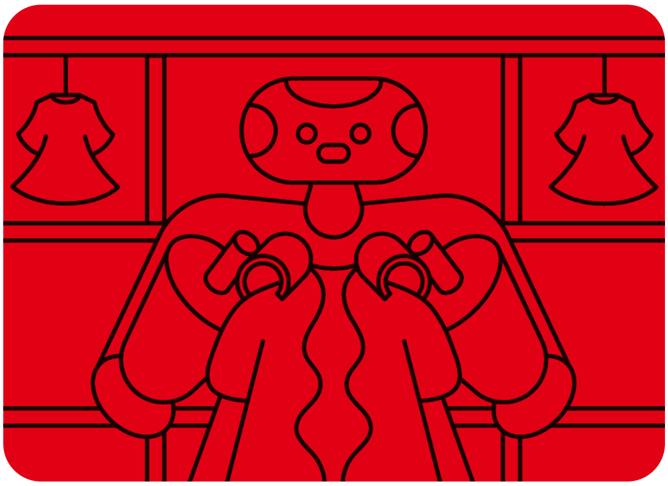
Safe, scalable, customer-orientated: the Witt Group has successfully converted the online shops of its brands to the new shop platform "Witt Commerce Cloud". The leading fashion retailer for the 50+ target group uses About You's cloud-based e-commerce infrastructure.

September

Own payment service provider for OTTO

In order to manage payment processing between customers and sellers and the multitude of different payment options from a single source in future, OTTO announces the establishment of its own payment service provider.





Bonprix increases the attractiveness of the range with AI

A new, self-developed forecasting system supports Bonprix in the creation of ranges. With the help of artificial intelligence (AI), it makes predictions about demand and purchases in order to align its offerings even better with the wishes of customers. The so-called Learning Collection is one of several projects in the company that exploits the potential of AI.

From colleagues for colleagues: Remote Learning Days at Otto Group

At the Remote Learning Days on 15 and 16 September, around 900 colleagues from all over the Group exchange views virtually on a wide range of topics in more than 60 German- and English-language sessions. The Remote Learning Days are a sign of a new learning culture within the Otto Group, which is being established as part of Kulturwandel (cultural change) and focuses on sharing knowledge and experiences.

Study on digital transformation

With the support of the Otto Group, the Bertelsmann Foundation and the Fraunhofer Institute for Industrial Engineering (IAO) present a study on the successful transformation of companies. It scientifically summarises and evaluates the success factors for operational digitisation. This is based on interviews with SMEs, including the Group companies OTTO and Manufactum.

October

Otto Group integrates innovation functions into its core business

The Otto Group Executive Board decides to bring the activities of Otto Group Digital Solutions (OGDS) closer to the operational core of the Group's various business models for strategic reasons.

Eos presents study on the handling of data

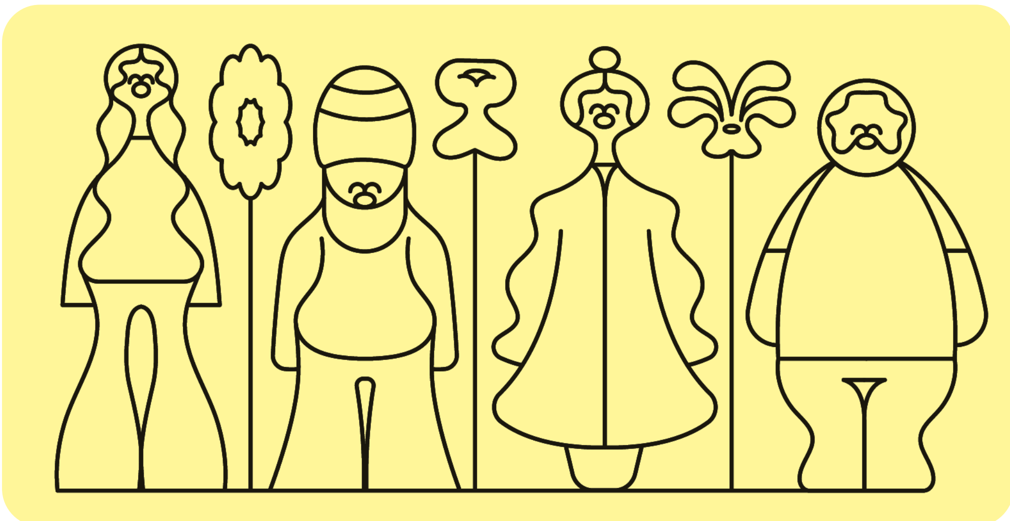
The responsible handling of digital data and respect for this is increasingly determining public discourse. This is where the representative survey by the Eos Group "What's the value of data?" comes into play. Consumers in Europe, Russia and the USA were surveyed. The result: one in three people are prepared to sell data. The willingness to share personal information with companies depends to a large extent on trust in their handling of the data.

Kick-off event of the ZukunftsWerte [Future Values] initiative

With the ZukunftsWerte initiative, the Otto Group launches the discourse with decision-makers, thinkers and go-getters from business, politics, science and civil society on issues of digital transformation, corporate responsibility and new digital business models. The goal: driving forward social debate on the challenges and opportunities of digitisation – including consideration of the impact of the COVID-19 crisis – and actively and sustainably shaping the path of digital change in cooperation with others in a value- and solution-orientated way.

Otto Group founds Diversity Community

Diversity and inclusion are fundamental to cooperation within the Otto Group. The Otto Group Diversity Community was founded in order to give even



more weight to these topics across the Group and to think broadly about diversity in all aspects. Its aim is to intensively engage with the Diversity Charter in order to actively advance and shape issues for the individual diversity dimensions. In the future, the Community will play an important role in the diversity management of the Group.

#CDX20: Working together towards sustainable changes in the world of work

On 28 October, the Otto Group initiates the third Culture Development Experience #CDX20. Around 170 people from the Kulturwandel collective – a cross-industry network of cultural transformers and change managers from large companies, small and medium-sized enterprises, institutions and authorities from the DACH region (Germany, Austria and Switzerland) – exchange ideas on an equal footing and independently of competition about successful changes in the world of work and challenges in the transformation in their organisations in order to learn from each other.

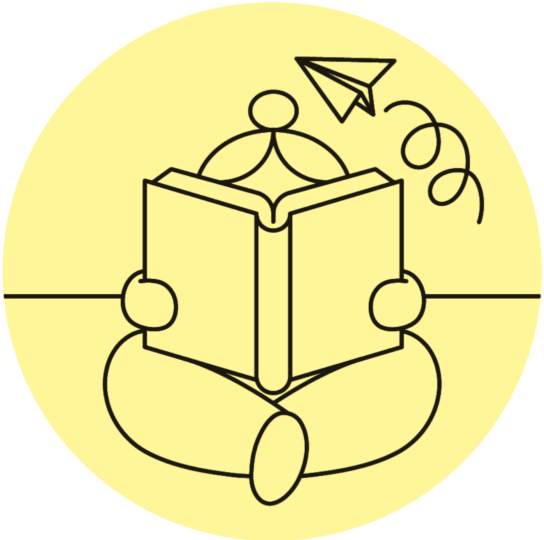
November

Baur Comfort Pay simplifies payment process

Baur is one of the first online retailers in Germany to simplify sales on account and instalment payments for its customers with an extra service. With the service, outstanding payments can be settled with just a few clicks and without detours, there is no need to use external online banking anymore.

Otto Group publishes study on voluntary sustainability cooperations

As a contribution to the discussion on the need for a supply chain law, the Otto Group presents a study on strategies and success factors for sustainability cooperations using the example of the textile industry, which describes the advantages and disadvantages of various voluntary forms of cooperation and is intended to help in deciding on the right type of cooperation.



December

Five years of Kulturwandel in the Otto Group

With the aim of permanently securing the future viability of the Group in times of exponential digitisation, the Otto Group has been pushing ahead with Kulturwandel 4.0, the largest transformation process in the company's history, since December 2015. The early introduction of structural and procedural changes meant that during the COVID-19 crisis the Otto Group was able to move its business operations to the digital world without major friction.

"Second Love" at About You

With the new category "Second Love", the fashion online shop About You expands its range with fashionable second-hand pieces. The Second Love offering includes around 250,000 items at the launch and consists of carefully selected fashion highlights in a range of brands, styles and price segments.

Otto Group and Save the Children support children of factory workers

The Otto Group specifically supports the employees of its suppliers and their children in emergency situations. The COVID-19 crisis is exacerbating the plight of already disadvantaged populations worldwide, such as migrant workers and children. The temporary closure of schools and kindergartens significantly worsens the future prospects of children from socially disadvantaged families compared to those of better-off peers.

Otto Group sells Hansecontrol

As of 31 December, the Otto Group sells the Group's own quality assurance and product safety service provider, the Hansecontrol Group based in Hamburg, to Qima, a leading global provider of supply chain compliance solutions based in Hong Kong.

Hanseatic Bank signs Diversity Charter

By signing the Diversity Charter, Hanseatic Bank is sending a clear signal of diversity and equal opportunities. The Charter is an initiative under the auspices of German Federal Chancellor Angela Merkel that promotes diversity in companies and institutions.

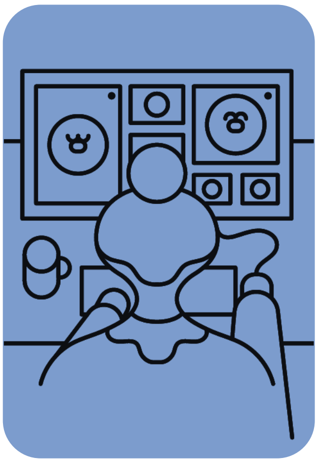
With their signature, companies commit themselves to creating a working environment that is free of prejudice.

2021

January

Digitisation in the energy sector

The leading platform provider for energy suppliers Powercloud and the fintech company Collect AI are working together to digitise the processes of energy suppliers along the entire customer journey.

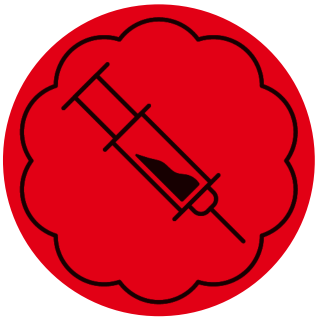


One year of the TechUcation training initiative

With the Group-wide training initiative TechUcation, the Otto Group offers a comprehensive and unified understanding of digitisation and opens up the topics of lifelong learning and digital education to all employees. About a year after the roll-out, 28 Group companies are connected in the DACH region, and 20,500 employees of the Otto Group use the digital learning platform Masterplan. During the COVID-19 pandemic, the video-based learning modules also helped employees to familiarise themselves with digital tools and the changed requirements of remote work. The next milestone is the TechUcation roll-out in the commercial sector.

Crate and Barrel supports 15 Percent Pledge initiative

Crate and Barrel commits to the so-called “15 Percent Pledge” – a promise by U.S. retailers to increase cooperation with businesses run by black entrepreneurs as well as with black artists and designers to 15 percent by 2024, as well as to increase the number of black employees in the workforce. The aim of the initiative is to achieve a fairer market share for these companies.



Otto Group publishes trend report on ethical consumption

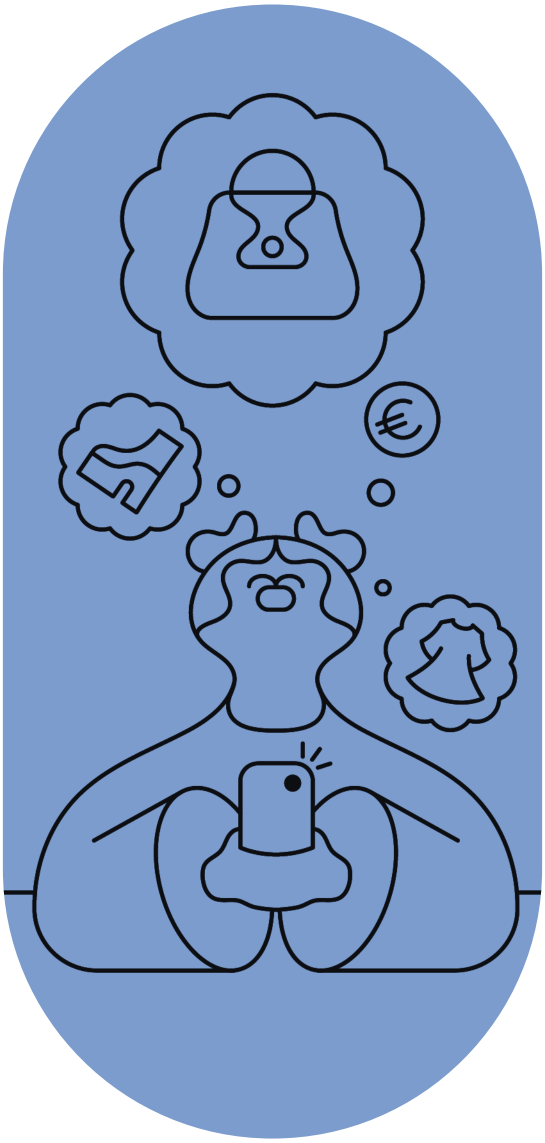
In cooperation with the trend office led by Prof Peter Wippermann, the Otto Group has created the 5th trend report on ethical consumption. It makes it clear: ethical consumption has arrived at the heart of society and plays an important role in purchasing decisions for an increasing number of consumers in Germany.

Otto Group joins Value Balancing Alliance

By joining the Value Balancing Alliance, the Otto Group is once again committing to responsible economic activity based on systematic sustainability management. The fight against climate change with the aim of becoming climate neutral in our own business by 2030 is high on the agenda.

BFS takes over vaccination hotline for Lichtenfels district

As one of the first external call centres in Germany, BFS Baur Fulfillment Solutions supports an authority in the fight against COVID-19: the employees of the customer service specialist support the Lichtenfels vaccination center by taking over inquiries about the vaccination service, appointments and registration in the vaccination centre. Through their use, the accessibility of the vaccination hotline could be extended from 37 to 50 hours per week.



February

Sheego restarts

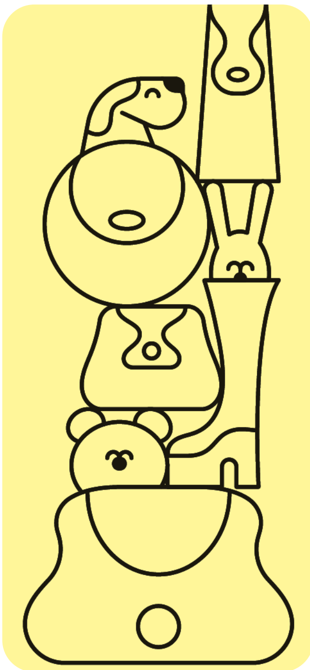
Sheego, positioned as a plus-size fashion brand in the Otto Group, will be consistently expanded from Frankfurt am Main as a vertical fashion label in the future. The past financial year has been intensively used to raise its own profile and to expand its competencies as a digital fashion provider. The recently launched digital expansion into other European markets is continuing.

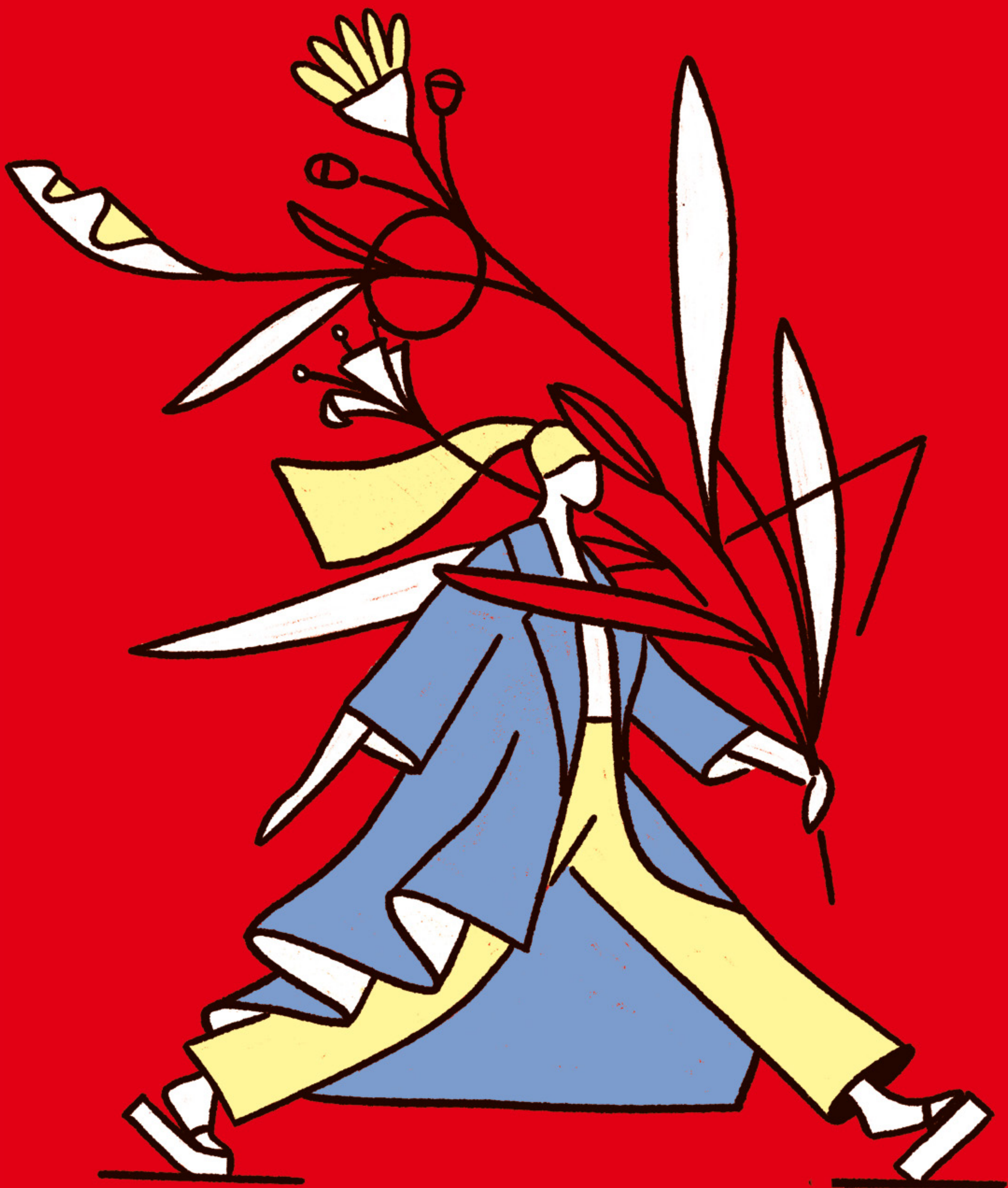
Social plan for returns-processing facility

In their negotiations on the reconciliation of interests and a social plan for the returns-processing facility of Hermes Fulfilment in Hamburg, the company and the works council reach an agreement. Employees have the prospect of severance payments and transfer to a transfer company. The Otto Group Executive Board and the management of Hermes Fulfilment had made the planning decision to stop processing low-volume returns in Hamburg and to close the returns-processing facility on 31 August, 2021.

Bonprix products receive PETA certificate

The majority of Bonprix's shoe and bag range has been marked as animal-friendly with the PETA-Approved-Vegan certificate: 75 percent of its own-brand shoe range and 95 percent of Bonprix's bags have been certified as vegan by PETA. The animal rights organisation welcomes the commitment of the company, which as part of the Otto Group committed itself to not using fur as early as 1991. Bonprix is continuing its commitment to animal welfare with this new labelling of vegan products.





Sustainability

How we manage Sustainability

Integrating responsibility for people, nature and society into its business activities has been a matter of course for the Otto Group for more than 30 years. We see this corporate responsibility not only as a duty, but also as an opportunity that we are trying to focus on even more within the entire group. After all, the pandemic shows that there is no way around responsibility and sustainability.

CLEAR VISION

With the COVID-19 pandemic, 2020 presented society, governments and businesses worldwide with major challenges. The associated effects, including on the economy, once again demonstrate the need for a sustainable change in behavior. Among other things, the preservation of biodiversity is becoming even more important – the loss of natural habitats is one of the reasons why the risk of pandemics is increasing. With the aim of protecting species, the EU's reconstruction program leaves no doubt that policymakers not only want to respond to the COVID-19 pandemic, but also to set the course for a sustainable economy with the European Green Deal.

Sustainability and responsible business have also become more important for consumers, according to the latest trend study by the Otto Group on ethical consumption: 70 percent of respondents say that ethical criteria have become an integral part of their purchasing decision. In this context, companies such as the Otto Group increasingly have a duty to integrate social and environmental aspects even more comprehensively into their business.

There are challenging times ahead for us that can offer us plenty of opportunities at the same time – we have a clear vision that guides us: for decades, we have been convinced that the economy is there for the people, not the other way around. This idea is reflected in our shareholder vision "Responsible commerce that inspires". Sustainability has thus become even more of a focus for the entire Group and guides the actions of all employees. The shareholder vision is at the heart of all our actions and the new Corporate Responsibility Strategy (CR Strategy) builds on this with concrete goals.

> **Our shareholder vision: "Responsible commerce that inspires"**

SETTING THE TONE WITH A NEW CR STRATEGY

Our aim is to further reduce the negative environmental and social impact of our business activities and to strengthen positive effects. With our new CR Strategy, we want to continue to set standards in future. We are pursuing ambitious goals in seven topic areas, e.g. achieving climate neutrality by 2030 or a clear increase in sustainable materials (see p. 29). This replaces the CR Strategy that expired in 2020 and sets a new important tone for sustainable development – within the Group and beyond. The seven topic areas serve as an action framework for implementation. We are getting all the employees in our Group companies involved. During the year under review, the Group companies were integrated into the new CR Strategy; due to the pandemic restrictions, this took place digitally.

In order to be able to react quickly to changes and to further develop the strategy, we regularly review the content and make adjustments where necessary – the respective targets remain binding. With the new strategy, we are thus providing a dynamic framework for the whole Group: the goals of the Otto Group can be individually configured for the individual Group companies in order to accommodate the various different business models.

The foundation for strategic development is our management process impACT, in which we measure all the environmental and social impacts of our business activities on people and nature. Part of this is our materiality analysis (see p. 31), on the basis of which we have defined the seven topic areas of our new CR Strategy.

> **We want to become climate neutral in our own business activities by 2030.**

OUR SUSTAINABILITY MANAGEMENT

We think about responsibility from the very beginning – it starts, among other things, with the cultivation of raw materials, for example in the cotton field or in forestry. Our view of the big picture is reflected in the strategic orientation of our corporate responsibility. The Otto Group systematically embeds sustainable action in its business processes. In the future, we will go one step further and integrate sustainability into the highest strategic planning level of the Group. Sustainability issues are discussed several times a year at Executive Board meetings on the further development of the Group. Important strategic decisions, such as business model or portfolio changes, are discussed together with sustainability aspects and targets and are thus adopted holistically.

STRONG ANCHORING OF SUSTAINABILITY IN THE GROUP

With the new strategy, the CR Board as the decision-making body receives an even stronger mandate and clear authorization from the Group Executive Board to make decisions largely independently. In addition, the new CR Strategy offers the Group companies more options, to shape their individual strategy, and thus gives them more freedom and responsibility. Colleagues from various departments of the Otto Group Holding and the Group companies are in charge of the comprehensive management of sustainability. Newly formed and agile teams are engaged in the further development of the new CR Strategy as well as the implementation of individual CR activities in the Group companies. As Chairman of the CR Board and Executive Board member responsible for the department of Corporate Responsibility, the CEO of the Otto Group is responsible for ensuring that sustainability is firmly anchored in the Group.

Since 2014, the achievement of the CR Strategy objectives has had a direct impact on the variable remuneration of the Group's Executive Board members. Bonuses are paid not only for the achievement of economic, but also for social and environmental targets. The new CR Strategy will be subject to a new incentive methodology for calculating bonuses from 2021.

EMPOWERMENT OF THE GROUP COMPANIES

Another principle of the new CR Strategy is the strengthening of the Group companies, as they know best about their own business area and its potential for change. The Group companies set their own priorities within the strategic framework and set individual goals that they want to achieve with appropriate measures and projects. They are themselves responsible for achieving their goals within the new CR Strategy and for complying with the applicable laws and requirements on the part of the Otto Group. The Otto Group Corporate Responsibility holding division provides extensive support and ensures that the objectives of the Group companies are consolidated and that the ambitious targets are achieved at Group level as a whole.

Knowledge transfer and collaboration are at the heart of the cooperation between the Group companies and the holding division. Experts from various Group companies meet in so-called Expert Circles on the topics of the CR Strategy in order to drive forward the implementation of the self-set goals in the Group companies.

> **In the future, we will go one step further and integrate sustainability into the highest strategic planning level of the Group.**

IN DIALOG

Selected memberships, initiatives and partnerships

Value Balancing Alliance member (since 2021)	Save the Children (donation project 2020/21)
ZukunftsWerte Initiative founding member (since 2020)	Grüner Knopf [Green Button] (certified products available with the label from Bonprix since 2020)
Finlit Foundation (since 2019)	Fashion for Good member (since 2018)
Sustainable Apparel Coalition, SAC (since 2018)	UN Fashion Industry Charter for Climate Action member (since 2018)
CDR initiative of the BMJV (founding member since 2018)	Partnership for Sustainable Textiles (member since 2015)
Fur Free Retailer, a program of the FOUR PAWS organization (member since 2014)	Accord on Fire and Building Safety in Bangladesh (member since 2013)
German Trade Association, HDE (member since 2009)	Foundation 2° – German Companies for Climate Protection (initiation and participation by Dr. Michael Otto since 2012)
Forest Stewardship Council Germany, FSC® (member since 2006)	Textile Exchange (member since 2006)
Cotton made in Africa (CmiA) Initiative (founding member since 2005)	amfori (incl. amfori BSCI, Business Social Compliance Initiative) (founding member since 2004)
German Environmentally Sensitive Management Working Group (Bundesdeutscher Arbeitskreis für Umweltbewusstes Management - B.A.U.M.) (since 1987)	Michael Otto Foundation for Environmental Protection (since 1993)

For many years now, we have been actively promoting dialog & partnership with our stakeholders in order to exchange ideas and understand other perspectives. It is important to us to take a stand in the public sustainability debate and to stand up for our vision of a human, environmentally conscious and diverse society. In our cooperations, we pay attention to current challenges such as climate change, resource consumption, compliance with and promotion of human rights as well as digitization. Through events and industry initiatives, we promote knowledge transfer and can respond to the needs and requirements of our stakeholders. The independent Michael Otto Foundation for Environmental Protection (UMO) has also shown special commitment for many years. Through stimulating dialogs such as the Hamburg Talks for Nature Conservation, education for sustainable development with the Aqua Agents or through cooperation between nature conservation and agriculture within the framework of the F.R.A.N.Z. Initiative, UMO is taking pioneering routes forward.

NEW PARTNERSHIPS

By joining the Value Balancing Alliance (VBA), the Otto Group is once again committing to responsible economic activity based on systematic sustainability management. The focus is on comprehensive balancing, which focuses on the impact of our own business activities on the environment, society and the economy. As a player in the trade sector, we know the practical benefits of value balancing processes such as the impACT management process established back in 2013. The Otto Group therefore brings important experiences and insights to the VBA. With projects such as the ZukunftsWerte [Future Values] initiative launched by the Otto Group or the co-founding of the Corporate Digital Responsibility (CDR) initiative, initiated by the Federal Ministry of Justice and Consumer Protection (BMJV), we are addressing the challenges and opportunities of digitization. Within the framework of the ZukunftsWerte initiative, we discuss relevant issues relating to value-oriented digitization with stakeholders from business, academia, politics and civil society, share new solutions and move from talking to action - preferably together.

INVESTING IN EDUCATION

We want to promote and encourage young generations – for example through the Finlit Foundation of our Group company Eos. This already promotes the topic of financial literacy in children in order to prevent over-indebtedness in adulthood. Since the launch in October 2020, its first educational initiative reached more than 9,700 children in almost 100 schools in Germany.

SUPPORT IN PANDEMIC TIMES

The COVID-19 pandemic has exacerbated the precarious situation of many people worldwide, especially families and children, as well as migrant workers. The closure of kindergartens and schools has worsened access to education, childcare has been lost, and the financial income of many families has also been reduced or lost altogether. Together with Save the Children, the Otto Group is therefore supporting employees and their families in factories producing for us in China and Turkey. The program addresses the negative effects of the pandemic individually and on demand, including through care services. Special parent training sessions are also helping adults in dealing with their children in this exceptional situation. Computers have also been made available in Turkey to provide them with access to home schooling and online learning opportunities.

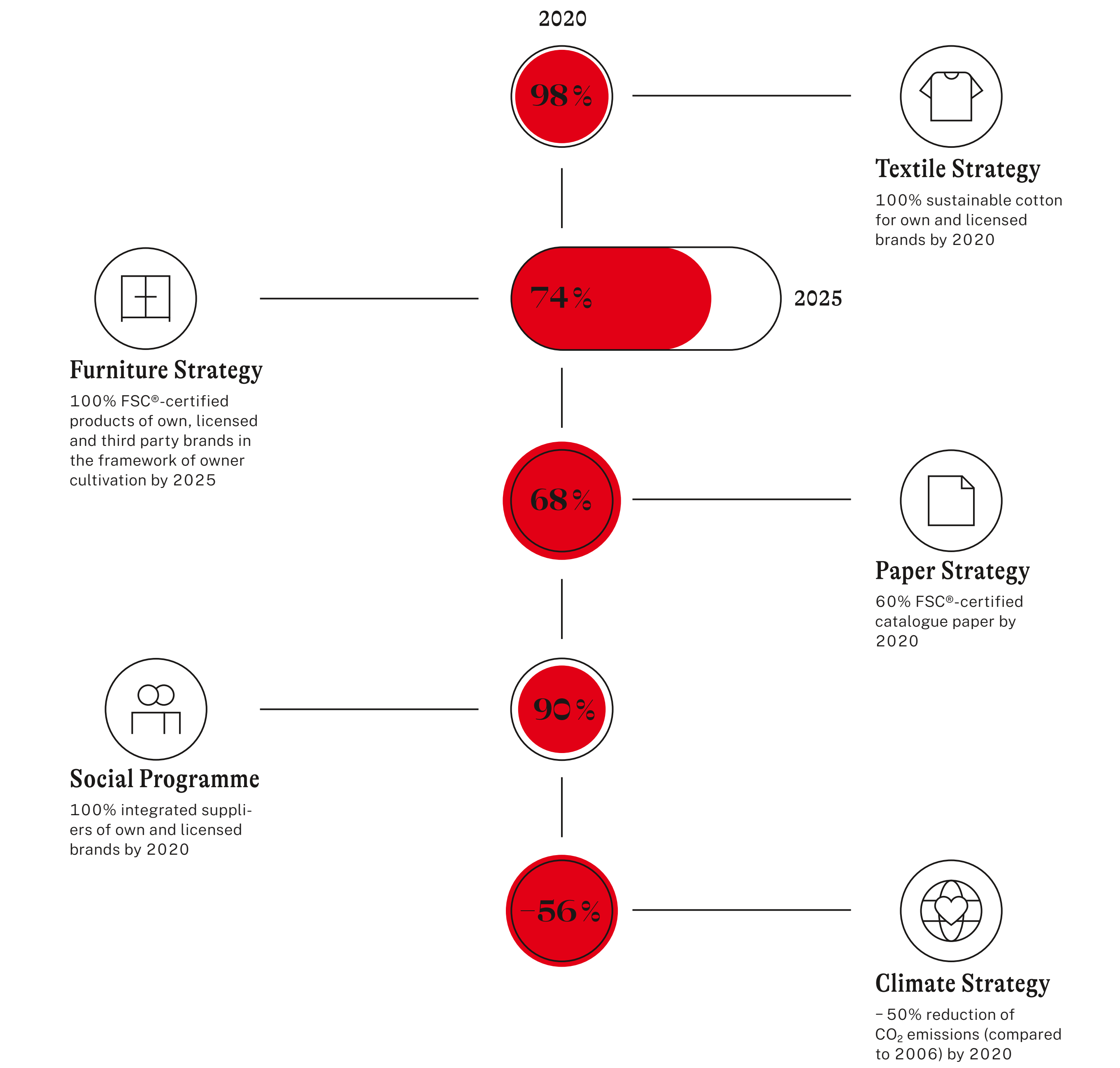
What we have achieved

The aim of our previous CR Strategy 2020 was to continuously reduce the negative environmental and social impact of our business activities. We have initiated important developments and achieved changes in all areas of the strategy. We look back on the challenges and successes of past years.

KEY IMPROVEMENTS

In 2012, we introduced our CR Strategy 2020. It was divided into five sub-strategies along the value chain – from the cultivation and extraction of cotton and wood to the use of recycled paper, the integration of suppliers into our social programme and the reduction of CO_2 emissions. In these eight years, we have been able to drive significant improvements in the environment and social affairs and achieve the majority of our goals.

Achievement of targets in 2020



The five KPIs were audited by the independent accounting firm PricewaterhouseCoopers (PwC) in accordance with the International Standard on Assurance Engagements (ISAE) 3000. The following Group companies are included in the 2020 strategy: Baumarkt direkt, Baur, Bonprix, EOS, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck (until 2019) Unito, and the Witt Group.

TEXTILE STRATEGY: SUMMARY

The aim of our Textile Strategy was to use 100 percent cotton from sustainable cultivation in our own and licensed brands by 2020. We have almost achieved this – the share is 98 percent. In particular, we have greatly increased the proportion of cotton from the Cotton made in Africa (CmiA) initiative. CmiA is a leading standard for sustainably produced cotton (see page 33). The proportion of recycled cotton and organic cotton is also included in the key figures of the Textile Strategy.

A few suppliers with small quantities of cotton do not use sustainable cotton. As these products are vital for the overall product range, the Otto Group has decided not to list these products under cost/benefit considerations. This is one reason why we have not yet reached the last two percentage points of the target.

Overall, the Textile Strategy has significantly reduced our environmental and social consequences through the high proportion of CmiA cotton.[1]

58,000
small farmers

Around 58,000[2] small farmers benefited from the Otto Group's CmiA demand in 2020.

6,800 tons of CO_2 were avoided in 2020 through the use of CmiA.

6,800
tons of CO_2

Due to an exclusive use of rainwater for irrigation, the use of over 56 billion liters of fresh water could be avoided in 2020.

56 billion
liters of fresh water

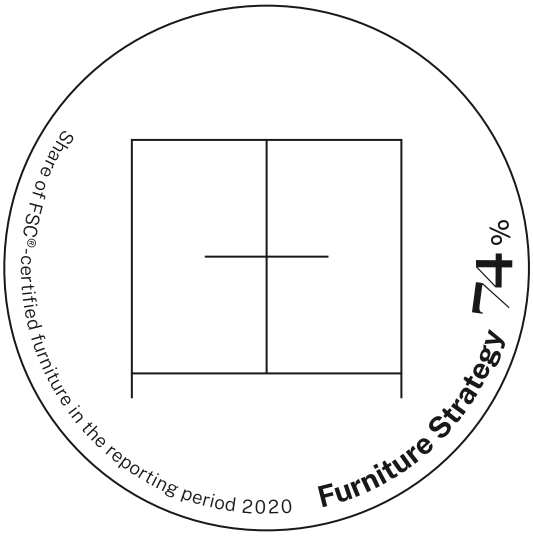
Sustainable cotton*

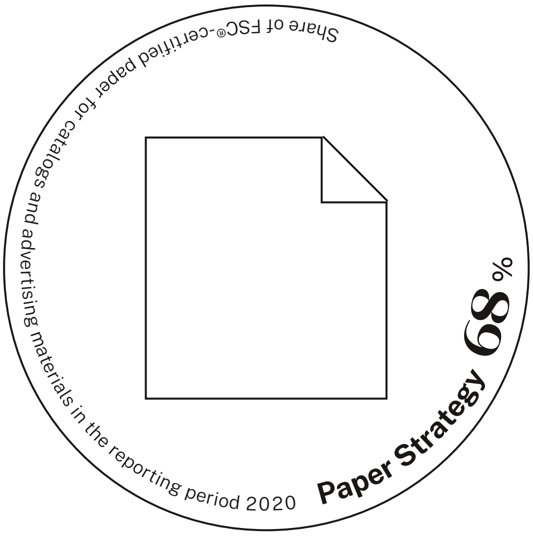
(in tons)

	2017	2018	2019	2020
Entire quantity of cotton	35,943	33,025	33,385	38,287
Organic cotton quantity	750	666	749	1,764
CmiA cotton quantity	27,156	30,077	31,380	35,829
Recycled cotton quantity	k. A.	73	63	49
Sustainable cotton proportion	**78 %**	**93 %**	**96 %**	**98 %**

* on the basis of the procurement quantity of raw cotton

1 The retrieved data is based on the Life Cycle Assessment of CmiA.
2 Measured by the share of the accepted quantity in the total CmiA production volume





FURNITURE STRATEGY: SUMMARY

From oak chest dressers to wooden wardrobes: 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 as indicated by the certification compliant with the standard of the Forest Stewardship Council® (FSC®). Originally, we wanted to reach the target by 2020, but due to the lack of availability of FSC-certified wood materials from Germany, we had to postpone the target year to 2025. Currently, the share of FSC-certified wood is 74 percent. One of the reasons why we were unable to make further progress in achieving the target compared to the previous year is due to the massive expansion and increased customer demand for OTTO's bedroom and office furniture range, which is predominantly produced in Germany. Due to the low coverage of FSC-certified forests in Germany (only about 12 percent), there is a shortage of locally available FSC wood. Nevertheless, we are pushing the issue of FSC strongly when choosing new suppliers and also want to continue to support production in Germany instead of switching to other procurement markets. For us, importing wood products with the FSC seal is not an alternative to sourcing wood regionally, as these have a significantly more negative carbon footprint. OTTO is pushing for FSC certification of its new suppliers. Another reason lies with Baumarkt direkt, which has greatly expanded its range of wooden furniture (2020: 6,100 items, 2019: 2,600 items). The FSC certification of new suppliers lags behind this growth. The sub-strategy on sustainable furniture will be continued and will continue to be part of our new CR Strategy.

PAPER STRATEGY: SUMMARY

The Otto Group had set itself the goal of increasing the share of FSC-certified paper for catalog and advertising materials to 60 percent by 2020. We have exceeded this target with 68 percent in 2020. Our new CR Strategy also sets a concrete KPI for further increasing the proportion of certified paper.

FSC®-certified furniture

(Number)

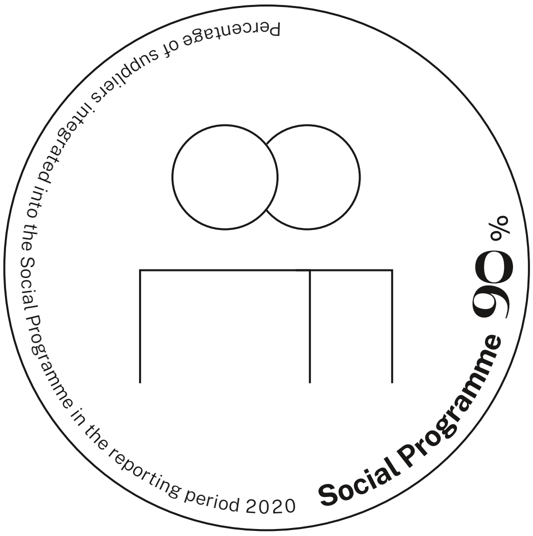
	2017	2018	2019**	2020
Total furniture articles	62,270	115,203***	64,096	69,841
of which number of FSC®-certified articles in the product range	32,229	67,497	50,683	51,922
Proportion of FSC®-certified articles in full product portfolio	**52 %**	**59 %**	**79 %**	**74 %**

** Own, licensed and strategically relevant third party brands in the framework of owner cultivation
*** The sharp increase in the total amount of furniture products can be attributed to the expansion of product numbers

Paper consumption for catalogs and advertising materials

(in tons)

	2017	2018	2019	2020
Entire quantity	200,559	197,615	165,403	169,417
FSC® paper quantity	85,821	106,507	105,111	115,644
Proportion of FSC® paper	**43 %**	**54 %**	**64 %**	**68 %**



SOCIAL PROGRAMME: SUMMARY

With our Social Programme, we have set ourselves the goal of establishing transparency concerning working conditions in our supply chains and supporting our business partners and their factories in complying with human rights (see page 33). We have achieved this goal in principle – over the past few years, we have systematically gained transparency about working conditions in the final production facilities producing for us. Since the start of the Social Programme in 2013, we have gradually implemented the requirements and associated processes at more and more Group companies, and thus also suppliers and factories. At the same time, we have increased our requirements by currently accepting only a few selected social audits and certificates.

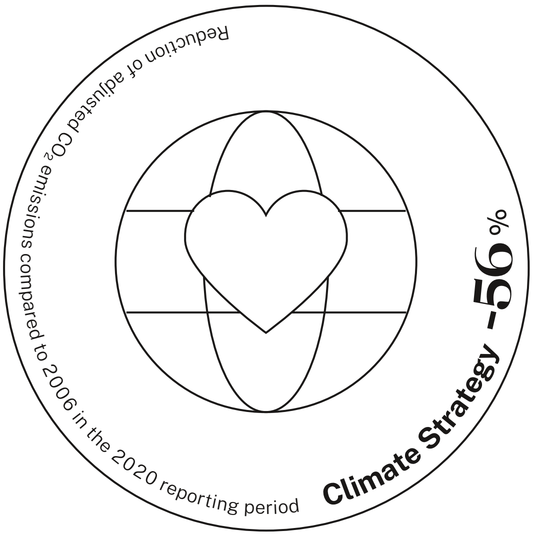
We have not quite achieved the goal of 100 percent transparency, mainly due to COVID19-related challenges. While we were able to integrate 95 percent of all suppliers into the Social Programme in 2019, the key figure has fallen to 90 percent in 2020[3]. In some cases, audits could not be carried out due to the lockdown and its impact on factories and audit companies and travel restrictions. The option of remote audits (online), introduced in 2020, if no visit at the site was possible, provided some relief.

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

BSCI audit	85%
Otto Group Assessment*	7%
SA8000 Certificate	8%

* including remote Otto Group Assessment

3 UNITO Versand & Dienstleistungen GmbH was added to the Otto Group KPI for the first time in 2020. Frankonia Handels GmbH & Co. KG is not part of the official KPI as planned due to internal challenges. However, this would have only a minor impact on the Otto Group KPI due to the lower number of suppliers compared to other Group companies.



CLIMATE STRATEGY: SUMMARY

The aim of our previous Climate Strategy was to reduce CO_2 emissions caused by facilities, transports and employee mobility. The quantitative target was to halve adjusted CO_2 emissions of the Group's facilities, procurement and distribution transports and business trips by the end of 2020 compared to the base year of 2006. We were able to achieve this already in 2019, with a reduction of 51 percent. In 2020, the reduction reached 56 percent. The total adjusted CO_2 emissions fell to 138,644 tons (2019: 154,730 tons). We attribute this reduction to increased energy efficiency in all sub-sections of the Climate Strategy as well as to the acquisition of high-quality certified green electricity. We have also significantly reduced our air freight and shifted our goods transport from the production countries to lower-carbon sea, road and rail transport.

CO_2 emissions

(in tons)

	2006** (base year)	2018 **	2019 **	2020 **
Absolute in tons	296,200	202,231	205,814	196,030
Adjusted* in tons	296,200	155,827	154,730	138,644
Reduction of adjusted CO2 emissions compared to 2006	**–**	**–47%**	**–51%**	**–56%**

* Represented with respect to their performance units.
** Introduction of a new CO2 calculation model at Hermes Germany GmbH 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 CO2 emissions in 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.

What we are planning

The challenges and opportunities of our time are great – with our new CR Strategy, we have a sustainable concept for sustainable development ready and waiting. With the seven topic areas, we cover all the important topics for sustainable management at the Otto Group, from the Supply Chain to our Climate Strategy and Digital Responsibility.

ORIENTATION FOR THE FUTURE

The new Otto Group CR Strategy provides the Group companies worldwide with a relevant framework for action. Since the business models are partly very different, we were faced with the challenge of giving a clear orientation despite far-reaching differences. The new CR Strategy, adopted by the Otto Group's Executive Board at the end of 2020, enables the Group companies to integrate sustainability into their respective business models while addressing the biggest challenges.

The strategy consists of seven topic areas and contains long-term "Transformational Goals". Within this framework of action, the Otto Group has identified concrete focus topics for implementation in the coming years for each of the seven goals – our Core Priorities.

As soon as a Group company reaches the relevance threshold of EUR 100 million in external financial year revenues in two consecutive years, the new CR Strategy takes effect: on the basis of the framework for action, a Group company develops a specific action plan for the topics on which its business activities have a relevant influence.

In drawing up specific action plans, the Group companies receive support from the CR holding division of the Otto Group. In addition, there are synergy effects between the Group companies. Our new CR Strategy remains part of the Otto Group's overall strategy.

> **The new CR Strategy gives our Group companies a relevant framework for action in seven topic areas.**

CR STRATEGY TOPIC AREAS

The seven topic areas form the framework of action for our new CR Strategy and are a guiding factor for the Group companies. The "Climate", "Sustainable Materials" and "Supply Chain" areas were already part of the CR Strategy 2020 – here we have set ourselves new goals and will expand our commitment and activities. The newly defined topics are "Circularity", "Empowered Employees", "Conscious Customers", and "Digital Responsibility".

The seven topic areas of the new CR Strategy

Climate
We achieve climate neutrality across our entire value chain

Sustainable Materials
We use sustainable materials in all our products

Supply Chain
We continuously improve social and environmental performance together with our producers along our entire supply chain

Circularity
We apply principles and solutions of the circular economy in our business models

Empowered Employees
We empower our employees to live out and actively shape sustainability

Conscious Customers
We inspire and empower our customers to make conscious and sustainable decisions

Digital Responsibility
We create value-oriented digitization for people and society

● Topic area ○ Transformational Goal

The seven topic areas of the new CR Strategy

Climate

TRANSFORMATIONAL GOAL
We achieve climate neutrality in our whole value chain.

CORE PRIORITIES
One of our priorities is to further avoid and reduce greenhouse gas emissions in our own business. We want to reduce our specific emissions by 40 percent by 2025 compared to 2018. By 2030, we want to have made our own business activities climate-neutral. This area includes our locations, transports, employee mobility, external data centers and cloud services. For example, we will switch from road or air freight to sea freight and rail transport, obtain high-quality certified green electricity or reduce business travel. In the final step, we will compensate for unavoidable emissions with high-quality climate protection projects. In this context, we have entered into an exclusive cooperation with renowned partners from science and nature conservation in order to actively promote the restoration of German and European peatland areas. In addition to the close integration of climate, nature conservation and biodiversity, the project also provides concrete methods and procedures for a permanent reduction of CO_2 emissions from peatland soils and generates its own certificates for compensation in the medium term. In addition, options for the exploitation of other products from peatlands in the sense of a circular economy will be examined in the business operations of the Otto Group.

Supply Chain

TRANSFORMATIONAL GOAL
We continuously improve the social and ecological performance together with our suppliers along our whole supply chain.

CORE PRIORITIES
One of our priorities is to achieve transparency throughout our supply chain, identifying all players at all stages of the supply chain, from raw materials to finished products, worldwide in the long term. On the basis of this, we want to continuously improve social and environmental production conditions in selected focus topics such as chemical management, climate protection, wages, child rights protection or occupational health and safety. In doing so, we focus on the Otto Group's own and licensed brands. In 2021, as a first step, we want to identify several hundred players in our supply chain that were previously unknown and collect information and data on production conditions from them. With the new strategy, we are setting ourselves the great challenge of becoming effective in the deeper supply chain in order to meet our demands for decent working conditions and environmental protection, despite limited options of influence. We are aware that there is still a long way to go – that is why we are relying on a systematic and cooperative approach for continuous and long-term improvements.

Sustainable Materials

TRANSFORMATIONAL GOAL
We apply sustainable raw materials in all our products.

CORE PRIORITIES
By 2025, 65 percent of the fibers used in own and licensed brands are to correspond to our "Preferred Fiber Portfolio". This portfolio includes fibers that have significantly less harmful effects than conventional fibers, as well as recycled materials and animal fibers that respect animal welfare. We will also continue with the 100 percent sustainable cotton target. By 2025, we will also use 100 percent FSC® certified wood for own and licensed brands as well as strategically relevant suppliers and 100 percent sustainable catalog paper for advertising purposes. We will also only use sustainable packaging by 2023.

Circularity

TRANSFORMATIONAL GOAL
We incorporate circular principles and ensure circular solutions.

CORE PRIORITIES
In terms of circularity, we are facing the global challenge of ever-increasing resource consumption. We are on the road to a circular economy in which materials and products can be kept in circulation for as long as possible and recycled in the best possible way. In this transformation, the Otto Group sees an opportunity to rethink existing business models and processes as well as to develop innovative concepts. In addition to intelligent product design, this also includes measures that extend the life cycle of products – for example through repair services, re-commerce, sharing models or the optimization of recycling systems. The first priorities will be defined by the Group companies themselves in the course of 2021 with measures and timetables.

Empowered Employees

TRANSFORMATIONAL GOAL

We empower our employees to experience and actively shape sustainability.

CORE PRIORITIES

Our employees are at the heart of our company and can play an important part in ensuring that we, as the Otto Group, live out to our corporate responsibility with their daily decisions and actions. That is why it is important to us that in 2021 we create transparency for our employees about the activities and commitments of the Otto Group around the topic of sustainability. In addition, we offer opportunities to actively experience sustainability in everyday work and to be able to help shape it – because employees are often closest to our customers and processes and thus to new ideas for sustainable solutions. For us, this also includes internal networking and exchange between the Group companies: For example, in our internal Good Community, in which employees who are interested in the topic of sustainability get involved.

Conscious Customers

TRANSFORMATIONAL GOAL

We enable and inspire our customers to make conscious and sustainable decisions.

CORE PRIORITIES

Our customers are our focus and ethical consumerism has become part of the mainstream, as also indicated in the Otto Group trend study 2020 (see p. 36). We see it as our task to support our customers in making conscious and sustainable decisions. For example, we provide products in our shops with information on sustainability, offer green shipping options and provide inspiration for ethical consumption in everyday life. The framework for this is provided by the strategic topic Conscious Customers, in which we have set ourselves three priorities. The first goal is transparency. We present our positioning on the issue of sustainability, for example on our website, and also obtain information in the opposite direction about the importance of the issue for our customers, for example through surveys. Our second goal is to introduce the labeling of sustainable products at all participating Group companies by 2022. The third goal is to make sustainability visible and understandable at all points of contact with our customers (customer journey). To this end, the Group companies are defining their own focal points and developing holistic communication concepts.

Digital Responsibility

TRANSFORMATIONAL GOAL

We shape a value-oriented digitalization for people and society.

CORE PRIORITIES

We want to seize the opportunities of digitisation while shaping the transformation responsibly in line with our German and European values. To this end, we develop approaches to solutions for our organization and society. At the same time, we as the Otto Group promote cross-societal discourse with the aim of acting together and want to get involved in shaping sociopolitical framework conditions. Moreover it is important for us to work on concrete measures and initiatives in order to meet our claim as a future-oriented organization through successfully implemented transformation and flagship projects. In addition to questions relating to data and security, digital education and the future of work, we are also bringing climate protection and digitization together, for example with a project to survey the carbon footprint in IT. In addition, we have launched the Group-wide initiative TechUcation to give our employees an even better understanding of digitization and to offer learning opportunities. At the turn of the year 2020/21, around 60 percent of active users in the commercial sector in the DACH region had already completed the basic digital course. In addition to the connection of international Group companies, employees in the logistics area will also have the opportunity to receive further training via the platform in 2021.

OUR CODE OF ETHICS

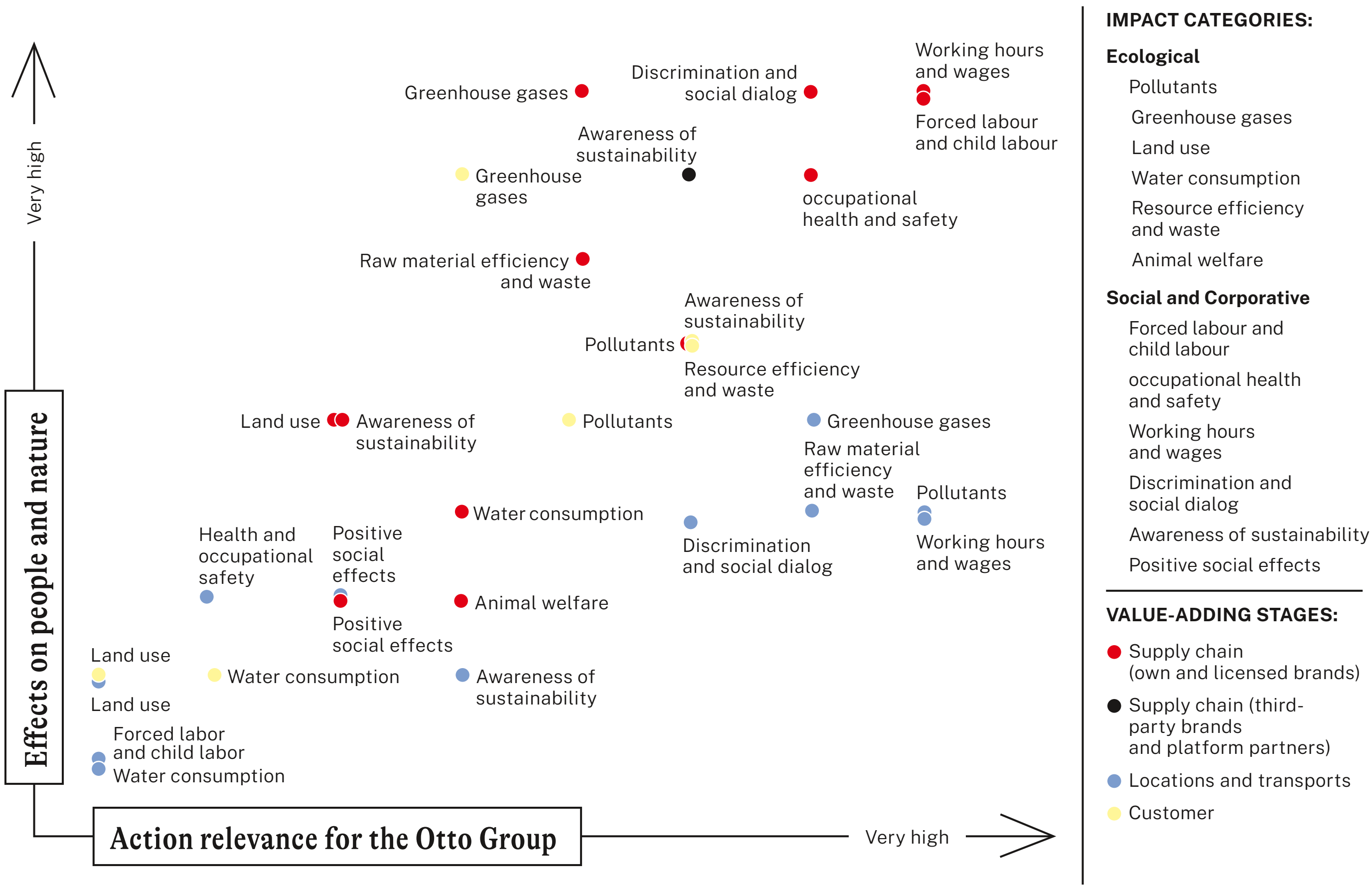
Common values and a corresponding attitude in everyday work are crucial for the successful implementation of our CR Strategy. The collaborative Code of Ethics is our value compass in the Otto Group, which we follow as a family business operating for the long term. These values are deeply rooted in our attitude and set a high standard for our daily thinking and action. The range of values makes it clear that we think about responsibility holistically and involve our entire environment. We are aware of the tension between responsibility and cost-effectiveness and use the Code of Ethics to promote the constant debate about the best possible way forward. All colleagues worldwide are invited to address this compass of values and to join the conversation. The formulated values should help conscious discussion of conflicting objectives and areas of tension in order to find answers and solutions together.

More details about our Code of Ethics: page 10

Key topics for the Otto Group

The CR Strategy of the Otto Group is based on solid analyses and measurements – so we can act specifically where we can achieve the greatest impact. The basis for the strategy development is the materiality analysis. We derived the main priorities of the CR Strategy from the main sustainability topics.

Materiality matrix



The impact on people and nature (vertical axis) consists of the qualitative 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 the possibility of regulation, reputation risk and business relevance.

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 locations 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”.

Due to their high proportion of all goods sold, third-party brands and platform partners have relatively high ecological impacts and have potential for social risks. We have initiated various measures in order to raise our platform partners’ awareness of more sustainable offers and to promote the implementation of our requirements among business partners and brand suppliers too.

Customers are also influential – by purchasing and using the products, they contribute to the ecological and social impact. Their awareness of sustainability is therefore relevant. We address this with the topic “Conscious Customers”. We want to empower our customers to make conscious and sustainable decisions. For example, several of our Group companies label products that we define as sustainable.

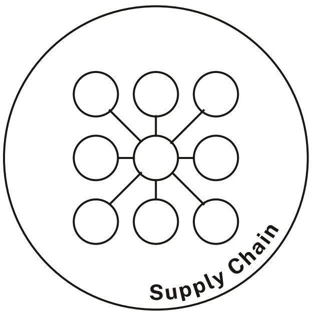
What we implement

From the cultivation of raw materials to production, storage and transport to the customer journey: the Otto Group takes steps at all stages of the value chain to reduce environmental impacts and social risks.

Value-adding Stages

Improvements for people and nature in the supply chain

There are complex social and environmental challenges in the supply chain. The Otto Group implements measures to create positive changes for people and nature. We rely on industry-wide solutions and cooperative approaches.



The Otto Group focuses on the environmentally friendly use of resources in various areas, for example in the procurement of cotton or wood, as well as respect for human rights. However, due to complex procurement structures, we often have little influence on the production process itself. That is why we seek close cooperation with our suppliers and are committed to improvements in the production countries through partnerships and initiatives.

RESPECT HUMAN RIGHTS

The recognition of and respect for human rights are vitally important to us. When implementing and managing human rights issues, we are guided by the UN Guiding Principles on Business and Human Rights. Our Human Rights Declaration expresses our values and attitudes towards human rights and explains how we implement our duty of care.

REQUIREMENTS FOR US AND OUR PARTNERS

With the internal Group Guideline "Sustainability in Procurement", the Otto Group determines the minimum social and environmental requirements for the procurement of goods – it applies to all Group companies. Among other things, the Guideline contains important specifications on the use of animal and textile materials, transparency on production sites and conditions, and requirements for the use of chemicals.

Our external tool for promoting the implementation of social and ecological requirements is the "Supplier Declaration on Sustainability", which the Otto Group uses to confirm that its suppliers comply with these regulations too. It is sent to Otto Group's business partners for commercial goods throughout the Group and draws the attention of our suppliers to the requirements to be observed. The Supplier Declaration is the basis for any business relationship with our suppliers of commercial goods for own brands. For partners on the OTTO platform, the Declaration on Sustainability applies – both Declarations contain all Otto Group sustainability requirements.

WHISTLEBLOWER SYSTEM FOR ANONYMOUS MESSAGES

As a responsible company, we want to fulfill our human rights due diligence obligations – an important part of this is an effective and trustworthy complaints mechanism. Whether employees, factory workers or customers – all those who are in contact with the Otto Group are called upon to report possible grievances.

There are several points of contact that carefully deal with the complaints received. You can contact the Otto Group ombudsman in confidence and since 2020 we have also launched a digital whistleblower portal that can be used anonymously and in a range of different languages. External complaint mechanisms are also used: for example, we use the amfori Grievance Mechanism. No complaints about human rights violations have been sent to us via this in 2020. We also use the Accord on Fire and Building Safety in Bangladesh Complaints Mechanism, which has received five complaints concerning factories operating for the Otto Group. Furthermore, of course, we also follow up on all other messages that reach us through other channels and players.

As an active member of the amfori "Supply Chain Grievance Mechanism" project group, we also work on the aim of establishing an industry-wide grievance mechanism and improved access to it for those potentially affected.

SUSTAINABLE COTTON INITIATIVE

For the Otto Group, the textile supply chain is an important focus of its sustainability management. We have almost achieved the goal of our previous strategy of using 100 percent sustainable cotton - we have hit 98 percent. The vast majority of this cotton comes from the Cotton made in Africa initiative, an internationally recognized and leading standard for sustainable cotton from Africa. The initiative of the Aid by Trade Foundation founded by Prof. Dr. Michael Otto is aimed at improving working conditions in cotton fields and ginning operations and contributing to environmental protection. Among other things, CmiA offers training and is committed to the rights of children. The initiative excludes genetically modified seeds, the clearing of primary forests, artificial irrigation and certain pesticides that are classified as particularly dangerous under international conventions. In 2020 around one million small farmers in ten African countries benefited from the initiative. They produced almost 630,000 tons of cotton according to the CmiA standards, of which the Otto Group purchased an equivalent amount of 35,829 tons according to the mass balance system.

In order to ensure comprehensive transparency and traceability, the Aid by Trade Foundation, in cooperation with the Otto Group, developed the new CmiA tracking system "Sustainable Cotton Tracker" (SCOT) and successfully launched it on the market in January 2021. For the first time, all companies in the textile supply chain are included in the CmiA tracking system – from cotton dealers to spinning and fabric producers to suppliers or importers.

PORTFOLIO OF PREFERRED FIBERS

In our new CR Strategy, we will continue the goal of 100 percent sustainable cotton. By 2025, a total of two-thirds of the fibers used in own and licensed brands will come from our "Preferred Fiber Portfolio", which we defined Group-wide in the reporting year and which is constantly evolving. In the respective fiber categories, we systematically select sustainable alternatives that have at least 30 percent less harmful effects compared to conventional fibers, that are made of recycled material or that take animal welfare into account. The portfolio is based on market standards such as Textile Exchange and the Higg Material Sustainability Index of the Sustainable Apparel Coalition. The long-term goal of our new CR Strategy is to use only sustainable raw materials for our own products.

TOGETHER FOR BETTER WORKING CONDITIONS

The Otto Group believes that many challenges can only be met by working hand in hand with others. This is why 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, the amfori BSCI initiative, the Sustainable Textiles Alliance and a recent donation project for Save the Children are of particular relevance to us.

As a member of the Partnership for Sustainable Textiles, the Otto Group, together with other companies and the Federal Ministry for Economic Cooperation and Development, has been committed to improving conditions in global textile production for several years. The Otto Group is active in the Partnership Initiatives Chemical and Environmental Management and Tamil Nadu, as well as in the Peer Learning Group on Responsible Purchasing Practices. The Tamil Nadu Initiative aims to improve working conditions in the textile and clothing industry in the Indian state, especially in spinning mills. Changes are to be initiated on two levels: dialog between the main players in the local textile industry is intended to raise awareness of the rights of workers. In addition, a training program will accompany the planned establishment of complaint centers in up to 200 spinning mills and inform workers and management alike about labor rights and complaint mechanisms.

GAIN TRANSPARENCY

With our Social Programme, we want to gain transparency about working conditions in our supply chains, while at the same time supporting our business partners and their factories in complying with human rights and continuous improvement. As a first step, suppliers must tell us the name of every factory producing for the Otto Group and submit a valid and accepted social audit. We accept amfori BSCI audits, SA8000 certificates, and our own Otto Group Assessment. This obligation applies to all suppliers of our own and licensed brands producing in risk countries (pursuant to amfori BSCI classification). The majority of our production takes place in China, Turkey and India (see chart p. 34). We are ending cooperation with suppliers who do not guarantee to fullfill the requirements.

With our new CR Strategy, we aim to make social and environmental production and working conditions more visible and improve them - along our entire supply chain.

SUPPORTING AND EMPOWERING FACTORIES

“EMPact” stands for the Otto Group’s capacity building programme. It links the empowerment of our suppliers with the resulting act. The goal is to raise awareness and impart knowledge with a collaborative approach. With on-site workshops and training measures, online training and practical implementation tips, we were able to support our factories producing for the Otto Group in improving their working and production conditions along the value chain. The factories are currently being offered trainings focusing on social responsibility, occupational health and safety, and chemical management within the supply chain.

With “EMPact Social” we support the production facilities in implementing social management systems – we have been offering factory training in our main production countries for several years.

Worldwide support for factories through on-site training was challenging in the reporting year due to the COVID-19 pandemic. The Otto Group therefore redesigned its established training program that runs over several months with group workshops usually lasting a day and individual factory visits. In-person events were converted to digital workshops and supplemented by interactive elements. Despite the pandemic, it was also possible to hold some in-person events in China and Turkey, while in India and Pakistan the trainings were completely digital. In total, we provided training support in this way for 41 factories in 2020.

CAREFUL USE 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. 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. Last year we were able to successfully carry out three training programs with different focuses.

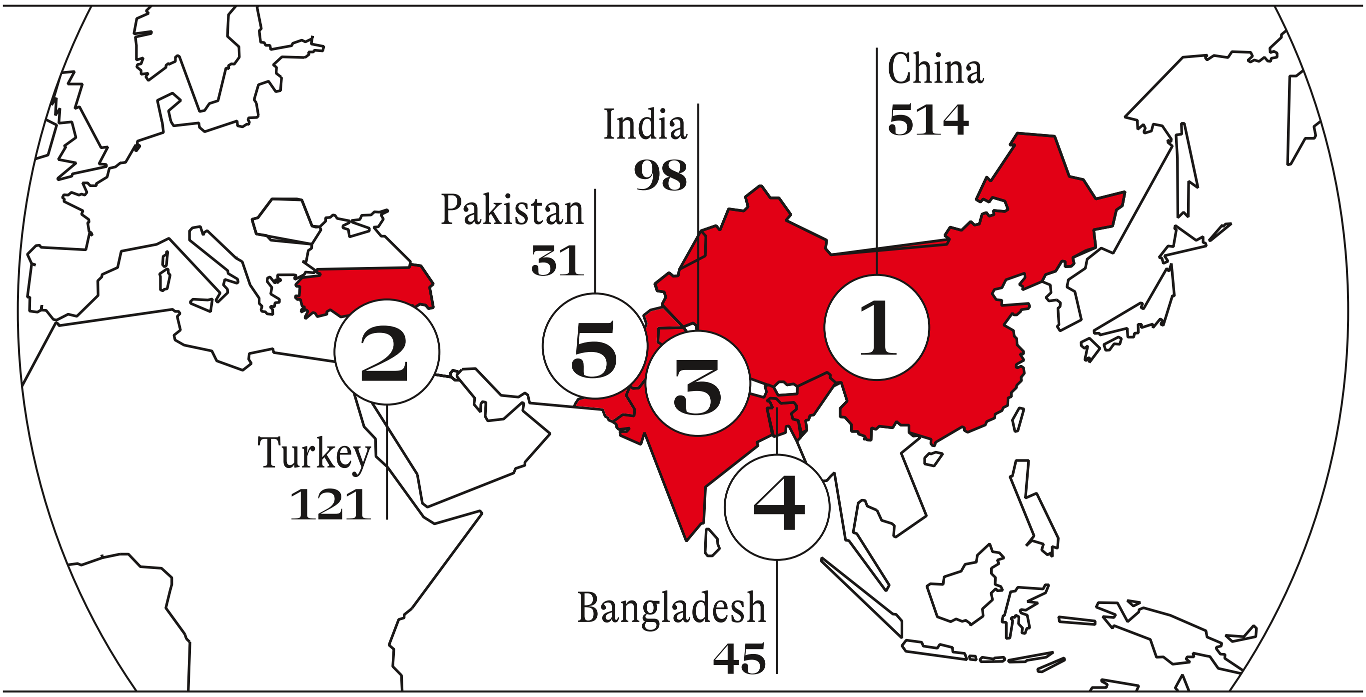
The qualification program “EMPact Detox” offers factories with wet processes a free support offer with workshops and factory trainings on site to improve chemical management.

In addition, we have developed a specific training program, which started at the beginning of 2021 with about 30 factories: it is designed to enable wet-processing plants to monitor the chemicals used and gradually replace hazardous chemicals.

As a member of the Partnership for Sustainable Textiles, the Otto Group, together with other corporations, also carried out a comprehensive training program (Advanced Trainings on Chemical Management) at factories with wet processes in China and Turkey.

Due to the restrictions resulting from COVID-19, it was much harder to plan the training sessions in 2020. Some workshops took place digitally, on-site visits were postponed and training groups had to be canceled altogether. Nevertheless, we were able to support a total of about 50 factories in China, Bangladesh and Turkey in the responsible use of chemicals in textile production.

Number of factories in the main producing countries*

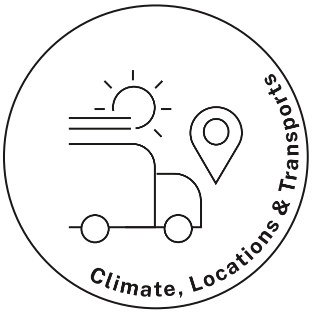


The map shows the active final production factories of the Otto Group companies Bonprix, OTTO, myToys, Heine, Schwab and/or Witt Group for all own brands & all product groups. Note: only factories that are located in so-called risk countries as classified by amfori BSCI are shown.

Details and continuous updating on the website here: https://www.ottogroup.com/de/verantwortung/supplyChain.php

Living Responsibility: Climate, Locations & Transports

Whether for procurement transports, the operation of our locations or the dispatch of goods: at this stage of the value chain, the Otto Group can have a major influence on the reduction of its CO_2 emissions. In addition, we also pay attention to the conservation of resources and compliance with social standards during transport.



REDUCING CO_2 EMISSIONS

On the topic of climate, we have achieved the target of the previous CR Strategy – in 2020, the reduction in CO_2 emissions compared to the base year 2006 was -56 percent. This is mainly due to higher energy efficiency in all areas. Around 40 percent of the operations of the German Group companies is powered by green electricity, and by 2025 this share will be 100 percent. Our new goal of being climate neutral in our own business activities as well as in external data centers and cloud services by 2030 is primarily to be achieved through concrete measures to reduce and prevent CO_2 emissions.

A pioneering project within the Otto Group is the “Carbon Footprint” project of the Group-wide IT sector, which has been climate neutral since February 2021. For this purpose, Otto Group IT recorded its current CO_2 emissions, including that produced by IT equipment. Emissions were initially reduced and any remaining were offset by high-quality compensation.

The individual Group companies implement various measures to reduce emissions. Since the beginning of 2021, for example, Baur uses 100 percent green electricity at all of its own locations, and Unito delivers all of its customers’ last-mile orders in a CO_2-neutral manner - among other things, by working exclusively with logistics partners to whom the reduction of CO_2 emissions is just as important as to Unito; CO_2 emissions that cannot be avoided in the short term are offset via selected projects. With its “Urban Blue” strategy, Hermes Germany aims to deliver shipments and returns in the inner-city areas of Germany’s 80 largest cities emission-free by 2025 – also with the help of electric cargo bikes.

Together with the University of Hamburg and the Group companies Bonprix and Witt Group including Heine, we have launched a project to highlight even further potential for CO_2 savings across our value chain. Among other things, we are working intensively on the science-based climate goals of the “Science Based Targets” initiative.

ENVIRONMENTAL MANAGEMENT AT SITES

The Otto Group companies 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. Currently, 21 of the facilities covered use an ISO 14001 certified Environmental Management System.

PACKAGING: CAREFUL USE OF RESOURCES

When it comes to packaging our online goods, we also have an important lever to conserve resources. The Otto Group develops solutions for packaging optimization on various levels. For example, OTTO’s current shipping bags consist of 80 percent recycled plastic and bear the Blue Angel eco-label. The cartons also consist of at least 80 percent recycled material and are FSC® certified. In the reporting year, the Group company also launched a pilot project with the Hamburg start-up Wildplastic with shipping bags produced from plastic waste collected on beaches in India and Haiti.

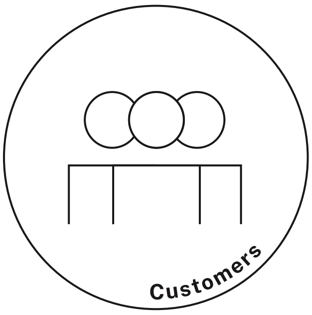
SOCIAL STANDARDS FOR PARCEL DELIVERY

Ensuring satisfactory working conditions for parcel carriers employed by subcontractors is a major challenge for the entire courier, express and parcel (CEP) industry. High social standards are a prerequisite for Hermes Germany in its cooperation with its service partners in the delivery sector.

To meet these requirements, the corporation operates a comprehensive audit system in cooperation with the SGS Germany audit group and additionally the DQS certification corporation. Hermes service partners are audited on a regular basis. The focus of these audits is on employment conditions and subcontractor management. Among other things, this includes 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. Hermes carried out 562 audits at 368 service partners in the reporting period. Within the framework of the established whistleblower system, we also followed up on the matter with our own forensic audits. Despite the Corona pandemic and the associated restrictions, 100 percent of Hermes service partners were audited during the fiscal year.

Encouraging sustainable consumption

The Otto Group uses various measures to raise its customers' awareness of sustainability throughout the customer journey.



Sustainability has arrived at the heart of society – this is also confirmed by the current trend study on ethical consumerism by the Otto Group. For the study, the results of a survey of 1,149 Germans between the ages of 14 and 70 were combined with perspectives from trend research. 70 percent of respondents say that ethical criteria have become an integral part of their purchasing decision. In addition, 82 percent of respondents are in favor of longer product life and higher material efficiency.

The results confirm that the Otto Group's new CR Strategy addresses topics that are also of great importance to consumers. We want to enable customers to make conscious purchasing decisions and enable them to live a more sustainable lifestyle – for example, by providing information on our websites and labeling sustainable products.

PROMOTE CONSCIOUS PURCHASING DECISIONS

In the future, the Otto Group intends to further strengthen awareness of sustainability along the entire customer journey and has set itself a goal for this as part of the new CR Strategy – we want to empower and inspire our customers to make conscious and sustainable decisions. The Group companies are getting involved along the various points of contact of the customer journey – from initial interest to research, product selection, purchase and after-sales services.

NEW BRAND FOR CONSCIOUS SHOPPING

With its new own brand OTTO products, OTTO is focusing on conscious shopping and the use of sustainable raw materials. The brand sets itself high standards to reduce negative social and environmental impacts along the supply chain and to strengthen positive effects. Among other things, it relies on GOTS certified organic cotton or recycled fibers.

SECOND-HAND FASHION

In our topic area circularity, we want to offer more solutions in the future that extend the life cycle of products. The brand About You already integrates second-hand partners on its platform and offers its customers a large range of checked second-hand products with the Second Love category.

LABELING OF PRODUCTS

The criteria for the labeling of "responsible products" follow an evaluation logic that applies throughout the Group. We make sure that the products show a significant improvement compared to a conventional product in at least one stage of the product life cycle. In addition to assessing the sustainability requirements of the products, it is also essential for us to ensure this claim as well as transparency and traceability. Recognized and ambitious labels play a key role in this.

The Group companies use different approaches to labeling sustainable products. For example, products are labeled "sustainable" on the OTTO platform if they show a significant and measurable improvement compared to conventional products in one of the categories "Sustainable Raw Materials", "Environmentally Friendly Production", "Energy Efficient Use" or "Recyclable Design". These categories are made directly visible to customers on the product details page, while the in-depth information for interested customers can be found with a few more clicks. By 2022, all Group companies integrated into the CR Strategy will have introduced the labeling of sustainable products.

Figures of the Otto Group

Group Management

Report

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 49,895 employees and sales of EUR 15.6 billion in the 2020/21 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 9.9 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, consumer electronics, sports and leisure products as well as DIY product ranges for renovations and gardening.

Multichannel Retail

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

* Investment companies

The **Financial Services** segment comprises the Otto Group's international financial services offering. 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. Through its many Group companies, it offers a range of different services in the area of receivables management.

Financial Services

Cofidis*	Hanseatic Bank*
EOS Group	Hanseatic Versicherungsdienst (HVD)

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 that encompass the entire logistics value chain – from transport to warehousing through to delivery to private and business customers – and are thus key players in this segment. Since 30 November 2020, the Hermes Group's parcel distribution business in Germany and the United Kingdom is being further advanced and developed through a partnership with Advent International as an additional shareholder.

Services

Baur Fulfillment	Hermes Germany*
Girard Agediss	Hermes Parcelnet*
Hermes Einrichtungs Service	Mondial Relay
Hermes Fulfilment	Otto International

* Investment companies

The Otto Group's portfolio is composed of various 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. OTTO is focusing on the continued expansion of its e-commerce platform business. In the 2020/21 financial year, online sales account for approximately 96% of OTTO's revenue (2019/20: approximately 94%).

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. Home and living products complement the wide range of existing products, which are primarily aimed at the female target group. The bonprix brand is being further developed into a strong international fashion brand. Online sales account for approximately 88% of the bonprix Group's revenue in the 2020/21 financial year (2019/20: approximately 87%).

The **Crate and Barrel Group** offers international houseware, furniture and home accessories for sophisticated tastes in the North American market. Apart from the Crate and Barrel brand, the Group also operates the CB2, Crate&kids and Hudson Grace brands. 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 68% of revenue in the 2020/21 financial year (2019/20: approximately 49%).

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 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. In the 2020/21 financial year, Advent International acquired 25% of the shares in Hermes Germany GmbH in Germany and 75% of the shares in Hermes Parcelnet Limited in the United Kingdom with effect from 30 November 2020. The corresponding companies and their subsidiaries have since been included in the consolidated financial statements using the equity method.

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 97% of revenue in the 2020/21 financial year (2019/20: approximately 96%).

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 120 retail stores in Germany. Online sales account for approximately 35% of revenue in the 2020/21 financial year (2019/20: approximately 33%). This already includes online sales for the heine brand, which following the completion of the ongoing integration process, 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 shared their vision: "Responsible commerce that inspires". This vision highlights the importance of sustainable retail in combining social and environmental responsibility with the achievement of business success.

In conjunction with shareholders' business mandate, this shareholder vision sets the framework and guiding principles that are to be used to develop and implement the Otto Group's sustainably profitable business models. "Together we set standards" is one of the guiding principles of a collaborative mission statement devised in 2017 and forms the strategic cornerstone of the Otto Group.

"Responsible commerce that inspires" thus reflects the course of direction set by the shareholders, which, together with the mission statement, provides the framework for the Otto Group's strategic development. This framework is further developed as part of the "Otto Group Path". The Otto Group Path describes the growth journey that has been undertaken by the Group since 2017. It defines strategic goals, establishes areas of focus for all Group companies of the Otto Group and provides a framework for both the portfolio strategy and the strategy for compliance with social and environmental responsibility (currently referred to as the Corporate Responsibility Strategy 2020).

The overarching goal of the Otto Group Path is to achieve revenues of EUR 17 billion by the 2022/23 financial year [1] (on a comparable basis). In the past financial year, this goal was already achieved by the Otto Group ahead of schedule. To facilitate comparison, the revenue that was reported in the consolidated income statement for the 2020/21 financial year was added to the revenue from the operating subsidiaries of ABOUT YOU Holding AG (previously ABOUT YOU Holding GmbH until 29 March 2021), which are recognised using the at-equity method, as well as the revenue of the Group companies Hermes Germany GmbH and Hermes Parcelnet Limited, which have also been included in the interim on an at-equity basis. The goal of increasing profitability over the same time period was also achieved ahead of schedule. The goals of the CR Strategy 2020 were also largely achieved.

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

This strong position provides an opportunity to consciously further develop the Otto Group Path with a view to capitalising on the financial stability of the Otto Group to strengthen its future strategic direction and to set new, ambitious goals. For the new Otto Group Path, a medium-term planning period has been defined, alongside the announcement of sustained, dynamic growth in revenue with higher levels of profitability. Through targeted investment in establishing and developing new and existing business models, the Otto Group is setting its sights firmly on the future while also ensuring that it has the flexibility that will be needed thanks to consistently strong credit metrics and a solid capital structure. Furthermore, with the new Corporate Responsibility strategy – hereafter referred to as the CR Strategy–, the Otto Group is continuing to set itself demanding sustainability goals and has committed, among other things, to achieving carbon neutral status by 2030.

To achieve this, the new Otto Group Path places special emphasis on the code of ethics as a value-driven compass that will guide everyone in the Group in the process of improving operational excellence. It also focuses on driving cultural change with courage and passion, which it views as a basic requirement for achieving flexibility and sustainable performance.

In addition, a clearly defined portfolio strategy is used as the basis for developing a strategic framework for action for the segments of the Otto Group – namely, Multichannel Retail (with special emphasis on online retail), Financial Services (in particular receivables management) and Services (primarily logistics).

Within these three segments, the Group is pursuing a targeted growth strategy. Targeted investments are being made in market-relevant business models and in Group companies with potential to achieve particularly strong performance with regard to yield while simultaneously maintaining high growth levels. Strong portfolio management and other control mechanisms will ensure that the goals of the Otto Group Path are transferred to the Group companies and thus tightly interlinked. 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 to pursue this strategic direction.

Its portfolio management strategy is aimed at strengthening the Otto Group's financial performance, for which the debt service ratio (net financial debt/cash EBITDA) and the debt to equity ratio (net financial debt/ Group equity) are seen as primary indicators of financial performance. Both the debt service ratio and the debt to equity ratio were reduced significantly in the past financial year.[2]

To ensure strong performance in the long term, the Otto Group continuously assesses the profitability and future viability of each individual Group company. For all strategies implemented in the individual segments, the Otto Group also ensures that targeted investments are made in future-oriented business models, technologies and competencies as well as in increasing the Group's reach through expansion (in new markets, for example).

Increased readiness to invest has also helped to drive innovation within the Otto Group, which is a requirement for implementing new business ideas and concepts and for developing new sources of revenue. In order to further diversify the Group's portfolio, M&A opportunities are also assessed on an ongoing basis and fed into the portfolio strategy's investment focus as a means of expanding the Group in a non-organic way.

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 continues to focus on two main areas here: Firstly, the change in the business model of the Group company OTTO from a pure online retailer to an e-commerce platform, which has received heavy investment, and the further development of the important retail platform About You are a top priority; and secondly, efforts to expand and grow vertical brand concepts are continuing. Notable players here include the internationally active brands bonprix, Witt, and Crate and Barrel. This focus will help the Group to continuously strengthen its profile in the key focus areas of fashion and home & living.

As part of the further development of OTTO as an e-commerce platform, in addition to the realignment of business processes, OTTO Retail Media was established in April 2020 as the new marketing unit within OTTO (previously Otto Group Media GmbH). In parallel, the retail platform has been updated to allow the automated onboarding of new partners. In addition, in September 2020, a new company was established for processing payments on otto.de – PEG-Payment Entwicklungsgesellschaft mbH. In future, this will allow customers and marketplace partners to benefit from competitive payment services from a single provider.

As part of the growth strategy for About You, expansion has continued steadily, and the opening up of new sales markets in Estonia, Latvia, Lithuania, Slovenia, Croatia, Bulgaria, France, Spain, Italy, Denmark, Finland, Sweden and Ireland during the 2020/21 financial year initiated new sales in other attractive target regions across Europe. Furthermore, the introduction of the new "Second Love" re-commerce brand marks a further step towards achieving a responsible, inspirational e-commerce platform.

For all of the Otto Group's retail brands, the focus is on systematically advancing ongoing transformation efforts aimed at strengthening digitisation, establishing a future-proofed competitive position and increasing

[2] During the 2020/21 financial year, calculation of the key performance indicators for "Financial services based on the equity method" was switched to the holistic Cash EBITDA approach. For more information on the new calculation method and the development of these financial performance indicators during the 2020/21 financial year, refer to the "Credit metrics" section.

operational excellence with a focus on customer experience. This includes more personalised offerings and a clear focus on establishing a competitive, inspirational customer journey with special emphasis on the use of various end devices for retail transactions.

For Group companies without long-term prospects within the Otto Group, efforts are being made via portfolio management to find long-term solutions outside the Company group. In this context, Group company Otto Japan Inc. was sold to Legego Inc. as part of a management buy-out that took effect on 31 July 2020. The buyer is permitted to continue using the brand name for now and intends to continue all existing contracts with third parties. All of Otto Japan's some sixty employees will also be kept on.

FINANCIAL SERVICES

The Otto Group's strategy in the Financial Services segment is primarily focused on ensuring the responsible development of its receivables management business in Germany and internationally. The focus here is the EOS group. As a leading financial services provider, the EOS group prioritises investment in secured and unsecured receivables portfolios as well as in property. In the past few financial years, services in these areas have been systematically expanded and successfully launched in 26 countries.

According to the assessment of the Group Executive Board, the Otto Group's Financial Services segment, supported by strong investment in continued growth and digitisation and characterised by professionalism and a fair and responsible offering, will also help to create a positive market differentiator in the future and thus make a significant contribution to the profitability of the Otto Group.

In order to advance the further integration of innovation functions into operations, it was decided on 14 October 2020 to move certain activities of some companies within the Otto Group Digital Solutions group – hereinafter OGDS group – closer to the operational core of the Group's various business models. The restructuring measures that were implemented will put an end to independent company-building activities and integrate selected projects into the overall OTTO Group company. Otto Group Digital Solutions GmbH remains the parent company and continues to manage its portfolio companies. Strategic options for these companies will be examined in the coming months.

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. Apart from 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 sector, in which the Group operates successfully across Europe's largest e-commerce markets, the two-man delivery sector, in which HERMES Einrichtungs Service GmbH & Co. KG in Germany and GIRARD AGEDISS in France are clear market leaders, as well as warehousing, where Hermes Fulfilment GmbH plays a key role in the Otto Group's retail activities.

In the parcel distribution sector in particular, a clear leadership position has been established in recent years in the three largest European e-commerce markets of Germany, France and the United Kingdom, just behind the formerly state-owned companies in these countries. In the past financial year, strong growth in these core markets led to a record total of over one billion parcel deliveries.

In order to lead the way in this particularly dynamic market environment through even greater levels of innovation and an even higher-quality service undertaking for the Hermes Group's business partners, the Otto Group has decided to initiate wide-reaching measures aimed at focusing and restructuring its distribution business. The parcel distribution business in the United Kingdom and in Germany will be further developed with Advent International as a strong partner. To this end, Advent International purchased 25% of the shares in Hermes Germany GmbH and 75% of the shares in Hermes Parcelnet Limited in the United Kingdom during this past financial year. The corresponding companies and their subsidiaries have since been included in the consolidated financial statements using the equity method. Furthermore, plans to sell 100% of the shares in MONDIAL RELAY in France to the international parcel services provider InPost S.A. were announced at the start of the 2021/22 financial year. A corresponding agreement has been signed. The planned transaction is still awaiting approval from the relevant anti-monopoly authorities.

To further refine this focus, the future growth in B2C parcel delivery volumes in Germany will be achieved by Hermes Germany GmbH exclusively. Activities at LieferFactory GmbH were discontinued on 28 February 2021.

In the B2B area, other transformation measures were initiated and strategic decisions made in relation to the new structure so that growth is achieved under the umbrella of the Hermes Fulfilment group while also ensuring long-term competitiveness. This saw the opening of a new warehouse facility in Ansbach in spring 2020. With the long-term goal of ensuring the cost-effective pooling of order processing volumes in eastern Europe, it was also decided to close down the returns facility in Hamburg-Bramfeld, which is to take effect in the second half of 2021. Faced with increasingly international competition, a rapidly changing environment and intense cost pressures, this important step was necessary to ensure a competitive and financially sustainable direction for this Group company.

In terms of supply chain services, the 2020/21 financial year was characterised by highly volatile changes in volume and a lack of transport capacity, especially in sea and air freight. Longstanding supplier relationships helped to limit the negative impact of this on transit times and pricing. Within this business segment, the Group's service provider for quality assurance and product safety, the Hansecontrol Group with headquarters in Hamburg, was also sold to Qima, a leading global provider of supply chain compliance solutions based in Hong Kong, with effect from 31 December 2021.

CR STRATEGY

The Otto Group's Executive Board is convinced that sustainability is the foundation of long-term economic success in business. It is for this reason that both the existing CR Strategy 2020 and the new CR Strategy are an integral part of the Otto Group Path. With this new CR strategy, the Otto Group is setting itself ambitious goals and actively meeting the constantly growing CR requirements. Among other factors, this is as a result of the growing awareness of sustainability at a societal level and an increasing need for action in relation to topics such as climate change, biodiversity, human rights and digitisation. 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.[3] The new CR Strategy, which was rolled out across the Group in the 2020/21 financial year and officially implemented in March 2021, expands the topic portfolio to include the following: Climate, Sustainable Materials and the Supply Chain as a further development of the current goals; Circularity, Empowered Employees, Conscious Customers 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. For each topic, a transformational goal has been defined and core priorities established (time-based, specific, quantitative and qualitative goals). The new CR Strategy focuses on essential principles of cultural change that form a vital basis for the success of the Otto Group's endeavours. It aims to achieve visibility regarding CR-related topics across all hierarchical levels and divisions, open up scope to allow Group companies to formulate their individual contributions to Group-wide goals and promote networking and collaboration within the Otto Group, so that Group entities can learn from each other and develop solutions together.

Economic Environment

OVERALL ECONOMIC ENVIRONMENT

Global economic development in 2020 was significantly influenced by the impact of the worldwide coronavirus pandemic. Following a sharp drop during the first half of the year as a result of the pandemic, economic growth picked up during the second half of the year and despite a further spike in infection rates due to the coronavirus, actually finished slightly above pre-crisis levels by the end of the year. Overall, however, 2020 saw a drop in gross domestic product – hereafter GDP – of – 3.3% when adjusted for inflation, which falls significantly short of the previous year's figure of + 3.0%. All advanced economies recorded an economic downturn. Economic development in emerging countries was especially characterised by high levels of volatility during the year. Unfavourable international trade at the start of 2020 had a negative impact on development in these countries. Russia also recorded an economic downturn. The economic pickup that occurred in the second half of the year varied significantly according to geography. While emerging countries in particular succeeded in making up a lot of ground, many advanced economies, especially in Europe, remain significantly below pre-crisis levels. This is because areas of the economy in which there are intense levels of contact are still experiencing the significant adverse effects of infection control measures, while industrial production and international trade have already largely recovered. Taking the 2020 financial year as a whole, international trade contracted significantly as a result of high levels of uncertainty with the result that international trade volumes recorded a significant drop of – 5.4% (2019: – 0.4%).

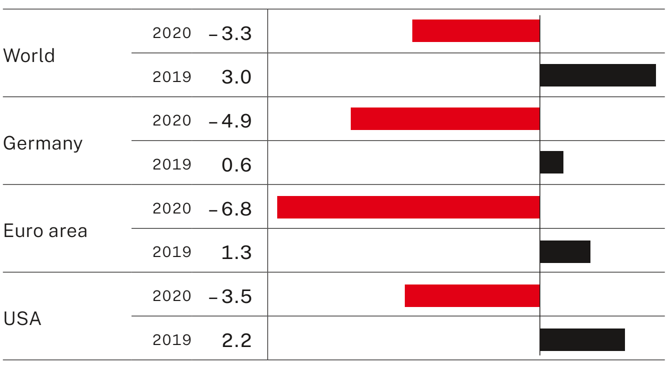
In the **German economy**, economic output declined in 2020. Compared to the previous year, there was a significant change in real GDP in the order of – 4.9% (2019: + 0.6%). After a sharp drop in real GDP during the first two quarters followed by a strong increase in the third quarter, overall economic output had stagnated at the end of the year. The main factor in the decline in overall economic development was weak consumer spending due to the infection control measures put in place to combat the coronavirus pandemic. Areas of the economy in which there are high levels of direct consumer contact were especially heavily impacted by this. As private households were unable to spend as they normally would, savings rates increased significantly. The state-run tax-transfer system, which had a massively stabilising effect on private disposable incomes, also played a role here. After increasing steadily for many years, employment levels have started to fall again. There was also a decline in real wages. In contrast to previous years, economic losses are concentrated more heavily in consumer-related service industries and in retail. However, industrial activity and associated company-related services also declined. Compared to the previous year, there was less momentum in corporate investment activities, which experienced a sharp drop. Foreign trade developed modestly and, overall, did not make a positive contribution to overall economic development. Exports fell significantly compared to the previous year, with export growth declining across all sales regions. This is mainly attributable to weak international trade.

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

In the **Euro area**, economic development in 2020 also recorded a sharp drop in comparison to the previous year. This was reflected in a change of real GDP in the order of – 6.8% (2019: + 1.3%). When compared with the previous year, there was a drop in overall economic development across all Euro area countries. A clear North-South divide was also in evidence whereby the losses experienced by countries to the south of the Euro area such as Spain were considerably more dramatic. This is mainly due to reduced consumer spending by private households, especially in areas of the economy where there are high levels of consumer contact. The decline in corporate investment activity is also a factor. Private households were exposed to declining real wages and falling employment levels. Net exports continued to experience a further slight drop, with both imports and exports declining sharply. The sustained growth that had been seen in the labour market since mid-2013 came to an end, and was marked by a rise in the annual average unemployment rate to 7.9% (2019: 7.5%). When considered as a whole, economic expansion in the **European Union** countries outside the Euro area also declined sharply. However, in countries in central and eastern Europe, such as Poland, the economic downturn was less pronounced than it was in the European Union on average. In the **United Kingdom**, economic development experienced a strong decline. In addition to the coronavirus pandemic, the United Kingdom's departure from the European Single Market also had an adverse impact here.

In the **USA**, overall economic development also suffered a sharp decline in 2020 and was characterised by an inflation-adjusted change in GDP of – 3.5% (2019: + 2.2%). In comparison to the previous year, there was a drop in private consumer spending. Unlike in previous recessions, real disposal incomes rose, which led to an increase in savings by private households. Corporate investment activity also contracted sharply, which had a very negative impact on economic development overall. In the USA, the labour market experienced strong volatility midway during the year but finished in a considerably stronger position at the end of the year. Despite this, the average annual unemployment rate rose to 8.1% (2019: 3.7%). Viewed as a whole, foreign trade did not provide a positive stimulus in 2020 either, as exports experienced a stronger decline than imports.

Change in real GDP
(in %)



SECTOR-SPECIFIC ENVIRONMENT

MULTICHANNEL RETAIL

In 2020, the German retail sector was particularly influenced by the outbreak of the coronavirus pandemic and the various developments that accompanied this. The overall economic environment in Germany was significantly dampened by a significant drop in real GDP. The sustained increase in employment seen over the previous 14 years ended in 2020 with the number of those employed dropping by 1.1% to 44.8 million. Real wages, which had recorded a further increase of 1.2% the previous year, declined by 1.0% in 2020. The average rise in consumer prices in 2020 was 0.5%, which is significantly below the annual rate of inflation for the previous year. Against the background of this overall economic development, consumer spending by private households in 2020 dropped by 6.1% after adjustment for inflation (2019: + 1.6%). A strong temporary increase in savings rates also had an impact here. This was mainly a result of prevailing uncertainty and the accompanying decline in consumption, and the fact that some of the usual consumer spending could not take place due to infection control measures or because it was viewed as too risky. This resulted in an increase in accumulated purchasing power. The decline in private consumer spending primarily affected goods and services that were directly impacted by infection control measures. This was the case for leisure, entertainment and culture as well as accommodation and restaurant services, for example. In contrast, private household demand for durable consumer goods rose sharply as a result of the significant shift between economic sectors, among other factors. It was also supported by the temporary reduction in VAT in the second half of the year. In particular, there was strong growth in consumer spending on furniture, furnishings and household appliances.

In spite of the sharp drop in private household consumer spending overall, the **German retail sector** as a whole recorded a nominal increase in revenue of 5.6% in 2020 compared to the previous year as a result of the significant shift between the different economic sectors (2019: 3.8%). Adjusted for inflation, this corresponds to a rise of 4.4% (2019: 3.2%). This means that for the eleventh year in a row, and despite the coronavirus pandemic, German retailers recorded both nominal and inflation-adjusted revenue increases compared to the previous year.

The **German online and mail-order sales sector** increased its sales of goods in 2020 significantly by 13.4% to EUR 84.4 billion (2019: EUR 74.4 billion). In the **e-commerce sector** in particular, an above-average increase in revenue of 14.6% was recorded (2019: 11.6%), with sales of goods in pure online business amounting to EUR 83.3 billion (2019: EUR 72.6 billion). When viewed as a whole, commodity-based e-commerce in Germany has now grown by approximately 58% since 2016. Clothing remained the best-selling class of products in 2020 in the e-commerce sector – followed by electronics and telecommunications products, computer equipment and games, and software products. A very significant sales increase of 16.1% was recorded for product ranges in the furnishings sector, with sales of household goods and appliances, furniture, lights and decoration, and home textiles amounting to just under EUR 12.7 billion for the first time in 2020.

Internet usage via smartphones and tablets remained high in 2020. In terms of sales, the percentage of goods orders placed via the mobile Internet in the German e-commerce sector amounted to 32.9% in 2020, which is broadly comparable to the previous year (2019: 33.5%). It is likely that the reduced mobility of private consumers as a result of infection control measures had an impact here.

FINANCIAL SERVICES

The performance of the German economy in 2020, which was heavily influenced by the pandemic and a significant reduction in overall economic output, also had an impact on the **German financial services sector**. However, despite the difficult economic environment, there was no increase in the number of company or consumer insolvencies. Suspension of the obligation to file for insolvency, which was announced by German legislators and effective from 1 March 2020 to 30 September 2020 for insolvent or over-indebted companies, and again from 1 October 2020 to 31 December 2020 for over-indebted companies, has had the effect of dramatically reducing the number of company insolvencies filed in 2020. In comparison to the previous year, the number of company insolvencies fell by 15.5% to 15,841 (2019: 18,749). The number of company insolvencies has therefore fallen for the eleventh time in a row, and in the past year it reached its lowest level since the introduction of the German Insolvency Code in 1999. Nevertheless, creditors' claims arising from filed company insolvencies rose significantly to EUR 44.1 billion (2019: EUR 26.8 billion) and the average claim amount per insolvency was EUR 2.8 million (2019: EUR 1.4 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 2020 than in the previous year. Since the start of the pandemic, there has been a deterioration in the payment behaviour of German companies. Among the main reasons for not meeting payment obligations, companies cited liquidity bottlenecks caused by the pandemic, high levels of payment default by their own customers, poor order books and a lack of equity.

Similarly, the number of consumer insolvencies in 2020 declined sharply in comparison to the previous year. With 41,753 cases, it was 33.3% less the previous year's figure of 62,632 cases. An increase in the number of consumer insolvencies was last observed in 2010. In the context of the coronavirus pandemic, short-time work, liquidity bottlenecks caused by the crisis, unemployment, failure to meet payment obligations and over-indebtedness were given as the main reasons for consumers' continued inability to meet payment obligations.

According to the "SchuldnerAtlas Deutschland 2020" report published by Creditreform, Boniversum and Microm on 10 November 2020, private over-indebtedness continued to fall in 2020 despite the difficult economic conditions. This is due to the high rate of savings, which has risen largely as a result of reduced consumption, consumer reticence and general caution in relation to spending, which is mainly attributable to the pandemic. The trend shown by the SchuldnerAtlas Deutschland 2020 report reflects the persistent, lagged decline in consumer insolvencies that has occurred since 2011 in addition to the very robust condition of the labour market that was in evidence up to spring 2020.

SERVICES

The **German transport and logistics industry** was also influenced by the general economic downturn in 2020. The infection control measures put in place due to the coronavirus pandemic in many countries had a significant impact on manufacturing and retail, in large part due to the implementation of transport and travel restrictions. This led to a sizeable drop in overall economic output, foreign trade volumes and industrial production. Total freight volume in Germany was down by 3.5% on average over the year (2019: +0.2%). Road freight traffic was not reduced as extensively as other areas of 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 2020. The slight increase in unemployment levels due to the effects of the coronavirus pandemic did not have a major impact on the continued shortage of drivers in the area of distribution logistics. The background to this is the sustained increase in shipping volumes due to the extensive growth seen in the online and mail-order sales sector and the corresponding continuing increase in personnel requirements. In 2020, this also led to a hike in personnel expenses due to collective pay agreements and necessary wage adjustments as a result of the increasing shortage of drivers in large urban areas. In view of the pandemic, fuel costs were exposed to very volatile conditions in 2020. After a steep drop in the second quarter followed by an increase in the third quarter, average crude oil prices over the year remained significantly under the previous year's levels. However, changes to fuel costs did not have a significant impact on the German transport and logistics sector.

Against the background of extremely buoyant growth in the German online and mail-order sales sector, accelerated by the temporary closure of over-the-counter retail outlets due to infection control measures and the resulting sharp rise in shipment volumes in terms of package deliveries to private households, German parcel-services providers continued to invest heavily in logistics infrastructure and further digitisation in 2020 in order to manage the increasing growth of shipment volumes. This includes digital advances such as real-time tracking of deliveries and electronic notifications, for example. In addition, new approaches continued to be developed and tested in order to respond to changing customer requirements and place a clear focus on improving customer experiences.

Course of Business

The coronavirus pandemic has had significant repercussions for business performance in the 2020/21 financial year. 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 impact of the coronavirus pandemic.

In terms of revenue and earnings, however, the Otto Group can look back on a very successful 2020/21 financial year. This positive performance was attributable to the systematic digitisation of the Group companies' business models and associated distribution channels as well as the various related measures that have been implemented in previous years. Changes in consumers' buying behavior and the shift towards e-commerce as a result of the pandemic proved advantageous for this digitisation strategy. Group companies were able to capitalise on their wide selection of product ranges with high levels of demand as well as a very robust logistics infrastructure. Thanks to a comprehensive crisis management strategy for the coronavirus pandemic, it was possible to limit the negative impact for the Otto Group's sales and procurement markets.

Entering into a partnership with Advent International in relation to the parcel distribution business of the Hermes Group in Germany and the United Kingdom was an important milestone in the past financial year and had a positive impact on the Otto Group's result in the 2020/21 financial year.

During the 2020/21 financial year, the Otto Group succeeded in significantly increasing its revenue and income from customer financing – hereafter referred to as revenue for purposes of simplicity – by 9.7% to EUR 15.6 billion. On a comparable basis, i.e. when adjusted for currency rate effects and changes in the scope of consolidation, Group company growth amounted even to 17.2%.[4] Online retail, by far the Otto Group's most important sales channel in the Multichannel Retail segment and a major future driver for the Group, also performed well, boosted by the changes in buying behaviour caused by the pandemic. The Otto Group's online revenue increased by 22.3%, – or 25.6% on a comparable basis – to approximately EUR 9.9 billion worldwide, and by 21.5% to EUR 7.0 billion in Germany. The increase in online sales achieved by the Otto Group in Germany was therefore significantly above market growth levels for the German e-commerce sector (2020: 14.6%).

However, due to the difficult and volatile conditions that prevailed at the start of the pandemic, the revenue levels forecast in the 2019/20 Group Management Report for the 2020/21 financial year were projected to come in slightly under the previous year's level, after adjustment for changes in the scope of consolidation. Although the pandemic had a dampening effect on the start of the 2020/21 financial year, business performance over the subsequent months improved significantly. The increase in the 2020/21 financial year amounted to 9.7%, or on a comparable basis, even 17.2%. Despite expectations at the start of the 2020/21 financial year, the projected growth in sales was therefore significantly exceeded.

The major Group companies and sub-groups, such as OTTO, the bonprix Group, the Crate and Barrel Group, the Witt Group, the EOS Group and the Hermes Group generated uniformly positive operational results. There were also high levels of expenditure during the 2020/21 financial year. This is attributable to the restructuring of OTTO from a pure online retailer to an e-commerce platform and the associated realignment of business processes, investments in restructuring the logistics infrastructure as well as sizeable impairment losses in respect of individual Group companies due in part to the coronavirus pandemic. Despite these temporary strains, the Group's earnings before interest and tax (EBIT) rose to EUR 688.4 million, which represents a significant increase on the previous year's EBIT of EUR 432.5 million.

Earnings before tax (EBT) in the amount of EUR 1,103.8 million were significantly ahead of the previous year's EBT of EUR 290.7 million. The net financial result for the 2020/21 financial year reflected the generally very positive effects of deconsolidations.

Before taking into account the anticipated impact of deconsolidating the Hermes Group's package distribution business, the Group Management Report for 2019/20 forecast that the EBT figure for the 2020/21 financial year would be very significantly impacted by the coronavirus pandemic. This forecast development did not come to pass. On the back of the strong operational results of the various Group companies, the Otto Group's EBT for the 2020/21 financial year, after adjustment for the effects of all deconsolidations in the amount of EUR 607.6 million, was considerably higher than the previous year's EBT.

Following a consolidated annual profit of EUR 213.7 million in the 2019/20 financial year, the Otto Group recorded a consolidated annual profit of EUR 971.3 million. The Otto Group can look back on a very positive financial year overall in the midst of a market environment impacted by the coronavirus pandemic, and feel strengthened as it continues its commitment to drive the transition towards a fully digitised trading and service group.

THE GROUP'S FINANCIAL PERFORMANCE

The Otto Group's overall revenue and earnings performance for the 2020/21 financial year has been described above. The key indicators from consolidated income statement can be summarised as follows:

[4] Changes in the scope of consolidation are primarily attributable to the deconsolidation of SportScheck GmbH and its subsidiaries at the end of the previous year as well as the deconsolidation of the Hermes Group's parcel distribution business in Germany and the United Kingdom and a Japanese retail company in the 2020/21 financial year. To determine the comparable basis, the changes in the scope of consolidation are taken into account by means of a corresponding adjustment of the relevant period of the previous year to align with the revenue development reported (proportionately) in the 2020/21 financial year. The revenues of Group companies that were already deconsolidated in the previous year were subtracted completely when determining the comparable basis.

Consolidated income statement (summary)

	2020/21	2019/20
	EUR Million	EUR Million
Revenue and income from customer financing	15,641	14,263
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,294	1,012
Earnings before interest and tax (EBIT)	688	432
Earnings before tax (EBT)	1,104	291
Profit for the year	**971**	**214**

Overall, 74.5% of the revenue recorded in the consolidated balance sheet by the Otto Group was obtained from the sale of merchandise (EUR 11,657.7 million, 2019/20: 73.4%), 5.1% from revenue from financial services (EUR 798.8 million, 2019/20: 6.0%), 19.2% from revenue from other services (EUR 3,003.2 million, 2019/20: 19.3%), and 1.2% from income from customer financing (EUR 181.7 million, 2019/20: 1.3%). The Group's development in terms of revenue in the 2020/21 financial year was therefore characterised once again by the sale of merchandise through its online retail, catalogue business, and over-the-counter retail distribution channels.

The Group's stronger focus on selected Group companies and sub-groups that was initiated roughly four years ago as part of a focused growth strategy is now paying off. Overall, the focus companies recorded significant sales growth of 13.1%. On a comparable basis, this corresponds to 19.2%.[5]

With a slightly increased share of 61.3% (2019/20: 60.4%) in the Otto Group's revenue, Germany remained the Group's most significant regional sales market in the 2020/21 financial year. The rest of Europe accounted for 24.4% (2019/20: 24.7%) of revenue, while the North America region contributed 13.5% (2019/20: 13.6%) to the revenue of the Otto Group. Revenue by region is as follows:

Revenue by region

	2020/21	2019/20	Change	adjusted
	EUR Million	EUR Million	in %	in %
Germany	9,596	8,622	11.3	17.8
Rest of Europe	3,819	3,527	8.3	19.8
North America	2,106	1,940	8.6	13.2
Other regions	120	174	-30.9	-17.9
Group	**15,641**	**14,263**	**9.7**	**17.2**
Domestic	9,596	8,622	11.3	17.8
Foreign	6,045	5,641	7.2	16.3

Revenue growth in all of the Group's major sales markets was very positive. In Germany, the past financial year saw revenue growth of 11.3%. Most notably, the focus companies OTTO and the myToys Group recorded above-average increases in revenue growth in the main sales market of Germany. The rest of Europe recorded a strong increase in revenue of 8.3%, measured in euro. This increase in revenue was achieved in France and the United Kingdom in particular, predominantly by Group companies of the Hermes Group operating in the parcel distribution logistics sector. Revenues in North America reported an increase of 8.6%, mainly driven by the furniture and lifestyle group Crate and Barrel. When adjusted for currency rate effects and changes in the scope of consolidation, this figure exceeds the reported growth in revenue for all regions by a significant degree. This was attributable to the previously mentioned changes in the scope of consolidation, but also to the currency rate changes that occurred in the 2020/21 financial year, which had a negative impact on revenue growth for all of the Otto Group's major regions.

Average revenue per employee rose considerably compared to last year, from EUR 274.4 thousand to EUR 313.5 thousand.

The Group's gross profit margin amounted to 45.9%, which was roughly on a par with the previous year (2019/20: 46.3%). In absolute terms, and in the context of the disproportionate rise in purchased goods and services, the increase in revenue had the effect of increasing gross profit by EUR 577.9 million to EUR 7,180.8 million.

In the 2020/21 financial year, other operating income dropped by EUR 93.3 million, while personnel expenses and other operating costs rose by EUR 73.3 million and EUR 29.9 million respectively. In the consolidated income statement, these three items were offset by the deconsolidation of various Group companies during the 2020/21 and 2019/20 financial years. Earnings were also adversely impacted by measures aimed at transforming the Group company OTTO's business model from a pure online retailer to an e-commerce platform and the accompanying realignment of business processes and restructuring of the logistics infrastructure, the costs of which reached the low triple-digit million range. In the 2020/21 financial year, income from equity investments fell by EUR 90.5 million This drop in income is mainly attributable to ABOUT YOU Holding AG and its operational subsidiaries. In the 2020/21 financial year, proportionally recognised losses for these entities amounted to EUR 72.0 million, of which EUR 44.2 million relate to proportional losses from previous years. In previous years, there were no proportional losses recognised, as the book value of the ordinary shares in the associated company ABOUT YOU Holding AG was already updated to zero in the 2018/19 financial year based on the at-equity recognition method. Due to the restructuring measures under corporate law that are deemed probable, both ordinary shares and preference shares in ABOUT YOU Holding AG must be included in the proportional recognition of losses from now on, and losses not recognised in previous years must be taken into account. Furthermore, the decline in income from equity investments is mainly due to the Cofidis Group whose earnings in the 2019/20 financial year were included for the Otto Group on the basis of a higher investment holding, after the sale of shares in the previous year.

[5] The revenues of the operational subsidiaries of ABOUT YOU Holding AG, which are still focus companies, are no longer included in the Otto Group's reported revenue due to the use of the equity method for recognition purposes since the 2018/19 financial year.

As a result of the above-mentioned effects, earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 1,294.4 million in the 2020/21 financial year, which was significantly above the previous year's EBITDA figure of EUR 1,012.5 million.

Impairment losses on intangible assets, property, plant and equipment as well as right-of-use assets rose by EUR 26.0 million to EUR 606.0 million in the past financial year. Although depreciation and amortisation decreased significantly, there was a clear rise in impairment losses on intangible assets, property, plant and equipment, and right-of-use assets. Depreciation and amortisation amounted to EUR 417.5 million overall, which is considerably lower than the previous year's figure of EUR 555.3 million. For the most part, this concerned property, plant and equipment as well as right-of-use assets. The decrease compared to the previous year is due in particular to the recognition of the disposal group based on IFRS 5. Intangible assets, property, plant and equipment as well as right-of-use assets that are accounted for as assets held for sale are not subject to depreciation and amortisation. As a result, depreciation and amortisation of the assets for the Hermes Group's parcel distribution business in the amount of EUR 134.9 million were derecognised in the 2020/21 financial year. Impairment losses on intangible assets, property, plant and equipment as well as right-of-use assets rose by EUR 24.8 million to EUR 188.4 million. Impairment losses on goodwill undertaken in the 2020/21 financial year were primarily attributable to a German retail company in the Multichannel Retail segment and a French service provider in the Services segment. In the previous year, there were no impairment losses on goodwill. In the 2020/21 financial year, impairment losses on other intangible assets, property, plant and equipment as well right-of-use assets were primarily attributable to land, land rights and buildings, purchased software, purchased trademarks, and operating and office equipment. In particular, they concerned two German Group companies and one Japanese Group company in the Multichannel Retail segment as well as a Group company in the Services segment. Impairment losses for the previous year were primarily attributable to shop fittings, operating and office equipment as well as land, land rights and buildings. They mainly concerned a German Group company in the Multichannel Retail segment and three Group companies in the Services 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 688.4 million in the 2020/21 financial year (2019/20: EUR 432.5 million). Due to the stronger increase in EBIT in proportion to revenue, the EBIT margin increased significantly and amounted to 4.4% compared to 3.0% in the previous year.

In the 2020/21 financial year, the Group's net financial result amounted to EUR 415.4 million, which represents an increase of EUR 557.1 million on the previous year's figure of EUR –141.7 million. Net interest income improved slightly by EUR 17.6 million to EUR –144.5 million as a result of the reduction in debt. The very sharp rise is therefore largely attributable to other financial income. It amounted to EUR 559.8 million compared to EUR 20.3 million in the previous year. In the 2020/21 financial year, other net financial income primarily included gains from deconsolidations in the amount of EUR 607.6 million. The change in valuation of a retrospective, conditional purchase price component for RatePAY GmbH also had a positive effect on other net financial income. In the 2019/20 financial year, other net financial income was primarily affected by the deconsolidation of two Group companies in the EOS Group, SportScheck GmbH and its subsidiaries, and income from the disposal of 9.36% of the shares in COFIDIS S.A.

Earnings before tax (EBT) in the amount of EUR 1,103.8 million represents a significant increase of EUR 813.0 compared to the previous year's figure of EUR 290.7 million.

Income tax expenses for the 2020/21 financial year amounted to EUR 132.4 million and are thus considerably higher than the previous year's income tax expenses of EUR 77.0 million. The increase in tax expenses is primarily due to improved EBT performance in the various Group companies in Germany and abroad.

Profit for the year increased by EUR 757.7 million to EUR 971.3 million (2019/20: EUR 213.7 million). Of the profit for the year, EUR 908.1 million (2019/20: EUR 106.1 million) was attributable to the owners of the parent company, EUR 45.1 million (2019/20: EUR 88.1 million) to non-controlling assets, and EUR 18.1 million (2019/20: EUR 19.5 million) to publicly listed equity and participation certificates.

FINANCIAL PERFORMANCE OF THE SEGMENTS

Revenue/EBIT

	Revenue		EBIT	
	2020/21	2019/20	2020/21	2019/20
	EUR Million	EUR Million	EUR Million	EUR Million
Multichannel Retail	12,087	10,828	229	83
Financial Services	814	866	307	368
Services	2,740	2,569	267	79
Holding/consolidation	–	–	–114	–97
Group	**15,641**	**14,263**	**689**	**433**

MULTICHANNEL RETAIL

In the 2020/21 financial year, the Multichannel Retail segment achieved revenue of EUR 12,087.1 million (2019/20: EUR 10,828.5 million) and contributed 77.3% (2019/20: 75.9%) to the Otto Group's revenue. Revenue increased by 11.6%. On a currency-adjusted basis, and when adjusted for effects from changes to the scope of consolidation, sales increased by 15.9% compared to the previous year. This increase was largely driven by the Group companies and sub-groups in which targeted investments have been made as part of the focused growth strategy. In the Multichannel Retail segment, these include the Group company OTTO as well as the vertical brands of the bonprix Group, the Crate and Barrel Group, the Witt Group and the myToys Group. Furthermore, the operational subsidiaries of ABOUT YOU Holding AG, which are recognised using the equity method, are still included as focus companies under the Group's growth strategy. In terms of revenue, they have continued to perform strongly; however, because they are not included in the Otto Group's revenues in the consolidated income statement due to their recognition using the equity method, they are not included in the sections below.

Taking into account the effects of the pandemic, the Group Management Report for 2019/20 forecast a reduction in revenue for the Multichannel Retail segment in the 2020/21 financial year in the low to mid single-digit percentage range. With the revenue increase 11.6%, or 15.9% when adjusted, in the 2020/21 financial year, this has clearly exceeded the forecast.

Online retail, the revenue channel with the strongest growth, had a significant influence on segment development once again in the past financial year. E-commerce revenue increased noticeably by 22.3% to EUR 9,920.0 million. On a comparable basis, i.e. when adjusted for currency rate effects and changes in the scope of consolidation, the increase in e-commerce revenue rose sharply to 25.6%. The segment's share in revenue amounted to 82.1%, thus clearly exceeding the corresponding figure for the previous year of 74.9%. For the Otto Group, key drivers of this positive performance include the systematic digitisation of the Group companies' business models and associated distribution channels, and in particular, the changes in consumer buying behaviour as a result of the pandemic.

Overall, the above-mentioned focus companies in the Multichannel Retail segment showed significant revenue growth of 16.9% in the 2020/21 financial year. In this segment, Group company OTTO's performance in particular was exceptionally positive. Revenues increased significantly by 30.2% to approximately EUR 4.5 billion. Following a period up to early summer in 2020 in which volatile customer demand led to significant changes in product ranges, demand stabilised during the course of year and remained high even outside of the various lock-down phases. There was a strong increase in the number of active customers using otto.de. For the first time, this figure exceeded ten million. A sizeable 24.1% increase in revenue was achieved by the myToys Group, which specialises in the target groups of families and women. The shopping experience offered by Limango GmbH continues to drive growth and has established the company as a key platform for family shopping. However, with its focus on toys, myToys.de GmbH also benefited from the increase in demand for ways to keep children occupied, which has become more pronounced as a result of the pandemic. For the Crate and Barrel furnishings and lifestyle group, which operates in the USA and Canada, revenues increased by 11.9%. When adjusted for currency rate effects, this corresponds to 16.7%. Having always accounted for a large share of over-the-counter retail outlets, the Crate and Barrel Group responded rapidly, by tailoring the way they engage with customers. It thus achieved a very successful transition to online sales, and increased e-commerce revenues significantly. For the Crate and Barrel Group, the online portion of its revenues in the past financial year increased to approximately 68%, compared to approximately 49% in the previous year. This allowed the Crate and Barrel Group to more than compensate for the loss of sales caused by the temporary closure of over-the-counter outlets due to infection control measures. With their strong focus on textile-based product ranges, the bonprix Group and the Witt Group held up well in terms of sales, despite noticeable buyer reticence in the fashion sector at the start of the pandemic. The groups succeeded in increasing their revenue by 1.4% and 1.5% respectively, which is slightly ahead of the previous year's figure. After a challenging few months in the first half of the 2020/21 financial year, the textile trade began to perform positively again from early autumn 2020.

Due to the increase in revenue in the Multichannel Retail segment, and in the context of the disproportionate rise in purchased goods and services, gross profit rose by EUR 469.9 million. In the 2020/21 financial year, the gross profit margin was 45.1%, roughly at the same level as the previous year (2019/20: 46.0%). Despite contrary effects from income from equity investments as well as depreciation and amortisation, the improvement in operating results for various Group companies, in particular the focus companies OTTO, the bonprix Group, the myToys Group and the Crate and Barrel Group, had a positive impact on the financial performance of the Multichannel Retail segment. The above-mentioned factors essentially led to a significant increase in the EBIT figure for the Multichannel Retail segment in the 2020/21 financial year from EUR 82.9 million to EUR 228.9 million.

In the 2020/21 financial year, the Multichannel Retail segment was significantly impacted by impairment losses in the amount of EUR 122.5 million, and losses from previous years in the amount of EUR 44.2 million that are attributable to ABOUT YOU Holding AG and its operational subsidiaries and have yet to be taken into account. Furthermore, additional measures aimed at transforming the Group company OTTO's business model from a pure online retailer to an e-commerce platform and the associated realignment of business processes also had an adverse effect on earnings in the 2020/21 financial year in the low three-digit million range, which is slightly less than the figure for the previous year (2019/20: EUR 130 million approximately).

FINANCIAL SERVICES

In the 2020/21 financial year, the Financial Services segment recorded a drop in revenue of 6.0%. Revenue amounted to EUR 813.7 million, compared to EUR 866.0 million in the previous year. When adjusted for currency rate effects and for changes to the scope of consolidation, the decline in revenue in the Financial Services segment amounted to 3.9%. A key player in the Financial Services segment thanks to its international business activities, the EOS Group experienced a drop in revenue of EUR 58.9 million, which equates to a reduction of EUR 7.0%, or 4.7% on a comparable basis. The decline in revenue at the EOS Group played out against the backdrop of the coronavirus pandemic, which had a direct impact on the opportunities for purchasing and processing impaired receivables.

In the Group Management Report for last year, revenue levels for the 2020/21 financial year were forecast to be significantly less than the very high revenue figures recorded for the previous year. Revenue in the Financial Services segment was EUR 52.3 million lower than in the previous year. The forecast has therefore proved accurate. The segment's share in the Group's revenue amounted to 5.2%, which is under the previous year's figure of 6.1%.

The Financial Services segment's EBIT figure decreased by EUR 60.9 million to EUR 307.0 million in the 2020/21 financial year. However, as in previous years, the EOS Group's continued strong profitability contributed to the excellent EBIT in this segment, despite the financial year being adversely affected by business operation restrictions as a result of the coronavirus pandemic. EBIT was also negatively impacted by the decline in income from equity investments in the Cofidis Group whose earnings in the 2019/20 financial year were included for the Otto Group on the basis of a higher investment holding, after the sale of shares in the previous year.

SERVICES

In the 2020/21 financial year, the Services segment recorded a reported increase in external revenue from EUR 2,568.9 million to EUR 2,740.6 million, which represents growth of 6.7%. When adjusted for currency rate effects and changes in the scope of consolidation, this corresponded to a very strong increase of 32.3%. External revenue, i.e. revenue from customers outside the Group, contributed 68.3% of the total revenue of the Services segment. Their share increased by 1.3 percentage points compared to the previous year.

In the Services segment, the past financial year saw the conclusion of a strategic partnership in the parcel distribution sector that had been initially announced the previous year. Effective from 30 November 2020, Advent International acquired 25% of the shares in Hermes Germany GmbH and 75% of the shares in Hermes Parcelnet Limited in the United Kingdom. The corresponding companies and their subsidiaries have since been included in the consolidated financial statements using the equity method. Accordingly, the expenses and income for these Group companies were only fully included in the consolidated income statement for nine months of the 2020/21 financial year.

For reasons of simplification, the forecast that was included in the 2019/20 Group Management Report for external revenue growth in the 2020/21 financial year, which corresponded to a lower revenue increase than the previous year's 10.9% increase but still amounted to significant revenue growth, was based on the assumption that the parcel distribution service would be deconsolidated at the end of the 2020/21 financial year. However, given that deconsolidation already took place on 30 November 2020, revenue after adjustment for currency rate effects and changes in the scope of consolidation has been used for comparison purposes. Overall, the very positive increase in external revenue of 32.3% on a comparable basis significantly exceeded the forecast. The share in the Group's revenue fell from 18.0% to 17.5%.

The segment is primarily characterised by the internationally operating Group companies under the Hermes umbrella brand. These Group companies benefited from the further rise in e-commerce revenue attributable to the pandemic and from the associated increase in retail-related services in the relevant service area. A very strong logistics infrastructure also played a significant role in successfully dealing with the sharp increase in delivery volumes. In the 2020/21 financial year, the Hermes Group was therefore able to significantly increase its external revenue in the parcel distribution sector compared to the previous year, in particular in the major e-commerce markets of Germany, France and the United Kingdom. Overall, the Hermes Group recorded gains of 6.2%. When adjusted for currency rate effects and changes in the scope of consolidation, this amounted to a very respectable increase of 33.9%.

The segment's EBIT figure rose by EUR 187.6 million to EUR 266.7 million in the 2020/21 financial year. In addition to the positive impact of growth in delivery volumes, this improvement is also attributable to the derecognition of impairment losses on other intangible assets, property, plant and equipment, and right-of-use assets of the Hermes Group's parcel distribution business in the amount of EUR 134.9 million, in accordance with IFRS 5 accounting rules. However, this was offset by impairment losses in the amount of EUR 64.7 million and by the restructuring of the logistics infrastructure; the latter had an adverse effect of a similar value on revenue in the Services segment.

HOLDING/CONSOLIDATION

Apart from the effects of inter-segment consolidation, the holding/consolidation item reported inter-divisional costs of Group functions amounting to EUR 114.2 million (2019/20: EUR 97.5 million), which could not be reliably allocated to the above-mentioned segments.

Financial Position and Net Assets

CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement (summary)

	2020/21	2019/20
	EUR Million	EUR Million
Cashflow from operating activities (adjusted for payments for purchases by the EOS Group)	2,559	1,643
Payments for the purchase of receivables and property portfolios by the EOS Group*	-536	-665
Cash flow from operating activities (as reported)	**2,023**	**978**
Cash flow from investing activities	523	-195
Thereof: Capital expenditures on purchases of intangible assets and property, plant and equipment	-321	-351
Free cash flow	**2,546**	**783**
Cash flow from financing activities	-1,618	-830
Net increase in cash and cash equivalents	**928**	**-47**
Changes in cash and cash equivalents due to foreign exchange rates	-10	1
Reclassification with regard to disposal groups	1	-11
Cash and cash equivalents at beginning of period	329	386
Cash and cash equivalents at end of period	**1,248**	**329**

* The previous year's value was corrected due to an adjustment of the determination method.

Cash flow from operating activities before payments for the purchase of receivables and property portfolios by the EOS Group represents the financial performance indicator for the Otto Group's cash generating ability and thus its debt repayment capacity. In the 2020/21 financial year, it amounted to EUR 2,559.4 million, which was significantly higher than the previous year's figure of EUR 1,643.0 million. This positive development can be attributed to strong business performances at various Group companies and a correspondingly higher EBIT compared to the previous year, as well as a very significant decrease in working capital, primarily for Group companies from the Multichannel Retail segment. This development in working capital was influenced in particular by a significant build-up of trade payables. This occurred at Group companies such as OTTO, which recorded an increase in demand for the furnishings and consumer electronics product ranges in the 2020/21 financial year; this was accompanied by significantly higher payment targets in the procurement process. The inventories had the opposite effect on the development of working capital. However, the increase in inventories was less than what would have been proportional to the significant expansion of business activities at numerous Group companies. This was also affected by the Group company OTTO and the Crate and Barrel group, among others, deciding to increase inventories due to the strong growth in e-commerce in the 2020/21 financial year. Their aim was to stabilise supply availability at a high level in light of the delays in procurement caused by the coronavirus.

Due to the coronavirus pandemic, payments for the purchase of receivables and property portfolios in the case of the EOS Group initially developed modestly over the course of the 2020/21 financial year. Lower levels of investment on the part of the EOS Group were due to a limited supply of receivables portfolios combined with the resulting increase in competition among market participants. In the second half of the financial year, the corresponding investments rose significantly again. This meant that at EUR 535.9 million, payments for the purchase of receivables and property portfolios in the case of the EOS Group were lower than the previous year's figure of EUR 664.8 million.

In the 2020/21 financial year, cash flow from investing activities was materially influenced by the ongoing high level of investment in IT and logistics infrastructures and the further development of over-the-counter retail stores and company locations of various Group companies from the Multichannel Retail and Services segments. The following had a particularly significant impact: the expansion of the Hermes Group's logistics infrastructure (in Germany, the United Kingdom and France); the shift of Group company OTTO's business model from a pure online retailer to an e-commerce platform; and investments in the further development of the Crate and Barrel Group. Capital expenditures on purchases of intangible assets and property, plant and equipment amounted to EUR 320.7 million; this figure amounted to EUR 351.1 million in the previous year.

Furthermore, in the 2020/21 financial year, additional inflows and outflows occurred within the context of cash flow from investing activities. In light of this, further investments were made in the shareholdings of the EVC Group. Furthermore, proceeds from the sale of fully consolidated subsidiaries amounted to EUR 588.6 million in the 2020/21 financial year. This primarily includes cash inflows from the finalisation of a partnership with Advent International, which involved the sale of 25% of the shares in Hermes Germany GmbH in Germany and 75% of the shares in Hermes Parcelnet Limited in the United Kingdom. The sale of Otto Japan Inc. to the company Legego Inc. as part of a management buy-out had a contrary effect, as did the settlement of retrospective purchase price components resulting from the sale of SportScheck GmbH and its subsidiaries to the Signa Group in the previous year. Other key cash inflows in the 2020/21 financial year included those from settled purchase price receivables resulting from the sale of shares in Cofidis in the amount of EUR 222.00 million and from disposals of equity investments held by the EVC Group.

Cash flow from financing activities in the 2020/21 financial year was influenced by a significant net repayment of financial liabilities and the payment of dividends to minority shareholders, holders of participation certificates and hybrid-capital investors. The Group's significant repayment of debt occurred against the background of strong business performances at various Group companies, particularly Group company OTTO, and the finalisation of a partnership with Advent International. In addition to the repayment of current bank liabilities, the high cash inflows from the strong business performance of various Group companies and the finalisation of a partnership with Advent International in the 2020/21 financial year were also used to repay a number of bonds that came to maturity in the 2020/21 financial year using cash and cash equivalents, as well as other non-current financing, ahead of schedule. Overall, in the 2020/21 financial year, there was a net repayment of financial liabilities in the amount of EUR 974.2 million, which was significantly above the previous year's net repayment.

EQUITY AND FINANCING

As at 28 February 2021, the Otto Group's consolidated balance sheet shows total equity and liabilities in the amount of EUR 10,691.7 million. This represents a slight decline of 0.5% compared to the previous year.

Financing

	28.02.2021		29.02.2020	
	EUR Million	in %	EUR Million	in %
Equity	2,223	20.8	1,452	13.5
Non-current provisions and liabilities	4,269	39.9	4,577	42.6
Deferred tax	74	0.7	89	0.9
Current provisions and liabilities	4,126	38.6	4,623	43.0
Total equity and liabilities	**10,692**	**100.0**	**10,741**	**100.0**

The Otto Group's equity underwent a significant increase of EUR 771.2 million in the 2020/21 financial year and now amounts to EUR 2,222.8 million. The increase is primarily due to the profit for the year of EUR 971.3 million achieved in the 2020/21 financial year. In addition, other comprehensive income in the amount of EUR 59.7 million resulted from the change in fair value of other financial investments, as occurred in the case of the EVC Group, among others. However, the payment of dividends to minority shareholders, holders of participation certificates and hybrid-capital investors in the amount of EUR 169.1 million had a contrary effect on equity growth. In the 2020/21 financial year, no dividends were paid to the shareholders of OTTO (GmbH & Co KG). In addition, other comprehensive expenses in the amount of EUR 74.2 million from the measurement of pension provisions, in the amount of EUR 47.4 million from the translation of financial statements in foreign currencies and in the amount of EUR 41.8 million from the exercise of a put option had a negative impact on equity. The negative impact from pension provisions were primarily due to actuarial losses, which resulted almost entirely from the fall in the actuarial interest rate, being taken into account. Overall, the significant increase in equity in combination with a slight decline in total equities and liabilities led to a considerable rise in the Group equity ratio. This increased from 13.5% in the previous year to 20.8% as at 28 February 2021.

Non-current liabilities decreased by EUR 308.5 million, corresponding to 6.7%, to EUR 4,268.8 million. This reduction is largely due to the Otto Group's significant repayment of debt in the 2020/21 financial year. A portion of the high cash inflows from the very strong business performances by various Group companies and the purchase price payment for the sale of shares in the parcel distribution companies of the Hermes Group in Germany and the United Kingdom was used to reduce debt by means of bond repurchases and early repayments of loans. The main driver of the decrease in non-current bonds payable was bond repurchases with a nominal volume of EUR 153 million. The reclassification of a bond that fell due in the 2021/22 financial year as current provisions and liabilities also led to a reduction in non-current bonds payable. Bank liabilities included in non-current provisions and liabilities were also reduced significantly in comparison to the previous year, as non-current financing was cleared ahead of schedule. The rise in provisions for pensions had the contrary effect of increasing non-current provisions and liabilities, which was mainly due to changes in financial assumptions (fall in actuarial interest rate). In addition, there was an increase in non-current liabilities from leases at individual Group companies compared to the previous year.

Current provisions and liabilities decreased significantly in the 2020/21 financial year by EUR 497.3 million, corresponding to 10.8%, to EUR 4,126.1 million. Liabilities held for sale, which related to the parcel distribution companies of the Hermes Group in Germany, the United Kingdom and France in the previous year, had a material influence on the development of current provisions and liabilities. As a result of the deconsolidation of the parcel distribution companies of the Hermes Group in Germany and the United Kingdom in the 2020/21 financial year, this item decreased accordingly by EUR 1,032.9 million. The remaining amount of liabilities held for sale are related to the Group company MONDIAL RELAY in France, for which an agreement on a complete sale had already been signed at the beginning of the 2021/22 financial year. However, the planned transaction is still subject to approval by the relevant anti-monopoly authorities. Against the background of the Group's debt repayment in the 2020/21 financial year, liabilities arising from the Otto Group's financing activities showed a significant decline under current provisions and liabilities. In the case of current liabilities arising from bonds payable and notes payable, the decrease resulted from the settlement of two bonds with a nominal volume of EUR 275 million that fell due in the 2020/21 financial year, the repayment of which was made entirely from the Group's cash and cash equivalents. In addition, current securities issued under the Group's commercial paper programme with a nominal value of EUR 98 million were repaid in full. Current bank liabilities also decreased significantly compared to the previous year. The significant increase in trade payables and other liabilities totalling EUR 849.4 million had a contrary effect on current provisions and liabilities. Trade payables increased at the Group company OTTO in particular, which recorded an increase in demand for the furnishings and consumer electronics product ranges in the 2020/21 financial year, accompanied by significantly higher payment targets in the procurement process.

NET FINANCIAL DEBT

The Otto Group's net financial debt decreased significantly by EUR 1,847.9 million to EUR 1,422.6 million in the 2020/21 financial year. This represents a decrease of 56.5%.

A significant driver for the Group's debt repayment in the 2020/21 financial year was the very strong business performance of various Group companies, particularly Group company OTTO. OTTO made a very significant contribution to liquidity due to its outstanding business performance and optimised working capital management and despite continuing very high levels of investment in its shift in business model from a pure online retailer to an e-commerce platform. In addition, the Otto Group's vertical brand concepts in particular, namely the bonprix Group, the Crate and Barrel Group and the Witt Group, as well as the myToys Group and Group companies in the Services segment, added to debt repayment through significant liquidity contributions. In the case of the EOS Group, at the beginning of the coronavirus pandemic, investments in new receivables packages were temporarily reduced due to market conditions. As a result of this course of action, and combined with the continuing high profitability of the EOS Group, the Financial Services segment also contributed significantly to the Otto Group's deleveraging.

Another material contributory factor in the Otto Group's deleveraging was the successful finalisation of the partnership with Advent International for the parcel distribution companies of the Hermes Group in Germany and the United Kingdom, and the associated purchase price payment for the transferred shares.

This very positive overall development more than compensated for the continued high levels of investment (mainly in IT and logistics infrastructure and the further development of over-the-counter retail stores and company locations of various Group companies in the Multichannel Retail segment and the Services segment) and the temporary negative impact from further portfolio optimisations concluded in the 2020/21 financial year.

In addition to the repayment of current bank liabilities, the high cash inflows in the 2020/21 financial year were also used to repay a number of bonds that fell due in the 2020/21 financial year from cash and cash equivalents, as well as other non-current financing, ahead of schedule. Additional options for further reducing financial debt in the 2021/22 financial year are also being examined.

Overall, the Group's net financial debt in the 2020/21 financial year changed as follows:

Net financial debt

	28.02.2021 EUR Million	29.02.2020 EUR Million
Bonds and other notes payable	1,029	1,565
Bank liabilities	716	1,152
Lease liabilities	886	856
Other financing liabilities	40	29
Financial debt	**2,671**	**3,602**
Less securities	–1	–20
Less cash and cash equivalents	–1,247	–312
Net financial debt for the Group	**1,423**	**3,271**
Less net financial debt for Financial Services	–1,237	–1,173
Net financial debt for Retail and Services	**186**	**2,098**

ASSET STRUCTURE

Total assets reported in the Otto Group's consolidated balance sheet decreased slightly in the 2020/21 financial year by EUR 48.9 million to EUR 10,691.7 million as at 28 February 2021. This represents a decline of 0.5%.

Assets

	28.02.2021 EUR Million	in %	29.02.2020 EUR Million	in %
Fixed assets	3,439	32.2	3,380	31.5
Other non-current assets	1,991	18.6	1,878	17.5
Deferred tax	174	1.6	159	1.4
Current assets	5,088	47.6	5,324	49.6
Total assets	**10,692**	**100.0**	**10,741**	**100.0**

Non-current assets in the 2020/21 financial year thus amounted to EUR 5,429.0 million, which is higher than the previous year's figure of EUR 5,257.8 million, and of which 119.6% (2019/20: 114.7%) is covered by long-term capital. The increase in non-current assets can, on the one hand, be attributed to the development of other non-current assets. These increased due to the purchase of receivables packages at the EOS Group in particular. Compared to the previous year, investments made by the EOS Group did decline slightly overall due to the limited supply of receivables portfolios in combination with increased competition between market participants; however, these investments then increased significantly in the second half of the financial year. The increased acquisition of receivables portfolios in the second half of the financial year and the corresponding deferral of repayments led to an increase in the non-current receivables from Financial Services in the amount of EUR 137.0 million in the 2020/21 financial year.

On the other hand, there was a slight overall increase in fixed assets. As a result, the financial investments reported under fixed assets in particular increased significantly by EUR 272.5 million. The Hermes Group's parcel distribution business in Germany and the United Kingdom has been continued and further developed in the 2020/21 financial year within the framework of a partnership with Advent International as an additional shareholder. As part of this, Advent International acquired 25% of the shares in Hermes Germany GmbH and 75% of the shares in Hermes Parcelnet Limited. This restructuring resulted in the relevant companies and their subsidiaries undergoing deconsolidation in the 2020/21 financial year. As a consequence, the shares remaining in the Otto Group will be recognised as investments in associated companies and joint ventures in the amount of EUR 181.5 million from now on. Intangible assets, property, plant and equipment and right-of-use assets, which decreased by EUR 214.1 million overall, had a contrary effect on the amount of fixed assets. Despite the Group's continued high level of investment in IT and logistics infrastructure at various Group companies, this decline can be attributed to impairment losses in the amount of EUR 188.4 million in the 2020/21 financial year, among other things.

Current assets declined by EUR 235.5 million, the equivalent of 4.4%, in the 2020/21 financial year. Assets held for sale, which related to the parcel distribution companies of the Hermes Group in Germany, the United Kingdom and France in the previous year, had a particular material influence on the development of current assets. As a result of the deconsolidation of the parcel distribution companies of the Hermes Group in Germany and the United Kingdom in the 2020/21 financial year, this item decreased accordingly by EUR 1,074.8 million. The remaining amount of assets held for sale are related to the Group company MONDIAL RELAY in France, for which an agreement on a complete sale had already been signed at the beginning of the 2021/22 financial year. However, the planned transaction is still subject to approval by the relevant anti-monopoly authorities. Furthermore, the offset of the purchase price receivable resulting from the sale of shares in Cofidis, which is included in other financial assets and fell due during the 2020/21 financial year, had a reductive effect in the amount of EUR 222.0 million. By contrast, current assets increased significantly as a result of cash and cash equivalents growing strongly by EUR 935.1 million and thus reaching EUR 1,247.1 million in the 2020/21 financial year. This rise in cash and cash equivalents occurred due to the very strong business performance at various Group companies, a decrease in working capital and the high cash inflows from the finalisation of the partnership with Advent International for the parcel distribution companies of the Hermes Group, and despite the significant net repayment of cash and cash equivalents that has already been completed. In addition, both inventories and trade receivables recorded a slight increase in the 2020/21 financial year. Given the significant expansion of business activities at numerous Group companies, the overall increase in inventories was less than what would have been proportional. The measures adopted as part of the Otto Group's working capital project, initiated in the 2018/19 financial year, once again produced the expected impact. This was also affected by the Group company OTTO and the Crate and Barrel group, among others, deciding to increase inventories due to the strong growth in e-commerce in the 2020/21 financial year, in order to stabilise supply availability at a high level.

INVESTMENT

Capital expenditure on intangible assets and property, plant and equipment in the 2020/21 financial year mainly concerned IT and logistics infrastructure and the further development of over-the-counter retail stores and company locations of various Group companies from the Multichannel Retail and Services segments. Due to the fact that the parcel distribution companies of the Hermes Group in Germany, the United Kingdom and France were represented as a disposal group in accordance with IFRS 5 in the 2020/21 financial year, their capital expenditure on intangible assets and property, plant and equipment were not included in the reported capital expenditure in the amount of EUR 235.6 million. As these companies nevertheless expended a significant amount of capital on intangible assets and property, plant and equipment totalling EUR 86.9 million in the 2020/21 financial year[6], they will be included in the sections below. In the previous year, capital expenditure on intangible assets and property, plant and equipment was included in full in the reported capital expenditure.

Capital expenditure on intangible assets and property, plant and equipment in the 2020/21 financial year predominantly consisted of investments in expansion.

Investment by segment

	2020/21	2019/20
	EUR Million	EUR Million
Multichannel Retail	177	203
Financial Services	25	28
Services	34	127
Group	**236**	**358**

In the Multichannel Retail segment, Group company OTTO continued to focus on systematically transforming its business model from a pure online retailer to an e-commerce platform. In the 2020/21 financial year, the Group invested significantly in its IT landscape once again in order to adapt it to changing customer requirements. Furthermore, the process of onboarding new partners onto the marketplace platform was fully automated and the first investments have already been made in setting up the Group's own payment service provider, so that in future, it will be able to offer competitive payment services for customers and marketplace partners from a single provider. Comprehensive modernisation and reconstruction measures also continued at the Hamburg-Bramfeld site, in order to further expand the availability of modern, flexible working environments. Additionally, in the Multichannel Retail segment, significant investments were made in the further expansion and growth of the Otto Group's vertical brand concepts. Against a background of continued strong business performance and the considerable increase in e-commerce revenue caused by the pandemic, the Crate and Barrel Group in the USA and Canada invested both in existing and new storage capacity and the further development of its IT infrastructure and online shops. It also invested in new over-the-counter retail stores. The internationally active

[6] Capital expenditure on intangible assets and property, plant and equipment by the parcel distribution companies in Germany and the United Kingdom will be taken into account until the deconsolidation takes place.

brands bonprix and Witt made substantial investments in the further development of their group companies, including the expansion of their own logistics locations. In the other retail brands in the Multichannel Retail segment, investments were focused on systematically continuing the ongoing transformation towards more digitised business models, on establishing a position with future viability in the competitive environment, and on increasing operational excellence.

In the Services segment, the German company Hermes Germany GmbH continued to invest heavily in the ongoing expansion of its logistics infrastructure and in the modernisation of its software landscape in order to further increase delivery capacity and respond to a continuous rise in demand, particularly against the background of the significant surge in growth in the e-commerce sector caused by the pandemic. The Hermes Fulfilment Group, which is vital to the Otto Group's retail operations due to its warehousing activities, also invested in existing warehouse locations and the development of new ones in the 2020/21 financial year. Furthermore, other Hermes Group companies also made significant investments in distribution logistics in the other relevant European e-commerce markets, primarily in the United Kingdom (Hermes Parcelnet Limited), but also in France (MONDIAL RELAY).

The EOS Group, which has a material influence in the Financial Services segment, continued to invest in the digitisation of its business models in the 2020/21 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.

FUNDS COMMITTED BY SEGMENT

In the 2020/21 financial year, the funds committed by the Otto Group primarily related to the Multichannel Retail and the Financial Services segments.

Funds committed by segment

	28.02.2021	29.02.2020
	in %	in %
Multichannel Retail	58.5	60.1
Financial Services	33.3	34.1
Services	8.2	5.8
Group	**100.0**	**100.0**

Credit Metrics

The debt service ratio and the debt to equity ratio are used as the primary indicators of the Otto Group's financial capacity. To date, these key indicators have been reported based on recognition of the Group companies of the Financial Services segment using the equity method, – hereafter "FS at equity". This adjustment for financial services activities was intended to improve comparability with other trading companies.

The deconsolidation of the parcel distribution companies of the Hermes Group means an increase – in relative terms – in the importance of the Financial Services segment for the key indicators of the whole Group. Against this background, the aim has been established of assessing the credit metrics for the Otto Group as a whole, i.e. including all Financial Services activities. In this context, as per the market standard for financial service providers in the receivables management sector, the so-called "cash EBITDA", is used to calculate the debt service ratio. This means that amortisation on receivables packages and from proceeds relating to real estate disposals at the EOS Group are added to reported EBITDA. The background to this is that operating cash inflows from financial services under IFRS – unlike returns from other investments – are not fully reported in EBITDA, but rather are offset by this amortisation component. Cash EBITDA in relation to net financial debt thus reflects the Otto Group's complete debt repayment capacity.

For better comparability, the credit metrics are reported using the "FS at equity" method for the last time, in addition to the holistic cash EBITDA approach.

OTTO GROUP CONSOLIDATED CREDIT METRICS

The Group equity ratio increased from 13.5% in the previous year to 20.8% as a result of the developments described in the previous sections.

Theoretically, it would take 0.8 years to fully pay off the net financial debt, including lease liabilities, using results from operations (EBITDA) – as well as amortisation on receivables packages and from proceeds relating to real estate disposals at the EOS Group. The decrease in comparison to the previous year's figure of 2.2 years is primarily due to the major repayment of debt as a result of significantly increased operational profitability.

The debt to equity ratio was also significantly reduced as a result of the decrease in net financial debt and the strengthening of equity, and amounted to 0.6 as at 28 February 2021 (29 February 2020: 2.3).

Otto Group "Group ratios"

		2020/21 (28.02.2021)	2019/20 (29.02.2020)
Group equity ratio	in %	20.8	13.5
Net financial debt	in EUR Million	1,423	3,271
EBITDA	in EUR Million	1,294	1,012
plus adjustment (amortisation on receivables packages and from proceeds relating to real estate disposals)	in EUR Million	436	481
Cash EBITDA	in EUR Million	1,730	1,493
Debt service ratio (net financial debt / cash EBITDA)	ratio	0.8	2.2
Debt to equity ratio (net financial debt / Group equity)	ratio	0.6	2.3

"FS AT EQUITY" CREDIT METRICS

The following presentation shows the Otto Group's key indicators based on reporting the Group companies in the Financial Services segment using the equity method instead of by full consolidation, as is the case in the consolidated financial statements as at 28 February 2021. This approach presents the Otto Group's Multichannel Retail and Services segments excluding the banking-type structures in the Financial Services segment. In the future, the Otto Group's credit metrics are to be reported using the above-mentioned cash EBITDA method. The parallel presentation of both methods in the current Group Management Report allows for comparisons during the transition phase.

Just like the Group's key indicators, the key financial figures in the "FS at equity" presentation show that the Otto Group's retail and services sectors continue to have a very sound financing structure.

When the Financial Services segment is accounted for using the equity method, the equity ratio amounts to 23.8%, compared to 15.2% in the previous year.

In the "FS at equity" presentation, the net financial debt was below the previous year, falling by EUR 1,911.1 million to EUR 186.5 million.

Theoretically, it would take 0.2 years to fully pay off the net financial debt, including lease liabilities, using results from operations (EBITDA).

The debt to equity ratio was also significantly reduced as a result of the decrease in net financial debt and the strengthening of equity, and amounted to 0.1 as at 28 February 2021 (29 February 2020: 1.5).

Otto Group "FS at equity"

		2020/21 (28.02.2021)	2019/20 (29.02.2020)
Equity ratio	in %	23.8	15.2
Net financial debt	in EUR Million	187	2,098
EBITDA	in EUR Million	1,238	1,010
Debt service ratio (net financial debt / EBITDA)	ratio	0.2	2.1
Debt to equity ratio (net financial debt / Equity)	ratio	0.1	1.5

Balance sheet structure "FS at equity"

	28.02.2021		29.02.2020	
	EUR Million	in %	EUR Million	in %
Assets				
Fixed assets	4,070	45.1	4,099	45.0
Other non-current assets	672	7.4	645	7.1
Deferred tax	176	1.9	167	1.8
Current assets	4,115	45.6	4,193	46.1
Total assets	**9,033**	**100.0**	**9,104**	**100.0**
Financing				
Equity	2,152	23.8	1,382	15.2
Non-current provisions and liabilities	3,039	33.6	3,571	39.2
Deferred tax	45	0.5	62	0.7
Current provisions and liabilities	3,797	42.1	4,090	44.9
Total equity and liabilities	**9,033**	**100.0**	**9,104**	**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. The close networking of the existing control and management systems and the uniform methods and processes guarantee holistic risk management. The RMS enables rapid risk identification, 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, performance and change in financial position 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. The risk areas relevant to the company's business activities must be identified so that they can used as the basis for the risk assessment. In the process, the persons responsible are guided throughout the value chain or business processes by the risk catalogue stored in the RMS tool. 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. In order to show the entire range of possibilities, various future scenarios are developed for relevant risks and their effects on the Otto Group are examined. 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

Risk managers are tasked with developing and implementing suitable risk-reducing measures and making the most of opportunities in their respective areas of responsibility. Additionally, they develop a general strategy for handling identified risks. These strategies include risk avoidance, risk reduction with the aim of minimising the effect or likelihood of occurrence, transfer of risk to third parties or risk acceptance. All Group companies also have access to a “toolbox”. It contains materials such as templates, checklists and training materials that provide concrete support when managing risks. The decision to implement the relevant strategy for managing a risk also takes into account the costs associated with the effectiveness of any planned risk-reducing measures. 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. Ad-hoc risk reporting makes it possible to immediately inform the Group’s Executive Board 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 close interlocking of the Internal Control System with the Financial Controlling/ Reporting divisions ensures the effectiveness of the RMS. 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 also its financial position, its performance and the changes in its financial position. 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 private-household 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.

Since its outbreak, the coronavirus pandemic has had a significant impact on the development of the global economy and the Otto Group’s key sales and procurement markets. The extensive measures adopted to safeguard the population in many countries are intended to contain the spread of the coronavirus; however, they have led to significant economic impact on companies, especially as a result of restrictions on production and retail, as well as limits on transport and travel. Areas of the economy in which there are high levels of direct consumer contact were especially heavily impacted by this. As a result, extensive governmental relief measures have been implemented in many national economies to lessen the overall negative economic impact. Based on the assumption that the coronavirus’ overall economic impact will gradually decline over the 2021 six-month summer period, as the vaccination campaigns that are already underway in many countries progress, and the pandemic-related restrictions are relaxed accordingly, it is expected that significant progress will be made in the economic recovery process. For the key sales markets of the Otto Group, such as Germany, the rest of the Euro area and the USA, very strong increases in overall economic production are expected in the current year in some cases. Nevertheless, the uncertainty regarding the further course of the pandemic continues to represent the most significant risk factor for overall economic development.

The coronavirus pandemic also had a significant impact on private-household consumer spending. Since the outbreak of the pandemic, these have declined sharply in all relevant sales markets and have not yet showed a sustained recovery in certain countries. This decline resulted from the uncertainties associated with the pandemic and the accompanying decline in consumption propensity in particular, as well as from the fact that some of the usual consumer spending could not be conducted due to the infection control measures or was seen as too risky. Taking the sometimes very extensive governmental relief measures into account, private-household savings in the advanced economies have therefore risen sharply. In principle, private consumer spending is expected to increase in the current year. The pent-up purchasing power could lead to additional demand for goods and services, resulting in a larger liquidation of savings that would stimulate private consumer spending accordingly. In addition, the types of goods in demand with consumers are set to show a tendency to normalise. The dynamic growth in the e-commerce sector is set to continue, with revenues in the textile sector expected to rise markedly once again. Continued high demand is forecast in the primary product ranges of furniture, home furnishings and consumer electronics; however, this is likely to reflect a certain demand saturation in the durable goods sector.

As a result of the decisions taken in relation to economic, trade and monetary policy in recent years, a high degree of uncertainty also persists in relation to future global economic development, in particular regarding possible restrictions on global trade. There is still a considerable risk that the Euro area will disintegrate. By contrast, as a new US administration with a significantly more cooperative attitude has taken office, the risks to trade resulting from protectionist measures have been significantly reduced. Nevertheless, trade policy tensions may continue even under the new US administration. With the conclusion of a partial agreement between the United States and China in February 2020 and an investment agreement between the European Union and China in January 2021, which is expected to bring improvements for EU companies as regards market access and competition conditions, trade policy conflicts have become less explosive. The United Kingdom's departure from the European Union in January 2020 continues to be a source of risk. However, a Trade and Cooperation Agreement, which was concluded immediately prior to the expiration of the transition period at the end of 2020 has prevented trade relations from regressing to a minimum level. Nevertheless, there are still a number of outstanding issues regarding the institutional structure of economic relations between the United Kingdom and the European Union, and there are numerous details that the agreement does not govern, or only partially governs. Even though the agreement has significantly reduced the risks that could result from trade policy measures such as tariffs or non-tariff barriers, a cross-divisional Brexit project team at the Otto Group Holding is conducting continuous analyses as to whether there could be negative effects for the Freemans Grattan Group and the Otto Group as a whole. In addition, risks to the development of the global economy are arising due to turbulence in the financial and raw materials markets, structural deficiencies – particularly in many emerging economies – and ongoing geopolitical conflicts. The significantly higher level of debt in the private and public sectors in many countries due to the coronavirus pandemic 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 Otto Group company is evaluated and the portfolio is adjusted as needed. Noticeable improvements have been achieved by means of the measures implemented in recent financial years.

In the Multichannel Retail segment, the Otto Group sold the Group company Otto Japan Inc. to the company Legego Inc. as part of a management buy-out, with effect from 31 July 2020.

In view of strategic considerations, it was also decided to move certain activities of Otto Group Digital Solutions (OGDS), which is included in the Financial Services segment, closer to the operating core of the Group's various business models. These restructuring measures will put an end to independent company-building activities and integrate selected projects into the overall OTTO Group company. Otto Group Digital Solutions GmbH remains the parent company and continues to manage its portfolio companies. Strategic options for these companies will be examined in the coming months.

In the Services segment, the Otto Group sold the Group's service provider for quality assurance and product safety, the Hansecontrol Group, to Qima, a leading global provider of supply chain compliance solutions based in Hong Kong.

Furthermore, the 2020/21 financial year marked the beginning of a partnership for the parcel distribution business, which had been announced in the 2019/20 annual report. The partnership with Advent International in Germany and the United Kingdom opens up further scope for important investments for the Otto Group's parcel distribution companies, and thus creates optimum conditions for further growth.

Portfolio optimisation will continue to be one of the Otto Group's goals in the coming financial years. This may present opportunities as well as risks. These significant 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 characterised by a high rate of change and a competitive environment that remains intense. Consequently, further digitisation is an essential factor for success in the development of growth opportunities. During the coronavirus pandemic, the sharp change in consumer behaviour led to significant shifts in product ranges and shopping channels. The Otto Group's revenue increased particularly as a result of the sharp rise in online demand for furniture, furnishings and consumer electronics that the pandemic caused.

The Group company OTTO has developed outstandingly well, particularly in its primary product ranges of furnishings and consumer electronics. OTTO has been numbered among the leading e-commerce companies in Germany for years, continually keeping up with the rapid pace of digital development. The coronavirus pandemic and the associated shift online allowed OTTO to massively expand its customer base and thus once again significantly accelerate revenue and customer growth in the 2020/21 financial year. Despite slight delays due to the pandemic, OTTO also made use of the past financial year for its ongoing business model shift from a pure online retailer to an e-commerce platform, in order to consolidate and further expand this strong market position in the long term. 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. This is how OTTO presented the newly established marketplace platform OTTO Market, with automated onboarding to enable partners to scale their business in the best possible way. This has significantly reduced the time required to onboard partners. As a further major new feature, marketplace partners can also sell products that are already on offer. Previously, existing products were simply added to the range. This allows customers to decide for themselves who they want to buy from and on what terms. In addition, a sustainable own-brand label, OTTO products, was launched across all product ranges. The brand is based around renewable raw materials, recycled materials and organic cotton, which it uses almost exclusively. The sustainability of OTTO products is certified by demanding sustainability seals of approval, which make every component traceable. In addition, the tests and initiatives launched in 2020 for shipping bags that are CO_2-neutral or made entirely from recycled materials not only offer great opportunities for ensuring ecological responsibility, but also opportunities to stand out from competitors. In this way, OTTO is responding to customers' desires for ethical consumption, which is set to increase in the long term. OTTO also uses data-based advertising campaigns to attract new customers. Using a broad database of first-party data from OTTO Retail Media and environmental data or geotargeting, OTTO changes the content of outdoor advertising in real time depending on the environment, time of day, current weather conditions and the interests and behaviour of the target groups at the location. Apart from TV, addressable TV and classic social media channels, OTTO's media mix once again includes sponsored streams on Twitch and also, for the first time, podcast advertising. OTTO is also making further developments in terms of payment processing between customers and sellers. As part of this, PEG-Payment Entwicklungsgesellschaft mbH, a new company for processing payments on otto.de was founded, so that in future, it will be able to offer competitive payment services for customers and marketplace partners from a single provider. Subject to approval by the German Financial Regulatory Authority (BaFin), from the second quarter of 2022 OTTO is expected to work towards being able to offer its customers a uniform checkout process, regardless of whether an item is sold by OTTO as a retailer or by a third-party marketplace partner. In addition, OTTO Retail Media is being established as a central marketing unit within OTTO that will primarily offer advertising options for suppliers and marketplace partners.

During the coronavirus pandemic, online shopping enabled Otto Group companies with over-the-counter retail distribution channels to compensate or even more than compensate for the revenue lost due to temporary closures. The myToys group, which is aimed at young families, is growing, with demand for its products increasing significantly due to the change in childcare situations in particular during the lockdown. The lifestyle retailer the Crate and Barrel Group, which is active in the USA and Canada, has made a considerable shift towards online business. Previously, the Crate and Barrel Group had generated around half of its revenue in over-the-counter retail shops. The shutdown has caused revenues to decline at over-the-counter retail shops. At the same time, the Group has managed to strongly increase online sales. This enabled it to more than compensate for the decline in revenues at its over-the-counter retail stores. Manufactum showed similar growth as a retailer of high-quality products. Although its over-the-counter retail stores in Germany and Austria were temporarily closed, the company achieved significant revenue growth in the garden, furniture, and sports product ranges. The Baur Group, which is active in online retail and retail-related services, recorded both dynamic and successful development in both its business segments. Its high customer frequency can be attributed to its target-group-oriented, needs-based offerings together with its outstanding service and delivery quality. The experience gained by over-the-counter retailers in Multichannel Retail during the lockdown will be used to further optimise the customer experience in the long term and thus further expand the customer base. The popularity of omni-channel services also shows how important over-the-counter retail is, as consumers are using click & reserve, click & collect and the option of returning products ordered online to shops. Due to the dynamic development of the pandemic, further restrictions to over-the-counter retail cannot be ruled out. The diverse sales activities of the Group companies with regard to improving interplay between online and offline channels, digital interconnection and the above-mentioned wide range of opportunities will counteract the adverse conditions and further improve the customer experience.

By contrast, for the internationally active bonprix Group and Witt Group brands, the 2020/21 financial year was characterised by a reluctance to purchase in the fashion sector, particularly at the beginning of the pandemic. The multichannel fashion brand bonprix, for which the core target group is women, was significantly affected by consumer uncertainty. The bonprix Group has continuously worked to safeguard all business-critical processes and at the same time to boost demand again through targeted sales activities. Across its product range, the bonprix Group is seeing a trend towards more casual styles in the home and loungewear, smart casual and essentials segments, which will presumably also be more relevant in the 2021/22 financial year. The bonprix Group is adapting to this as regards its product range. In many countries in which the proportion of online sales for the bonprix Group had previously been comparatively low, it became apparent that as a result of the pandemic, ordering behaviour was undergoing a significant shift towards online retail and many new customers were being led to the online shops. To create a long-term customer loyalty to the bonprix brand, sales approaches that are suited to the target customer groups are being developed. The significant decline in returns also had a positive effect. Despite initially weak development in the textiles sector, the Witt Group can also look back on a high level of growth in its online shops. The Witt Group also expanded its online advertising activities. Social media and display advertising in particular has had a disproportionately high resonance. Additional newsletter campaigns, special offers and promotional activities supported sales development.

ABOUT YOU Holding AG and its operational subsidiaries – hereinafter About You – was launched in 2014 as a fashion and technology company, and recorded strong growth since then. In the 2020/21 financial year, About

You once again succeeded in achieving high double-digit revenue growth and exceeded the EUR 1 billion revenue mark.[7] About You is operating profitably in terms of EBITDA in the DACH region (Germany, Austria and Switzerland). For About You, the focus continues to be on international expansion. Apart from expanding its market leadership into Eastern Europe, About You is also continuing to gain ground in other European countries. In the 2020/21 financial year, About You was successfully launched in 13 new markets (including the Baltic States, France, Denmark, Sweden, Finland, Spain and Italy), meaning that it now has an online presence in 23 European markets. Overall, revenue in the international markets is showing strong growth and now accounts for a significant portion of total revenue. In addition to breaking into new markets, efforts continued as regards the development of new business segments. In the area of technology-driven B2B products, About You can further expand its customer base, consisting of Group companies and external customers, for its own e-commerce infrastructure, About You Cloud. In addition, About You expanded its offering in the 2020/21 financial year with its own shop category for masks and the new “Second Love” category. The latter offers customers fashionable second-hand products. 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.

All of the above measures are creating opportunities to access new customer groups, expand interaction with existing customers further and so achieve further revenue growth. Customers are becoming ever more demanding when it comes to delivery times and customer service. Focus areas for further improving the customer experience and creating long-term customer loyalty to Otto Group companies include personalising the Group’s offering to an even greater degree and clearly orienting the Group towards a competitive, inspiring customer journey with a special emphasis on retail sales via a variety of devices. The ability to adapt to new circumstances will be one crucial factor for success. Apart from a deep understanding of consumers, this ability requires more than anything else a willingness to act quickly and sometimes unconventionally.

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 stable development will continue, even under the difficult conditions of the coronavirus pandemic. Due to the worldwide increase in the quota of receivables at risk of default in 2020, the supply of receivables portfolios on the market is set to grow significantly in the medium term, with greater investment pressure expected to affect market participants at the same time. The EOS Group will continue to invest heavily in debt purchases, and will further increase its investment levels in future if supplies develop as currently expected. In addition to the purchase of unsecured receivables, the expansion of secured receivables purchasing in past financial years has opened up a new business segment 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. The use of new technologies based on artificial intelligence is expected to offer extremely significant opportunities for increasing efficiency in the collection process in the future. On the other hand, competitive pressures resulting from persistently low interest rates in the EOS Group’s major markets remain strong. Infrastructural restrictions in the collection process – caused by changed conditions in the various markets due to the coronavirus – also represent a temporary risk to the positive development of cash receipts for 2021 at least, while possible negative economic consequences represent a risk to this positive development in the medium term. The legal conditions affecting debt-collection companies are constantly changing. As a consequence, the potential tightening of legal conditions, among other things, presents significant risks that may affect the Multichannel Retail segment. 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 future 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.

In the **Services** segment, the Hermes Group 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. In order to lead the way in this particularly dynamic market environment through even greater levels of innovation and by being able to provide Hermes Group business partners an even higher-quality international service undertaking, the Otto Group has decided to initiate wide-reaching measures aimed at focusing and reorganising its parcel distribution business. Going forwards, the parcel distribution business in Germany and the United Kingdom will be further developed with Advent International as a strong partner.

In the 2020/21 financial year, Advent International acquired 25% of the shares in Hermes Germany GmbH and 75% of the shares in Hermes Parcelnet Limited. In the United Kingdom, the Otto Group relinquished the majority of Hermes Parcelnet Limited, but retains a right of co-determination in major strategic decisions. The partnership opens up further scope for important investments for the Otto Group’s parcel distribution companies, and thus creates optimum conditions for further growth. In addition, Advent International’s expertise in logistics, for example in the area of alternative delivery solutions, will support the Hermes companies in further developing the business model. Furthermore, plans to sell 100% of the shares in MONDIAL RELAY in France to the international parcel services provider InPost S.A. were announced at the start of the 2021/22 financial year. A corresponding agreement has been signed. The planned transaction is still awaiting approval from the relevant anti-monopoly authorities. The Otto Group views the new arrangement as an excellent opportunity for MONDIAL RELAY to ensure the continued long-term business success of the French parcel distribution company. As part of its location strategy, Hermes Fulfilment GmbH has also decided to close down its returns facility in Hamburg-Bramfeld. The closure will be completed in the second half of 2021. Faced with increasing

[7] The revenues of the operational subsidiaries of ABOUT YOU Holding AG are not included in the revenues of the Otto Group, as a result of their recognition based on the equity method.

international competition, a rapidly changing environment and strong cost pressures, this important step was necessary to ensure a competitive and financially sustainable direction for this Group company.

In the 2020/21 financial year, particularly intense growth occurred as a result of the shift towards online retail, which was intensified by the pandemic. While the Hermes Group had to close its distribution activities in France for around two months in the spring of 2020 due to a lockdown, significant growth was recorded in shipment volumes in Germany and the UK following only a short period of uncertainty. Hermes Parcelnet Limited in the United Kingdom, in particular, achieved revenue far in excess of the previous year. Following the lockdown in France in spring, shipment volumes also showed a strong increase there. Despite the pandemic-related restrictions, Hermes proved itself to be efficient throughout the entire period and also adapted its customer services as needed by means of contactless delivery. As the market leader in its segment, HERMES Einrichtungs-Service GmbH & Co. KG, benefited from the strength of the relevant product ranges from the Otto Group's online retailers and also recorded a very strong business performance. The dynamic growth in shipping volumes has created growth opportunities for the Hermes Group that will also necessitate investments in infrastructural expansion in future.

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

In the medium term, the continued shortage of drivers in the area of distribution logistics, presents a particular risk, especially in urban regions. The slight increase in unemployment in Germany due to the coronavirus pandemic did not alleviate this problem. Consequently, this shortage of drivers will continue to make hiring employees more difficult in the longer term and result 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; it also continued this initiative in the 2019/20 and 2020/21 financial years. 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. In urban areas in particular, cargo bikes are a useful addition. In addition, Hermes Germany GmbH in Germany is testing a super lorry over 25 metres in length. This type of vehicle has an increased capacity, which relieves the burden on traffic routes and the environment.

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, and is highly valued by the Group's customers.

Group company OTTO, which also provides shopping services for other Group companies from the Multichannel Retail segment, is counteracting this challenge with business intelligence (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 dashboard for inventory control allows the "Day inventory held" KPI to be monitored and managed right down to the product level. In order to optimise processing capacity in the warehouse facilities used by OTTO, a goods-receipt forecasting system based on artificial intelligence was developed and linked to the newly implemented goods flow calculation. This innovative forecasting method is used in inventory control to minimise the working capital and thus optimise liquidity.

Essentially, systems and processes for trading transactions at OTTO regularly undergo further development. This includes the partial transition of processes to robotic process automation – hereafter RPA. The D2PO project (Demand 2 Purchase Order) aims to fully automate management of items for which a rule-based decision can be made. This includes automatically determining the projected engagement with customers, automatically creating supplier orders, all the way through to automatically approving these items. 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.

RPA is also enabling the automation of manual, time-consuming and repetitive processes within product classes. For example, manual price control activities were in the electronics and digital sector have now been automated. In the fashion and sport sector, image file transfers for otto.de from the fashion cloud have also been automated. These optimisations 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 across the entire Otto Group, there is a special emphasis on the selection of suppliers, as violations of sustainability requirements by Group suppliers is seen as a significant risk. Potential quality deficits are minimised through close collaboration with suppliers and manufacturers and through constant quality controls. Otto Group companies also place particular emphasis on ensuring socially acceptable working conditions, which are an important component of the CR strategy.

The goal is to increase transparency in the supply chain and to ensure better working conditions and compliance with social standards in the factories through audits and training courses. For example, the Otto Group is contributing to the improvement of supply chain participants' social and environmental performance by providing suppliers with training on 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. For a large proportion of German customers, ethical considerations have become an integral part of purchasing decisions. They are in favour of products having longer life cycles and greater material efficiency. Many customers are now also prepared to bear the additional costs for climate-neutral products. With its new own-brand label, OTTO products, for example, the Group company OTTO is focusing on a conscious shopping experience, sustainable raw materials and nature conservation. 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.

There is still a risk that the pandemic may cause supply bottlenecks or shortages due to production stoppages or the closure of production facilities. In response to this risk, a project team has been set up at the Otto Group Holding level and has developed an early warning system to identify supplier insolvencies, among other things. This offers the opportunity to counter insolvencies of key suppliers at an early stage.

A robust fulfilment process with a high degree of availability of goods and a high processing capacity is a fundamental requirement for the further growth of the Otto Group's brand and retail strategies. The Otto Group must align its fulfilment activities to the needs of the various Group companies. The customer desire for reliably fast delivery of goods remains unchanged. They also continue to expect choice in terms of delivery times and dates, and that their choice will be adhered to.

Ordering behaviour is becoming increasingly difficult to predict in this context. Over the course of 2020, peaks and troughs in demand sometimes followed one another directly in a particularly marked fashion, with peaks in demand proving more drastic. In addition to the well-known peaks of demand around Black Friday, the Christmas shopping period and the times around product range changes, the coronavirus pandemic has caused overall demand to rise significantly. Larger and shorter-term fluctuations must be taken into account, as they have significant effects on the operational planning of resources, in particular the deployment of employees, as well as the flexibility required in the locations network. An excessively long adaptation time results in competitive disadvantages. These particularly high quantities of orders occurring within short timeframes mean that it must be possible to scale logistical capacity flexibly.

However, when the supply chain operates efficiently, this also creates various opportunities for the Otto Group companies to provide the best possible customer experience and so to set themselves apart from the competition. In the past financial year, as a result of various collaborative projects carried out with the Group companies, not only was performance improved, but cost savings were also achieved through a reduction in shipment splits. Logistics facilities have been constructed or reconstructed such that capacity can reflects demand and distances to end customers can be reduced, which has a positive effect on delivery times. In addition to outbound capacity, returns processing capacity has also been created.

The supporting role played by the Supply Chain Management department of Otto Group Holding has also had a positive effect on logistics activities. Collaborative projects are being implemented across the Group, so that synergies can be leveraged for the Group as a whole. An overarching technology strategy is enabling the use of uniform, yet individually usable IT systems. Due to the development of the pandemic, a new communication platform was created in March 2020 for topics relating to the coronavirus situation, but also to the general situation within logistics. Several times a week, all operation managers involved in fulfilment exchange information on best practices and measures, as well as the current status regarding virus cases. In this context, safety policies and risk management plans were also collectively developed and continuously optimised to meet infection control requirements. So far, this has made it possible to keep delivery times at an entirely competitive level during the pandemic and thus to gain new customers. It is possible that infections and resulting stoppages in warehouse and delivery logistics will continue to occur in future – despite intensive safety and hygiene measures.

INFORMATION SECURITY AND IT

Against the background of the strategic importance of e-commerce and the ongoing digitisation process, Otto Group Holding has successfully driven establishment of the technology strategy and governance sector. In addition to the allocation of key resources, strategic initiatives in the e-commerce and fulfilment sectors in particular are currently helping the Otto Group to take advantage of market opportunities arising from digitisation and improve its competitive position in the long term.

The heavy use of information technology increases the need for protection against unauthorised access to and misuse of data (cybercrime). The Otto Group protects itself against these significant risks by means of a comprehensive security strategy which, in addition to organisational measures, also 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 user levels. A zero-tolerance policy for vulnerable older operating systems was implemented in the short term as a direct measure. Furthermore, security tests are regularly carried out by internal and external specialists, and the measures resulting from these tests are consistently implemented. For the 2021/22 financial year, further strategic measures will form the focal point, such as the establishment of a security incident response team and the introduction of a multi-tier architecture for the Otto Group network.

In 2019 and 2020, data centre operations underwent comprehensive modernisation measures, and are now divided into a primary data centre that functions as an externally operated co-location, and a secondary data centre at the Hamburg-Bramfeld site. The external co-location as well as the network's 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 established IT emergency management process also provides for 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.

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 are not put into operation until they have been approved. The majority of German SAP systems are hosted at the data centres of a strategic partner. This partner is regularly audited in accordance with defined criteria – including their processes and service performance. The Otto Group's IT division has been certified as a SAP Customer Center of Expertise, which attests to its technical and functional expertise as well as its excellence in terms of process.

In the context of the ongoing digitisation process, the main area of focus is front-end automation using robotic process automation (RPA) and M365 Power Automate. The Otto Group's process automation service uses a modular system to help to address the Group companies' needs in the area of automation.

Office 365 has been a key component in ensuring that work processes at over 30 Group companies within the Otto Group functioned seamlessly under the restrictions caused by the coronavirus pandemic. In this context, the Otto Group's IT division successfully facilitated the transition to working from home, including scaling up the VPN infrastructure and providing 1,000 additional virtual desktop infrastructure (VDI) connections. A shared collaboration infrastructure based on Microsoft Azure is also being used as a Group-wide technology driver, to improve IT security standards and implement secure authentication mechanisms. Since the beginning of the 2020/21 financial year, a project has been underway to implement the staged migration of the Group's SAP systems to the Google Cloud Platform. This offers the advantage of optimal scalability in relation to the server capacity required.

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. The transparency achieved regarding the evaluation of the Group's digital CO_2 footprint is being used to draft approaches for reducing or offsetting CO_2, with the ambitious goal of making IT services 100% carbon neutral.

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 in respect of the Otto Group 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 through a variety of methods.

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 at all times. In principle, financing instruments can include all money and capital market products as well as leasing and factoring. The Otto Group has a balanced banking portfolio and a very comfortable buffer of free credit lines. Thanks to the measures introduced in past 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 at any time, 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. Apart from the banking market, the Otto Group covers financing requirements through the capital market, where the Group has established itself as an issuer through regular bond transactions.

Thanks to the excellent performance of business operations at individual Group companies, the successful optimisation of working capital and the finalisation of a partnership for the parcel distribution companies of the Hermes Group in Germany and the United Kingdom, the Otto Group has liquid funds in the amount of EUR 1,247.1 million at its disposal at the end of the financial year. In addition, available liquidity was partially used to reduce gross financial debt in the 2020/21 financial year, through early repayment of loans and bond repurchases, among other measures. The remaining liquidity balance is invested across a widely diversified set of banks that are subject to constant monitoring in terms of their ratings.

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. Significant 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 contracts and currency 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.

Regarding the concentration of financial risks, refer to the Notes to the consolidated financial statements (see Notes to the consolidated financial statements as at 28 February 2021, Note (37) Financial instruments).

LEGAL AND REGULATORY RISKS

As a group of companies operating internationally with a heterogeneous group portfolio, the Otto Group is exposed to a large number of legal and supervisory risks.

The Otto Group maintains a compliance management system – hereinafter CMS – in order to identify such compliance risks at an early stage and adopt suitable measures. Within the framework of this CMS, potential risks are identified and evaluated, legal and regulatory requirements and changes are analysed and measures and processes are defined to ensure legal compliance.

Based on its key business segments, the Otto Group has identified core compliance issues such as data protection and competition and anti-monopoly law, among others. The Otto Group sees significant risks in the areas of competition and anti-monopoly law.

The Otto Group's CMS continuously monitors risks in the field of anti-monopoly law, particularly in fast-changing areas such as the platform economy and e-commerce. The CMS gives rise to recommended courses of action and measures, and supports implementation in the Group companies. In addition, corresponding training programmes raise employee awareness of the relevant issues. The CMS is undergoing constant further development in the area of anti-monopoly law.

Data protection requirements continue to be high since the application of the General Data Protection Regulation – hereinafter GDPR – and the precedent-setting decisions by the European Court of Justice on transferring data to countries outside the EU, among other things. The Otto Group views the risks in this area as significant. The Otto Group places the protection of customer and employee rights and data security among its highest priorities. The Otto Group acknowledges its obligation to handle data in a trustworthy fashion. Results of external studies and audits have demonstrated that the Otto Group has fully succeeded in implementing the regulations of the GDPR. As discussions regarding the correct interpretation of the GDPR have only just begun in many areas, further adjustments will naturally be needed in future. The Otto Group is monitoring these discussions intensively, and participating in them. By providing extensive training opportunities, the Otto Group has successfully embedded the existing internal and legal framework conditions even more deeply within the organisation.

The Otto Group's CMS also covers other important issues such as anti-corruption, foreign trade law and taxes. The Group has stayed up to date on increased requirements in international foreign trade law by revising and adjusting its internal regulations, for example.

Compliance with the conditions of labour and social law is also an important factor for the Otto Group. For example, Hermes has had a Code of Conduct 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 parcel distribution. The Code of Conduct 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.), Hermes participated 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

One of the key factors in the Otto Group's success is its employees. Their wide range of skills, their experience, their capabilities and their commitment form the basis for the further development of the Group.

The Otto Group employed an average of 49,895 staff – calculated on a full-time equivalent basis – in the 2020/21 financial year (2019/20: 51,982).

Employees

	2020/21	2019/20	Change
	number	number	in %
Multichannel Retail	23,087	23,811	–3.0
Financial Services	6,468	6,770	–4.5
Services	20,031	21,087	–5.0
Holding	309	314	–1.6
Group (as reported)	**49,895**	**51,982**	**–4.0**
adjustment	0	–3,226	
Group (on a comparable basis)	**49,895**	**48,756**	**2.3**

The decline in the number of employees in the Multichannel Retail segment is primarily due to the sale of SportScheck GmbH and its subsidiaries at the end of the 2019/20 financial year, and to Schwab focusing its activities on the brand Sheego. The decrease in the Services segment can be attributed to the deconsolidation of the parcel distribution companies of the Hermes Group in Germany and the United Kingdom in the course of the 2020/21 financial year, and to the sale of the Hansecontrol Group. By contrast, various Group companies in both the Multichannel Retail segment and the Services segment increased their number of employees as a result of significant expansions in their business activity. On a comparable basis, that is taking into account the above-mentioned changes in the scope of consolidation, the number of employees grew by 2.3% in the 2020/21 financial year.

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 suitable framework conditions and growth opportunities are available. During the 2020/21 financial year, the coronavirus pandemic rendered this objective even more important, as the Otto Group – much like almost every other company – had to react to sudden changes in overall conditions. Comprehensive hygiene policies were developed, mobile work quickly became the standard and managers teamed up with their employees to restructure the daily working routine.

Thanks to its digital transformation, the associated culture change and its pre-existing diversity promotion measures, the Otto Group had a particularly swift and well-considered response to the coronavirus pandemic. The diversity of the Group's teams proved to be an advantage here, as the combination of differing perspectives and skills played a crucial role in enabling a flexible response to new challenges.

Diversity as a value is integrated within the Otto Group at a fundamental level, with all employees receiving equal opportunities – regardless of ethnicity and nationality, gender and gender identity, physical and mental abilities, religion and world view, sexual orientation and social background. As a signatory to the "Diversity Charter" (www.charta-der-vielfalt.de/en), the Otto Group has openly adopted the Diversity Dimensions listed in the charter. Tolerance, acceptance, openness, respect and esteem are integrated into employees' daily working routine as a matter of course.

Furthermore, Group-wide Diversity Management encourages and challenges all employees in respect of their different abilities and talents, as diversity opens up new opportunities for creativity and innovation every day. To provide additional support in this area, a Group-wide Diversity Community was established to highlight all the Diversity Dimensions and to collect figures, data and facts from the Otto Group. In the previous financial year, this community increased the impact of diversity on a broad scale at the Otto Group and supported its ongoing integration within the Group. Development also continued on a wide range of initiatives and measures aimed at providing targeted career advancement for women – such as the active expansion of the internal female executive network, for example.

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.

To ensure that learning and digital education is a natural part of the daily working routine, the digital learning platform Masterplan is being rolled out further through the Group-wide professional development initiative "TechUcation". More than 21,000 employees from 28 Otto Group companies in the DACH region have already received their invites for Masterplan, and spent an average of twelve hours learning on the platform during this first year. All employees go through a basic online course first to help them to acquire a general understanding of digitisation. They can then choose from a wide selection of follow-on courses, which are continuously expanded and updated.

Other learning models have been implemented to integrate learning into the daily working routine in the long term and to promote Group-wide knowledge-sharing. In addition to learning hacks that explain various learning methods and provide support in reflecting on the course content and putting it into practice, these included initiatives such as teaching coach training and Group-wide Remote Learning Days.

In future, logistics employees will also have the opportunity to use Masterplan for further professional development. A basic course tailored to logistics was developed through a co-creation process, in which employees from the logistics departments played a decisive role. The necessary workspaces with the requisite technical equipment will be provided, so that all employees can access learning opportunities. This will also drive the culture change in logistics.

For the employees of the Otto Group therefore, 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. Since autumn 2020, a major area of focus has been training upper management in organisational development. The aim is to find the best possible solutions for the diverse challenges involved in transforming organisational models in the context of digitisation.

A decisive factor for the successful growth of the Group and the implementation of its human resources strategy is 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, with the aim of reinforcing a company culture in which all employees work together with courage, independence and trust. The objective of this initiative is to encourage and enable employees to continue to drive digital transformation in the whole Group as part of their day-to-day activities. After the #Mut-Festival ("Courage Festival") held in August 2018 and the #Mut-Expeditionen ("Voyages of Courage") of 2019, 2020 saw the development of a learning path for promoting courage. This video series, which can be accessed on the Group-wide learning platform Masterplan, gives Group company employees the opportunity to become inspired and take action based on testimonials by their colleagues, and tools and learning messages on the topics of courage, feedback and error culture.

The culture change contributes to agile working, reinforced knowledge-sharing and rapid decision-making within the Otto Group. It promotes Group-wide networking and thus creates valuable synergies, while also significantly improving the Group's ability to react to market requirements.

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, which was completed during the 2020/21 financial year. As of 1 March 2021, the new CR strategy applies.

CR STRATEGY 2020

The CR Strategy 2020 was an integral part of the Group strategy and consisted of five sub-strategies. These strategies called for the use of sustainably grown cotton and wood products from environmentally responsible forestry. They also focused 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.

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) since 2013.[8][9] Together, these companies generated close on 58% of Group revenue (for the 2020/21 financial year) and were responsible for approximately 80% of the Group's adverse environmental impacts.

TARGET-ACHIEVEMENT STATUS FOR THE SUB-STRATEGIES

In the Furniture[10], Paper and Climate sub-strategies, the target value for the final year of the CR strategy 2020 was exceeded. The target value for the Textile Strategy was almost reached, with 98% rather than the planned 100%. In 2020, just under 90% of suppliers were integrated into the Social Programme (target value of 100%). All sub-strategies have been carried over into and expanded in the new CR Strategy, which came into effect on 1 March 2021.

The **Textile Strategy** promotes the sustainable production of cotton: For 2020, the final year of the strategy, the target was to only use sustainable cotton for the Group companies' own and licensed brands, valid for companies included in the CR Strategy 2020. In terms of sustainably grown cotton, focus is 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 98% in 2020 (2019: 96%), which indicates that the Otto Group almost reached the target of 100%. This increase is largely attributable to the Group's continually increasing use of cotton from CmiA initiatives, as well as its use of organic and recycled cotton. A small number of suppliers with low volumes of cotton do not use any sustainable cotton. However, as their products serve as flagship products for entire product ranges at certain Group companies, these companies decided not to remove these products from their range in light of cost-benefit considerations.

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®. Consequently, this objective continues to be relevant beyond the time frame of the CR Strategy 2020. In 2020, FSC-certified wood as a percentage of the total wooden furniture product range accounted for 74%. Consequently and contrary to the forecast, it fell below the previous year's figure of 79%. In 2020, growth was unexpectedly strong

Value-adding stage	Substrategy	Target	Actual 2019	Forecast 2020	Actual 2020
			in %		in %
Raw Materials and Processing	Textile	100 % sustainable cotton in own and licensed brands	96	slight rise	98
	Furniture	100 % FSC®-certified furniture products (until 2025)*	79	clear rise	74
	Paper	60 % FSC®-certified catalogue paper	64	slight rise	68
Final Production	Social Programme	100 % integration of suppliers of own and licensed brands in the social porgramme	95	slight rise	90**
Trade	Climate	50% reduction of CO_2 emissions***	– 51****	slight reduction	– 56

* *In consultation with the relevant NGOs, 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.*
** *UNITO Versand & Dienstleistungen GmbH was included in the Otto Group key indicator for the first time in 2020. Frankonia Handels GmbH & Co. KG is not part of the official key indicator, although this was originally intended.*
*** *The target refers to adjusted CO_2 emissions in comparison to the base year of 2006.*
**** *At Hermes Germany GmbH, 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. For 2017, the recalculation was carried out using 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.*

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

9 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 key indicators from the CR Strategy 2020.

10 There is an interim target in place for the Furniture sub-strategy: 70% by 2020.

in relevant furniture ranges for Group companies OTTO and baumarkt direkt GmbH & Co KG. Germany is one of the main supplier countries for the wooden furniture ranges offered by these Group companies. As there was a supply shortage for FSC-certified wood in Germany, many of the new suppliers were not FSC-certified. The Group companies concerned are striving to achieve FSC certification for the new suppliers as well in the near future.

The **Paper Strategy** aimed to increase the share of FSC-certified paper used in catalogues to at least 60% by 2020. This target applied to catalogue paper printed using the gravure process as well as the offset process. The target was exceeded by a significant amount, with the share of FSC-certified paper in use increasing to 68% in 2020 (2019: 64%). This means that the overall target of the Paper Strategy was achieved as of 2019, and confirmed once again in 2020. This projected continued 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.

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[11] 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 their factories. In 2020, this applied to 90% of suppliers (2019: 95%). The goal of integrating 100% of suppliers in 2020 was not attained, due to the challenges caused by the coronavirus pandemic in particular. In some cases, audits could not be conducted, or could only be conducted to a limited extent, both due to factories and auditing companies being affected by lockdowns and due to travel bans. The requirements of the Social Programme, particularly for transparency in relation to production facilities and the results of previous social audits, will continue to be a basic requirement for the Otto Group's business partners in future.

The goal of the **Climate Strategy** was to reduce CO_2 emissions on site and during transport. By 2020, adjusted[12] CO_2 emissions at the Group's own sites as well as in goods-procurement and goods-distribution transport and in employee travel were to be halved in comparison to the base year of 2006. This target was exceeded. In 2020, absolute (unadjusted) CO_2 emissions fell in comparison to 2019 from 205,814 t to 196,030 t. During the same period, adjusted CO_2 emissions fell from 154,730 t to 138,644 t. This corresponds to a reduction of 56% in relation to the base year of 2006. (2019: –51%). This further reduction was primarily due to the again significant reduction in air freight and an accompanying shift towards less CO_2-intensive forms of transport such as maritime, road and rail transport in the procurement of goods from producing countries. The reduction can be partially attributed to the affects of the coronavirus pandemic.

[11] The classification of risk countries is determined in accordance with the amfori Business Social Compliance Initiative (BSCI)).

[12] For CO2 adjustment factors, see Sustainability Report 2015, p. 48.

NEW CR STRATEGY FROM 2021

During the 2020/21 financial year, the Otto Group's new CR Strategy was rolled out, adopted by the Group's Executive Board and launched on 1 March 2021. The new strategy covers seven topic areas, including new topics as "Circularity", "Digital Responsibility", "Empowered Employees" and "Conscious Customers", for which corresponding qualitative targets have been set. The quantitatively measured and externally audited key indicators are still drawn from the following topics: "Supply Chain", "Climate" and "Sustainable Materials". Commitment, ambition and activities in these fields are in comparison to the CR Strategy 2020. The annual variable remuneration for members of the Group's Executive Board is still tied to attainment of these goals, with the quantitative goals of the CR Strategy as a basis.

A total of 14 Group companies and sub-groups are involved in the new CR Strategy: Baur Versand (GmbH & Co KG), the bonprix Group, the Crate and Barrel Group, the EOS Group, the Freemans Grattan Group, Frankonia Handels GmbH & Co. KG, HERMES Einrichtungs-Service GmbH & Co. KG, Hermes Germany GmbH, Hermes Fulfilment GmbH, the myToys Group, OTTO, sheego GmbH, UNITO Versand & Dienstleistungen GmbH and the Witt Group. The respective topics become binding for a Group company or sub-group once a materiality threshold specifically defined for the relevant sub-strategy has been exceeded.

	Target value 2021	Final target value
	in %	in %
Climate		
CO_2 savings of 40% by 2025 (relative to base year 2018) within the scope of own locations, transports, employee mobility (operations) and for externally operated data centres and cloud services	– 8%	– 40% (until 2025)
Sustainable Materials		
65% "preferred" fibers*, thereof 100% sustainable cotton	48%	65% (until 2025)
Furniture from 100% certified FSC-wood	74%	100% (until 2025)
100% sustainable catalogue paper	75%	100% (until 2025)
100% sustainable packaging	81%	100% (until 2023)
Supply Chain		
100% transparent supply chain	700**	100% (no target year)
Improvement of ecological production conditions	_***	continuous improvement (no target year)
Improvement of social production conditions	_***	continuous improvement (no target year)
Circularity		Qualitative targets at Otto Group level. However, measures are set at Group company level and therefore vary.
Conscious Customers		
Empowered Employees		
Digital Responsibility		

* *Our "Preferred Fiber Portfolio" includes fibers that have a lower environmental impact compared to conventional alternatives, as well as recycled materials and animal fibers that respect animal welfare.*

** *Indication of the absolute number of players in our supply chain that we do not know yet and want to identify.*

*** In 2021, pure status quo determination, therefore no improvements measurable yet

Outlook

The outlook and forecasts for the 2021/22 financial year are still heavily influenced by the global coronavirus pandemic. Extensive protective measures aimed at containing the pandemic are still in place in many countries. These measures have led to a significant economic impact on companies in almost all sectors by this point. In many national economies, extensive governmental relief measures have been agreed and implemented to lessen the negative impact on the overall economy and specific sectors. There are still risks associated with forecasting the economic impact of the pandemic, as it is uncertain how the virus will continue to spread, how many virus mutations may occur and how quickly the number of vaccines necessary for immunity will be administered. Consequently, the uncertainty regarding the further course of the pandemic continues to represent the most significant risk factor for overall economic development.

For the assessment of overall economic development, globally, in Germany, in the Euro area and in the USA, as well as sector development assessments, the standard expert reports and analyses by professional associations, such as the Kiel Institute – hereinafter IfW Kiel – for the World Economy's spring report on economic outlook, are generally used below. The IfW Kiel forecast assumes that as the vaccination campaigns that are already underway in many countries progress, and pandemic-related restrictions are relaxed accordingly, the coronavirus' overall economic impact will gradually decline over the six-month summer period of 2021, and that significant progress is being made in the economic recovery process. Nevertheless, a further delay in the alleviation of the pandemic would also further postpone the substantial increase forecast for overall economic output.

OVERALL ECONOMIC DEVELOPMENT

According to estimates by the Kiel Institute for the World Economy (Institut für Weltwirtschaft) on 18 March 2021, the **global economic growth** is set to see a strong inflation-adjusted increase in global GDP of 6.7% in 2021 (2020: –3.3%).[13] The global pace of economic growth is thus expected to increase again, as the forecast assumes that overall economic activity will increasingly normalise from the six-month summer period onwards. In the advanced economies, overall economic output is set to increase substantially during 2021 as a whole. Consequently, a gradual improvement is expected in the labour market in these regions. In the Euro area, after the decrease in global demand in 2020 which had a negative impact on economic growth, overall economic output is expected to increase at a significantly higher rate. The substantial growth rates forecast for private consumption are a decisive factor here. This growth is set to accompany the expected incremental relaxation of the pandemic-related restrictions. In the USA, where current developments indicate a rapid normalisation of the overall economic situation, growth rates in 2021 are set to be the highest among the advanced economies. In addition, it is expected that the rate of overall economic expansion in emerging economies may also increase significantly and that the overall economic situation may recover rapidly as a whole. Development in these countries may be driven by the significant increase in China's overall economic momentum in particular. Strong growth is forecast for international trade as a whole. In this case, the change in world trade volume, which may consist of a rise of 7.5%, would be significantly higher than the previous year's decline of 5.4%, and would significantly strengthen worldwide trade flow.

After a significant decline in 2020, overall economic output in the **German economy** is set to increase significantly once again in 2021, with a growth in inflation-adjusted GDP amounting to 3.7% (2020: –4.9%).[14] This forecast assumes that the negative economic impact caused by the pandemic will gradually decline over the course of the six-month summer period. Accordingly, consumer sentiment in the area of private-household expenditure observed at the beginning of the year is rallying when viewed across 2021 as a whole, as disposable incomes are also increasing. However, due to the low levels observed at the beginning of the year, overall private consumer spending in Germany is expected to barely exceed stagnation, with an inflation-adjusted growth of 0.2% forecast. Regarding the labour market, it is expected that the shutdown of some economic sectors at the beginning of the year will reduce work volume slightly. This is likely to affect employment levels and consequently the average annual unemployment rate; however, due to stabilising factors, the annual figure is set to experience only a slight increase from 4.0% in 2020 to 4.2% in the forecast year. It remains to be seen how the solvency of companies will develop once temporary state grants and credit programmes have come to an end. However, a further decline in corporate investment is not expected, as many companies are facing incomparably greater levels of certainty regarding their budgets than they did at the beginning of the pandemic. As for Germany's export markets, the overall economic environment, which experienced a sharp decline in growth in 2020, is likely to recover from this point on, meaning that German exports will grow strongly. As the estimated growth in projected exports is stronger than for imports, foreign trade can be expected to have a significantly more positive impact on growth during the forecasting period.

In the **Euro area**, a general upturn in overall economic output is expected in 2021 on the basis of assessments released by IfW Kiel, with the inflation-adjusted GDP likely to increase by 4.8% (2020: –6.8%).[15] Consumer spending by private households is set to normalise as infection control measures are relaxed incrementally, and should increase significantly in the forecast period. This will be supported by increased private-household purchasing power, which has accumulated over the past quarters. By contrast, the labour market situation in the Euro area is not set to improve during the forecast period, and according to the assessment by IfW Kiel, the average annual unemployment level is set to reach 8.0%, which is slightly above the previous year's figure of 7.9%. However, corporate investment is likely to grow again and will also have a noticeable impact on the increase in overall economic output. In addition, the external economic environment is likely to give rise to additional stabilising factors, as the strongly increasing export quota will exceed import growth. In the other **European Union** countries, such as Poland and the Czech Republic, a significant increase in overall economic output is also expected during the forecasting period, although it may be below the average for the European Union. In the

[13] Kiel Institute for the World Economy: "World economy in spring 2021: Recovery stays on track", 18 March 2021

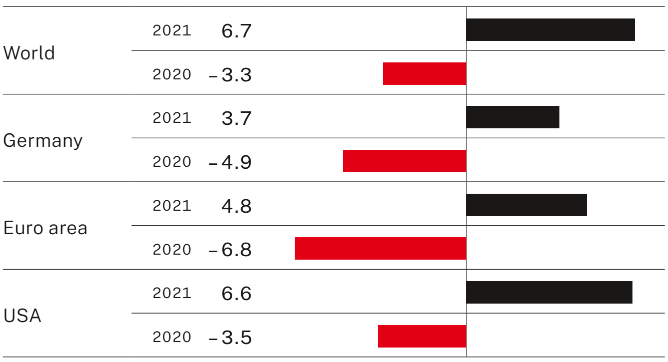
[14] Kiel Institute for the World Economy: "Recovery ready for second take off", 18 March 2021

[15] Kiel Institute for the World Economy: "Euro area "Full recovery will soon be within reach", 18 March 2021

United Kingdom, the prospects for economic growth have improved significantly due to the country's major progress in containing the coronavirus pandemic. However, Brexit continues to have a negative impact, particularly because it is unclear whether the Trade and Cooperation Agreement with the European Union will prove to be reliable. When compared with other advanced economies, lower growth rates are expected for the British economy, which is also reflected in the negative net exports figure assumed for the forecast year, among other things.

According to the economic forecast released on 18 March 2021, overall economic development in the **USA** in 2021 is set to grow at a much more dynamic pace than in the previous year, with inflation-adjusted GDP expected to increase by 6.6% (2020: –3.5%)[16] . Positive stimuli are expected to arise from the burgeoning growth in consumption, which is likely to be characterised by an inflation-adjusted growth in private consumer spending of 7.5% (2020: –3,9%). The situation there is also benefiting from significant fiscal stimuli from the new US administration. The situation in the US labour market may improve further, but for the forecast period, unemployment remains at a significantly higher level than before the coronavirus pandemic. The forecast is predicting an annual average unemployment level of 5.4% (2020: 8.1%). Investment activities at US companies are set to increase significantly, due to the rapidly progressing containment of the coronavirus pandemic, among other things. Due to strongly growing exports and imports, where the latter is expected to increase disproportionately, foreign trade is likely to result in a slightly negative net exports figure.

Forecast of change in real GDP
(in %)



SECTOR DEVELOPMENT

MULTICHANNEL RETAIL

Development in the **German retail sector** will also continue to be influenced by the impact of the coronavirus pandemic in 2021. After a significant decrease in overall economic output, economic performance is expected to grow in 2021, although the gradual decline in the negative economic impact of the pandemic is only expected to set in over the course of the six-month summer period.[17] The decline in employment caused primarily by the coronavirus pandemic is not expected to continue in 2021. Private-household disposal income will increase markedly again, due to fiscal policy measures among other things. However, the rise in consumer prices is forecast to reach 2.3%, which is significantly higher than the previous year and may have a negative effect on private-household purchasing power. Against the background of ongoing infection control measures aimed at containing the pandemic and persistent uncertainty regarding future overall economic development, consumer spending in the initial months of 2021 will continue to decrease. A significant recovery in private-household consumer spending is only expected to set in over the six-month summer period, meaning that the overall average for the year will likely come close to stagnation, with a slight inflation-adjusted increase of 0.2%. Due to a lack of opportunities for consumption together with consumer reluctance, private households in Germany saved to a great extent during 2020 and the initial months of 2021. This accumulated purchasing power is equivalent to a total of almost 12% of yearly consumer spending in 2019. The pent-up purchasing power could lead to additional demand for goods and services in the current year.

Nevertheless, in its yearly forecast published in January 2021[18], the German E-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel [bevh]) expects a continuation of the dynamic growth seen in **German online and mail-order sales** in previous years. According to the forecast, sales of goods in the **e-commerce sector** are expected to amount to approximately EUR 93.7 billion in 2021, (2020: EUR 83.3 billion), which would have constituted an increase of around 12.5% (2020: 14.6%). Developments during the first quarter of 2021 have confirmed this forecast, and are already showing dynamic growth.

As some over-the-counter outlets are still closed down, e-commerce will continue to supply the population in many product sectors during the initial months of 2021, meaning that individual product groups may continue to grow strongly. Unlike 2020, when demand for home furnishings, furniture and consumer electronics increased in particular, demand for these product classes is not likely to increase again in 2021. Due to the temporary reduction in sales tax, many private households made purchases earlier than planned or received incentives to make unplanned purchases, which may now lead to a certain level of demand saturation in these product ranges. In spite of this, 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.

[16] Kiel Institute for the World Economy: "World economy in spring 2021: Recovery stays on track", 18 March 2021

[17] Kiel Institute for the World Economy: "Recovery ready for second take off", 18 March 2021

[18] Press release, German E-Commerce and Distance Selling Trade Association (bevh), 26 January 2021

FINANCIAL SERVICES

The projected development in the German economy in 2021 will also have an effect on the **German financial services sector**. Fiscal policy and legislative measures, such as the suspension of the obligation to file for insolvency, resulted in a significant decline in company and consumer insolvencies in Germany in 2020. However, the actual situation of the companies affected by restrictions on business could be more serious than might be assumed from the insolvency statistics, as many companies continue to survive only because of these very exemptions from insolvency law together with state grants. Despite the suspension of the obligation to file for insolvency, which remains in effect until 30 April 2021 for companies that have yet to receive the state aid payments planned as of 1 November 2020, the decline in company insolvencies is not set to continue in 2021. Particularly in light of the fact that state aid measures are expected to be phased out, an increase in company and consumer insolvencies is anticipated in 2021. In view of the completion of various legislative measures and as a result of the anticipated growth in impaired receivables due to the impact of the pandemic on the overall economic environment, it is expected that impaired receivables and consequently, the supply of receivables packages will increase significantly.

According to the forecast published in November 2020 by Creditreform, Boniversum and microm[19], the declining rate of over-indebtedness seen in previous years is likely to be inverted due to the pandemic, and personal over-indebtedness may be expected to deteriorate.

SERVICES

Following the mid-term forecast of the German Federal Office for Goods Transport in October 2020[20], the **German transport and logistics sector** is anticipating a substantial catch-up effect across all transport-intensive sectors in 2021. After the recessive developments in the overall economy in the previous year in Germany, total goods traffic is set to grow during the forecast period by 4.1% (2020: –3.5%). However, as a consequence of protective measures, restrictions on transport and travel have continued in the first quarter of 2021, meaning that it can be assumed that goods traffic in Germany will not increase as strongly during the forecast period as is currently predicted.

The distribution operations of the German parcel service providers represent a major component of the German transport and logistics sector. The development of these operations is directly related to revenue growth in the online and mail-order trade in Germany. The forecast released in January 2021[21] by the German E-Commerce and Distance Selling Trade Association also predicts continued dynamic growth and noticeable revenue increases for 2021. This forecast has been confirmed by the dynamic growth in online and mail-order trade that was already evident in the first quarter of 2021. The accompanying high growth in shipping volumes is also set to pose serious challenges for German parcel services providers during the forecasting period in terms of handling the increasing number of deliveries sent by companies to private households. Cost levels in the German transport and logistics sector may continue their upward trend. The forecast for fuel costs predicts rising prices over and above pre-crisis levels for 2021; meanwhile, in view of driver shortages in distribution logistics, continued recruitment difficulties and increases in wage costs are expected. In addition, a further challenge is presented by the CO_2 pricing scheme for fuel that entered into effect at the beginning of 2021 as part of the Climate Action Programme 2030; under this programme, CO_2 pricing is set to increase on a yearly basis.

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, increased calls from consumers for environmentally conscious, sustainable business and ongoing traffic challenges.

DEVELOPMENT OF THE OTTO GROUP

The business environment in retail and retail-related services continue to change rapidly due to digitisation. This development is also being accelerated due to the coronavirus pandemic and the accompanying – and in some cases far-reaching – changes in consumer behaviour. Customers of the Otto Group continue to expect a high level of convenience, reliability and service. Shopping should be inspiring, personalised and convenient, and retail-related services should offer tangible benefits for customers and partners. For Otto Group companies, the guiding principle for all retail activities is to create an exceptional customer experience. The pivotal factors for the growth of the Otto Group in the coming financial years – a deep understanding of its customers in combination with a rigorous entrepreneurial mindset, use of advanced, innovative technology, rapid turnaround times, strong digital expertise as well as high levels of openness and collaboration – may create opportunities to access new customer groups, expand interaction with existing customers and achieve further revenue growth. Furthermore, the Group wants to create a home for digital creatives where they can pursue big ideas and also secure a leading market position in the long term.

In the previous financial year, the Otto Group attained the Otto Group Path goal formulated in 2017 of achieving revenue of EUR 17 billion by the 2022/23 financial year (on a comparable basis with the 2016/17 consolidated financial statements) ahead of schedule. The goal of increasing Group profitability in the same time period was also achieved. The development of the debt service ratio and the debt to equity ratio clearly emphasises the Otto Group's financial capability. This strong position offers an opportunity to develop the Otto Group Path further with a view to enhancing the Group's future strategic direction and setting new, ambitious goals. For the new Otto Group Path, a medium-term planning period has been defined, alongside the announcement of sustained, dynamic growth in revenue with higher levels of profitability. To achieve this ambitious goal, the Otto Group will continue to systematically pursue its targeted growth strategy, and make extensive,

[19] Creditreform, Boniversum, microm: "SchuldnerAtlas Deutschland 2020" (Germany 2020 debtor atlas), 10 November 2020

[20] German Federal Office for Goods Transport: "Rolling Mid-Term Forecast for Goods and Passenger Traffic – Summer 2020"

[21] Press release, German E-Commerce and Distance Selling Trade Association (bevh), 26 January 2021

targeted investments in the development and expansion of both new and existing business ideas and segments while also driving the corresponding innovations in a tangible way. In this way, the Group will systematically position itself to align with the future of sustainable retail, while simultaneously taking financial stability into consideration. This will ensure that the necessary flexibility is also maintained for future development, through continuing good credit metrics and a solid capital structure.

For decades, the Otto Group has firmly subscribed to the principle of responsible behaviour; whereby all business activities are focused on a commitment to operate a sustainable business that respects both the environment and the individual. At the end of the 2019/20 financial year, the shareholders shared their vision: "Responsible commerce that inspires". This vision highlights the importance of sustainable retail in combining social and environmental responsibility with the achievement of business success. The values in the Code of Ethics in particular act as a Group-wide moral compass, giving Otto Group employees a direction and framework for their daily activities. Going beyond the targeted growth strategy and systematically driving investments and innovation, the Group will continue to take on a high level of social and environmental responsibility, while setting clear, ambitious goals for itself. With its new CR Strategy, the Group is taking on high quantitative and qualitative sustainability goals in seven topics; among other things, these include committing itself to carbon neutrality by 2030. This new CR Strategy follows on from the CR Strategy 2020. It develops the existing topics further and adopts new topics at the same time. The process of rolling out the new strategy has been underway since the beginning of the 2021/22 financial year.

The coronavirus pandemic posed major challenges for the Otto Group in the 2020/21 financial year, and had a significant impact on the course of the financial year. However, the shareholders, Executive Board and employees of the Otto Group worked together with great commitment, creativity and solidarity to meet the challenges of the pandemic. They proved that as an important e-commerce player both in Germany and worldwide, the Group can emerge from these exceptional circumstances in an even stronger position. Protecting staff and ensuring the continuation of relevant business processes was a top priority throughout. To protect employee health, extensive measures were implemented at all logistics locations, together with arrangements for working from home for all employees in the majority of administrative departments and customer relations centres. The "Culture change 4.0" initiative launched in the Otto Group in 2015 paid off in a substantial way in this context, as it had already created the technical and cultural conditions required to enable networked, agile and mobile work practices. The promotion of Group-wide networking in particular created valuable synergies, while also significantly improving the Group's ability to react to market requirements and the exceptional circumstances of the coronavirus pandemic. The continued, systematic implementation of the "Culture change 4.0" initiative will be a decisive factor for the Otto Group's further development in the coming years. The Group will be focusing particularly on topics such as new work and diversity in this context. The world of work will continue to change in the years ahead, mapping a development process from traditional to modern knowledge work. To allow employees to fulfil their individual tasks to the best of their ability, as a general rule, they should have location-independent access to the material they need for their work. The Otto Group will also continue to actively promote the topic of diversity, and has increased in the impact of diversity on a broad scale at the Otto Group and supported the ongoing integration of the principle by establishing a Group-wide Diversity Community. Encouraging and challenging employees in respect of their different abilities and talents, and thus of their diversity, will open up strong, new opportunities for creativity and innovation in future.

The starting point for the projected development of the Otto Group and its segments in the 2021/22 financial year is based on the expectations for overall economic development and sector development. The coronavirus pandemic has had a significant effect on global economic development and consumer behaviour in recent months, and will also continue to affect the Otto Group's relevant sales and procurement markets during the forecast period. However, the forecast assumes that as the vaccination campaigns that are already underway in many countries progress, and pandemic-related restrictions are relaxed accordingly, the coronavirus' overall economic impact will gradually decline over the six-month summer period. The development of private-household consumer spending, which is relevant for the Otto Group, will continue to be fraught with uncertainty as far as key issues such as consumer demand for goods and their sustainability are concerned. However, in principle, it is expected that during the forecast period, private-household consumer spending in the Otto Group's relevant sales markets will increase again overall, and that the types of goods in demand with consumers will also show a tendency to normalise. The dynamic growth in the e-commerce sector is set to continue. The Otto Group is expecting high demand in the major product ranges of furniture, home furnishings and consumer electronics, although these may be characterised by a certain level of demand saturation. By contrast, rising revenues are forecast for the textile sector. The Otto Group sees its large new customer base as an opportunity to benefit very strongly from market developments in the e-commerce sector in the medium term as well. Furthermore, the Group expects that demand for retail-related services will increase again, meaning that these services may also benefit from the developments in the e-commerce sector.

Against this background and that of the experiences gained from the previous financial year, and allowing for the unusually high uncertainty regarding forecasts due to the further impact of the pandemic, a good 2021/22 financial year is expected for the Group. Furthermore, the following information and conclusions presented for the Otto Group and its segments are based on the fundamental assumption that business performance will not be influenced by currency rate effects. Additionally, all conclusions in the forecast take into account the effects of changes in the scope of consolidation that are already known, and the forecast is accordingly generated on a comparable basis.

In the 2020/21 financial year, revenues from the **Multichannel Retail segment** saw a significant increase of 15.9% on a comparable basis, i.e. as adjusted for currency rate effects and changes in the scope of consolidation. The Otto Group expects that in the 2021/22 financial year, it will continue to benefit from the positive overall conditions in the e-commerce sector and its high number of new customers. In the Multichannel Retail segment, the Group is predicting that the percentage revenue increase will fall within in the high single-digit range on a comparable basis, meaning that, as expected, it will not be able to keep pace with the unusually strong revenue growth of the previous year. The Group companies in the Multichannel Retail segment influence forecast segment growth in varying ways.

The Group company OTTO will continue to focus on systematically transforming its business model from a pure online retailer to an e-commerce platform during the 2021/22 financial year. The transformation not only comprises further high levels of investment in the Group's IT landscape and future technologies, but also involves changes to internal and organisational processes, with a view to achieving even greater customer focus. Other measures adopted in this context include investing in a modern, flexible working environment at the company location in Hamburg-Bramfeld. As of the 2020/21 financial year, the process of onboarding new partners on the marketplace platform has been fully automated, and as a consequence, the number of connected partners is also set to grow significantly, thus expanding OTTO's product portfolio. Integrating DIY products for renovations and gardening into the activities of baumarkt direkt GmbH & Co KG – previously operated as a joint venture with Hagebau – will significantly expand the Group's offering in this segment. Within the next two financial years, customers will be able to access the full product range of a large, over-the-counter DIY store online. Furthermore, in the 2020/21 financial year, the Group began developing its own payment service provider, so that in future, it will be able to offer competitive payment services for customers and marketplace partners from a single provider. Against the background of the continued dynamic growth in the e-commerce market, the massive customer-base expansion of recent months and the platform strategy, OTTO is set to continue to achieve significant revenue growth during the forecast period. However, the previous year's extraordinarily strong revenue growth in the major product ranges of furnishings and consumer electronics, brought about by changed consumer behaviour during the pandemic among other things, is not likely to continue at the same rate in the forecast period.

As vertical Otto Group brand concepts with an international presence, the Crate and Barrel Group, Witt Group and bonprix Group are expected to experience significant revenue growth. In the medium term, the Group also aims to strengthen these brand concepts by investing in international expansion and by developing or acquiring new concepts. The Crate and Barrel Group, which is active in the USA and Canada, achieved considerable growth in the e-commerce sector during the 2020/21 financial year. Not only did it compensate for revenue losses in the over-the-counter sector caused by temporary closures of over-the-counter locations during the pandemic, but it actually significantly exceeded them. The Crate and Barrel Group will intensify these successful developments even more, especially in the e-commerce sector, supporting them both through additional investments in new and existing storage capacity and further development of its IT infrastructure. As Group companies with an international presence, the Witt and bonprix Groups and their heavily textile-focused product range performed well in terms of revenue in the 2020/21 financial year, despite weak growth and a noticeable reluctance to purchase in the textile sector, particularly at the beginning of the pandemic. In the fashion sector, the Otto Group expects continued significant revenue growth and increased demand during the forecast period. The myToys Group with its target market of young families significantly increased its revenues in the 2020/21 financial year, and benefited from a sharp increase in demand for items from the major families and children product range, also caused by the pandemic. Demand for this product range is forecast to normalise significantly in the 2021/22 financial year. Consequently, revenues are not expected to show any signs of growth during the forecast period, especially in light of the continued intense competition in the market environment. As a retailer with strong revenues within the Otto Group, the myToys group will continue to be individually positioned so as to ensure competitiveness and to further increase the Group's reach in the medium term.

In the 2020/21 financial year, the **Financial Services segment**, which is primarily driven by the internationally active EOS Group recorded a decline in revenue on a comparable basis in the amount of 3.9%. This development occurred against the background of the coronavirus pandemic, which directly affected the activities of the EOS Group during the previous financial year. A limited offering of receivables portfolios combined with increased competition between market participants led to lower levels of investment by the EOS Group during the first half of the financial year. For the 2021/22 financial year, the Otto Group expects a significant percentage revenue increase in the Financial Services segment, reaching the mid-single-digit range, and so more than compensating for the decline in revenue in the 2020/21 financial year. The EOS Group will continue to focus on debt purchases in the coming financial years as well. 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 continue to present opportunities for the EOS Group. In addition, no further restrictions on the EOS Group's activities in relation to the acquisition and processing of impaired receivables are expected for the 2021/22 financial year. As a result of the probable increase in impaired receivables due to the impact of the pandemic on the overall economic environment, it is expected that the supply of receivables packages will increase significantly. The EOS Group will take advantage of the opportunities arising from the probable increase in the supply of receivables packages, making continued significant investments in the purchase of receivables and property portfolios and further increasing investment levels in the medium term.

In the **Services segment**, the Hermes Group has firmly consolidated its position as an important player in the fast-growing services segment of the highly dynamic e-commerce sector. In the 2020/21 financial year, particularly intense growth occurred as a result of the strong increase in the e-commerce sector brought about by the pandemic and the accompanying high volumes in the parcel distribution business. As a result of extensive safety measures at logistics locations among other things, the Hermes Group was able to consistently ensure delivery of goods both for customers outside the Group as well as for Group companies from the Multichannel

Retail segment, and thus made an essential contribution to supplying the population with the goods they needed. Against this background, the Services segment achieved enormous external revenue growth in the amount of 32.3% on a comparable basis in the 2020/21 financial year.

Thanks to the position it has established in the competitive environment, the Hermes Group can benefit from market growth. However, in order to lead the way in this particularly dynamic market environment through even greater levels of innovation and an even higher-quality service undertaking for the Hermes Group's business partners, the Otto Group has decided to initiate wide-reaching measures aimed at focusing and reorganising its distribution business. In future, the Hermes Group's parcel distribution business in Germany and the United Kingdom will be further developed with Advent International as a strong partner. Furthermore, plans for the sale of MONDIAL RELAY in France to the internationally active parcel services provider InPost S.A. have already been disclosed as of the beginning of the 2021/22 financial year.

A robust fulfilment process with high availability of goods and strong processing capacity is a fundamental requirement for the further growth of the Otto Group's branding and retail strategies. In the context of its location strategy, the Hermes Fulfilment Group, which plays a key role for the Group companies in the Multichannel Retail segment due to its warehousing activities, decided to close down its returns operation in Hamburg-Bramfeld. The closure will be completed in the second half of the 2021/22 financial year. This vital step is necessary to facilitate a competitive, economically sustainable orientation in a competitive environment that is becoming ever more international. 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, and align it to the needs of the different Group companies.

The revenue forecast for the Services segment takes into account the deconsolidation of the Hermes Group's parcel distribution companies in Germany and the United Kingdom as a result of the finalisation of a partnership with Advent International in the 2020/21 financial year, with the consequence that revenues from these companies will no longer be reported in the consolidated income statement. Furthermore, plans for the complete sale of MONDIAL RELAY, a Hermes Group parcel distribution company in France, were disclosed at the beginning of the 2021/22 financial year. For reasons of simplification, in the context of the revenue forecast, it is assumed that this Group company will be deconsolidated at the beginning of the 2021/22 financial year. Taking into account the fact that the revenue development of the above-mentioned Hermes Group parcel distribution companies will no longer be recognised from the 2021/22 financial year onwards, the Otto Group expects the percentage external revenue growth in the Services segment to fall within the upper-single-digit range on a comparable basis. The forecast revenue growth is set to come from the fulfilment services of BFS Baur Fulfillment Solutions GmbH, among others.

At **Group level**, the Otto Group achieved significant revenue growth of 17.2% on a comparable basis overall in the 2020/21 financial year. Despite an unexpectedly high starting point in terms of revenue, the Group is anticipating continuing positive developments in revenue in the 2021/22 financial year. However, this development is set to only partially keep pace with the figures from the previous year, which were affected by the exceptional circumstances of the pandemic. In light of this, the Otto Group is expecting a percentage revenue increase in the upper-single-digit range on a comparable basis during the forecast period.

However, due to its continuing systematic transformation from a pure online retailer to an e-commerce platform and the higher levels of investment in transformation that that requires, the Group company OTTO will still make a significant positive contribution to EBIT, albeit less than the previous year. The vertical brand concepts of the Crate and Barrel Group, the Witt Group and the bonprix Group are planning to make good to very good contributions to EBIT, although the Crate and Barrel Group's contribution to earnings may be impaired by rising procurement costs. The EOS Group is set to make a very high contribution to EBIT during the forecast period, while benefiting from the increasing supply of receivables packages. By contrast, a negative effect on the EBIT will result from the (proportionate) derecognition of contributions to earnings from the parcel distribution business of the Hermes Group, due to the inclusion of Hermes Germany GmbH and Hermes Parcelnet Limited in the Otto Group consolidated financial statements using the equity method, as well as from the intended complete sale of MONDIAL RELAY in France.

Against the background of the above-mentioned factors and their effects, and without taking into account other possible portfolio changes, the Group expects that EBIT at Group level for the 2021/22 financial year will come close to the EBIT of EUR 688.4 million attained in the 2020/21 financial year.

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

From the strong position achieved during the very successful 2020/21 financial year, the Otto Group will continue to systematically pursue its targeted growth strategy, make high, targeted investments in the development and expansion of both new and existing business ideas and segments, and drive corresponding innovations. In this way, the Group will consistently position itself to align with the future of sustainable retail, while simultaneously taking financial stability into consideration. This will ensure that the necessary flexibility is also maintained for future development, through continued good credit metrics and balanced capital structure.

The Group will continue to systematically take on a high level of social and environmental responsibility along the entire value chain – all the way from partners to employees and through to customers. The shareholders' vision of "Responsible commerce that inspires" will shape employee action.

The Executive Board considers the Otto Group to be still on the right track in terms of revenue and earnings for the forecast years and the coming financial year.

Thanks to its very solid net assets and financial position, the Executive Board of Otto Group takes a positive view of the Group's business situation.

Hamburg, 6 May 2021

The Executive Board of Verwaltungsgesellschaft Otto mbH

Alexander Birken

Dr Marcus Ackermann

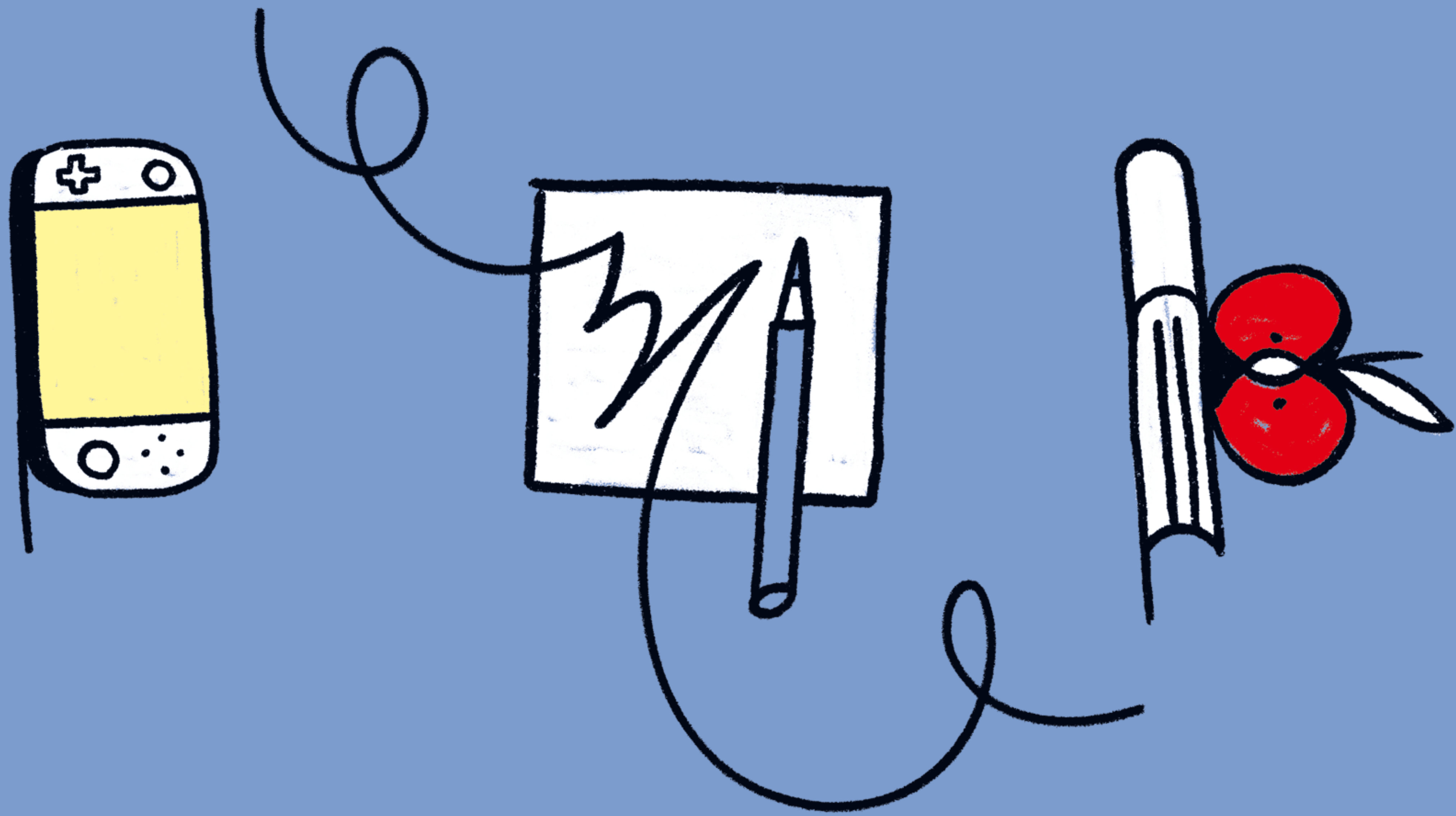
Sergio Bucher

Sebastian Klauke

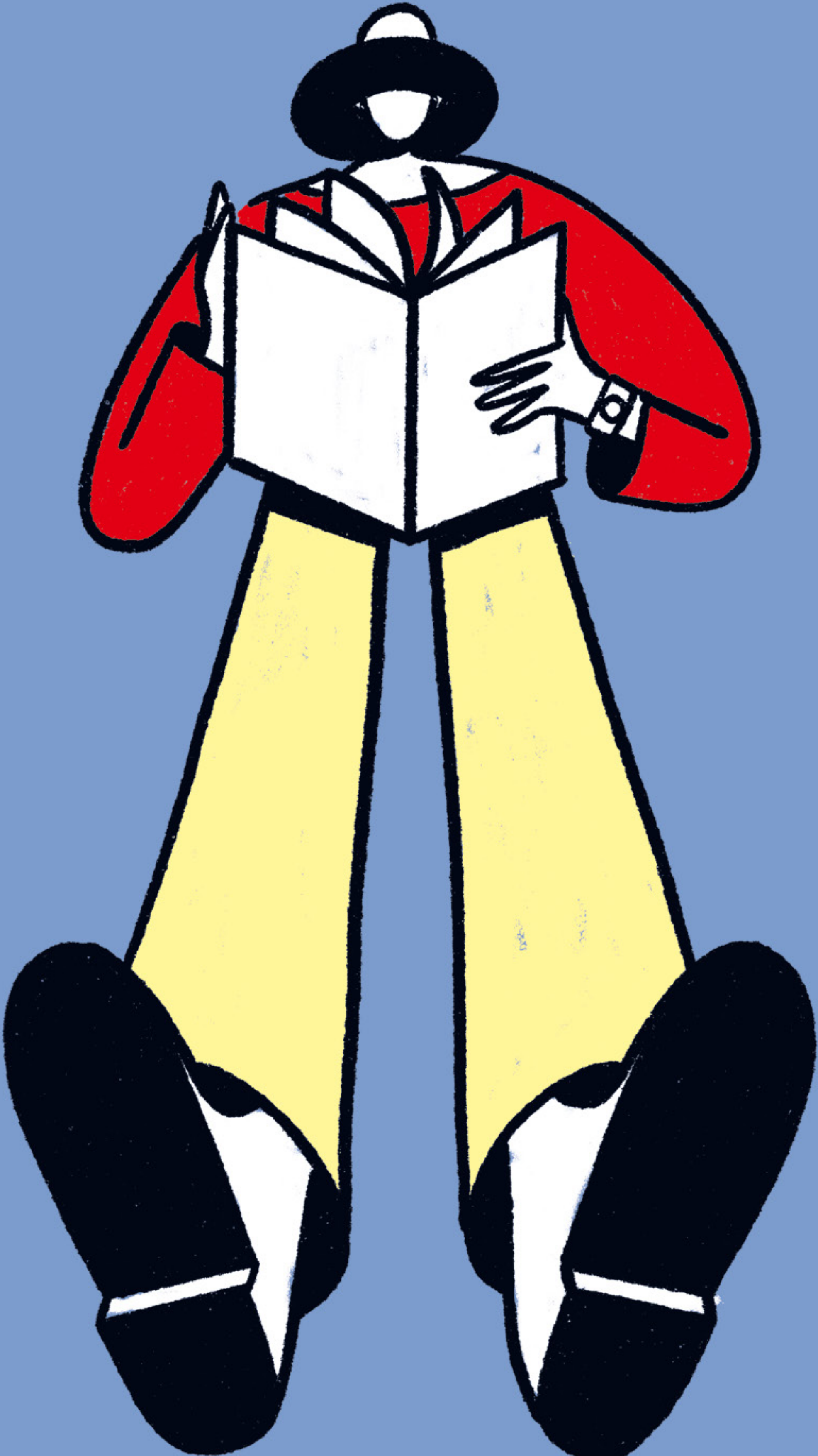
Petra Scharner-Wolff

Kay Schiebur

Consolidated Financial



Statements



Consolidated Statement of Comprehensive Income

1 March 2020 to 28 February 2021

	2020/21	2019/20
	EUR 000	EUR 000
Profit for the year	**971,338**	**213,676**
Items that may be reclassified subsequently to profit or loss		
Gains and losses arising from translation of financial statements in foreign currencies	–47,455	6,961
Gains and losses arising from changes in fair values of derivatives held as cash flow hedges after tax	10,128	–32,510
Gains and losses in other comprehensive income	–4,620	–13,396
Gains and losses reclassified to profit or loss	14,748	–19,114
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method after tax	–850	586
Items that will not be reclassified to profit or loss		
Gains and losses arising from changes in other financial investments after tax	59,686	23,576
Remeasurements of the net defined benefit liability after tax	–69,657	–248,643
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method after tax (net defined benefit liability, other financial investments)	7,579	25,967
Other comprehensive income for the year	**–40,569**	**–224,063**
Total comprehensive income for the year	**930,769**	**–10,387**
Total comprehensive income attributable to the owners of Otto (GmbH & Co KG)	857,901	–109,476
Total comprehensive income attributable to non-controlling interests	54,762	79,605
Total comprehensive income attributable to publicly listed equity and participation certificates	18,106	19,484

Consolidated Income Statement

1 March 2020 to 28 February 2021

	Note	2020/21	2019/20
	[No.]	EUR 000	EUR 000
Revenue and income from customer financing	[6]	**15,641,358**	**14,263,366**
Revenue		15,459,665	14,079,743
Income from customer financing		181,693	183,623
Other operating income	[7]	540,665	633,941
Change in inventories and other internal costs capitalised		42,324	51,342
Purchased goods and services	[8]	–8,460,607	–7,660,551
Personnel expenses	[9]	–2,604,311	–2,530,986
Other operating expenses	[10]	–3,876,614	–3,846,679
Income (loss) from equity investments	[11]	11,576	102,033
Income from associates and joint ventures		9,138	98,673
Income from other equity investments		2,438	3,360
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**1,294,391**	**1,012,466**
Depreciation and amortisation	[12]	–417,541	–555,250
Impairment losses	[13]	–188,449	–24,760
Earnings before interest and tax (EBIT)		**688,401**	**432,456**
Interest and similar income	[14]	15,132	13,922
Interest and similar expenses	[14]	–159,599	–176,015
Other net financial income (expense)	[14]	559,826	20,348
Earnings before tax (EBT)		**1,103,760**	**290,711**
Income tax	[15]	–132,422	–77,035
Profit for the year		**971,338**	**213,676**
Profit attributable to the owners of Otto (GmbH & Co KG)		908,131	106,088
Profit attributable to non-controlling interests		45,101	88,104
Profit attributable to publicly listed equity and participation certificates		18,106	19,484

Consolidated Balance Sheet

as at 28 February 2021

Assets

	Note	28.02.2021	29.02.2020
	[No.]	EUR 000	EUR 000
Non-current assets			
Fixed assets		3,438,512	3,380,111
Intangible assets	[16]	527,543	644,930
Property, plant and equipment	[17]	1,084,140	1,165,738
Right-of-use assets	[39]	724,986	740,056
Investments in associated companies and joint ventures	[18]	944,476	700,991
Other financial investments	[18]	157,367	128,396
Trade receivables	[20]	137,545	130,779
Receivables from financial services	[20]	1,300,064	1,163,015
Receivables from related parties	[21]	52,843	13,275
Other assets	[22]	499,988	570,607
		5,428,952	**5,257,787**
Deferred tax	[15]	**174,467**	**159,010**
Current assets			
Inventories	[19]	1,632,225	1,595,328
Trade receivables	[20]	1,017,795	980,847
Receivables from financial services	[20]	412,511	479,591
Receivables from related parties	[21]	81,721	60,918
Income tax receivables		21,501	22,363
Other assets	[22]	491,233	595,369
Securities		1,354	19,806
Cash and cash equivalents		1,247,085	311,938
Assets held for sale	[5c]	182,853	1,257,619
		5,088,278	**5,323,779**
Total assets		**10,691,697**	**10,740,576**

Equity and liabilities

	Note	28.02.2021	29.02.2020
	[No.]	EUR 000	EUR 000
Equity			
Equity attributable to the owners of Otto (GmbH & Co KG)		1,282,191	415,192
Capital provided by the limited partners in Otto (GmbH & Co KG)		820,000	820,000
Consolidated retained earnings		1,590,063	742,683
Net cost in excess of net assets acquired in step acquisitions		–218,255	–223,470
Accumulated other comprehensive income		–922,071	–936,498
Accumulated other equity		12,454	12,477
Non-controlling interests		506,169	601,903
Publicly listed equity and participation certificates		434,432	434,503
	[23]	**2,222,792**	**1,451,598**
Non-current provisions and liabilities			
Profit and loss participation rights	[24]	21,667	22,941
Provisions for pensions and similar obligations	[25]	1,658,335	1,589,429
Other provisions	[26]	180,344	130,858
Bonds and other notes payable	[27]	968,686	1,170,659
Bank liabilities	[27]	553,675	812,064
Other financing liabilities	[28]	22,666	0
Trade payables		0	545
Lease liabilities	[39]	710,297	655,170
Liabilities to related parties	[29]	459	461
Other liabilities	[30]	152,656	195,144
		4,268,785	**4,577,271**
Deferred tax	[15]	**73,971**	**88,271**
Current provisions and liabilities			
Profit and loss participation rights	[24]	1,165	1,640
Other provisions	[26]	111,973	117,776
Bonds and other notes payable	[27]	59,953	393,846
Bank liabilities	[27]	162,332	340,232
Other financing liabilities	[28]	17,295	29,002
Trade payables		2,040,109	1,447,745
Liabilities to related parties	[29]	241,017	46,514
Income tax liabilities		73,943	27,366
Lease liabilities	[39]	176,165	201,327
Other liabilities	[30]	1,106,412	849,328
Liabilities classified as held for sale	[5c]	135,785	1,168,660
		4,126,149	**4,623,436**
Total equity and liabilities		**10,691,697**	**10,740,576**

Consolidated Cash Flow Statement

1 March 2020 to 28 February 2021

	2020/21	2019/20
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	688,401	432,456
Depreciation, amortisation and impairment losses / reversal of impairment losses on intangible assets, property, plant and equipment and right-of-use assets	599,818	577,236
Profits (–) / losses (+) from associated companies and joint ventures	–9,138	–98,673
Dividends received from associated companies and joint ventures	63,160	60,694
Increase (+) / decrease (–) in allowances on loans, receivables and inventories	121,747	91,908
Gains (–) / losses (+) on disposals of items in intangible assets and property, plant and equipment	–19,520	–5,720
Pension payments exceeding (–) / less than (+) pension expense	–18,536	–18,951
Other non-cash income (–) and expenses (+)	456	461
Gross cash flow from operating activities	**1,426,388**	**1,039,411**
Increase (–) / decrease (+) in working capital	680,783	5,090
Decrease (+) / increase (–) in inventories (gross)	–91,622	135,914
Decrease (+) / increase (–) in trade receivables (gross)	–319,187	–10,496
Decrease (+) / increase (–) in receivables from financial services (gross)	–119,936	–187,879
Increase (+) / decrease (–) in provisions	95,371	–14,975
Increase (+) / decrease (–) in trade payables	763,645	68,885
Increase (+) / decrease (–) in receivables due from related parties/ in payables due to related parties	5,300	8,833
Changes in other assets / liabilities	347,212	4,808
Net cash generated from operating activities	**2,107,171**	**1,044,501**
Income tax paid	–94,566	–75,510
Interest received	9,236	8,056
Cash inflows / outflows from non-current financial assets and securities	1,635	1,125
Cash flow from operating activities	**2,023,476**	**978,172**

	2020/21	2019/20
	EUR 000	EUR 000
Cash flow from operating activities	**2,023,476**	**978,172**
Capital expenditures on purchases of intangible assets and property, plant and equipment	–320,666	–351,127
Capital expenditures on purchases of other financial investments	–72,493	–52,089
Proceeds from disposals of intangible assets and property, plant and equipment	58,695	29,108
Proceeds from disposals of consolidated subsidiaries	588,609	57,337
Proceeds from disposals of other financial investments	268,958	122,041
Cash flow from investing activities	**523,103**	**–194,730**
Free cash flow	**2,546,579**	**783,442**
Dividends paid	–169,145	–167,095
of which, attributable to the owners of Otto (GmbH & Co KG)	0	–73,947
Interest paid and bank charges	–207,709	–209,875
Proceeds from additions to equity	500	10,000
Payments (net) for repurchases of profit and loss participation rights	–2,206	–2,279
Payments of principal on lease liabilities	–265,325	–284,076
Proceeds from assumption of other financial liabilities	19,533	599,975
Repayments of other financial liabilities	–993,758	–776,838
Cash flow from financing activities	**–1,618,110**	**–830,188**
Cash and cash equivalents at beginning of period	329,458	385,952
Net increase in cash and cash equivalents	928,469	–46,746
Changes in cash and cash equivalents due to foreign exchange rates	–9,535	1,140
Reclassification with regard to disposal groups	–174	–10,888
Cash and cash equivalents at end of period (see Note 33)	**1,248,218**	**329,458**

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
2020/21					
1 March 2020	**820,000**	**742,683**	**–223,470**	**–116,648**	**–26,025**
Total comprehensive income	–	908,131	–	–47,350	4,650
Profit for the year	–	908,131	–	–	–
Other comprehensive income for the year	–	–	–	–47,350	4,650
Capital increase	–	–	–	–	–
Changes in entities consolidated	–	–54,581	5,215	–	–
Dividends paid	–	–	–	–	–
Other changes recognised directly in equity	–	–6,170	–	–	–
28 February 2021	**820,000**	**1,590,063**	**–218,255**	**–163,998**	**–21,375**
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	–	–	–	–	–
Changes in entities consolidated	–	–18,761	62	–	–
Dividends paid	–	–73,947	–	–	–
Other changes recognised directly in equity	–	–3,529	–	–	–
29 February 2020*	**820,00**	**742,683**	**–223,470**	**–116,648**	**–26,025**

* Accumulated other comprehensive income 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
– 901,648	**52,127**	**55,696**	**12,477**	**415,192**	**601,903**	**434,503**	**1,451,598**
– 74,191	59,682	6,979	–	857,901	54,762	18,106	930,769
–	–	–	–	908,131	45,101	18,106	971,338
– 74,191	59,682	6,979	–	– 50,230	9,661	–	– 40,569
–	–	–	–	–	500	–	500
64,657	–	–	– 23	15,268	100	–	15,368
–	–	–	–	–	– 150,968	– 18,177	– 169,145
–	–	–	–	– 6,170	– 128	–	– 6,298
– 911,182	**111,809**	**62,675**	**12,454**	**1,282,191**	**506,169**	**434,432**	**2,222,792**
– 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**

Consolidated Statement of Changes in Fixed Assets

2020/21

	Historical cost					
	01.03.2020	Additions	Disposals	Reclassifications	Foreign currency translation	28.02.2021
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets						
Internally generated intangible assets	349,245	16,570	–7,067	28,827	–7,001	380,574
Purchased intangible assets	674,792	46,151	–54,871	6,298	–14,156	658,214
Goodwill	448,746	975	–587	–	–25,173	423,961
Advance payments on intangible assets	40,949	36,805	–3,346	–34,226	–905	39,277
Total	**1,513,732**	**100,501**	**–65,871**	**899**	**–47,235**	**1,502,026**
Property, plant and equipment						
Land, land rights and buildings	1,561,928	25,214	–58,714	30,654	–59,586	1,499,496
Technical plant and machinery	447,108	20,949	–35,346	25,625	–2,810	455,526
Other plant, operating and office equipment	635,681	57,406	–77,686	9,710	–20,704	604,407
Advance payments and construction in progress	77,073	76,042	–4,174	–66,888	–1,403	80,650
Total	**2,721,790**	**179,611**	**–175,920**	**–899**	**–84,503**	**2,640,079**
Right-of-use assets						
Land, land rights and buildings	853,318	280,881	–61,624	–	–44,333	1,028,242
Technical plant and machinery	35,448	1,185	–808	–	–280	35,545
Other plant, operating and office equipment	26,053	9,122	–5,497	–	–92	29,586
Total	**914,819**	**291,188**	**–67,929**	**–**	**–44,705**	**1,093,373**

	Accumulated depreciation, amortisation and impairments								Carrying amount	
	01.03.2020	Disposals	Depreciation and Amortisation	Impairments	Reclassifications	Reversals of impairment losses	Foreign currency translation	28.02.2021	28.02.2021	29.02.2020
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
	–252,013	4,729	–48,919	–660	83	–	5,634	–291,146	89,428	97,232
	–494,543	35,907	–57,436	–24,055	–83	101	11,700	–528,409	129,805	180,249
	–120,491	–817	–	–38,708	–	–	5,361	–154,655	269,306	328,255
	–1,755	1,428	–	–30	–	–	84	–273	39,004	39,194
	–868,802	**41,247**	**–106,355**	**–63,453**	**0**	**101**	**22,779**	**–974,483**	**527,543**	**644,930**
	–793,086	30,807	–58,619	–32,166	84	1,902	47,602	–803,476	696,020	768,842
	–312,866	32,675	–19,934	–3,837	–82	–	2,453	–301,591	153,935	134,242
	–449,874	53,613	–57,107	–14,158	–2	21	16,754	–450,753	153,654	185,807
	–226	147	–	–45	–	–	5	–119	80,531	76,847
	–1,556,052	**117,242**	**–135,660**	**–50,206**	**–**	**1,923**	**66,814**	**–1,555,939**	**1,084,140**	**1,165,738**
	–160,902	33,908	–161,356	–65,653	–	–	11,554	–342,449	685,793	692,416
	–5,396	736	–5,149	–1,258	–	–	110	–10,957	24,588	30,052
	–8,465	3,716	–9,021	–1,227	–	2	14	–14,981	14,605	17,588
	–174,763	**38,360**	**–175,526**	**–68,138**	**–**	**2**	**11,678**	**–368,387**	**724,986**	**740,056**

Consolidated Statement of Changes in Fixed Assets

2019/20

	Historical cost						
	01.03.2019*	Additions	Disposals	Reclassifi-cations	Reclassifi-cation IFRS 5	Foreign currency translation	29.02.2020
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Property, plant and equipment							
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.

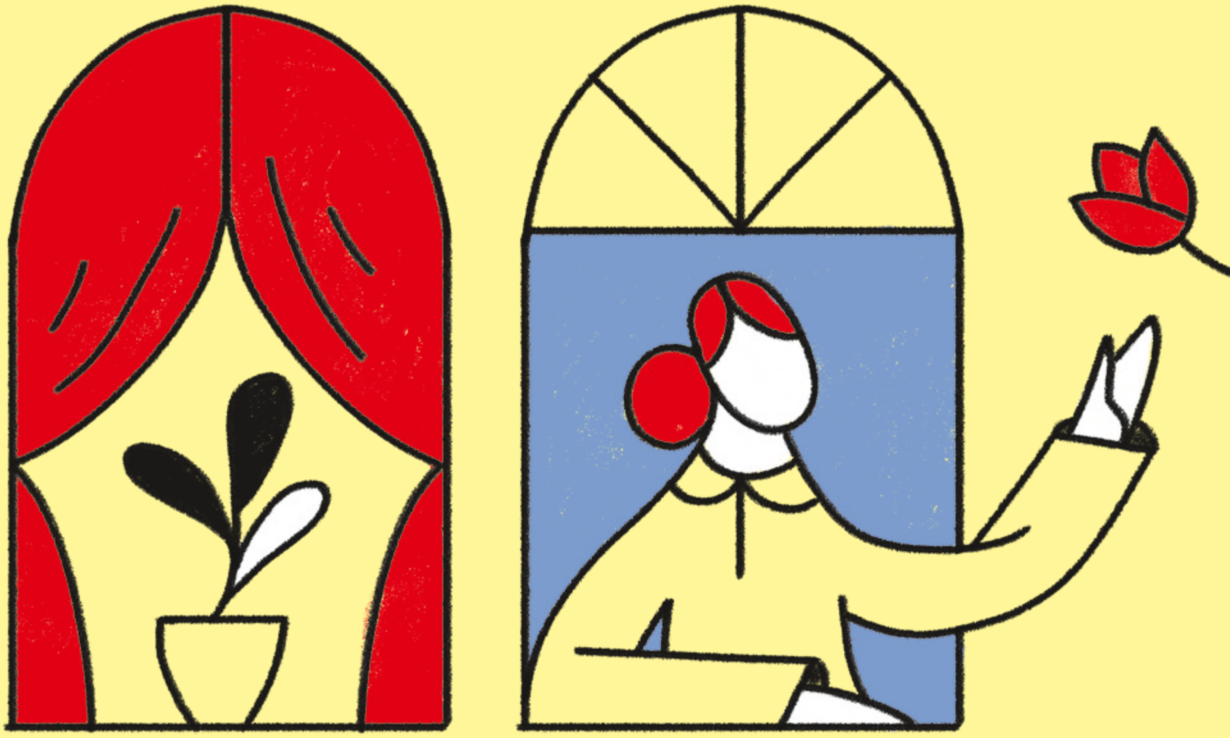
	Accumulated depreciation, amortisation and impairments									Carrying amount	
	01.03.2019	Disposals	Depreciation and Amortisation	Impairments	Reclassifi-cations	Reversals of impairment losses	Reclassifi-cation IFRS 5	Foreign currency translation	29.02.2020	29.02.2020	28.02.2019
	EUR 000	EUR 000	EUR 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**	**0**	**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**	**–**

Segment Reporting

	Multichannel Retail		Financial Services	
	2020/21	2019/20	2020/21	2019/20
	EUR 000	EUR 000	EUR 000	EUR 000
Revenue and income from customer financing	12,087,138	10,828,492	813,664	865,958
External revenue	11,905,445	10,644,869	813,664	865,958
Income from customer financing	181,693	183,623	0	0
Internal revenue (inter-segment)	2,891	3,146	19,648	21,486
Purchased goods and services	–6,639,719	–5,851,223	0	0
Gross profit	**5,450,310**	**4,980,415**	**833,312**	**887,444**
Operating income and expenses	–3,433,125	–3,299,634	–268,535	–293,111
Personnel expenses	–1,319,936	–1,310,395	–282,625	–291,891
Income (loss) from equity investments	–37,918	17,916	48,762	83,425
Income from associates and joint ventures	–40,032	16,345	48,762	83,425
Income from other equity investments	2,114	1,571	0	0
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**689,534**	**421,112**	**344,587**	**401,357**
Depreciation and amortisation	–338,080	–321,029	–36,389	–33,306
Impairment losses	–122,522	–17,199	–1,183	–96
Earnings before interest and tax (EBIT)	**228,932**	**82,884**	**307,015**	**367,955**
Segment assets	**5,436,904**	**5,516,700**	**3,100,878**	**3,126,837**
Thereof, attributable to investments in associated companies and joint ventures	255,606	236,431	509,405	466,578
Capital expenditure on intangible assets and property, plant and equipment	**177,360**	**202,648**	**24,688**	**27,792**
Gross cash flow from operating activities	**830,823**	**465,718**	**328,256**	**366,877**
Employees (average number)	**23,087**	**23,811**	**6,468**	**6,770**

Services		All Segments		Holding/Consolidation		Group	
2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
2,740,556	2,568,916	15,641,358	14,263,366	0	0	15,641,358	14,263,366
2,740,556	2,568,916	15,459,665	14,079,743	0	0	15,459,665	14,079,743
0	0	181,693	183,623	0	0	181,693	183,623
1,269,207	1,267,603	1,291,746	1,292,235	–1,291,746	–1,292,235	0	0
–1,961,048	–1,960,120	–8,600,767	–7,811,343	140,160	150,792	–8,460,607	–7,660,551
2,048,715	**1,876,399**	**8,332,337**	**7,744,258**	**–1,151,586**	**–1,141,443**	**7,180,751**	**6,602,815**
–733,037	–712,343	–4,434,697	–4,305,088	1,098,747	1,092,349	–3,335,950	–3,212,739
–940,392	–880,253	–2,542,953	–2,482,539	–61,358	–48,447	–2,604,311	–2,530,986
732	692	11,576	102,033	0	0	11,576	102,033
408	–1,097	9,138	98,673	0	0	9,138	98,673
324	1,789	2,438	3,360	0	0	2,438	3,360
374,467	**287,470**	**1,408,588**	**1,109,939**	**–114,197**	**–97,473**	**1,294,391**	**1,012,466**
–43,072	–200,915	–417,541	–555,250	0	0	–417,541	–555,250
–64,744	–7,465	–188,449	–24,760	0	0	–188,449	–24,760
266,651	**79,090**	**802,598**	**529,929**	**–114,197**	**–97,473**	**688,401**	**432,456**
760,182	**531,482**	**9,297,964**	**9,175,019**	**–429,015**	**–312,986**	**8,868,949**	**8,862,033**
181,483	0	946,494	703,009	–2,018	–2,018	944,476	700,991
33,534	**127,182**	**235,582**	**357,622**	**0**	**0**	**235,582**	**357,622**
381,466	**304,279**	**1,540,545**	**1,136,874**	**–114,157**	**–97,463**	**1,426,388**	**1,039,411**
20,031	**21,087**	**49,586**	**51,668**	**309**	**314**	**49,895**	**51,982**

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. Financial services mainly consists of 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 2021.

(1) Principles

The consolidated financial statements for the year ended 28 February 2021 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 and investments in equity instruments, which are recognised 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 Group companies 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 Group companies 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 Group companies 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	2020/21	2019/20	28.02.2021	29.02.2020
US dollar (USD)	1.160	1.113	1.212	1.098
Russian ruble (RUB)	86.134	71.422	90.670	73.610
British pound (GBP)	0.895	0.872	0.871	0.853
Japanese yen (JPY)	122.810	121.370	128.830	119.360
Polish zloty (PLN)	4.485	4.291	4.519	4.326
Canadian dollar (CAD)	1.545	1.476	1.533	1.476
Brazilian real (BRL)	6.200	4.483	6.664	4.923
Hong Kong dollar (HKD)	8.994	8.709	9.401	8.555
Swiss franc (CHF)	1.072	1.102	1.099	1.061

(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 amounting to EUR 19,805 thousand (29 February 2020: EUR 26,172 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 0.75% to 1.25%. 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 5.36% and 9.51% (29 February 2020: 4.65% to 9.41%) 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. as at the 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.

The generalised value allowances for expected credit losses (ECL) for trade receivables are generally calculated using the dunning level escalation method whereby each dunning level is allocated to an explicit probability of default. This allocation is possible as receivables pass through a number of clearly defined credit management process steps before they are handed over to a collection agency. Based on empirical observation, only receivables that are overdue by at least 90 days generally need to be handed over to a collection agency. However, not all receivables in arrears for 90 days will necessarily be passed on for collection as a moratorium may be granted, for example. The value adjustment models applied in this model are based on the rolling annual average over the last 5 years and also include a forecast for future macroeconomic and political conditions as well as individual risk assessments.

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A specific value adjustment is applied to a financial asset if at the financial year-end date there are indications that the borrower may not fully meet their obligations to the Otto Group or that the financial asset has been handed over to a collection agency. The Otto Group will therefore hand over a receivable to a collection agency as soon as the overdue receivable has passed through the prior dunning levels without being settled. At this point, trade receivables are generally at least 90 days overdue. If a receivable is expected to be classified as irrecoverable, due to insolvency or the death of a customer, for example, it is derecognised from trade receivables.

In the 2020/21 financial year, no changes were made to significant assumptions concerning value allowance estimates.

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 continues 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 4,992 thousand (29 February 2020: EUR 5,520 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.

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

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) FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

Since the 2019/20 financial year, the Otto Group has offered reverse factoring solutions to selected suppliers. These suppliers have an additional option when structuring their own refinancing. Receivables from suppliers resulting from reverse factoring solutions are retained in the consolidated balance sheet under trade payables.

Within the Group and as at 28 February 2021, receivables from suppliers as a result of reverse factoring solutions were prefinanced by factoring service providers in the amount of EUR 74,508 thousand (29 February 2020: EUR 36,841 thousand).

(v) 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.

(vi) 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.

(vii) 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 market 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 market 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 the lessee, the Otto Group systematically records 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.

For rent concessions directly attributable to the coronavirus pandemic, the Otto Group has applied the exemption rules contained in the amendment to IFRS 16 concerning COVID-19-related rent concessions. For these leases, a practical expedient removes the requirement to determine whether the rent concession constitutes a lease modification. This practical expedient is applied uniformly to lease contracts that share similar characteristics and comparable circumstances. For rent concessions in the context of leases for which the Group has not applied the practical expedient, or for which it is not applicable, the Otto Group assesses whether or not the rent concession constitutes a lease modification.

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.

(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.

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 60 days (2019/20: 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. They generally 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 fulfilment 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. For transport revenue, this corresponds to the distance travelled compared to the overall distance, for example. 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 90 days (2019/20: 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 6 months (2019/20: 2 and 12 months) after a voucher is purchased, or between 0 and 13 months (2019/20: 0 and 12 months) after bonus points are 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.

Earnings from sale and leaseback transactions are recognised immediately in income.

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. The estimates and assumptions take into account the potential impact of the coronavirus pandemic.

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, property, plant and equipment and right-of-use assets 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).

(r) PUBLIC GRANTS

During the 2020/21 financial year, the Otto Group received public sector grants issued in response to the coronavirus pandemic. These grants include state subsidies for personnel issued by public authorities in Germany and abroad. They were recognised through profit or loss under personnel expenses against the period in which the expenses to be offset were also incurred.

Certain Group companies based abroad received direct, non-repayable, employee-related state grants totalling EUR 7,317 thousand. These grants concerned wages and salaries as well as social security contributions.

Payments from public authorities in Germany relate to social insurance subsidies resulting from the implementation of short-time work. Income from the refund of social security contributions resulting in a reduction of expenses was recognised under social security contributions as non-repayable public grants for the implementation of short-time work in the amount of EUR 1,490 thousand. Short-time allowances are direct government payments for employees, which means that completed payments represent transitory items.

(s) NEW IASB PRONOUNCEMENTS

The Standards required to be applied for the first time in the 2020/21 financial year had no material effect on the presentation of the Group's financial position or financial performance.

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. In the case of Standards that have been endorsed by the EU, but have yet to reach their date of first-time application, the Otto Group has not proceeded with early application, with the exception of the amendment to IFRS 16. The Standards or amendments to existing Standards are to apply to financial years beginning on or after the date of application indicated.

		Applies from
IFRS 16	Covid 19-Related Rent Concessions (Amendment to IFRS 16 Leases)	1 June 2020
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021
AIP*	Annual Improvements 2018 – 2020	1 January 2022
IFRS 3*	Amendments to IFRS 3 Business Combinations	1 January 2022
IAS 16*	Amendments to IAS 16 Property, Plant and Equipment	1 January 2022
IAS 37*	Amendments to IAS 37 Provisions, Contingent Liabilities and Continget Assets	1 January 2022
IAS 1*	Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendments to IAS 1 Presentation of Financial Statements)	1 January 2023
IAS 1*	Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2)	1 January 2023
IAS 8*	Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)	1 January 2023

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

The modifications to IFRS 16 lease contracts include exemption rules for lessors and relate to leases for which the Group can apply the practical expedient. For these leases, there is no requirement to consider whether qualified rent concessions that have occurred as a direct consequence of the coronavirus pandemic constitute lease modifications. The Otto Group has retrospectively applied the changes to IFRS 16 Leases.

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:

	28.02.2021	29.02.2020
Fully consolidated subsidiaries		
Germany	164	171
Other countries	162	176
Total	**326**	**347**
Associates and joint ventures reported under the equity method		
Germany	22	13
Other countries	29	17
Total	**51**	**30**

In the 2020/21 financial year, 6 companies were merged within the Otto Group (2019/20: 10 companies).

The consolidated financial statements include 10 companies (29 February 2020: 11 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 2020/21 financial year, a number of companies were consolidated for the first time. Taken as a whole, they are of minor significance to the financial position and financial performance of the Otto Group.

(b) DECONSOLIDATIONS

With effect from 31 July 2020, the Otto Group disposed of all shares in Otto Japan Inc., Tokyo, Japan. The company was deconsolidated during the second quarter of the 2020/21 financial year. It was assigned to the Multichannel Retail segment.

In addition, a number of Group companies that had been classified as a disposal group the previous year in accordance with IFRS 5, and which include the Hermes Group's parcel distribution business, were by and large deconsolidated during the third quarter of the 2020/21 financial year (see Note (5)(c)). They were assigned to the Services 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.

Under a contract dated 9 December 2020, all shares in the testing institute HANSECONTROL GmbH, Hamburg, Germany, including subsidiaries, were disposed of with effect from 31 December 2020. The companies were assigned to the Services segment.

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

	EUR 000
Assets	
Fixed Assets	1,030,073
Inventories	3,081
Trade receivables	339,762
Receivables from related parties	236,960
Other receivables and assets	27,675
Cash and cash equivalents	124,583
Deferred tax	20,348
Provisions and liabilities	
Provisions for pensions and similar obligations	171,255
Other provisions	117,050
Bank liabilities	80,570
Other financing liabilities	34
Trade payables	275,087
Liabilities to related parties	66,693
Lease liabilities	584,842
Other liabilities	146,003
Deferred tax	4,170

In the past financial year up to the time of deconsolidation, the deconsolidated companies generated revenue of EUR 1,871,988 thousand, with earnings before tax amounting to EUR 1,757 thousand.

As part of the deconsolidation, an amount of EUR 26,054 thousand, which had previously been recognised as gains and losses arising from translation of financial statements in foreign currencies under accumulated other comprehensive income, was reclassified through profit or loss.

On balance, the deconsolidation of the above-mentioned companies resulted in an overall gain of EUR 607,587 thousand, which is reported under other net financial income (expenses).

In addition, further companies were deconsolidated in the 2020/21 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. As a result, the Group companies were represented as a disposal group in accordance with IFRS 5 as at the balance sheet date of the previous year. With the exception of a French parcel logistics provider, these Group companies were disposed of with effect from 30 November 2020 (see Note (5)(b)). For the French group company, delays occurred that were attributable to the coronavirus pandemic and beyond the control of the Otto Group. In March 2021, an agreement was signed in relation to divestment of shares based on an enterprise value of EUR 565 million. Subject to approval from the relevant anti-monopoly authorities, it is expected that the sale will be concluded during the first half of the 2021/22 financial year. The companies are assigned to the Services segment.

The disposal group reported the following assets and liabilities:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Intangible assets and property, plant and equipment	44,223	355,185
Right-of-use assets	42,569	540,573
Non-current other assets	1,716	4,053
Current trade receivables	74,283	296,614
Current other assets	17,538	61,057
Deferred tax assets	2,524	137
Assets held for sale	**182,853**	**1,257,619**
Pensions and similar obligations	1,196	169,569
Non-current lease liabilities	33,208	446,685
Non-current other liabilities	78	96,077
Current other provisions and current bank liabilities	4,747	69,856
Current trade payables	73,619	213,830
Current other liabilities	19,703	68,918
Current lease liabilities	3,235	100,267
Deferred tax liabilities	0	3,458
Liabilities classified as held for sale	**135,786**	**1,168,660**

Reclassification of these companies as a disposal group in the 2019/20 financial year did not result in any impairment requirements.

For the 2020/21 financial year, capital expenditure on intangible assets and property, plant and equipment for the disposal group amounts to EUR 86,910 thousand. Material non-cash financing and investment transactions for the disposal group in the 2020/21 financial year relate to the conclusion of leases in the amount of EUR 144,735 thousand.

Notes to the Consolidated Income Statement

(6) Revenue and income from customer financing

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

	Multichannel Retail		Financial Services		Services		Total	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Germany	8,128,047	7,107,140	112,307	98,610	1,020,703	1,051,613	9,261,057	8,257,363
Other Europe	1,641,135	1,531,071	99,524	110,290	1,675,218	1,460,184	3,415,877	3,101,545
North America	2,055,641	1,879,151	31,528	37,458	4,738	9,865	2,091,907	1,926,474
Other regions	80,621	127,506	0	0	32,998	40,402	113,619	167,908
Revenue from contracts with customers (IFRS 15)	**11,905,444**	**10,644,868**	**243,359**	**246,358**	**2,733,657**	**2,562,064**	**14,882,460**	**13,453,290**
Revenue from customer financing	181,693	183,623	–	–	–	–	181,693	183,623
Other revenue according to IFRS 9	–	–	570,306	619,601	6,899	6,851	577,205	626,452
Revenue according to IFRS 9	**181,693**	**183,623**	**570,306**	**619,601**	**6,899**	**6,851**	**758,898**	**810,075**
Revenue and income from customer financing	**12,087,137**	**10,828,491**	**813,665**	**865,959**	**2,740,556**	**2,568,915**	**15,641,358**	**14,263,365**

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 15,459,665 thousand (2019/20: EUR 14,079,742 thousand). Revenue from customer financing in the amount of EUR 181,693 thousand (2019/20: EUR 183,623 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 20,647 thousand (2019/20: EUR 17,136 thousand).

Revenue from e-commerce in the Multichannel Retail segment amounted to EUR 9,920,030 thousand (2019/20: EUR 8,113,581 thousand), which includes revenue from brokerage services in the amount of EUR 200,032 thousand (2019/20: EUR 117,261 thousand). Revenue in the Services segment amounted to EUR 2,538,198 thousand (2019/20: EUR 2,377,330 thousand) from transportation services and EUR 147,154 thousand (2019/20: EUR 125,588 thousand) from fulfilment.

(7) Other operating income

Other operating income is made up as follows:

	2020/21	2019/20
	EUR 000	EUR 000
Advertising subsidies	94,583	99,825
Income from ancillary business	59,355	74,319
Income from costs recharged to related parties and third parties	56,539	59,695
Income from debt collection services	53,996	83,824
Income from reversal of provisions and liabilities	36,559	60,673
Income from disposal of assets	26,059	11,201
Income from reversal of allowances on receivables	22,705	17,148
Income from amortised receivables	22,160	25,082
Income from leases	11,007	14,907
Income from charges to suppliers	10,680	13,064
Miscellaneous	147,022	174,203
Other operating income	**540,665**	**633,941**

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:

	2020/21	2019/20
	EUR 000	EUR 000
Costs of merchandise	6,477,109	5,686,628
Costs of services received	1,961,538	1,954,506
Packing and shipping materials	21,960	19,417
Purchased goods and services	**8,460,607**	**7,660,551**

(9) Personnel expenses

Personnel expenses are composed as follows:

	2020/21	2019/20
	EUR 000	EUR 000
Wages and salaries	2,139,736	2,094,543
Social security contributions	361,420	382,555
Retirement benefit costs	103,155	53,888
Personnel expenses	**2,604,311**	**2,530,986**

Wages and salaries include expenses of EUR 99,633 thousand (2019/20: EUR 1,340 thousand). This results from anticipated personnel-related commitments as part of intra-Group restructuring, particularly in the Multichannel Retail segment and Services segment (2019/20: Multichannel Retail 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 2020/21 financial year, the average number of employees in the Otto Group calculated on a full-time equivalent basis was 49,895 (2019/20: 51,982 employees). This includes 21,321 part-time positions (2019/20: 23,687 part-time positions), which were converted to 13,900 full-time positions (2019/20: 16,096 full-time positions). 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:

	2020/21	2019/20
	EUR 000	EUR 000
Catalogue and advertising costs	1,375,262	1,463,340
Shipping costs	589,542	395,333
Costs of contract staff	341,299	294,087
Maintenance and repairs	225,837	248,563
Commissions and fees	140,477	132,326
Order processing, warehousing and picking costs	139,144	157,255
Derecognitions and changes in allowances on receivables	130,877	120,976
Ancillary building costs	126,877	128,843
Legal expenses and audit fees	101,611	114,984
Office and communication costs	93,557	100,545
Vehicle costs	87,746	97,345
General consulting costs	64,236	68,578
IT consultancy	60,266	74,663
Leasing expenses	34,837	51,400
Other	365,046	398,441
Other operating expenses	**3,876,614**	**3,846,679**

(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:

	2020/21	2019/20
	EUR 000	EUR 000
Amortisation of internally generated intangible assets	48,919	51,991
Amortisation of other intangible assets	57,436	66,949
Depreciation of property, plant and equipment	135,660	162,156
Depreciation of right-of-use assets	175,526	274,154
Depreciation and amortisation	**417,541**	**555,250**

(13) Impairment losses

	2020/21	2019/20
	EUR 000	EUR 000
Impairment losses on goodwill	42,854	0
Impairment losses on other intangible assets	24,744	13,888
Impairment losses on property, plant and equipment	50,532	6,223
Impairment losses on right-of-use assets	70,319	4,649
Impairment losses	**188,449**	**24,760**

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 addition, the fair value less cost to sell was used as the recoverable amount for the assets held for sale.

Impairment losses on goodwill applied in the 2020/21 financial year are primarily attributable to one German retail company and one French service provider for which the current earnings forecasts fall short of the original expectations reflected in the purchase price. The German Group company is assigned to the Multichannel Retail segment and the French Group company is assigned to the Services segment. In the previous year, there were no impairment losses on goodwill.

In the 2020/21 financial year, impairment losses on other intangible assets, property, plant and equipment as well right-of-use assets are primarily attributable to land, land rights and buildings, purchased software, purchased trademarks, and operating and office equipment as well as non-current assets held for sale. In particular, they concern two German Group companies and one Japanese Group company in the Multichannel Retail segment as well as a French Group company in the Services segment. Impairment losses for the previous year were primarily attributable to purchased software and software developed in house, shop fittings, operating and office equipment as well as land, land rights and buildings. They concerned 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.

(14) Net financial result

The net financial result is made up as follows:

	2020/21	2019/20
	EUR 000	EUR 000
Interest income from loans and securities	9,327	7,298
Income from interest rate derivatives	4,358	5,110
Interest income from bank deposits	925	1,047
Other interest income	522	467
Interest and similar income	**15,132**	**13,922**
Interest expenses for bank liabilities and bonds	–62,910	–70,084
Interest expenses from lease liabilities	–35,137	–40,943
Net interest expenses on defined benefit plans	–18,417	–27,718
Expenses from interest rate derivatives	–10,765	–6,802
Other interest expenses	–32,370	–30,468
Interest and similar expenses	**–159,599**	**–176,015**
Net interest income (expense)	**–144,467**	**–162,093**
Income from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	716,518	122,188
Foreign currency gains and losses	–9,985	–5,577
Expenses from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	–52,488	–29,094
Bank charges	–81,787	–64,287
Miscellaneous financial income (expense)	–12,432	–2,882
Other net financial income (expense)	**559,826**	**20,348**
Net financial result	**415,359**	**–141,745**

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 in the amount of EUR 607,587 thousand (see Note (5)(b)), and from a valuation change to a retrospective contingent purchase price component in the amount of EUR 55,000 thousand.

(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:

	2020/21	2019/20
	EUR 000	EUR 000
Current income tax, Germany	38,886	18,505
Current income tax, other countries	111,922	65,784
Current income tax	**150,808**	**84,289**
Deferred tax, Germany	–4,059	–9,596
Deferred tax, other countries	–14,327	2,342
Deferred tax	**–18,386**	**–7,254**
of which, deferred tax on temporary differences	–30,734	–10,796
of which, deferred tax on loss carryforwards	12,348	3,542
Income tax	**132,422**	**77,035**

Income tax includes income taxes for prior years amounting to EUR –10,555 thousand (2019/20: EUR –7,200 thousand), of which EUR 300 thousand (2019/20: EUR –342 thousand) results from current income tax for the previous year and deferred tax for previous years in the amount of EUR –10,855 thousand (2019/20: EUR –6,858 thousand).

In the 2020/21 and 2019/20 financial years, existing tax loss carry-forwards amounting to EUR 146,180 thousand and EUR 7,623 thousand respectively as well as interest carry-forward amounts to EUR 16,452 thousand and EUR 1,578 thousand respectively were utilised. In the year under review, current tax expenses were reduced by EUR 18,829 thousand (2019/20: EUR 6,472 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:

	2020/21	2019/20
	EUR 000	EUR 000
Earnings before tax (EBT)	1,103,760	290,711
Tax rate for Otto (GmbH & Co KG)	15%	15%
Pro forma income tax expenses	**165,564**	**43,607**
Corrections in deferred taxes	95,036	38,682
Non-deductible expenses	59,337	18,469
Income taxes for prior years	–4,028	–6,933
Foreign withholding tax	2,888	1,822
Effects of consolidation adjustments recognised in income	3,783	7,345
Change in applicable tax rate	–1,350	–8,403
Additions and deductions for trade tax	–10,084	–7,206
Non-taxable income	–282,844	–72,731
Permanent differences	–5,345	–26,471
Differences in tax rates	107,177	89,373
Other	2,288	–519
Total differences	**–33,142**	**33,428**
Income tax	**132,422**	**77,035**

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

Subsidiaries domiciled in Germany in the legal form of a corporation are also subject to corporation tax of 15% as well as 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% by using an existing loss carry-forward. In Germany, companies are no longer entitled to deduct interest expenses for taxation purposes if the interest expense exceeds EUR 3 million, if 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 25,181 thousand (2019/20: EUR 2,690 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:

	28.02.2021		29.02.2020	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets	1,364	65,579	2,875	82,960
Property, plant and equipment and right-of-use assets	71,584	60,093	52,331	74,892
Inventories	7,627	5,982	6,304	5,978
Receivables and other assets	14,967	37,507	21,231	41,520
Securities and financial investments	3,058	12,225	3,939	6,620
Provisions	156,379	18,637	176,010	24,089
Liabilities	68,502	63,301	61,578	44,769
Changes to the scope of consolidation due to IFRS 5	0	0	–30,857	–17,097
Temporary differences	**323,481**	**263,324**	**293,411**	**263,731**
Loss carry-forwards	40,267	0	27,299	0
Offset	–189,281	–189,353	–192,557	–192,557
Offset due to changes to the scope of consolidation due to IFRS 5	0	0	30,857	17,097
Total	**174,467**	**73,971**	**159,010**	**88,271**

Accumulated other comprehensive income includes tax expenses from the change in temporary differences for financial instruments in the fair value through other comprehensive income (FVOCI) category in the amount of EUR 6,768 thousand (2019/20: EUR 662 thousand), tax expenses from the change in temporary differences for cash flow hedge derivatives in the amount of EUR 4,130 thousand (2019/20: EUR –6,688 thousand) and tax expenses from the change in temporary differences for provisions for pensions in the amount of EUR –13,500 thousand (2019/20: EUR –26,627 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. In the 2020/21 and 2019/20 financial years, no deferred tax assets were recognised for tax loss carry-forwards of EUR 3,110,449 thousand and EUR 3,542,816 thousand. Of these tax loss carry-forwards, EUR 3,109,517 thousand and EUR 3,510,704 thousand respectively can be carried over indefinitely; EUR 0 thousand and EUR 5,905 thousand respectively can be carried over subject to a useful life of between five and ten years; and EUR 932 thousand and EUR 26,207 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 122,787 thousand (2019/20: EUR 120,645 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 –92,820 thousand (2019/20: EUR 10,203 thousand).

In the year under review, an interest carry-forward of EUR 56,151 thousand (2019/20: EUR 72,603 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).

For retained profits and profits not intended for dividend payments for foreign Group companies, a deferred tax liability in the amount of EUR 3,132 thousand (2019/20: EUR 2,077 thousand) was recognised. From today's point of view, retained profits at Group companies are to remain predominantly invested. As a rule, future 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 32,740 thousand (29 February 2020: EUR 30,479 thousand) for internally-generated intangible assets that are still in development.

Of the goodwill recognised under intangible assets, EUR 148,517 thousand (29 February 2020: EUR 191,745 thousand) is attributable to companies in the Multichannel Retail segment, in particular Crate and Barrel Group, EUR 112,033 thousand (29 February 2020: EUR 114,819 thousand) is attributable to companies in the Financial Services segment and EUR 8,756 thousand (29 February 2020: EUR 21,691 thousand) is attributable to companies in the Services segment.

There are contractual obligations for the acquisition of intangible assets in the amount of EUR 228 thousand (29 February 2020: EUR 16,429 thousand). This change is mainly due to deconsolidated Group companies in the Services segment no longer being included in the Group's contractual obligations as at the balance sheet date.

(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 previous balance sheet date.

Contractual obligations for the acquisition of property, plant and equipment (purchase commitments) amount to EUR 3,055 thousand (29 February 2020: EUR 3,696 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%):

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Non-current assets	10,555,308	9,786,294
Current assets	4,036,924	5,146,859
Non-current liabilities	7,057,063	5,740,616
Current liabilities	5,686,658	7,476,917
Net assets	**1,848,511**	**1,715,620**
Group's share of carrying amount	**369,702**	**343,124**

	2020/21	2019/20
	EUR 000	EUR 000
Revenue	1,402,557	1,409,327
Profit for the year	135,589	213,964
Other comprehensive income for the year	– 2,697	– 10,633
Total comprehensive income for the year	**132,892**	**203,331**
of which, attributable to Group	26,578	59,702
Dividends received by the Group	0	22,032

COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, and its subsidiaries are included in the consolidated financial statement based on an unchanged shareholding of 20.00% 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 AG (ABOUT YOU Holding GmbH up to 29 March 2021), Hamburg, with its operating subsidiary ABOUT YOU GmbH & Co. KG is another important associated company. ABOUT YOU Holding AG 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 entitlement to the net assets and results of ABOUT YOU Holding AG. 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 53.30% (29 February 2020: 53.48%). The relevant shareholding for ordinary shares that was used for recognition based on the equity method was 44.60% (29 February 2020: 44.73%).

ABOUT YOU GmbH & Co. KG operates online and mail-order sales 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 AG and ABOUT YOU GmbH & Co. KG (based on 100%) with reconciliation of the values included in the consolidated financial statements are as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Non-current assets	48,299	39,281
Current assets	408,915	267,595
Non-current liabilities	87,632	10,203
Current liabilities	314,147	194,468
Net assets	**55,435**	**102,205**
Proportional equity (calculated)	24,726	45,716
Negative difference allocated to individually identifiable assets and liabilities and resutling from transitional consolidation in FY 2017/18 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	–7,783	–28,773
Group's share of carrying amount	**0**	**0**

	2020/21	2019/20
	EUR 000	EUR 000
Revenue (100%)	1,166,455	738,865
Loss for the year (100%)	–59,906	–81,242
Loss for the year recognised in Group's profit and loss statement**	–27,740	0
Loss for the year recognised in Group's profit and loss statement due to the increase in net investment in accordance with IAS 28.38	–44,219	0
Unrecognised losses**	0	–44,219

* After planned depreciation / reversal, and breakdown into ordinary shares and preference shares, an amount of EUR 3,196 thousand remained as at 28 February 2021 (EUR 4,217 thousand as at 29 February 2020).

** Including depreciation of assets resulting from purchase price allocation in the financial year 2017/18.

In previous years, there were no proportional losses recognised, as the carrying amount of the ordinary shares in the associated company ABOUT YOU Holding AG was already updated to zero in the 2018/19 financial year based on the at-equity recognition method. Due to the very probable restructuring measures soon to be required under corporate law, both ordinary shares and preference shares in ABOUT YOU Holding AG must be included in the proportional recognition of losses from now on.

As of the 2020/21 financial year, Hermes Germany GmbH, Hamburg, is a key associated company. On 30 November 2020, the Otto Group relinquished control of the previously fully consolidated company, including control of its subsidiaries. Hermes Germany GmbH is included in the consolidated financial statement based on a shareholding of 75% calculated using the equity method. Despite this majority share, the Group does not exercise control, as contractual agreements require the company to be jointly controlled with at least one other shareholder. Hermes Germany GmbH and its subsidiaries are mainly involved in the parcel distribution business.

The key figures for the significant associated company Hermes Germany GmbH and its subsidiaries are as follows (based on 100%):

	28.02.2021
	EUR 000
Non-current assets	480,487
Current assets	350,381
Non-current liabilities	501,755
Current liabilities	288,577
Net assets	**40,536**
Proportional equity (calculated)	30,402
Negative difference allocated to individually identifiable assets and liabilities and resutling from transitional consolidation in FY 2020/21 after deferred tax (before depreciation)	39,473
Accumulated depreciation allocated to individually identifiable assets and liabilities resulting from transitional consolidation in FY 2020/21 after deferred tax	–974
Negative difference allocated to goodwill and resulting from transitional consolidation in FY 2020/21	1,165
Others	–10,083
Group's share of carrying amount	**59,983**

	2020/21
	EUR 000
Revenue	444,614
Loss for the year	–10,216
Other comprehensive income for the year	–9,807
Total comprehensive income for the year	**–20,023**
Loss for the year attributable to Group	–7,662

In addition, on 30 November 2020, the Otto Group relinquished control of the previously fully consolidated subsidiary Hermes Parcelnet Limited, Leeds, United Kingdom, including control of its subsidiaries. Since then, the companies have been included in the consolidated financial statement based on a shareholding of 25% calculated using the equity method. Hermes Parcelnet Limited, Leeds, United Kingdom, and its subsidiaries are involved in the parcel distribution business in the United Kingdom.

The key figures for the significant associated company Hermes Parcelnet Limited and its subsidiaries are as follows (based on 100%):

	28.02.2021
	EUR 000
Non-current assets	1,207,514
Current assets	314,717
Non-current liabilities	752,440
Current liabilities	283,791
Net assets	**486,000**
Group's share of carrying amount	**121,500**

	2020/21
	EUR 000
Revenue	483,596
Profit for the year	40,820
Other comprehensive income for the year	–1,241
Total comprehensive income for the year	**39,579**
of which, attributable to Group	9,895

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:

	2020/21		2019/20	
	Joint ventures	Associated companies	Joint ventures	Associated companies
	EUR 000	EUR 000	EUR 000	EUR 000
Carrying amount of the investment	21,903	371,388	20,532	337,335
Profit for the year	4,207	161,919	8,824	111,736
Other comprehensive income for the year	–35	114	–71	252
Total comprehensive income for the year	**4,172**	**162,033**	**8,753**	**111,988**

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.

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Fair Value, FVOCI	121,377	97,777
Fair Value, FVPL	35,990	30,619
Other financial investments	**157,367**	**128,396**

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 2020/21 financial year, dividends from shares in companies measured at FVOCI in the amount of EUR 2,109 thousand (2019/20: EUR 1,368 thousand) were recorded 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 24,255 thousand (2019/20: EUR 20,850 thousand) at the time of the derecognition. During the reporting period, income of EUR 45,458 thousand (2019/20: EUR 3,057 thousand) was reclassified from other comprehensive income for the year 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:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Merchandise	1,612,565	1,572,565
Raw materials, consumables and supplies	17,686	17,296
Finished goods and services and work in progress	1,974	5,467
Inventories	**1,632,225**	**1,595,328**

Inventory stock includes value allowances for obsolescence discounts in the amount of EUR 191,082 thousand (29 February 2020: EUR 187,986 thousand).

(20) Trade receivables and receivables from financial services

These receivables are composed as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Trade receivables, gross	1,266,776	1,236,114
Allowances on trade receivables	–111,436	–124,488
Trade receivables	**1,155,340**	**1,111,626**
Receivables from financial services, gross	1,694,989	1,614,486
Revaluation of receivables from financial services according to IFRS 9	21,256	32,236
Allowances on receivables from financial services	–3,670	–4,116
Receivables from financial services	**1,712,575**	**1,642,606**

Receivables from financial services include, in particular, receivables purchased from third parties in the amount of EUR 1,676,283 thousand (29 February 2020: EUR 1,609,472 thousand).

The remaining terms of receivables as at 28 February 2021 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	1,017,795	137,545	0	**1,155,340**
Receivables from financial services	412,511	899,218	400,846	**1,712,575**

As at 29 February 2020, 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	980,847	130,779	0	**1,111,626**
Receivables from financial services	479,591	806,885	356,130	**1,642,606**

Value allowances recognised on existing trade receivables developed as follows:

	2020/21	2019/20
	EUR 000	EUR 000
Allowances as at 1 March	**124,488**	**145,166**
Exchange rate changes	–931	187
Changes to the scope of consolidation	–10,241	–1,336
Changes to the scope of consolidation due to IFRS 5	0	–11,353
Utilisation	–90,705	–110,930
Reversals	–22,611	–17,111
Additions	111,436	119,865
Allowances as at 28 / 29 February	**111,436**	**124,488**

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

	2020/21	2019/20
	EUR 000	EUR 000
Allowances as at 1 March	**4,116**	**8,373**
Exchange rate changes	–127	–219
Changes to the scope of consolidation	0	–2,980
Utilisation	–3,897	–2,132
Reversals	–93	–37
Additions	3,671	1,111
Allowances as at 28 / 29 February	**3,670**	**4,116**

The risk of default from trade receivables was primarily assessed on the basis of arrears information. The gross carrying amounts and value allowances are broken down into the relevant arrears bands as follows:

	Not credit-impaired		Credit-impaired		
	Carrying amount receivables, gross	Allowances ECL	Carrying amount receivables, gross	Specific allowances	Carrying amount receivables
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Not overdue	925,251	–31,703	0	0	893,548
Overdue up to 30 days	193,989	–9,529	0	0	184,460
Overdue for more than 30 and up to 90 days	34,049	–9,264	0	0	24,785
Overdue for more than 90 days	31,317	–11,896	82,170	–49,044	52,547
Balance as at 28 February 2021					**1,155,340**

The default rates are broken down into the relevant arrears bands as follows:

	Carrying amount receivables, gross	Allowances ECL and specific allowances	Default rate	Carrying amount receivables
	EUR 000	EUR 000	in %	EUR 000
Not overdue	925,251	–31,703	3	893,548
Overdue up to 30 days	193,989	–9,529	5	184,460
Overdue for more than 30 and up to 90 days	34,049	–9,264	27	24,785
Overdue for more than 90 days	113,487	–60,940	54	52,547
Balance as at 28 Februar 2021				**1,155,340**

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

	Not credit-impaired		Credit-impaired		
	Carrying amount receivables, gross	Allowances ECL	Carrying amount receivables, gross	Specific allowances	Carrying amount receivables
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Not overdue	929,228	–29,509	0	0	899,719
Overdue up to 30 days	144,242	–8,934	0	0	135,308
Overdue for more than 30 and up to 90 days	29,519	–11,989	0	0	17,530
Overdue for more than 90 days	29,989	–14,974	103,137	–59,083	59,069
Balance as at 29 February 2020					**1,111,626**

The default rates for the comparison period were broken down into the relevant arrears bands as follows:

	Carrying amount receivables, gross	Allowances ECL and specific allowances	Default rate	Carrying amount receivables
	EUR 000	EUR 000	in %	EUR 000
Not overdue	929,228	–29,509	3	899,719
Overdue up to 30 days	144,242	–8,934	6	135,308
Overdue for more than 30 and up to 90 days	29,519	–11,989	41	17,530
Overdue for more than 90 days	133,125	–74,056	56	59,069
Balance as at 29 Februar 2020				**1,111,626**

(21) Receivables from related parties

Receivables from related parties are composed as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Receivables from unconsolidated subsidiaries	11,302	15,199
Receivables from associated companies and joint ventures	122,568	51,763
Receivables from other related parties	694	7,231
Receivables from related parties	**134,564**	**74,193**

In the current financial year, receivables from associated companies and joint ventures have primarily resulted from receivables from ABOUT YOU GmbH Co. KG, Hamburg, and from the settlement of goods and services and a loan.

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

	2020/21	2019/20
	EUR 000	EUR 000
Allowances as at 1 March	**9,716**	**7,841**
Additions	87	1,875
Allowances as at 28 / 29 February	**9,803**	**9,716**

Remaining terms as at balance sheet date are as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Remaining term of up to 1 year	81,721	60,918
Remaining term of more than 1 to 5 years	42,928	13,275
Remaining term of more than 5 years	9,915	0
Receivables from related parties	**134,564**	**74,193**

(22) Other assets

Other assets consist of the following:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Amounts owed by suppliers	17,870	39,980
Deposits	17,790	42,565
Derivatives at fair value	10,491	20,046
Receivables from employees	2,022	1,814
Other	640,152	820,392
Other financial assets	**688,325**	**924,797**
Expected returns of merchandise	91,707	71,922
Receivables from other taxes	73,808	65,421
Prepaid expenses	59,565	61,940
Other	77,816	41,896
Miscellaneous other assets	**302,896**	**241,179**
Other assets	**991,221**	**1,165,976**

The legal right to recover expected returns of merchandise to the amount of EUR 91,707 thousand (29 February 2020: EUR 71,922 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 include preference shares in a company accounted for in the consolidated financial statements using the equity method in the amount of EUR 390,429 thousand (29 February 2020: EUR 422,267 thousand) (see Note (18)). In addition, at the balance sheet date for the previous year, there was a purchase price claim from the sale of shares in COFIDIS PARTICIPATIONS, Villeneuve d'Ascq, France, in the amount of EUR 222,062 thousand.

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 28 February 2021	224,833	65,676	397,816	**688,325**
Balance as at 29 February 2020	363,782	130,597	430,418	**924,797**

For other assets, value allowances in the amount of EUR 271 thousand (29 February 2020: EUR 3,157 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). 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:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	252,648	–131,836
Puttable financial instruments	**1,072,648**	**701,331**

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 the Group in previous periods, unless these amounts have been distributed.

In compliance with legal requirements and the articles of association, an amount of EUR 36,231 thousand (29 February 2020: EUR 35,968 thousand) in consolidated retained earnings was not made available for distribution as at 28 February 2021.

(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. In the 2020/21 financial year, as in the previous year, there were no investment changes in subsidiaries that led to a loss of control in the Group.

(d) ACCUMULATED OTHER EQUITY

Accumulated other equity is composed as follows:

	28.02.2021	29.02.2020
	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	–1,149	–1,126
Accumulated other equity	**12,454**	**12,477**

(e) NON-CONTROLLING INTERESTS

The non-controlling interests in equity primarily relate to external shareholders in ARGOSYN, Croix, France, including its subsidiaries, based on a non-controlling interest of 46.32%, and to FORUM Grundstücksgesellschaft m.b.H., Hamburg, Germany, based on a non-controlling interest of 100%, including 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	
	2020/21	2019/20	2020/21	2019/20
	EUR 000	EUR 000	EUR 000	EUR 000
Non-current assets	420,196	429,581	370,271	361,445
Current assets	55,532	79,296	139,524	382,074
Non-current liabilities	179,709	206,167	6,198	11,863
Current liabilities	68,312	65,939	31,386	43,396
Net assets	**227,707**	**236,771**	**472,211**	**688,260**
thereof attributable to non-controlling interests	227,333	236,397	218,458	319,086
Revenue	0	0	9,062	10,916
Profit for the year	8,817	13,873	28,899	120,008
thereof attributable to non-controlling interests	8,789	13,846	13,386	55,588
Other comprehensive income for the year	2,453	–2,526	–540	642
Total comprehensive income for the year	**11,270**	**11,347**	**28,359**	**120,650**
thereof attributable to non-controlling interests	11,243	11,320	13,136	55,885
Net increase (decrease) of cash and cash equivalents	**0**	**0**	**9,837**	**–38,421**
Dividends paid to non-controlling interests	20,306	20,702	113,470	39,365

* 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.

EOS Holding GmbH, Hamburg, issued participation certificates with a nominal value of EUR 55,000 thousand. Bonprix Handelsgesellschaft mbH, Hamburg, issued participation certificates in the amount of EUR 70,000 thousand. These participation certificate transactions are classified as equity under IAS 32 due to their characteristics.

As at 28 February 2021, this item also included the as yet unpaid remuneration on the specified equity components amounting to EUR 9,432 thousand (29 February 2020: EUR 9,503 thousand).

(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 comprising up to 20 profit participation 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. As a rule, these rights packages must be held for at least six years and are therefore recognised as non-current rights and accounted for on a pro rata basis over this period.

In the 2020/21 financial year, due to uncertainties in business performance at the start of the coronavirus pandemic, and as a derogation from the terms and conditions regulating profit and loss participation rights, employees were given the option to cancel or convert new profit and loss participation rights subscribed to in February or March 2020.

As at 28 February 2021, 27,277 packages valued at EUR 22,832 thousand had been subscribed to (29 February 2020: 28,312 packages valued at EUR 24,581 thousand).

(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 45,329 thousand in the 2020/21 financial year (2019/20: EUR 16,364 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 34,002 thousand as at 28 February 2021 (29 February 2020: EUR 28,483 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:

	2020/21	2019/20
	in %	in %
Discount rate	1.2	1.3
Salary trend	1.5	1.4
Pension trend	1.8	1.8
Inflation	1.8	1.9
Fluctuation	8.0	8.0

The present value of pension obligations is broken down as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Defined benefit obligation, unfunded plans	1,672,253	1,739,912
Defined benefit obligation, funded plans	652,736	693,978
Reversals with regard to IFRS 5	0	–169,569
Present value of pension obligations	**2,324,989**	**2,264,321**

The net defined benefit liability has developed as follows:

	Defined benefit obligations		Plan assets		Provisions for pensions	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Status as at 1 March	**2,264,321**	**2,076,442**	**675,279**	**598,444**	**1,589,042**	**1,477,998**
Current service cost	27,550	24,899	0	0	27,550	24,899
Past service cost	21,380	10,020	0	0	21,380	10,020
Effects of plan curtailments and settlements	–15	–443	0	0	–15	–443
Interest income (expense)	28,580	43,255	11,455	15,537	17,125	27,718
Changes recognised in profit or loss	**77,495**	**77,731**	**11,455**	**15,537**	**66,040**	**62,194**
Actuarial gains and losses						
arising on demographic assumptions	4,263	–9,898	0	0	4,263	–9,898
arising on financial assumptions	50,922	342,980	0	0	50,922	342,980
arising on experience adjustments	–8,933	1,353	0	0	–8,933	1,353
Expense for / return on plan assets less interest income	0	0	–30,952	60,041	30,952	–60,041
Foreign exchange rate changes	–15,619	6,628	–12,777	5,907	–2,842	721
Changes recognised in other comprehensive income	**30,633**	**341,063**	**–43,729**	**65,948**	**74,362**	**275,115**
Payments to beneficiaries	–54,092	–57,303	–22,280	–25,224	–31,812	–32,079
Transfers	2,356	2	0	0	2,356	2
Contributions from employer	0	0	73,930	20,574	–73,930	–20,574
Changes to the scope of consolidation	4,276	–4,045	–12	0	4,288	–4,045
Reversals with regard to IFRS 5	0	–169,569	0	0	0	–169,569
Other changes	**–47,460**	**–230,915**	**51,638**	**–4,650**	**–99,098**	**–226,265**
Status as at 28 / 29 February	**2,324,989**	**2,264,321**	**694,643**	**675,279**	**1,630,346**	**1,589,042**
thereof provisions for pensions					1,658,335	1,589,429
thereof net defined benefit asset					–27,989	–387

Plan assets available to finance pension obligations are structured as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Securities	553,646	561,097
Property	12,023	26,430
Cash and cash equivalents	3,216	14,769
Loans	3,102	8,205
Other	122,656	64,778
Plan assets	**694,643**	**675,279**

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.

During the 2021/22 financial year, the Group expects to pay contributions in the amount of EUR 5,074 thousand into the defined benefit plans and also anticipates that EUR 61,451 thousand will be paid out from these plans.

The weighted average term of the present value of the defined benefit obligation is 19.9 years (29 February 2020: 20.1 years).

The relative effect of singular parameter changes on the present value of the defined benefit obligation is shown below:

		2020/21	2019/20
		in %	in %
Discount rate	+ 0,5%	–9.2	–9.2
	– 0,5%	10.6	10.7
Pension trend	+ 0,25%	2.2	2.3
	– 0,25%	–2.1	–2.2
Life expectancy	Increase of one year	2.0	2.0
	Decrease of one year	–2.3	–2.2

There is no material dependence of the plans on salary. Sensitivity was calculated taking into account approximately 98% of the total obligations. 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:

	01.03.2020	Exchange rate changes / reclassi-fications / changes in the scope of consolidation	Utilisation	Reversals	Additions	Compounding / discounting	28.02.2021
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Restructuring obligations	16,276	–450	–8,821	–1,160	95,968	7	101,820
Personnel expenses	68,132	–926	–3,902	–1,590	6,937	3,027	71,678
Operational provisions	36,905	–804	–4,225	–1,777	5,897	–95	35,901
Contractual provisions	26,301	–58	–17,454	–4,584	4,034	0	8,239
Other	101,020	–1,614	–39,230	–12,819	27,295	27	74,679
Other provisions	**248,634**	**–3,852**	**–73,632**	**–21,930**	**140,131**	**2,966**	**292,317**

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 severance pay commitments and other personnel expenses incurred as part of restructuring measures initiated in Germany primarily.

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 28 February 2021:

	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
Restructuring obligations	49,400	52,420	0	**101,820**
Personnel expenses	699	62,764	8,215	**71,678**
Operational provisions	13,103	12,526	10,272	**35,901**
Contractual provisions	8,183	56	0	**8,239**
Other	40,588	34,091	0	**74,679**
Other provisions	**111,973**	**161,857**	**18,487**	**292,317**

(27) Liabilities under bonds and other notes payable and bank liabilities

The remaining terms of bonds, other notes payable and bank liabilities as at 28 February 2021 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	59,953	555,279	413,407	**1,028,639**
Bank liabilities	162,332	368,630	185,045	**716,007**

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	393,846	711,954	458,705	**1,564,505**
Bank liabilities	340,232	578,139	233,925	**1,152,296**

The principal bonds outstanding as at 28 February 2021 have the following nominal values, interest rates and maturities:

Company	Financing commitment	Utilisation until 28.02.2021	Nominal interest rate	Re-offer yield	Maturity
		EUR 000			
Otto (GmbH & Co KG)	Bearer bond (XS1123401579)	45,000	Euribor + Aufschlag	Euribor + Aufschlag	05.11.2021
Otto (GmbH & Co KG)	Bearer bond (XS1567447609)***	35,637	1,500%	1,500%	08.03.2022
Otto (GmbH & Co KG)	Bearer bond (XS1433512891)***	188,167	2,500%	2,625%	16.06.2023
Otto (GmbH & Co KG)	Bearer bond (XS1625975153)***	259,273	1,875%	1,950%	12.06.2024
Otto (GmbH & Co KG)	Bearer bond (CH0511961390)*,**,***	74,000	1,500%	1,418%	09.12.2024
Otto (GmbH & Co KG)	Bearer bond (XS1979274708)*;***	212,034	2,625%	2,625%	10.04.2026
Otto (GmbH & Co KG)	Bearer bond (XS1979274708)*;***	42,407	2,625%	2,300%	10.04.2026
Otto (GmbH & Co KG)	Bearer bond (XS1660709616)	50,000	Euribor + Aufschlag	Euribor + Aufschlag	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 81.4 million
*** Nominal volume has been reduced through buy-backs.

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 28 February 2021, the total volume of bonds issued within the framework of the EMTN programme amounted to EUR 991,518 thousand (29 February 2020: EUR 1,422,000 thousand).

In addition, a commercial paper programme has been in place since the 2016/17 financial year and has a total value of EUR 1,000,000 thousand. As at 28 February 2021, the total volume of outstanding commercial paper had reduced to EUR 0 thousand (29 February 2020: EUR 97,800 thousand).

The Otto Group repaid two bonds with a total nominal value of EUR 275,000 thousand and due dates of September 2020 and February 2021 respectively from cash and cash equivalents. In addition, as part of a bond buy-back in the 2020/21 financial year, Group bonds with a nominal value of EUR 152,482 thousand were paid early.

As at 28 February 2021, there are the following material liabilities to various German and foreign banks (in order of maturity):

Segment	Currency	Utilisation until 28.02.2021	Interest rate	Maturity
		EUR 000		
Multichannel Retail	EUR	177,458	1,2–5,3%	2021–2026
	EUR	103,037	Euribor + variable mark-up	2021–2039
	EUR	169,576	1,5–6,9%	2026–2041
Financial Services	EUR	10,000	Euribor + variable mark-up	2025
	EUR	85,900	1,3–2,7%	2021–2025
	EUR	40,000	1,5%	2027
Services	EUR	0	0%	0

These are broken down by segment allocation based on fixed or variable interest rates, and by maturity of up to five years (up to 28 February 2026) or over five years (as of 1 March 2026).

For financial liabilities, the interest rate reported corresponds to the effective interest rate.

In the 2020/21 financial year, promissory note bonds totalling EUR 135,000 thousand and redeemable loans in the amount of EUR 29,167 thousand were reduced early.

(28) Other financing liabilities

Other financing liabilities consist of the following:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Loans payable	39.961	3,909
ABS liabilities	0	25,000
Bills payable	0	93
Other financing liabilities	**39,961**	**29,002**

The remaining terms as at 28 February 2021 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
Loans payable	17,295	22,666	0	**39,961**
Other financing liabilities	**17,295**	**22,666**	**0**	**39,961**

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	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**

(29) Liabilities to related parties

Liabilities to related parties consist of the following:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Liabilities to unconsolidated subsidiaries	12,558	9,234
Liabilities to associated companies and joint ventures	227,825	36,116
Liabilities to other related parties	1,093	1,625
Liabilities to related parties	**241,476**	**46,975**

In the 2020/21 financial year, liabilities owing to associated companies and joint ventures mainly result from liabilities in respect of Hermes Germany GmbH, Hamburg, from the ongoing settlement of parcel services and from current bank liabilities.

The remaining terms were as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Remaining term of up to 1 year	241,017	46,514
Remaining term of 1 to 5 years	0	0
Remaining term of more than 5 years	459	461
Liabilities to related parties	**241,476**	**46,975**

(30) Other liabilities

The other liabilities are composed as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Liabilities to employees	283,965	243,358
Debtors with credit balances	133,998	90,768
Liabilities to puttable equity interest	70,152	63,649
Negative fair values of derivatives	35,856	53,300
Obligation to acquire equity interests	24,268	27,030
Other	75,455	125,587
Other financial liabilities	**623,694**	**603,692**
Contractual Liabilities	339,000	230,579
Liabilities for other taxes	229,621	159,160
Deferred income	33,515	28,126
Social security liabilities	23,985	13,177
Liabilities for other charges	7,962	8,049
Other	1,291	1,689
Miscellaneous other liabilities	**635,374**	**440,780**
Other liabilities	**1,259,068**	**1,044,472**

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):

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Remaining term of up to 1 year	501,712	435,364
Remaining term of more than 1 to 5 years	112,969	153,120
Remaining term of more than 5 years	9,013	15,208
Other financial liabilities	**623,694**	**603,692**

Contractual liabilities changed as follows:

	2020/21	2019/20
	EUR 000	EUR 000
Contractual liabilities as at 1 March	**230,579**	**214,302**
Additions	360,608	210,609
Revenues realised in the reporting period	–230,579	–193,432
Exchange rate changes / changes to the scope of consolidation	–21,608	–832
Changes to the scope of consolidation due to IFRS 5	0	–68
Contractual liabilities as at 28 / 29 February	**339,000**	**230,579**

As at 28 February 2021, the total value of unfulfilled performance obligations that are expected to be fulfilled in more than twelve months amounted to EUR 26,766 thousand (29 February 2020: EUR 20,927 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	0	0.00	95.41
2015	148,860	–57,276	–91,472	44,093	0.00	100.11
2016	157,770	–70,100	–38,310	42,179	23.36	79.40
	1,325,405	**–380,973**	**–894,960**	**86,272**		

The plan launched in the 2017/18 financial year allows for a maximum of 300,000 appreciation rights to be issued. No new appreciation rights were issued in the 2020/21 financial year. The current status of this share option plan can be 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	–	–
2020	0	0	0	0	–	–
	82,360	**–54,800**	**0**	**0**		

Taking into account the vesting period pursuant to IFRS 2 and share performance as at the balance sheet date, a liability of EUR 8,215 thousand was recognised for both employee participation programmes (29. Februar 2020: EUR 10,327 thousand). In the reporting year, expenses amounted to EUR 7,839 thousand (2019/20: EUR 5,144 thousand).

In the 2020/21 financial year, payments of EUR 25,208 thousand were made to former employees for rights that had already vested when they left the company (2019/20: EUR 21,969 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:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Cash	1,247,085	311,938
Securities with maturities of three months or less	1,133	17,520
Cash and cash equivalents	**1,248,218**	**329,458**

Of the cash and cash equivalents reported in the consolidated cash flow statement, EUR 10,372 thousand was deposited as collateral (29 February 2020: EUR 4,970 thousand).

(34) Non-cash transactions

In the 2020/21 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 291,188 thousand (2019/20: EUR 350,482 thousand).

Notes to the Segment Reporting

(35) Principles

In accordance with the provisions of IFRS 8, segment reporting is based on the management approach. This aligns segment reporting with internal reporting to the relevant primary decision makers. It also provides the information that is presented to these decision makers as part of regular reporting and then used to allocate resources for the individual 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 shopping 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 rest of Europe and in North America. Other regions covers activities in all other regions.

(36) Segment information

Segment data is determined on the basis of accounting and measurement policies used for preparing the consolidated financial statements. 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 and after reversing impairment losses. 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:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Segment assets	**8,868,949**	**8,862,033**
Other financial investments	151,385	118,825
Receivables and other assets	66,958	31,151
Cash and cash equivalents	1,247,085	311,938
Deferred tax assets	174,467	159,010
Assets held for sale	182,853	1,257,619
Consolidated assets	**10,691,697**	**10,740,576**

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 also:

	Revenues from third parties		Non-current assets	
	2020/21	2019/20	28.02.2021	29.02.2020
	EUR 000	EUR 000	EUR 000	EUR 000
Germany	9,494,451	8,522,219	1,424,616	1,481,371
Other Europe	3,738,261	3,442,709	250,585	309,422
North America	2,106,435	1,940,056	639,753	687,017
Other regions	120,518	174,759	21,715	72,914
Group	**15,459,665**	**14,079,743**	**2,336,669**	**2,550,724**

For the North America region, a large portion of the revenue and non-current assets relate to the USA.

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 based on the carrying amount and associated fair value as at 28 February 2021. Cash flow hedges and other financial investments classified as Level 3 are reported separately. The tables do 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	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI)	Fair value recognised in equity (FVOCI) without recycling	Not assigned to an IFRS 9 category	Carrying amount
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Other financial investments	0	35,990	0	121,377	0	157,367
Trade receivables	1,155,340	0	0	0	0	1,155,340
Receivables from financial services	1,712,575	0	0	0	0	1,712,575
Receivables from related parties	134,564	0	0	0	0	134,564
Other financial assets	202,404	85,000	390,429	0	0	677,833
Securities	1,354	0	0	0	0	1,354
Cash and cash equivalents	1,247,085	0	0	0	0	1,247,085
Derivatives not designated as hedging instruments	0	5,035	0	0	0	5,035
Cash flow hedges	0	0	0	0	5,457	5,457
Status as at 28 Februar 2021	**4,453,322**	**126,025**	**390,429**	**121,377**	**5,457**	

Liabilities	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Not assigned to an IFRS 9 category	Carrying amount
	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	22,832	0	0	22,832
Bonds and other notes payable	1,028,639	0	0	1,028,639
Bank liabilities	716,007	0	0	716,007
Other financing liabilities	39,961	0	0	39,961
Lease liabilities	886,462	0	0	886,462
Trade payables	2,040,109	0	0	2,040,109
Liabilities to related parties	241,476	0	0	241,476
Other financial liabilities	563,570	0	24,268	587,838
Derivatives not designated as hedging instruments	0	11,856	0	11,856
Cash flow hedges	0	0	24,000	24,000
Status as at 28 Februar 2021	**5,539,056**	**11,856**	**48,268**	

In the 2020/21 financial year, there were no reclassifications between the various levels of the fair value hierarchy as provided for in IFRS 13.

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. The fair value of these financial assets increased by EUR 40,122 thousand during the current financial year and now stands at EUR 462,389 thousand. A change in interest rates of one percentage point in either direction would result in a change in the fair value corresponding to either an increase of EUR 31,410 thousand or a reduction of EUR 34,105 thousand. However, losses to date of EUR 71,959 thousand that had not yet accounted for in the balance sheet using the equity method for ordinary shares were offset. As a result, the carrying amount as at 28 February 2021 had reduced to EUR 390,429 thousand.

In addition, other financial assets include a retrospective contingent purchase price component in the amount of EUR 85,000 thousand for a Group company that was disposed of during the 2017/18 financial year (29 February 2020: EUR 30,000 thousand). The retrospective purchase price component was fully recognised based on an agreement concluded in the 2020/21 financial year, as it was deemed to be very probable that the conditions would be fulfilled and the purchase price receivables settled in the 2021/22 financial year.

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 3,194 thousand (29 February 2020: EUR 1,592 thousand) from foreign currency translation. Because the amounts are contractually fixed, it is not possible to represent overall sensitivities.

As at the closing date of the comparative period the carrying amounts and fair values of financial assets and liabilities were as follows:

Assets	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI)	Fair value recognised in equity (FVOCI) without recycling	Not assigned to an IFRS 9 category	Carrying amount
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Other financial investments	0	30,619	0	97,777	0	128,396
Trade receivables	1,111,626	0	0	0	0	1,111,626
Receivables from financial services	1,642,606	0	0	0	0	1,642,606
Receivables from related parties	74,193	0	0	0	0	74,193
Other financial assets	452,484	30,000	422,267	0	0	904,751
Securities	2,375	17,431	0	0	0	19,806
Cash and cash equivalents	311,938	0	0	0	0	311,938
Derivatives not designated as hedging instruments	0	9,324	0	0	0	9,324
Cash flow hedges	0	0	0	0	10,721	10,721
Status as at 29 Februar 2020	**3,595,222**	**87,374**	**422,267**	**97,777**	**10,721**	

Liabilities	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Not assigned to an IFRS 9 category	Carrying amount
	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	24,581	0	0	24,581
Bonds and other notes payable	1,564,505	0	0	1,564,505
Bank liabilities	1,152,296	0	0	1,152,296
Other financing liabilities	51,518	0	0	51,518
Lease liabilities	856,497	0	0	856,497
Trade payables	1,448,290	0	0	1,448,290
Liabilities to related parties	46,975	0	0	46,975
Other financial liabilities	500,847	0	27,030	527,877
Derivatives not designated as hedging instruments	0	15,376	0	15,376
Cash flow hedges	0	0	37,924	37,924
Status as at 29 Februar 2020	**5,645,509**	**15,376**	**64,954**	

The fair value hierarchy for financial assets and liabilities is as follows:

	28.02.2021				29.02.2020			
Assets	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3	Fair Value
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Other financial investments	0	0	157,367	157,367	0	0	128,396	128,396
Trade receivables	0	0	0	0	0	0	0	0
Receivables from financial services	0	0	0	0	0	0	0	0
Receivables from related parties	0	0	0	0	0	0	0	0
Other financial assets	0	0	475,429	475,429	0	0	452,267	452,267
Securities	0	0	0	0	17,431	0	0	17,431
Cash and cash equivalents	0	0	0	0	0	0	0	0
Derivatives not designated as hedging instruments	0	5,035	0	5,035	0	9,324	0	9,324
Cash flow hedges	0	5,457	0	5,457	0	10,721	0	10,721
Total	**0**	**10,492**	**632,796**	**643,288**	**17,431**	**20,045**	**580,663**	**618,139**

	28.02.2021				29.02.2020			
Liabilities	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3	Fair Value
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	0	0	0	0	0	0	0	0
Bonds and other notes payable	735,165	352,411	0	1,087,576	1,119,077	486,333	0	1,605,410
Bank liabilities	0	772,110	0	772,110	0	1,211,069	0	1,211,069
Other financing liabilities	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Trade payables	0	0	0	0	0	0	0	0
Liabilities to related parties	0	0	0	0	0	0	0	0
Other financial liabilities	0	0	24,268	24,268	0	0	27,030	27,030
Derivatives not designated as hedging instruments	0	11,856	0	11,856	0	15,376	0	15,376
Cash flow hedges	0	24,000	0	24,000	0	37,924	0	37,924
Total	**735,165**	**1,160,377**	**24,268**	**1,919,810**	**1,119,077**	**1,750,702**	**27,030**	**2,896,809**

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:

	28.02.2021		
	Recognised in equity	Recognised in income	Total
	EUR 000	EUR 000	EUR 000
Financial investments measured at amortised cost	0	717,093	717,093
Financial liabilities measured at amortised cost	0	-15,936	-15,936
Financial investments measured at fair value through profit or loss	0	40,571	40,571
Financial liabilities measured at fair value through profit or loss	0	-27,139	-27,139
Financial investments measured at fair value recognised in equity	32,484	0	32,484
Financial investments measured at fair value recognised in equity without recycling	27,198	1,671	28,869
Net gain / net loss	**59,682**	**716,260**	**775,942**

At the reporting date of the comparative period, the breakdown was 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	10,636	0	10,636
Financial investments measured at fair value recognised in equity without recycling	12,940	1,368	14,308
Net gain / net loss	**23,576**	**782,116**	**805,692**

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.

(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 conditional and unconditional foreign currency forwards to hedge completed or forecasted business transactions in a risky currency. As part of the Group's interest rate hedging, risks are minimised by concluding 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). Where possible, the Otto Group makes use of grounds for exemption or delegates fulfilment of reporting obligations to its counterparties. 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	577,439	217,810	0
Total	**577,439**	**217,810**	**0**
Liabilities			
Currency derivatives	702,034	356,833	0
Interest rate derivatives	45,000	56,379	106,657
Total	**747,034**	**413,212**	**106,657**

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	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**

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:

	28.02.2021			29.02.2020		
	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	222,469	4,107	401	336,287	2,774	13,317
Refinancing	210,839	888	1,829	177,343	2,943	2,487
Inventories	556,429	462	11,716	239,431	5,005	2,869
Interest rate derivatives						
Interest rate swaps	208,037	0	10,054	339,578	0	19,252
Derivatives in cash flow hedges	**1,197,774**	**5,457**	**24,000**	**1,092,639**	**10,722**	**37,925**

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 28 February 2021, 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	10,190	0	3,359	2,048	0	–1,156
Refinancing	2,605	0	–2,605	–1,277	0	13
Inventories	–26,491	13,326	0	2,063	–1,974	0
Interest rate derivatives						
Interst rate swaps	4,438	0	9,800	0	0	0
Changes in fair value of derivatives in cash flow hedges	**–9,258**	**13,326**	**10,554**	**2,834**	**–1,974**	**–1,143**

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 35 thousand (29 February 2020: EUR –54 thousand) and relates solely to refinancing. This is included under other net financial income (expense) (see Note (14)). Hedge ineffectiveness also occurred for interest rate derivatives in the amount of EUR –218 thousand (29 February 2020: EUR –976 thousand). Furthermore, EUR –4,198 thousand (29 February 2020: EUR 0 thousand) was reclassified through profit or loss due to omitted underlying transactions from the cash flow reserve. The expenses arising from both issues are recorded under net interest income (expense) (see Note (14)).

As at 28 February 2021, a change in value was recorded for foreign exchange derivatives in the amount of EUR –3,835 thousand for the hedged underlying transaction (29 February 2020: EUR 20,419 thousand) and for interest rate derivatives in the amount of EUR 10,009 thousand (29 February 2020: EUR 17,029 thousand). The hedged underlying transaction serves as a basis for recording the ineffectiveness of the hedging relationship. As at 28 February 2021, the cash flow hedge reserve for hedging relationships for foreign exchange derivatives for which the recognition of hedging transactions is no longer applied had a remaining balance of zero (29 February 2020: EUR 252 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 2020	**– 23,296**	**– 2,568**	**– 161**
Changes in fair values			
Currency derivatives – inventories	– 26,571	3,606	– 1,543
Currency derivatives – revenue	10,190	2,048	0
Currency derivatives – refinancing	2,605	– 1,277	0
Interest rate derivatives – interest rate swaps	4,438	0	0
Reclassified to profit or loss			
Currency derivatives – revenue	3,359	– 1,156	0
Currency derivatives – refinancing	– 2,605	13	0
Interest rate derivatives – interest rate swaps	9,800	0	0
Reclassified to cost of inventory under inventories			
Currency derivatives – inventories	13,326	– 3,948	1,974
Fair value of derivatives in cash flow hedges before tax	**– 8,754**	**– 3,282**	**270**
Fair value of derivatives in cash flow hedges attributable to non-controlling interests	– 6,655	– 408	0
Fair value of derivatives in cash flow hedges attributable to the owners of Otto (GmbH & Co KG) before tax	**– 15,409**	**– 3,690**	**270**
Deferred tax effects	– 2,083	– 499	37
Fair value of derivatives in cash flow hedges as at 28 February 2021	**– 17,492**	**– 4,189**	**307**

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 19 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 353,330 thousand (29 February 2020: EUR 118,787 thousand) for foreign exchange derivatives, EUR 208,037 thousand (29 February 2020: EUR 290,578 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 – 210 thousand (29 February 2020: EUR 2,159 thousand) from accumulated other comprehensive income was reclassified as acquisition costs. Of this, EUR 442 thousand (29 February 2020: EUR 2,262 thousand) relates to designated risk components and EUR – 652 thousand (29 February 2020: EUR – 103 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:

	28.02.2021			29.02.2020		
	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	10,491	9,709	782	20,046	14,649	5,397
Financial liabilities						
Interest rate and currency derivatives	35,856	9,709	26,147	53,300	14,649	38,651

(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 primarily exposed to currency risks arising from fluctuations in the US Dollar (USD), the Hong Kong Dollar (HKD) and the Swiss franc (CHF). In calculating the sensitivities presented below, a hypothetical revaluation/devaluation of the euro against all currencies by +/–10% was carried out as at 28 February 2021. All other variables remain unchanged. Under these conditions, the major effects on Group earnings before tax (EBT) and the equity of the Otto Group would have been as follows:

		EBT		Equity	
		2020/21	2019/20	2020/21	2019/20
		EUR 000	EUR 000	EUR 000	EUR 000
Fluctuation in USD	+10%	–20,206	–121	–44,581	–22,505
	–10%	20,250	–3,204	45,978	28,854
Fluctuation in HKD	+10%	–7,939	–829	–1,224	–328
	–10%	6,960	1,067	1,227	329
Fluctuation in CHF	+10%	1,559	1,979	23,811	26,989
	–10%	–1,550	–1,987	–23,620	–27,010
Total effects	+10%	**–26,586**	**1,029**	**–21,994**	**4,156**
	–10%	**25,660**	**–4,124**	**23,585**	**2,173**

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 for business operations and internal financing but not designated as a hedging relationship in the balance sheet in accordance with IFRS 9. These derivatives are also associated with contracts that are planned but not yet concluded in 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	
		2020/21	2019/20	2020/21	2019/20
		EUR 000	EUR 000	EUR 000	EUR 000
Shift in level of interest	+ 50 bp	0	1	3,778	6,552
	– 50 bp	0	–1	–3,903	–6,696

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 creditworthiness on a par with ratings from an internationally recognised rating agency.

Overdue loans and receivables are monitored intensively in the various lines of business. In the Multichannel Retail and Financial Services segments, 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 other financial assets which are not impaired. There are no objective indications that the debtors are unable to meet their obligations.

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, analysis of portfolio structures and time series 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 existing contractually agreed funds for financial liabilities as at 28 February 2021:

	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	74,721	621,904	443,997	**1,140,622**
Bank liabilities	176,034	399,681	207,571	**783,286**
Trade payables	2,043,332	0	0	**2,043,332**
Liabilities to related parties	261,159	0	459	**261,618**
Lease liabilties	176,165	464,657	245,640	**886,462**
Other financing liabilities	17,295	22,666	0	**39,961**
Other financial liabilities	501,712	112,969	9,013	**623,694**
thereof derivative financial instruments	24,679	14,861	2,116	**41,656**

As at 29 February 2020, 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	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**

(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				
	01.03.2020	Cash changes	Effects from changes of the scope of consolidation/ IFRS 5/ reclassifications	Effects from exchange rate changes	Effects from lease contracts	Effects from accrued interests	28.02.2021
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	24,582	–1,750	0	0	0	0	22,832
Bonds and other notes payable	1,564,505	–530,800	0	0	0	–5,066	1,028,639
Bank liabilities	1,152,296	–437,418	2,706	–334	0	–1,243	716,007
ABS liabilities	25,000	–25,000	0	0	0	0	0
Lease liabilities	856,497	–322,323	80,418	–42,851	314,723	0	886,464
Other financing liabilities	4,002	–1,295	14,591	–2	0	0	17,296
Liabilities from financing activities	**3,626,882**	**–1,318,586**	**97,715**	**–43,187**	**314,723**	**–6,309**	**2,671,238**

At the previous reporting date, the liabilities arising from financing activities changed 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	–1,607	0	0	0	0	0	24,582
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**	**–487,598**	**–92,047**	**10,568**	**230,032**	**–634,917**	**5,364**	**3,626,882**

* 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 in particular to the leasing of retail space (chain stores) by Group companies in the Multichannel Retail segment in Germany and the USA, as well as the leasing of logistics facilities, swap bodies, transport vehicles and trucks by Group companies in the Services segment in Germany, the UK 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 not recognised as lease liabilities as at 28 February 2021 would result in a potential lease payment of EUR 852,660 thousand (29 February 2020: 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.

In response to the coronavirus pandemic, the Otto Group has agreed rent concessions with landlords for a large portion of the leases for over-the-counter retail outlets in Germany, Austria, Japan and the USA. In the 2020/21 financial year, EUR 1,867 thousand corresponds to amounts recognised at fair value through profit and loss for leases for which the Group has applied the practical expedient for rent concessions under the amendment to IFRS 16 concerning COVID-19-related rent concessions.

The remaining terms for reported lease liabilities are as follows:

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Remaining term of up to 1 year	176,165	201,327
Remaining term of more than 1 to 5 years	464,657	483,838
Remaining term of more than 5 years	245,640	171,332
Lease liabilities	**886,462**	**856,497**

In the 2020/21 financial year, depreciation and amortisation on right-of-use assets amounted to EUR 175,526 thousand (2019/20: EUR 274,154 thousand) while impairment losses amounted to EUR 70,319 thousand (2019/20: EUR 4,649 thousand).

In accordance with the provisions of IFRS 16, the consolidated income statement includes expenses for short-term leases in the amount of EUR 3,415 thousand (2019/20: EUR 19,584 thousand) and expenses for leases for low-value assets in the amount of EUR 1,604 thousand (2019/20: EUR 1,952 thousand) under other operating expenses for the 2020/21 financial year. In addition, income from the subleasing of right-of-use assets in the amount of EUR 6,548 thousand (2019/20: EUR 9,070 thousand) is reported under other operating income. Interest expenses from lease liabilities included in net financial result amount to EUR 35,137 thousand (2019/20: EUR 40,943 thousand).

For leases accounted for in accordance with IFRS 16, total cash outflows in the 2020/21 financial year amounted to EUR 300,462 thousand (2019/20: EUR 325,019 thousand) and are shown under cash flow from financing activities. Of this, EUR 265,325 thousand (2019/20: EUR 284,076 thousand) relates to repayments and EUR 35,137 thousand (2019/20: EUR 40,943 thousand) relates to interest payments. The gross cash flow from operating activities continues to include payments for short-term leases in the amount of EUR 3,415 thousand (2019/20: EUR 19,584 thousand) and payments for leases for low-value assets in the amount of EUR 1,604 thousand (2019/20: EUR 1,952 thousand).

(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 28 February 2021. In future, the credit metrics will be monitored based on the IFRS values for the group, complemented by to the "Cash EBITDA" approach for the debt service ratio. For information on the characteristics of the key financial indicators, refer to the Group Management Report. The final presentation of the consolidated financial statements based on recognition of financial services providers using the equity method should enable easier comparisons with the previous year during the transition period.

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 2020 to 28 February 2021

	2020/21 EUR 000	2019/20 EUR 000
Revenue and income from customer financing	**14,828,396**	**13,397,989**
Revenue	14,646,703	13,214,366
Income from customer financing	181,694	183,623
Other operating income	526,733	622,166
Change in inventories and other internal costs capitalised	28,651	35,852
Purchased goods and services	–8,460,866	–7,660,891
Personnel expenses	–2,321,686	–2,239,095
Other operating expenses	–3,614,238	–3,563,521
Income (loss) from equity investments	251,255	417,428
Income from associates and joint ventures	248,816	414,068
Income from other equity investments	2,438	3,359
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1,238,244**	**1,009,929**
Depreciation and amortisation	–381,152	–521,945
Impairment losses	–187,266	–24,664
Earnings before interest and tax (EBIT)	**669,827**	**463,320**
Interest and similar income	28,966	30,337
Interest and similar expenses	–153,470	–169,460
Other net financial income (expense)	509,993	–77,909
Earnings before tax (EBT)	**1,055,316**	**246,288**
Income tax	–96,739	–45,123
Profit for the year	**958,577**	**201,165**
Profit attributable to the owners of Otto (GmbH & Co KG)	908,131	106,088
Profit attributable to non-controlling interests	34,609	77,784
Profit attributable to publicly listed equity and participation certificates	15,837	17,293

Financial services at equity consolidated balance sheet as at 28 February 2021

	28.02.2021	29.02.2020
	EUR 000	EUR 000
ASSETS		
Non-current assets		
Fixed assets	4,070,214	4,099,314
Intangible assets	353,329	470,306
Property, plant and equipment	1,049,828	1,129,094
Right-of-use assets	686,623	692,933
Investments in associates and joint ventures	1,823,336	1,680,869
Other financial investments	157,098	126,112
Trade receivables	137,545	130,779
Receivables from related parties	42,750	350
Other assets	491,186	513,643
	4,741,695	**4,744,086**
Deferred tax	**175,660**	**167,256**
Current assets		
Inventories	1,447,851	1,416,705
Trade receivables	839,464	840,457
Receivables from related parties	74,650	52,252
Income tax receivables	18,996	19,925
Other assets	375,348	336,737
Securities	1,264	19,716
Cash and cash equivalents	1,175,136	249,385
Assets held for sale	182,853	1,257,619
	4,115,563	**4,192,795**
Total assets	**9,032,918**	**9,104,137**

	28.02.2021	29.02.2020
	EUR 000	EUR 000
EQUITY AND LIABILITIES		
Equity		
Equity attributable to the owners of Otto (GmbH & Co KG)	1,282,191	415,193
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	1,590,063	742,683
Net cost in excess of net assets acquired in step acquisitions	–218,255	–223,470
Accumulated other comprehensive income	–922,071	–936,498
Accumulated other equity	12,454	12,477
Non-controlling interests	490,917	587,509
Publicly listed equity and participation certificates	379,020	379,033
	2,152,128	**1,381,735**
Non-current provisions and liabilities		
Profit and loss participation rights	21,667	22,941
Pensions and similar obligations	1,553,302	1,498,851
Other provisions	174,827	122,083
Bonds and other notes payable	310,766	729,890
Bank liabilities	144,573	406,408
Trade payables	0	545
Liabilities to related parties	459	461
Lease liabilities	682,316	620,160
Other liabilities	151,175	169,892
	3,039,085	**3,571,231**
Deferred tax	**44,740**	**61,694**
Current provisions and liabilities		
Profit and loss participation rights	1,165	1,640
Other provisions	105,959	76,849
Bonds and other notes payable	19,234	245,558
Bank liabilities	33,145	173,082
Other financing liabilities	8,336	4,002
Trade payables	1,996,694	1,396,396
Liabilities to related parties	239,555	46,239
Income tax liabilities	66,936	20,183
Lease liabilities	164,215	187,759
Other liabilities	1,025,942	769,109
Liabilities classified as held for sale	135,785	1,168,660
	3,796,965	**4,089,478**
Total equity and liabilities	**9,032,918**	**9,104,137**

Financial services at equity consolidated cash flow statement 1 March 2020 to 28 February 2021

	2020/21	2019/20
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	669,827	463,320
Depreciation, amortisation and impairment losses / reversal of impairment losses on intangible assets, property, plant and equipment and right-of-use assets	562,271	543,834
Profits (–) / losses (+) from associates and joint ventures	– 248,816	– 414,068
Dividends received from associates and joint ventures	441,343	326,321
Increase (+) / decrease (–) in allowances on loans, receivables and inventories	96,724	79,972
Gains (–) / losses (+) on disposals of items in intangible assets and property, plant and equipment	– 20,003	– 4,808
Pension payments exceeding (–) / less than (+) pension expenses	– 20,626	– 19,989
Other non-cash income (–) and expenses (+)	424	422
Gross cash flow from operating activities	**1,481,143**	**975,003**
Decrease (+) / increase (–) in working capital	863,261	198,509
Decrease (+) / increase (–) in inventories (gross)	– 84,828	134,431
Decrease (+) / increase (–) in trade receivables (gross)	– 269,871	11,358
Increase (+) / decrease (–) in provisions	134,012	– 24,044
Increase (+) / decrease (–) in trade payables	770,912	61,335
Increase (+) / decrease (–) in receivables due from related parties/ in payables due to related parties	20,129	9,605
Changes in other assets / liabilities	292,907	5,824
Net cash generated from operating activities	**2,344,404**	**1,173,512**
Income tax paid	– 56,598	– 44,400
Interest received	23,070	24,472
Cash inflows / outflows from non-current financial assets and securities	1,202	1,109
Cash flow from operating activities	**2,312,077**	**1,154,693**

	2020/21	2019/20
	EUR 000	EUR 000
Cash flow from operating activities	**2,312,077**	**1,154,693**
Capital expenditures on purchases of intangible assets and property, plant and equipment	–296,247	–323,416
Capital expenditures on purchases of other financial investments	–348,559	–507,393
Proceeds from disposals of intangible assets and property, plant and equipment	58,617	19,407
Proceeds from disposals of consolidated subsidiaries	588,609	32,853
Proceeds from disposals of other financial investments	115,351	332,481
Cash flow from investing activities	**117,771**	**–446,068**
Free cash flow	**2,429,850**	**708,625**
Dividends paid	–157,378	–156,827
of which, attributable to the owners of Otto (GmbH & Co KG)	0	–73,947
Interest paid and bank charges	–203,066	–205,123
Proceeds from additions to equity	500	0
Proceeds for issues and repurchases of profit and loss participation rights	–2,174	–2,239
Payments of principal on leasing liabilities	–252,031	–272,030
Proceeds from assumption of other financial liabilities	36,120	643,765
Repayments of other financial liabilities	–934,450	–756,774
Cash flow from financing activities	**–1,512,480**	**–749,228**
Cash and cash equivalents at beginning of period	266,815	317,172
Net increase in cash and cash equivalents	917,368	–40,603
Changes in cash and cash equivalents due to foreign exchange rates	–7,831	1,133
Reclassification with regard to disposal groups	–174	–10,888
Cash and cash equivalents at end of period	**1,176,180**	**266,815**

(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)

	2020/21				
	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	**15,641,358**	**–833,312**	**20,350**	**0**	**14,828,396**
Revenue	15,459,665	–833,312	20,350	0	14,646,703
Income from customer financing	181,694	0	0	0	181,694
Other operating income	540,665	–20,133	6,202	0	526,733
Changes in inventories and other internal costs capitalised	42,324	–13,673	0	0	28,651
Purchased goods and services	–8,460,607	0	–259	0	–8,460,866
Personnel expenses	–2,604,311	282,625	0	0	–2,321,686
Other operating expenses	–3,876,614	288,668	–26,292	0	–3,614,238
Income (loss) from equity investments	11,576	–48,762	0	288,441	251,255
Income from associates and joint ventures	9,138	–48,762	0	288,441	248,816
Income from other equity investments	2,438	0	0	0	2,438
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1,294,391**	**–344,588**	**0**	**288,441**	**1,238,244**
Depreciation and amortisation	–417,541	36,389	0	0	–381,152
Impairment losses	–188,449	1,183	0	0	–187,266
Earnings before interest and tax (EBIT)	**688,401**	**–307,017**	**0**	**288,441**	**669,827**
Interest and similar income	15,132	–4,554	18,389	0	28,966
Interest and similar expenses	–159,599	24,518	–18,389	0	–153,470
Other net financial income (expense)	559,827	–49,833	0	0	509,993
Earnings before tax (EBT)	**1,103,760**	**–336,886**	**0**	**288,441**	**1,055,316**
Income tax	–132,423	35,684	0	0	–96,739
Profit for the year	**971,338**	**–301,202**	**0**	**288,441**	**958,577**
Profit attributable to the owners of Otto (GmbH & Co KG)	908,131	–279,514	0	279,514	908,131
Profit attributable to non-controlling interests	45,101	–19,419	0	8,927	34,609
Profit attributable to publicly listed equity and participation certificates	18,106	–2,269	0	0	15,837

(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)

	28.02.2021				
	Otto Group (1)	Financial Services segment (2)	Debt 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	3,438,512	–757,044	0	1,388,746	4,070,214
Intangible assets	527,543	–174,497	0	283	353,329
Property, plant and equipment	1,084,140	–34,312	0	0	1,049,828
Right-of-use assets	724,986	–38,363	0	0	686,623
Investments in associates and joint ventures	944,476	–509,405	0	1,388,265	1,823,336
Other financial investments	157,367	–468	0	197	157,098
Trade receivables	137,545	0	0	0	137,545
Receivables from financial services	1,300,064	–1,300,064	0	0	0
Receivables from related parties	52,843	–12,748	196,912	–194,257	42,750
Other assets	499,988	–8,802	0	0	491,186
	5,428,951	**–2,078,657**	**196,912**	**1,194,488**	**4,741,695**
Deferred tax	**174,467**	**–15,604**	**16,797**	**0**	**175,660**
Current assets					
Inventories	1,632,225	–184,374	0	0	1,447,851
Trade receivables	1,017,795	–178,331	0	0	839,464
Receivables from financial services	412,510	–412,510	0	0	0
Receivables from related parties	81,721	–131,314	1,113,256	–989,012	74,650
Income tax receivables	21,501	–2,505	0	0	18,996
Other assets	491,233	–115,903	18	0	375,348
Securities	1,354	–90	0	0	1,264
Cash and cash equivalents	1,247,085	–71,949	0	0	1,175,136
Assets held for sale	182,853	0	0	0	182,853
	5,088,278	**–1,096,976**	**1,113,274**	**–989,013**	**4,115,563**
Total assets	**10,691,697**	**–3,191,238**	**1,326,983**	**205,476**	**9,032,918**

	28.02.2021				
	Otto Group (1)	Financial Services segment (2)	Debt 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)	1,282,191	–578,257	0	578,257	1,282,191
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	0	0	0	820,000
Consolidated retained earnings	1,590,063	–641,915	0	641,915	1,590,063
Net cost in excess of net assets acquired in step acquisitions	–218,255	–3,998	0	3,998	–218,255
Accumulated other comprehensive income	–922,071	68,619	0	–68,619	–922,071
Accumulated other equity	12,454	–964	0	964	12,454
Non-controlling interests	506,169	–181,778	0	166,526	490,917
Publicly listed equity and participation certificates	434,432	–55,412	0	0	379,020
	2,222,793	**–815,447**	**0**	**744,783**	**2,152,128**
Financing the investments outside the segment	**0**	**–644,271**	**0**	**644,271**	**0**
Non-current provisions and liabilities					
Profit and loss participation rights	21,667	0	0	0	21,667
Pensions and similar obligations	1,658,335	–105,033	0	0	1,553,302
Other provisions	180,344	–5,516	0	0	174,827
Bonds and other notes payable	968,686	0	0	–657,920	310,766
Bank liabilities	553,675	–103,027	0	–306,075	144,573
Other financing liabilities	22,666	–22,666	0	0	0
Liabilities to related parties	459	–177,966	180,620	–2,655	459
Lease liabilities	710,297	–27,981	0	0	682,316
Other liabilities	152,656	–1,482	0	0	151,175
	4,268,785	**–443,671**	**180,620**	**–966,650**	**3,039,085**
Deferred tax	**73,971**	**–46,028**	**16,797**	**0**	**44,740**
Current provisions and liabilities					
Profit and loss participation rights	1,165	0	0	0	1,165
Other provisions	111,973	–6,014	0	0	105,959
Bonds and other notes payable	59,953	0	0	–40,720	19,234
Bank liabilities	162,331	–59,016	0	–70,171	33,145
Other financing liabilities	17,295	–8,960	0	0	8,336
Trade payables	2,040,109	–43,415	0	0	1,996,694
Liabilities to related parties	241,017	–1,024,968	1,129,546	–106,039	239,555
Income tax liabilities	73,942	–7,007	0	0	66,936
Lease liabilities	176,165	–11,951	0	0	164,215
Other liabilities	1,106,412	–80,490	20	0	1,025,942
Liabilities classified as held for sale	135,785	0	0	0	135,785
	4,126,148	**–1,241,821**	**1,129,566**	**–216,929**	**3,796,965**
Total equity and liabilities	**10,691,697**	**–3,191,238**	**1,326,983**	**205,476**	**9,032,918**

(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:

	2020/21	2019/20
	EUR 000	EUR 000
Income Statement		
Revenue	251,972	201,147
Other operating income	40,587	37,306
Purchased goods and services	13,628	3,907
Personnel expenses	23,704	13,163
Other operating expenses	184,009	35,702
Net financial income (expense)	3,489	–1,094

	28.02.2021	29.02.2020
	EUR 000	EUR 000
Balance Sheet		
Receivables from related parties	134,564	74,193
Cash and cash equivalents	9,671	9,401
Pension obligations to related parties	66,566	66,764
Liabilities to related parties	241,476	46,975

(a) TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

Revenues from associated companies and joint ventures in the 2020/21 financial year total EUR 241,299 thousand (2019/20: EUR 191,521 thousand) and result from revenues from ABOUT YOU GmbH & Co. KG, Hamburg, in the amount of EUR 153,297 thousand (2019/20: EUR 135,840 thousand) as well as from income from factoring settlements with Hanseatic Bank GmbH & Co KG in the amount of EUR 78,717 thousand (2019/20: EUR 46,711 thousand).

Other operating income in the 2020/21 financial year amounts to EUR 17,893 thousand (2019/20: EUR 16,563 thousand), of which EUR 13,314 thousand (2019/20: EUR 13,399 thousand) results from transactions with ABOUT YOU GmbH & Co. KG, Hamburg.

In the 2020/21 financial year, other operating expenses in the amount of EUR 153,414 thousand (2019/20: EUR 17,101 thousand) include expenses in the amount of EUR 120,385 thousand (2019/20: EUR 0 thousand) arising from transactions with Hermes Germany GmbH, Hamburg.

Various Group companies in the Multichannel Retail segment sell trade receivables to Hanseatic Bank GmbH & Co KG, Hamburg. The receivables are transferred under normal market conditions and are fully derecognised from the balance sheets of the Group companies selling the receivables. In the 2020/21 financial year, receivables totalling EUR 2,190,470 thousand (2019/20: EUR 1,985,784 thousand) were sold. As at the reporting date, these receivables were valued at EUR 1,708,638 thousand (28 February 2020: EUR 1,610,801 thousand). As at 28 February 2021 cash and cash equivalents held at Hanseatic Bank GmbH & Co KG, Hamburg, amounted to EUR 9,671 thousand (29 February 2020: EUR 9,401 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 Group companies of the Otto Group, from associated companies and joint ventures, and from short-term financing between companies.

(b) RELATED PARTY TRANSACTIONS WITH PARTNERS

As at 28 February 2021 and as at 29 February 2020, 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 owned 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

For the 2020/21 financial year, the total remuneration of the Executive Board of Otto (GmbH & Co KG), which is recognised as an expense for the financial year, amounted to EUR 19,915 thousand (2019/20: EUR 9,128 thousand), of which EUR 18,548 thousand (2019/20: EUR 8,031 thousand) is due in the short term, and EUR 1,367 thousand (2019/20: EUR 1,097 thousand) is due in the long term. The total remuneration of EUR 19,857 thousand granted during the financial year (2019/20: EUR 8,031 thousand) comprises variable remuneration elements with long-term incentives contingent on all conditions being met by the balance sheet date. Of this amount, EUR 3,766 thousand (2019/20: EUR 3,488 thousand) corresponds to fixed elements, and EUR 16,091 thousand (2019/20: EUR 4,543 thousand) corresponds to variable elements.In the 2017/18 financial year, a long-term incentive agreement was concluded for directors of Otto (GmbH & Co KG) based on rolling annual tranches. Effective from 1 March 2018, each of the tranches comprises three business years and consists of a combination of two variable elements. The elements are based on a fixed threshold value and then increase on a linear basis. The Otto Group's revenue and ROCE are used as reference values. In the year under review, EUR 2,921 thousand was recognised for the long-term incentive scheme (2019/20: EUR 1,097 thousand). As at the balance sheet date, a liability totalling EUR 4,862 thousand was set aside for this (29 Februar 2020: EUR 1,942 thousand).

Pension obligations to members of the Executive Board amount to EUR 10,061 thousand (29 February 2020: EUR 8,824 thousand). Allocations to pension provisions amount to EUR 901 thousand (2019/20: EUR 950 thousand).

The remuneration of former members of the Executive Board and their survivors amounts to EUR 2,888 thousand (2019/20: EUR 3,085 thousand). Provisions of EUR 56,505 thousand (29 February 2020: EUR 57,940 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 2020/21 financial year amounts to EUR 280 thousand (2019/20: EUR 278 thousand).

(42) Contingent liabilities

The Otto Group's contingent liabilities are composed of guarantees and other obligations that, together, amount to EUR 82,289 thousand (29 February 2020: EUR 2,499 thousand). This change is primarily due to contingent liabilities owed to service providers that are included in the consolidated financial statements on the balance sheet date for the first time based on the equity method in addition to commitments in relation to benefit obligations in the UK.

(43) Auditors' fees

Total fees paid to Otto Group auditors are broken down as follows:

	2020/21	2019/20
	EUR 000	EUR 000
Fees for auditing the financial statements	2,314	2,267
Fees for other auditing services	270	150
Fees for tax consultancy services	431	252
Fees for other services	1,511	680
Auditors' fees	**4,526**	**3,349**

In the year under review, final audit fees in the amount of EUR 175 thousand (2019/20: EUR 148 thousand) and fees for other services in the amount of EUR 218 thousand (2019/20: EUR 37 thousand) relate to the previous year.

(44) List of shareholdings

The list of Otto Group shareholdings as at 28 February 2021, 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 Group GmbH & 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)
Frederic Arndts, Hamburg	Member of the Board GSV Aktiengesellschaft für Beteiligungen
Anita Beermann, Ahrensburg	Employee Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co. (retired), until 28 February 2021
Horst Bergmann, Michelau*	Member of the Works Council Baur Versand (GmbH & Co KG), until 31 October 2020
Marius Marschall von Bieberstein, Berlin	Managing Partner evoreal Holding GmbH & Co. KG
Olaf Brendel, Hamburg*	Member of the Works Council, Hermes Fulfilment GmbH, until 15 September 2020
Jürgen Bühler, Hanau*	Chairman of the Works Council sheego GmbH
Petra Finnern, Jesteburg*	Chairwoman of the Works Council, EOS Region Germany, until 31 October 2020
Thorsten Furgol, Magdeburg*	Regional Specialist ver.di Trade Union, Sachsen-Anhalt Nord
Dr Rainer Hillebrand, Hamburg	Independent management and strategy consultant
Heike Lattekamp, Hamburg*	ver.di Trade Union Secretary Commerce
Thomas Mort, Luhe-Wildenau*	Deputy Chairman of the Works Council Witt Group, Deputy Chairman of the Works Council Otto Group, as of 01 November 2020
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
Benjamin Schaper, Hamburg	Managing Director GFH Gesellschaft für Handelsbeteiligungen m.b.H., as of 01 March 2021
Hans-Otto Schrader, Hamburg	Chairman of the Board OTTO Aktiengesellschaft für Beteiligungen
Dr Winfried Steeger, Hamburg	Attorney
Monika Vietheer-Grupe, Barsbüttel*	Chairwoman of the Works Council bonprix Handelsgesellschaft mbH, as of 01 November 2020
Sandra Widmaier-Gebauer, Hamburg*	Executive employee, Group Vice President Human Resources
Prof Dr Peer Witten, Hamburg	Chairman of the Board GSV Aktiengesellschaft für Beteiligungen
Inka Wolff, Haldensleben*	Deputy Chairwoman of the Works Council Hermes Fulfilment GmbH, as of 16 September 2020

* Employee representative

Executive Board

Alexander Birken, Hamburg	Chairman of the Executive Board and Chief Executive Officer (CEO)
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
Sebastian Klauke, Reinbek	Member of the Executive Board, E-Commerce, Technology, Business Intelligence and Corporate Ventures Otto Group
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

(46) Events after the reporting period

In March 2021, an agreement was concluded regarding the sale of Group company MONDIAL RELAY, Croix, France. Subject to the approval of the relevant anti-monopoly authorities, the sale is likely to be concluded in the first half of the 2021/22 financial year. For more information, please refer to Note (5)(c). No other events of major significance to the Otto Group occurred after the balance sheet date of 28 February 2021.

Hamburg, 6 May 2021

The Executive Board of Verwaltungsgesellschaft Otto mbH

Alexander Birken

Dr Marcus Ackermann

Sergio Bucher

Sebastian Klauke

Petra Scharner-Wolff

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 2021, 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 2020 to 28 February 2021, 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 2020 to 28 February 2021.

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 at 28 February 2021, and of its financial performance for the financial year from 1 March 2020 to 28 February 2021, 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 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.

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 Financial Statement Audits 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, 10 May 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Schmelzer
Wirtschaftsprüfer
[German Public Auditor]

Heckert
Wirtschaftsprüfer
[German Public Auditor]

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The Annual Report contains forward-looking statements which are based on the opinions and estimations of the management. Although management assumes that the expectations expressed in these forward-looking statements are realistic, it cannot guarantee that its expectations will actually prove to be correct. Assumptions may entail risks and uncertainties that may cause actual results to differ materially from those expressed in forward-looking statements. Otto (GmbH & Co KG) accepts no liability and offers no warranty against the possibility of the Annual Report containing editorial errors or otherwise being incomplete. Otto (GmbH & Co KG) has no plans to update forward-looking statements or to provide any corrections or supplements to this Annual Report, nor does it undertake any obligation to do so. However, Otto (GmbH & Co KG) does reserve the right to update the Annual Report at any time without notice. In the event of contradictions between the German and English versions of this Annual Report, the German version shall be final and definitive.

In this version of the Annual Report 2020/21, editorial adjustments have been made on page 94 after the publication on May 19th, 2021.

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