Shaping
the digital
future
together

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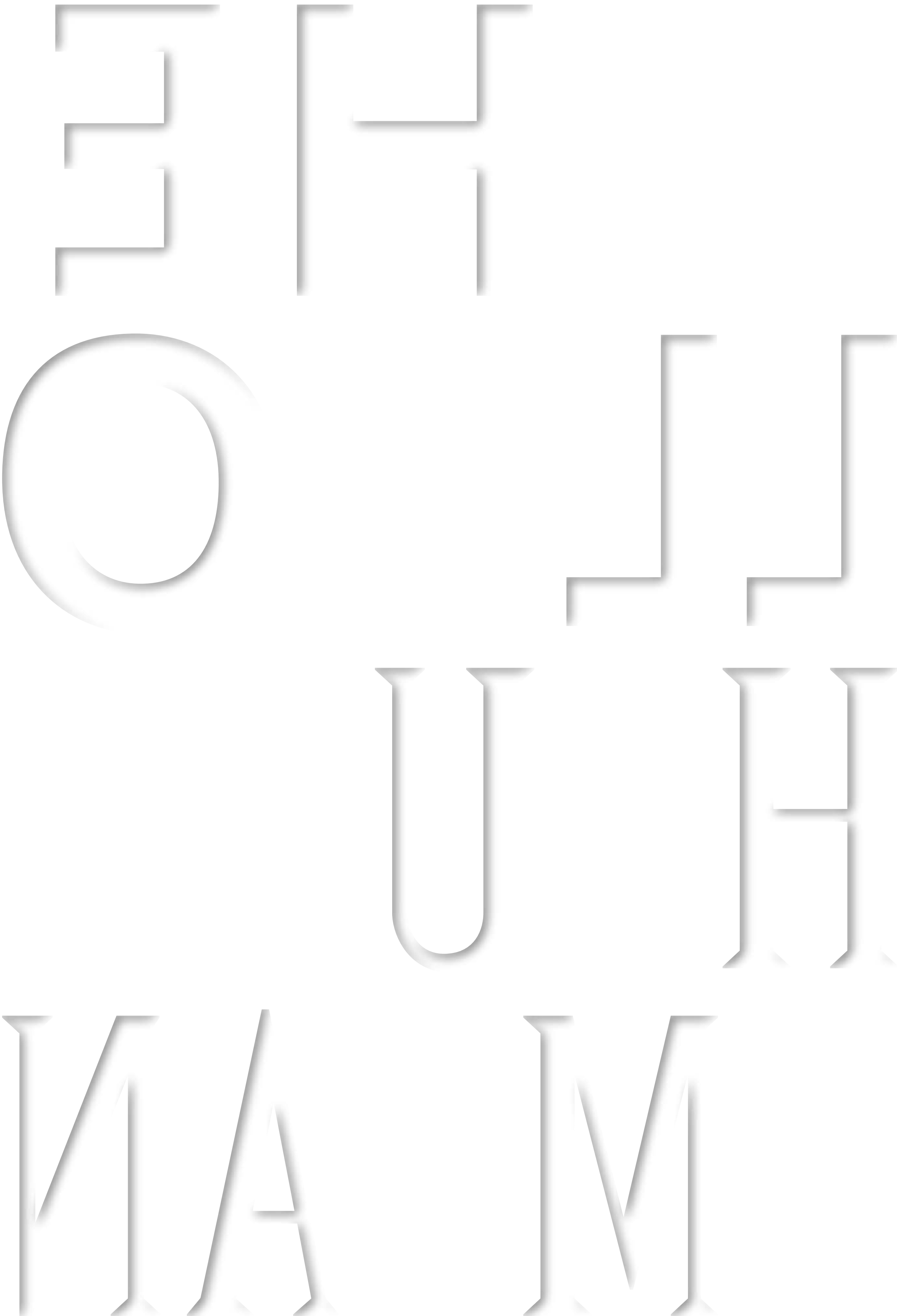
ANNUAL REPORT
2018 / 19

otto group



KEY DATA

The Otto Group increased its revenues in the 2018/19 financial year on a comparable basis by 3.5 percent to EUR 13.4 billion and maintained its position well within a challenging market environment. Pure e-commerce revenue increased on a comparable basis by 4.5 percent to around EUR 7.7 billion. Even though the planned ambitious revenue growth in the past financial year was not fully realised, the Otto Group maintained its focused growth strategy and continues to aim for revenues of EUR 17 billion in the 2022/23 financial year (on a comparable basis with the 2016/17 consolidated financial statements). The slow-down in revenue growth, caused among other things by extraordinary weather conditions, and planned high investments in the further development of the Group also had an impact on the earnings position in the 2018/19 financial year. This meant that the Otto Group was unable to continue its incredibly strong growth in earnings from the previous year, but it was profitable at every earnings level.

		2018/19	2017/18
Group in total			
Revenue	in EUR bill.	13.4	13.7
On a comparable basis*	in %	+3.5	
E-commerce revenue	in EUR bill.	7.7	7.7
On a comparable basis*	in %	+4.5	
EBITDA	in EUR mill.	524	733
EBIT	in EUR mill.	222	388
EBT	in EUR mill.	278	622
Profit	in EUR mill.	177	516
Group equity	in EUR mill.	1,706	1,515
Gross cash flow	in EUR mill.	594	789
Capital expenditure in intangible assets and property, plant and equipment	in EUR mill.	413	380
Employees (average number)		52,558	51,785
Group "FS at Equity"		in EUR mill.	in EUR mill.
Group equity		1,648	1,453
Net financial debt		1,653	1,594
EBITDA		471	688
Sustainability (CR Strategy 2020) **		in percent	in percent
Share of sustainable cotton in own and licensed brands		93	78
Share of FSC®-certified furniture products		59	52
Share of FSC®-certified catalogue paper		54	43
Share of integrated suppliers of own and licensed brands in the Social Programme		96	91
Reduction of CO_2 emissions (compared to the base year 2006)		−47	−41

* Revenue figures in the 2018/19 financial year were distorted by special factors (deconsolidation of About You GmbH, financial year harmonisation in the 2017/18 financial year, currency rate effects and the new IFRS 15 system), meaning that the recognised revenue of the Group was slightly below the figures for the previous year. A growth rate on a comparable basis was specified as a result of this.

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

Shaping the digital future together

The world is undergoing enormous upheaval. Data, algorithms, and artificial intelligence are already having a major impact on our lives and will continue to do so.

At the Otto Group, we are focusing intensively on addressing both the opportunities and the limitations of the digital revolution. And we know that when it comes to digitisation as a whole in the future, it’s all about one thing: us as people.

In this report, our employees and external experts share their opinions and expectations of the role courage, diversity, and responsibility will play in the digital future.

Fact is: the digital revolution is happening now and it is only by working together that we can shape it successfully.

"MAKING THE WORLD OF WORK A BETTER PLACE WITH EMPATHY AND HUMANITY, AND LIVING AND WORKING IN ACCORDANCE WITH THESE VALUES – machines simply won't be able to do this to the extent that we can, even in the future. And that's a good thing!"

left —— DANIEL FÜCHTENSCHNEIDER
Managing Director Bonprix Retail

"Any change always feels like you've lost a little bit of what you once were. But if you have the chance to make changes that you have long desired to make, it's never too late to take this opportunity and actively work towards making it your own, no matter how old you are. IT IS SO IMPORTANT TO KEEP ON WORKING ON OUR PERSONAL DEVELOPMENT; WE WON'T ACHIEVE SUCCESS IN THIS WORLD WITH TRADITIONAL THINKING INSIDE THE BOX AND RIGID STRUCTURES. In particular, it is the interaction between young and old, which gives me so much joy, that helps both sides benefit from different experiences and new perspectives."

—— LUDWIG RICHTER
Member of the local Otto Group Holding Kulturwandel team and former Vice President Group Accounting

"EVEN THOUGH I AM VERY FAMILIAR WITH THE DIGITAL WORLD, IT STILL KEEPS SURPRISING ME – like it has here in the shop. This connection between digital and online works amazingly well. If this is what the shopping of the future looks like, you can count me in."

on left ——
SARAH APEL
CRM strategist and Bonprix customer

"Digitisation plays a huge part in my everyday working life – without smartphones and apps, nothing would work here in the store and we wouldn't be able to offer such a special shopping experience. HOWEVER, TECHNOLOGY CANNOT REPLACE FACE-TO-FACE DISCUSSIONS, SUCH AS WHEN A CUSTOMER HAS A QUESTION OR NEEDS HELP."

on right ——
LENA DUDEN
Fashion Assistant in the Bonprix Fashion Connect pilot store in Hamburg

“NATURALLY, NOT EVERYONE OVER THE AGE OF 50 OR 60 IS AGAINST THE INTERNET,

but that generation is more than half as unlikely to make regular use of it. In particular, it is clear to us that the traditional intellectual elite in this country is up in arms against the digitisation because they want to go back to the old analogue past that they think is better.”

—— WOLFGANG GRÜNDINGER
Democracy researcher, publicist, and pioneer in intergenerational justice

“One thing is clear to me at work every day:
MACHINES WON’T REPLACE CONTACT WITH CUSTOMERS AT THEIR FRONT DOOR ANYTIME SOON.”

right —— CARSTEN STAMER
Hermes courier at the Quickborn distribution centre

“I am looking forward to the digital future.

MANY PEOPLE – FOR EXAMPLE, THOSE WITH A DISABILITY – WILL BE ABLE TO LIVE A BETTER LIFE THANKS TO NEW TECHNOLOGIES.

And I’d be very happy if one day I no longer have to write as many emails and reports because there are digital solutions for that.”

—— IBRAHIM HUSSIN
Trainee, OTTO

“NEW WORK NEEDS NEW EDUCATION. People come to us to learn about how they can work later on: with experienced practitioners as coaches, in a team, on real projects in a modern environment and in close cooperation with leading companies. Anyone with the right motivation, learning capacity, and sufficient soft skills can acquire new relevant application-orientated skills and manual dexterity at any stage in their life. For us it’s the connection that matters, not the completion of a qualification.”

—— DALIA DAS Founder of Neue Fische, School and Pool for Digital Talent

"MANAGEMENT HAS TO FUNCTION DIFFERENTLY IN THE DIGITAL AGE.

Firstly because managers are increasingly having to make decisions without knowing what the end results will be, i.e. having to cope with a huge amount of uncertainty. Benchmarking or best practice simply doesn't work any-more, there are no reference cases. Second-ly, because the speed of change has picked up so much. There's gener-ally no time for lengthy situation analyses."

—— CHRISTOPH BORNSCHEIN
Managing Director "Torben, Lucie und die gelbe Gefahr", digital visionary

"THINK OF THIS AS A NEW AGE OF VERY POWERFUL SMART MACHINES.

Are these machines augmenting your productivity or do you have to compete against them? If they work on your side, we'll have many more people who will move beyond middle class and become quite wealthy."

—— TYLER COWEN
US economist and leading theorist for digital culture and cultural exchange

"As an e-commerce retailer, we live in an ever-changing nexus between shopping behaviour and consumer tech-nology. Without a crystal ball and infinite knowledge, we have to probe, test, learn and take action. That said, THE FIRST AND MOST IMPORTANT THING ANY SUCCESSFUL COMPANY MUST HAVE IS A CLEAR UNDER-STANDING OF THE CUSTOMERS THEY SERVE.

What is their mindset? What are their goals? And what part do we play in helping them achieve them?"

—— GEOFFREY MARK
Associate Director, CGI Strategy and Operations, Crate and Barrel

"As employees, we need to have more fun with digitisation. FUN GIVES US A HUGE AMOUNT OF COURAGE AND ENCOURAGES US TO LEAVE OUR COMFORT ZONES. It's the only way we can really shape digitisation, rather than digitisation shaping us."

on left —— FELIX GAUSMANN

Product Owner Kulturwandel 4.0, Otto Group

“These days, a company has to ask itself: what skills do our employees need in order to be prepared for the unexpected? HOW DO WE BRING CREATIVE AND COMMITTED PEOPLE TOGETHER TO CREATE THE BEST IDEAS AND FURTHER DEVELOP THEIR SKILLS AND PASSIONS – beyond the boundaries of divisions and countries? How can these people find out about one another in order to work together?”

on right —— SVENJA REINECKE
Communication & Transparency Manager Kulturwandel 4.0, Otto Group

“People who work with digital products need to be convinced that change is something positive and offers an opportunity for further personal development. You learn quickly:

EVERYTHING CHANGES THE MOMENT YOU BELIEVE THAT YOU’VE FOUND THE RECIPE FOR SUCCESS.”

——

DR STEPHANIE CASPAR
President News Media National & Technology Axel Springer SE, contributed to the Otto Group 2018 Diversity Conference

“As a technologist, I naturally see the digital future as an opportunity. At the same time, we need to take responsibility for addressing the critical aspects of a digital world. I’m thinking here of the misuse of technology, social isolation or radicalisation.

TRAINING, EDUCATION, AND TRANSPARENCY ARE THE BEST WAY TO COUNTERACT THIS.”

right ——
DR MICHAEL MÜLLER-WÜNSCH
Member of the Management Board for Technology (CIO), OTTO

“I think it’s not about humans actually talking to an AI. It is not like a piano can enter into a dialogue with a person. It doesn’t understand human feelings. And yet a person can play a piano in a way that conveys incredibly deep feelings, which would never work without a piano. For me it is similar with people and computers.

TECHNOLOGY, IN THIS CASE, IS A WAY TO CONVEY FEELINGS.”

—— JAMIE BREW
US programmer and comedian. Tries to teach humour to computers

“THE READINESS TO ADAPT TO ENTIRELY NEW CIRCUMSTANCES COMES AS A RESULT OF SELF-AWARENESS AND SELF-BELIEF.

In my opinion, it is people with a mature attitude who act in an emphatic way that will be most needed in the working world of the future. Perhaps even more than today.”

left —— STEFANIE ZÜHLKE-SCHMIDT
Managing Director, Witt Group

“NOT FORGIVING A FELLOW HUMAN BEING FOR MAKING A MISTAKE AT WORK WOULD MEAN YOU CONSIDER YOURSELF TO BE INFALLIBLE.

Not forgiving a machine for making a mistake would mean you believe that machines are infallible. Both of these would indicate that you’ve lost touch with reality.”

—— DR OLE WINTERMANN
Senior Project Manager at the Bertelsmann Foundation, currently working with the Otto Group on the “Digital Transformation in Companies” study

“This is the second era of the internet. The first was the era of information. But when I send you an email or a pdf, I keep the original.

THAT’S GREAT FOR INFORMATION.

But when it comes to things that really matter to the economy – assets, things of value – they belong to somebody, things like money or stocks, cultural assets, votes, our identities – sending a copy of those is a terrible idea!”

—— DON TAPSCOTT
Canadian entrepreneur and management professor, one of the world’s leading blockchain experts

“WE NEED TO RELY MORE ON PEOPLE.

Our world is becoming increasingly complex. In this age of industrialisation, it’s no longer the question of "How” that matters, but the question of “Who”. The more complex the issues that need solving become, the harder it is to find a priori solutions for them. Companies should therefore ensure that they attract talented people and provide them with challenging activities and people-focused environments to ensure their loyalty.”

—— CONNY DETHLOFF
Part of the Agile Centre, Otto Group

“If companies want to make successful progress in the digital future, they need to limit their faith in security and instead apply a sense of **CONSEQUENCE, CREATIVITY, COURAGE, AND MOTIVATION.”**

left —— DR GESA HEINRICHS
Vice President Corporate Procurement & Facility Management, OTTO

“I believe there are three decisive factors when it comes to success in the digital world: **COURAGE, IMPERFECTION, AND DETERMINATION.** Companies mustn’t dodge what’s coming. It will only work if you trust – in the skills of each of your employees, in the business model, and also in the ability to change this.”

right —— JESSICA NICKEL
Head of Corporate Communications/Public Relations, Baur Fulfillment Solutions

“Not everyone has to learn programming. **BUT THE WAY WE HANDLE DIGITAL OPPORTUNITIES DEFINITELY HAS TO BE ON THE CURRICULUM.** Finding and assessing information, assessing sources: all that is just as relevant as knowing why leaves fall from a tree.”

—— TAREK MÜLLER
Founder & co-CEO About You

HELLO
EXECUTIVE BOARD

Courage, diversity, responsibility: our management team leading the way into the digital future.

—— 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

on left —— KAY SCHIEBUR
Member of the Executive Board, Services

on right —— SVEN SEIDEL
Member of the Executive Board, Multichannel Retail

on left —— SEBASTIAN KLAUKE
Member of the Executive Board, E-Commerce, Technology, Business Intelligence and Corporate Ventures (as of 01 May 2019)

on right —— DR RAINER HILLEBRAND
Vice Chairman of the Executive Board, Member of the Executive Board, Corporate Strategy, E-Commerce & Business Intelligence (until 30 April 2019)

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

We were unable to achieve our ambitious aims last year. Instead of by 5 percent, we only managed to increase Group revenues by 3.5 percent on a comparable basis, reaching around EUR 13.4 billion. Online revenues grew by only 4.5 percent, reaching around EUR 7.7 billion. We also did not achieve the level of profit that we were aiming for.

It would be easy to blame this solely on the unusually long and hot summer in Europe, which turned the textiles and furniture industry upside down. The fact that the Otto Group performed better in this challenging market environment than some of its competitors cannot and should not be enough for us.

This is why we continue to pursue the "Otto Group Path" that was defined two years ago by the Executive Board. We are sticking to our aim of achieving revenues of EUR 17 billion in 2022 on a comparable basis. We are maintaining our strategy of focused investment in selected Group companies that represent around 80 percent of Group revenues and managed to increase revenues by a pleasing 6 percent in total on a comparable basis in the past financial year. And we are sticking to our process of generating the revenues of tomorrow from a cultural change today.

We are on the right track. But we know that we will have to work together even harder in the coming years, on ourselves and for our customers. A range of strategic, conceptual, and procedural factors is important here. The most significant part will be played by us humans, particularly in terms of digital transformation. All of my over 50,000 employees are working on changing their attitudes. We want to push the limits together independently, freely, and with courage – for the company and for society as a whole. That is why the motto of this annual report is "Hello Human". We are discussing with experts, are giving examples of courageous, diverse, and responsible actions. As partners and friends of the Otto Group, we invite you to accompany us on this journey.

— ALEXANDER BIRKEN
Chairman of the Executive Board & CEO

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

OTTO stopped publishing its main catalogue last year. While this triggered some strong feelings in some, for our company this decision was simply a consistent step in over twenty years of development from a classic mail-order company to a purely digital e-commerce platform. We are proud to say that Otto is the only one of the former major mail-order companies in the world to have successfully implemented such a transformation.

In terms of the Otto Group, the discontinuation of the main catalogue is another step towards becoming a fully digitised retail and services group. The past year has shown that this path is not a smooth one. We were unable to continue the strong growth and earnings of the previous year. Nevertheless, I am confident that the Executive Board and all our colleagues will be able to make an incredible effort to return to our scheduled path to sustainable growth. I am sure that the “Otto Group Path” embarked on two years ago is the right one. In terms of strategy and investment, we are concentrating on the consistent expansion of OTTO into an inspiring and personal platform that combines a wide range of other retailers and brands and treats them fairly, on successful brands and retailers such as About You, Bonprix, Crate and Barrel, the Mytoys Group and the Witt Group as well as on the broad international service groups Hermes and Eos and on promising start-ups around the world. With this focused digitisation and globalisation strategy, we will continue to play a major role in digitised retail.

It is equally important for us to continue to be led by our values while we are on this path. Unlike many listed digital groups, we – as a family-run company – are driven by the conviction that we have a particular social and ecological responsibility as part of society and must live those values. The fact that the Executive Board is working intensively with colleagues, external partners, and stakeholders to address the issue of how the liberal and responsible values of a social market economy can be transformed in the digital world is just as important to us as shareholders as business success.

— PROF DR MICHAEL OTTO
Chairman of the Supervisory Board

SUPERVISORY BOARD

Prof Dr Michael Otto
HAMBURG
Chairman/Businessman

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

Benjamin Otto
HAMBURG
Shareholder/Businessman

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HAMBURG
Deputy Chairman
Member of the Works Council (GmbH & Co KG)
until 28 February 2019

Annette Adam*
KAHL/MAIN
Deputy Chairwoman of the Works Council
SCHWAB VERSAND GmbH
until 15 May 2018

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REINBEK
General Manager
Kommanditgesellschaft CURA
Vermögensverwaltung G.m.b.H. & Co.

Frederic Arndts
HAMBURG
Member of the Board GSV
Aktiengesellschaft für Beteiligungen
as of 01 March 2019

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

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MICHELAU
Chairman of the Works Council
Baur Versand (GmbH & Co KG)

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

Dr Thomas Finne
HAMBURG
General Manager
Kommanditgesellschaft CURA
Vermögensverwaltung G.m.b.H. & Co.
until 28 February 2019

Petra Finnern*
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Chairwoman of the Works Council
EOS Region Germany

Torsten Furgol*
MAGDEBURG
Regional Specialist ver.di Trade Union
as of 15 May 2018

Michael Häberle*
KARLSRUHE
Deputy Chairman of the Works Council
Heinrich Heine GmbH
as of 15 May 2018

Heike Lattekamp*
HAMBURG
ver.di Trade Union Secretary Commerce

Dr Wolfgang Linder
HAMBURG
General Manager (retired)

Stefan Najda*
GLIENICKE
ver.di Trade Union
Secretary
until 15 May 2018

Heinrich Reisen*
GREVENBROICH
Chairman of the General Works Council
Hermes Germany GmbH
as of 15 May 2018

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

Birgit Rössig*
HITTBERGEN
Group Works Council Chairwoman
Otto (GmbH & Co KG)
as of 01 March 2019

Hans-Otto Schrader
HAMBURG
General Manager (retired)

Dr Winfried Steeger
HAMBURG
Attorney

Monika Vietheer-Grupe*
BARSBÜTTEL
Chairwoman of the Works Council,
bonprix Handelsgesellschaft mbH
until 15 May 2018

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

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

* Employee Representative

Selected
companies and brands

MULTICHANNEL RETAIL

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

THE CORPORATE OVERVIEW

FINANCIAL SERVICES

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

SERVICES

- Baur Fulfillment
- Hermes Europe
- Hermes Fulfilment
- Hermes Hansecontrol
- Hermes-OTTO International

* investment companies

HELLO HUMAN

Making decisions that seem uncomfortable. Taking a risk, trying things out, experimenting with technology. Exemplifying change. Thinking flexibly and expressing your opinion openly. Learning from mistakes, openly sharing experience and knowledge. All this is necessary if we are going to shape the future together. And all this requires one thing above all from companies, people, and society: courage.

24

C A O G U R E R

OPEN TO RADICAL

Kulturwandel 4.0 (cultural change) at the Otto Group, which began around three years ago, has attracted enormous public interest. Hundreds of companies and institutions have been coming to the Otto Group to find out: what's going on? The Kulturwandel team decided to set up a platform, similar to the internal platform already in place. The result: the Culture Development Experience (CDX), a barcamp with representatives from 100 companies where people are free to speak with courageous openness.

DISCUS–SION

The stage is empty. Coloured lights dance over the shining parquet floor. A voice announces over the loudspeaker: “Please take your seats. Let’s go!” This is the moment: you show courage when you step onto the stage and take the microphone in your hand. You show courage when you talk transparently about your projects. And perhaps at some time during your talk, you get to a point where you don’t know the answer 100% or don’t have an ideal solution. Then, you simply say so. Openly and directly. That takes courage too. But it’s not hard for you to do. Because you’re not alone. Welcome to barcamp.

At CDX, the Culture Development Experience at the Otto Group headquarters in Hamburg, there are no keynote speakers preaching their alleged truth. Instead, representatives from more than 100 companies and institutions take the stage – Axa, BP, Deutsche Bahn, E.ON, Lufthansa, Gruner + Jahr, Kuka, NDR – and highlight whatever they want to discuss that day: new work, breaking the mold, guerrilla tactics, agility, shared leadership, systemic change approach – then everyone decides what the most interesting topics are. And then the voices become louder. This is probably the only way to run a successful Kulturwandel event: using the barcamp format. Dynamic. Bottom-up.

Digital transformation has picked up speed and changed the rules of the game. No one knows that better than a retail and services group like the Otto Group, whose Kulturwandel 4.0 programme is now well-known as an outstanding example even far outside the sector. With CDX, it has now created a platform to discuss the change in corporate culture in the digital age for the first time. The aim: learn from one another, inspire one another, and develop ideas together. “We decided early on that we wanted the change: agile, dynamic, transparent, collaborative, and customer-friendly,” says Otto Group CEO Alexander Birken. “There’s no magic formula for that. We can only do it by working together.” What’s special about CDX is that the representatives from the various companies, authorities, and agencies forget their old competitive ways of thinking, talk about their problems and solution approaches, advise one another, and listen to each other. That’s new. It also takes courage. For example, Alexander Birken has spoken openly in a speech about a few failures: “We on the Executive Board have often fallen back into old familiar patterns and discussed responsibilities rather than the actual content of issues.”

One of the greatest strengths of CDX is its diversity: “Some companies have already come a long way in their transformation, some are just starting out, some are huge corporations, others are small and young. This diversity is a resource. That is your network,” says Tobias Krüger, Division Manager Kulturwandel 4.0 at the Otto Group, in his speech. And Alexander Birken emphasises: “We’re not implementing the Kulturwandel because people should feel comfortable, but because we want to survive.”

To summarise: digital transformation presents many companies and institutions with major challenges. Everyone has more questions than answers. Solutions don’t come from above, but from many different people. Every individual can play a part.

HAVE THE COURAGE TO OPEN YOURSELF UP!

DENNIS CHAN

Change & Transformation Manager, Hamburger Sparkasse

“Banks have long given their employees the feeling that this business is forever. But that’s wrong. FinTech, Apple, Amazon, Google, and new players in the market are stirring everything up. The business recipe is not just changing in terms of size, but shape and taste as well. If you want a slice in future, you’ll have to change too. My main everyday task at the bank is to break the mould and demonstrate options for how we can establish a different way of thinking on a sustainable basis. Employees need to learn to reflect on what they’ve done: why did I actually do it? And more importantly: what have I learned and what would I do differently in future? And if they find the answer, they’ll have gained something for themselves.

At CDX, I meet lots of colleagues who have similar challenges as me. And we all know that change can’t wait. CDX is our ‘safe space.’ I can share my challenges honestly here. What do I say when my bank colleagues keep asking me: ‘What does culture change have to do with our core business?’ The answer is really quite simple: only those who improve the quality of relationships at the bank and promote a culture of learning from our mistakes will get a slice of the action in future.”

“I believe there are great opportunities for discussions with other companies at CDX. Yes, every company is unique and has to find their own individual path. You can’t just transfer solutions exactly as they are. But you can be inspired by what others are doing. Sharing perspectives and experiences enriches us all in the transformation process. I like the fact that people with a similar mindset can learn something from one another here. Learning capacity and therefore the exchange of information is the resource of the future. The old motto ‘knowledge is power’ no longer applies. In my working life, I often ask myself questions such as: why is this so hard? Why doesn’t Department A share data with Department B? It would obviously be beneficial. But when I look into it in more detail, I often notice: human behaviour always has a function. People have their own good reasons for why they behave the way they do. We have to look at our own behaviour and the functions, be aware of them. Then we can work on them and break through old patterns that no longer fit the current context. Sometimes that can hurt, but it moves us forward – as people and as an organisation. Everyone can start with themselves. After all, each individual shapes the culture in which they work.”

JUMANA KLOTSCH
Head of Cultural Transformation, Eos Group

“At the Google office in Hamburg, we work in an agile way because we adapt to the ever-changing requirements of our users and customers. Our users are mobile and expect their results to be fast and customised. Our mission is ‘to organise the world’s information and make it universally accessible and useful’. We want to live this out in our company and Google working culture, providing all our employees with all relevant information and offering special tools to enable discussion in order to encourage lively communication. It is important that we also remain agile. That’s why I’m at CDX, because I get inspiration from other companies to continue learning how we can make the work culture even more open. In our Hamburg office, we work with colleagues from different departments such as Sales, Marketing, Service, PR, and Legal – in our cross-functional teams in particular, we don’t want to stay still, saying ‘That’s how we’ve always done it’; we want to remain agile.”

BIRGIT PAHL
Industry Head Retail, Google

Division Manager Kulturwandel 4.0, Otto Group
TOBIAS KRÜGER

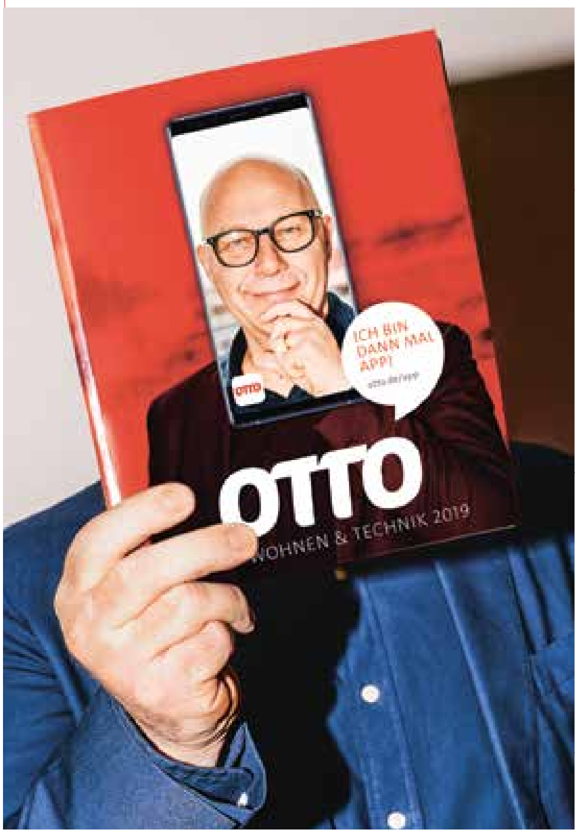
“This openness, the honest conversation, this sense of enthusiasm to tackle challenges – it really moves me. I’ve had goosebumps all day at CDX. And I truly believe: we can only change the paradigms when we talk to each other and work together. It’s not about finishing a Kulturwandel from phase A in phase B. We need to develop the ability to keep adapting ourselves. As Trotsky might have put it: permanent evolution! I think it will be really exciting to see what it will be like when people go back to their normal everyday work after an event like this: how do we externally express our internal attitude? We have to take them along, asking them: ‘What do you need in order to make this real for you?’ The size of the task ahead makes me humble: Kulturwandel doesn’t end when you leave work for the day. What does it mean for education, for the idea of a fair society, for democracy? There’s still a lot to do!”

“HOW DO WE EXTERNALLY EXPRESS OUR INTERNAL ATTITUDE?”

TOBIAS KRÜGER

A TIME FOR EVERYTHING

The printed OTTO main catalogue is history. For the company, this is just a consistent step reacting to new customer requirements.



MARC OPELT

Marc Opelt, Chairman of the OTTO Management Board

Some changes take courage. The courage to break with much-loved routines. And that's what has happened with the printed OTTO main catalogue. Since the autumn of 2018 it is history. The last copies ran off the conveyor belt at the Prinovis production site in Nuremberg. Some of the press reaction was melancholy about the end. And it's true: many people most likely have happy memories of the printed catalogue, which was over 1,000 pages thick in its heyday. But for OTTO, it was anything but a time for nostalgia. In fact, the mood can be summarised like this: "It was great – but now it's time to move on. Time for digital." That was made clear in the title of the catalogue, which read self-confidently and a little coquettishly: "I'm off to the app" ["Ich bin dann mal App"].

Marc Opelt, Chairman of the OTTO Management Board, explains: "We think and act in a customer-focused way. We've always said that we'd carry on producing the main catalogue as long as most of our customers still wanted to use it. Perhaps it was sometimes an unpopular move to send out a thick catalogue in the digital age, but it was still a relevant marketing channel for some of our customers." This changed drastically in recent years. Over 95 percent of purchases from OTTO are made online and even the older customer base has gotten used to the ultimately far more comfortable and dynamic online shopping. So, to a certain extent, the customers themselves have hastened the demise of the catalogue through the use of digital channels.

"Parting with the catalogue was just a side note for us, but it is further proof of the successful growth of our company – from a mail-order company to a purely online retailer," says Opelt. "We don't think today's customers will miss it too much. Our digital channels hopefully feel even better than the previous paper versions. May it be on mobile devices on the couch or by using voice control via digital assistants, which is likely to increase in future. We are very much looking forward to a digital future." And one thing is clear: OTTO will only be able to continue its successful path in this digital future if its actions continue to be led by one keyword above all – courage.

LET'S BE COURA

Artificial intelligence, robotics, and brain-hacking: the digital future worries a lot of people. But are those worries justified? According to publicist and digital expert Prof Dr Miriam Meckel and Executive Board Member Petra Scharner-Wolff, the answer is No. They discuss courage in the digital age, the opportunities provided by technological development, and why fear of the future is often a German problem.

GEOUS!

What does courage mean to you?

MM The term 'courage' is in every Indo-European language and always has something to do with having the decisiveness to dare to do something and take a personal risk. These components are important. When I hear: "It's totally brave to have tweeted something", I think to myself: no, it might be disrespectful or provocative, but it has nothing to do with courage because there's no commitment. In that sense, I'm rather wary about this constant inflationary use of the word courage or brave these days.

Miriam Meckel, founder of the media platform Ada that prepares people and companies for digital life and work as well as the economy of the future; publicist and professor of Media and Communication Management at the University of St. Gallen.

"COURAGE REQUIRES HUMILITY – OTHERWISE YOU'RE ONLY FOOLHARDY."

MIRIAM MECKEL

PSW Yes, I agree with the idea of it being inflated. But it doesn't bother me as much. We talk a lot about courage in connection with the Kulturwandel in the Otto Group, it's one of our main focuses. Courage is the opposite of fear and we can see that it's much easier to work with the idea of courage than fear. Everyone is happy to talk about courageous decisions. When it comes to admitting to fear, things quickly become painful and inhibited.

MM Yes, courage is a driver, fear is a brake. I think of what Kant said here: "Have the courage to use your own reason", perhaps the most important sentence used with regards to enlightenment. It also makes clear where fear comes from. If you suddenly have to make a decision for yourself and it might go wrong, that's much more stressful than just having to listen to your boss all the time. However, it's also important to remember that courage is only one side of the coin. The other is humility. Anyone who constantly claims to be brave is probably only foolhardy. Courage also means having respect for risks and sometimes deciding to avoid the danger.

When was the last time you were courageous?

PSW The first thing that comes to mind is our first internal "fuck-up night". It's a while ago, but it stands out particularly for me because it was the first time I stood on a stage in front of an audience and openly and honestly talked about a huge professional failure. It took a lot for me to do it.

MM I do something every year that I haven't done before and sometimes it's well outside my comfort zone. And it's deliberate. Last year, I dived from a five-metre board.

Can a person learn to be courageous?

PSW Yes, through a sensible lived culture of admitting to mistakes. What do I do when something goes wrong? If you're not afraid of failing, you'll be prepared to try something new.

How do you encourage people to admit to mistakes?

PSW Setting an example is a decisive factor in a professional context. If managers themselves admit to mistakes and don't punish colleagues if something goes wrong, everyone will have the courage to risk more. You have to make it very explicit and live your everyday life that way.

MM There's a lovely story from the history of technology. Thomas Alva Edison invented an insane amount of things, he registered for 2,300 patents. In his research journal, he also wrote about all his inventions that went wrong. And he clearly says that these mistakes were a necessary learning step for the next success.

How do you carry on after a mistake?

PSW In my experience, you mustn't make too big a deal of it. There's always a way out, for example people come to help you. When you consciously think about it, the fear disappears.

Technological development is something that worries a lot of people. Mrs Meckel, you've written a book about the opportunities and risks of brain-hacking. What interests you about the subject?

MM I'm interested in what happens when humans and machines, when thoughts and software keep growing closer together. Everything is connected to the Internet these days: refrigerators, cars, hearing aids. Very soon, we'll be directly connected to the Internet ourselves. As soon as that happens, we'll have to confront the fact that it will be possible to read thoughts.

When will that be?

MM There are already medical trials running. A brain implant will enable locked-in patients to communicate again. That's fantastic, of course. But then there's been an announcement by Facebook: they're working on a device for us to wear on our heads that will be capable of deciphering our thoughts at a speed of 100 words a minute. There are a few questions here about invading human privacy and freedom. And these need to be considered now, not when the things are on the market.

COURAGE

It takes courage to admit to mistakes. And it takes even more to do it on a stage. But that's exactly what happened at the Courage Festival held by the Otto Group in August 2018 – one of the highlights of the internal "Year of Courage". And naturally it wasn't just about discussing mistakes. Over 200 participants from the various Group companies experienced an entire day of input about courage: there were workshops about the positive side of a culture of learning from mistakes, about innovations and about the joy of experimenting as well as a whole range of activities to take part in. After all, as Swiss coach Matti Straub-Fischer said on the day: "Courage is a muscle that gets stronger the more often you use it."

FESTIVAL

PSW I sometimes find it quite shocking how fast there has been a change in awareness here. It's crazy how much data we voluntarily share these days, via fitness trackers and similar devices. I grew up in a time when taking a census was a major event in Germany. That's laughable these days. I think it's vital to debate all these things. However, it shouldn't be shaped by excessive fear.

Is fear of the future a typical German trait?

MM Yes, it seems to be. It could come from the nostalgic melancholy of the Romantic era, which makes us Germans look back at the past. But there have also been studies that confirm in demographic terms that ageing societies are more fearful. That's quite natural: they want to maintain the status quo and are sceptical about changes.

PSW One problem is that there are hardly any forums these days, except perhaps church congresses, where everyone – those rushing forward and those holding back, courageous people and fearful people, young and old – can come together to make their voices heard and listen to one another. Online discussions take place in a bubble and the space for discussion is heavily polarised and polarising.

If you look towards the future and the development of AI, what are you personally looking forward to?

PSW I'm looking forward to driverless cars.

MM Me too. I'm really looking forward to being able to read in the car. Or sleeping in it.

And what are you afraid of?

MM I'm worried that everyone's behaviour will be turned into a single mainstream way of life. And if that doesn't just mean the results of analyses, but the cornerstones of life itself, we'll have a society that's incredibly standardised. You can see it today on many levels. We tend towards humanising machines, while human behaviour becomes more like machines, more standardised.

In terms of AI development, there is a huge gap between Europe on one hand and the USA and China on the other hand. How can that be closed?

PSW We've just been with the Executive Board to Israel and it's fantastic how normal it is for young people to be coding there. It has something to do with the school system. It's not necessarily that they're being taught coding, but that they're being given the ability to pick up complex problem-solving strategies very quickly.

Petra Scharner-Wolff, Chief Financial Officer (CFO), Member of the Executive Board, Finance, Controlling, Human Resources at the Otto Group, particularly committed to the subjects 'People & Empowerment' in the Kulturwandel process.

MM I was recently in China and I've got a lot of respect for how fast development is progressing there, albeit under very different conditions than here at home. Shenzhen, for example, used to be a special economic zone, now it's the location of the headquarters of Huawei. The Chinese are consistently driving forward technological developments and using them. I don't understand the German and European policy of regulating everything and damping everything down.

For example?

MM Facial recognition: it's no wonder that the highest-rated start-up in this sector is based in Shanghai. There's nothing like it in Europe. And one day this technology will be so fully developed that it will be used all over the world – you'll be able to open your office door and get your coffee with facial recognition. And then we'll be dependent on technology from China. I wish instead that the European policy here would be more courageous and less led by fear.

“PRACTICE TAKES AWAY THE FEAR OF DIGITISATION.”

PETRA SCHARNER-WOLFF

Fear of digitisation is often associated with the fear many people have of not being able to keep up with technological developments because it's all so complicated. How do you cope with these fears at the Otto Group?

PSW Through practice. And easily accessible offers. Training sessions don't run for an entire day anymore; there are short video tutorials instead. Or we take VR glasses to campus and let anyone who's interested try them on. It's meant to be fun. The other thing that worries people is that they might be replaced by machines sometime in the future. Again, we make contact with all our colleagues and show them in workshops and seminars that everything can be changed so that we remain fit for the future. Our aim is to reach all our over 50,000 employees with these programmes.

MM I find social communication about the subject incredibly difficult. There are studies that “calculate” that 50% of all jobs will be made redundant by AI in the USA. That's outrageous! History teaches us one thing after all: all the major technological breakthroughs were difficult, but at the end of the day they generated more new jobs than the number of old jobs they got rid of. I'd be in favour of tackling this subject more courageously. Why aren't we thinking about using the gains in productivity brought about by AI to break the classic link between wages and productivity? It doesn't have to be via an unconditional basic income. Creative and social activities that are currently underfunded could be cross-financed. No one is talking about that, the only subject is the worry scenarios.

You've started up a magazine, Ada, that aims to reduce people's fears about a digital future. How does that work?

MM By explaining things. We're convinced that the digitisation isn't a matter of technology, but of civilisation. In a few years' time, everything will be connected. We describe how digitisation integrates into your professional and private life. And we want to show that this will bring a huge range of perspectives and opportunities with it. For example, we report from Denmark where robotics are far more integrated into everyday working life than here at home. And no jobs have been lost as a result; in fact, it has created a lot of new ones.

Mrs Scharner-Wolff, the Otto Group is a partner in the accompanying Ada Fellowship Programme, a German education offensive for digital transformation. What made you decide to join in?

PSW It's incredibly important to us to make our employees fit for the digital future. We find the project very exciting and have noted before, not least in the Kulturwandel programme, that it's a good thing to be open to other companies too. Cross-sector learning is, after all, a typical digitisation issue. Before, you only operated within your set area and focused solely on your colleagues in that sector.

MM Yes, it's becoming increasingly clear how you can create a different and highly productive mindset in dialogue. You learn that there are similar problems everywhere, but quite different solutions. We want to encourage this exchange of views. And if this results in more technological ambassadors who courageously foster a feeling of excited interest in the future, then we'll have reached our aim.

ABOUT COURAGE

When the Otto Group founded About You in 2014, there was a lot of argument about the high investment. Too risky, too uncertain. But the courageous step was worth it. Today, the online fashion retailer is one of the fastest growing e-commerce companies in Europe. Those involved remember how it all began.

HANNES WIESE

Co-founder and co-CEO of About You

"The Otto Group divisions consultancy and Group strategy were very important career stages for me, I learned a lot. However, what really excited me was – after so much strategy experience – really getting in on the action at the front line, shaping things myself and running my own team. The Collins project for the Otto Group, which formed the basis for founding About You in 2014, was the ideal opportunity to demonstrate courage and start from scratch as an entrepreneur."

BENJAMIN OTTO

Co-founder of About You and Otto Group shareholder

"It always takes courage to invest in new business models, but About You required a particular level of risk because we were leaving our normal track behind entirely and there was a lot at stake, given the huge investment. However, we also aspire to be pioneers and actively help shape the market – and courage is definitely a part of that. In the case of About You, I can say that I was so convinced by the innovative business model from the outset that founding the company may have been courageous, but above all it was logical. We did the right thing. It is certainly one of the most spectacular projects that the Otto Group has implemented so far."

DR RAINER HILLEBRAND

Longstanding Vice Chairman of the Executive Board of the Otto Group and responsible for Corporate Strategy, E-Commerce and Business Intelligence

"There was nothing like it on the market in 2014, which means you can really say that we at the Otto Group broke new ground with About You. Particularly because a lot of people believed that we were cannibalising ourselves with the business model. The main point was that we wanted to develop customer-focused solutions and there's no question that we achieved this with About You. Was the investment a brave thing to do? Certainly. You always need courage for investments of this nature. Things don't always go smoothly in a world that's constantly reinventing itself. But anyone who wants to be an innovator – and that is the demand we set on ourselves – has to make courageous decisions in order not to be left behind when it comes to development. And About You really is an amazing example of that, which makes me very proud."

TAREK MÜLLER

Co-founder and co-CEO of About You

"After almost ten years of entrepreneurship and independent operation, it was a brave step for me to establish a new company within a Group for the first time. But as the founding team, we invested a lot of time at an early stage in negotiating the 'rules of play' with the Otto Group. It was a good thing for both sides. Ultimately it really comes down to the people you are negotiating with and we were really lucky here. Rainer Hillebrand was our main contact from day one, as well as being Chairman of the Advisory Board. He constantly supported us, advised us, and gave us courage when the headwind in the Group became too strong. That was incredibly important, particularly at the start. I can't imagine a better configuration for a start-up like About You."

SEBASTIAN BETZ

Co-founder and co-CEO of About You

"Since we set up About You, we have considered ourselves to primarily be a technology company rather than a fashion company. Our DNA is data-driven, our IT infrastructure is built in-house, and our processes are largely controlled by IT – no other online fashion retailer had done that before us. For me, courage is a key factor for our innovative business model: we focused on smartphones early on and that was the right thing to do. Today, over 75 percent of orders are made via our mobile app – in the beginning it was only 20 percent. It was therefore also a logical consequence for us to risk expanding our field of business relatively quickly to become an e-commerce technology provider and offer our own IT infrastructure – the About You Cloud – which we developed in-house as a licensed product for other fast-growing online retailers."

1 DOWN-LOAD

It starts when you download the Bonprix app. This is your constant companion while shopping, guiding you to the various areas. If you don't want to use your own phone, you can borrow a device in-store with the app already installed.

There's no question that digitisation and online retail are changing the look of city centres. With the courage to adopt new business models, Bonprix has worked with the Otto Group to develop an experimental store concept that shows how the shopping experience of the future could look like. The pilot store, which opened in Hamburg's top location in February, offers a unique shopping experience where there is a seamless flow from choosing clothes to trying them on and paying for them, thanks to digital support. No more stressful crowds and mountains of clothes.

ANA-LOGUE

2 CHECK-IN

When you go into the store, you open the app and scan the QR code at a terminal. Now you're ready to shop.

3 SHOPPING BAG

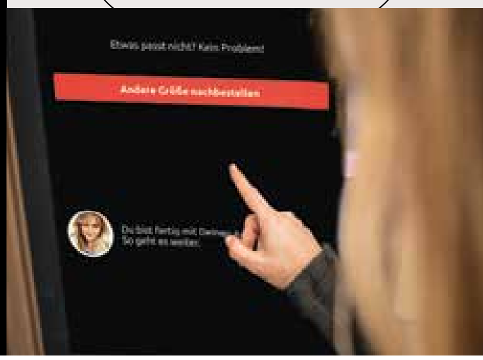
The shop floor only has one item each of selected pants, shirts, and jackets on display. This makes the area look clearer. If you like something, you can open the app, scan the QR code on the label, select the size you want and order it to the next area on your shopping journey: the fitting room.

4 FASHION BAR

Until the items you chose are ready for you in the fitting room, you can relax with a refreshing drink at the fashion bar and be inspired by the latest fashion trends.

As soon as your clothes are waiting for you in the generous-sized cubicle, you can try them on with four different lighting options. You can use the app, which also appears on a screen, to order other sizes or call for personal assistance.

5 FITTING ROOM



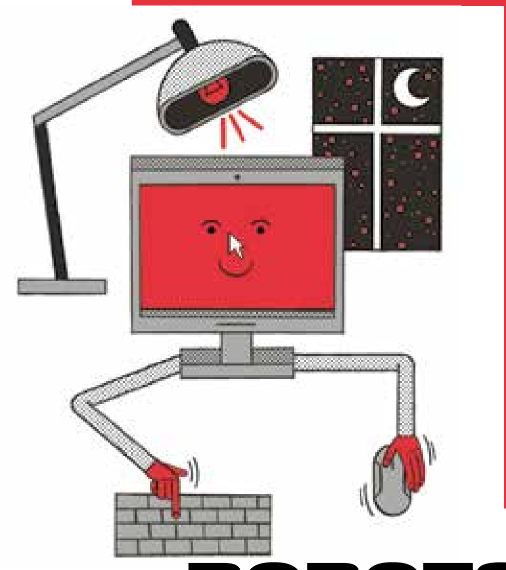
MEETS DIGITAL

6 CHECK-OUT

Once you've made your decision, you have various payment options available to you: in-app using Paypal, by card at a terminal or by cash at a checkout.

TRUST IN YOURSELF

Digitisation creates entirely new possibilities for working with intelligent software and with each other. Instead of fearing change, we should take the opportunity to reconfigure our working processes. Here are three examples of how that could work.



ROBOTS WORK NIGHTS

Checking invoices, executing transactions. There are few areas where the introduction of automation has made a clearer difference today than in accounting. At Otto Shared Services, a software programme looks for errors in transfers. It carries on running at night when human colleagues are asleep. This shows how efficiently humans and machines can work in partnership. Specially trained employees at Otto Shared Services developed the robot application themselves. Programming intelligent accounting software is a future field of interest for the company that is also extremely relevant for cooperation with other Group companies. A technological boost that will propel Otto Shared Services into new areas.

COLLEAGUES PLAN BY THEMSELVES

People have different needs and requirements. Some like getting up early, some like to look after their children in the afternoons, some prefer working at night. Normal shift operations don't take any of that into consideration. But the OTTO customer centre in Dresden does; it now offers employees the opportunity to decide for themselves how they configure their weekly working hours. They can work at any time during the day between 7 in the morning and 10 at night. A sufficient number of employees must be available for the customers during this period. Sceptics were worried about gaping holes in the work schedule, but none have appeared so far. The Teleopti planning software helps divide up the hours and automatically predicts when and how the need for employees has to be covered. Very successfully too. The time taken to plan shifts has been reduced from three days to seven hours and there has been a major improvement in the working atmosphere. Employees fill in for their colleagues more frequently, act independently, and are off sick less often. The other six customer centres in Germany have now adopted the free-planning concept. And other companies are also interested in this radical change in the division of employee shifts. They want to learn how to surrender control but gain satisfied personnel and more time as a result.

PEOPLE ARE RETHINKING

Digitisation requires the rethinking and reconfiguration of traditional working structures – at all levels. OTTO has taken this change seriously and trusted in its employees to help shape that change. One example is the Star Reloaded project, which analysed the future of print formats in customer communication. What was special about this was that employees were able to be part of the configuration of future working processes right from the start. They looked at how to organise the modern production of print products and what roles and activities this would require. That also includes the courage to adopt entirely new business models, such as the separation of functional and disciplinary management. This has resulted in entirely new management roles and up-to-date work assignments for employees. The fundamental changes have been absorbed by the team, who have courageously opened the way to a successful future.

KO–MI–WHAT?

Everyday working life in every Group company at the Otto Group is changing radically and at speed. This is leading to new careers and fields of activity with new titles. We present today's jobs for tomorrow. And explain what they mean.

Profession:
AGILE COACH

What is it?
The coaches support the teams to work in a dynamic way that involves independent learning.

Why is the job necessary?
Because traditional structures are breaking down. That brings freedom with it, but also challenges.

What key skills are required?
Empathy.

When is an Agile Coach considered successful?
When everyone on the team is happy.

Katrin Gietemann, Shopping 24

"For some colleagues, the change from classic team structures with fixed tasks and processes to an agile environment with far more individual responsibility was really unfamiliar territory at first. I offered individual support as I guided them through this process."

Profession:
DEVOPS

What is it?
A mixture of system administrator and software developer.

Why is the job important?
Because networks and operating systems in modern cloud environments are highly automated and dynamic.

What key skills are required?
Technical expertise; the ability to get ideas across to people.

When is a DevOps considered successful?
When no one on the team is afraid of technology anymore.

Mirko Berginski, Eos Group

"Before, software developers often didn't think about the fact that their software would have to run in a stable and secure manner later on. DevOps ensure that the development and operations teams have more understanding of one another and that the technical processes run smoothly. We have to have one foot in both camps."

Profession:
TRAINEE E-COMMERCE SALESWOMAN

What is it?
A specialist in Internet commerce.

Why is the job important?
Because more and more people are shopping online.

What key skills are required?
Understanding and anticipating customer wishes.

When is an e-commerce saleswoman considered successful?
When customers come back.

Christina Lindner, Baur

"Last year, I had to take over the Baur employee online shop. This sells sample items to employees, but above all the shop acts as a playing field for e-commerce trainees. The fact that the shop is flourishing makes me pretty proud."

Profession:
MANAGING DIRECTOR AND KOMIMA

What is it?
A Conflict and Active Participation Manager [Konflikt- und Mitgestaltungs-Manager]. Everyone in the company can play an active role in shaping the company.

Why is the job important?
Because every disruption is like a piece of grit in a gearbox. And there's a lot of grit.

What key skills are required?
Understanding yourself and others. Sensing what's really going on underneath.

When is a KoMiMa considered successful?
When every type of disruption has been sorted out. And the train is back on the right track and picking up speed.

Stefanie Zühlke-Schmidt, Witt Group

"I'm pleased that the actions of so many KoMiMa are visibly raising their own profile. And that they are reporting more and more often that their commitment to better communications within their workplace is having an effect."

AGILE– WHO NOW?

DI
VER
S IT
Y

Men and women, old and young, people of every sexual orientation and ethnicity – everyone must have the same opportunities to unlock their potential. And in order to be successful, a company needs their perspectives, experience, and knowledge. After all, it must be able to react flexibly to a constantly changing world. It must be open: to a wide range of ideas, new ways of working, different business models – to diversity.

UNDER ONE ROOF

**DIVERSE CUSTOMER GROUPS?
LOTS OF BRANDS?
HOW DO YOU MAKE CONTACT WITH CONSUMERS TODAY?**

Sven Seidel, Member of the Executive Board, Multichannel Retail, talks to renowned brand expert and company advisor Dr Antonella Mei-Pochtler about the mass appeal of brands, purposeful consumption, and the future of retail.

Antonella Mei-Pochtler & Sven Seidel

What makes a good brand?

ANTONELLA MEI-POCHTLER

When we talk about the strength of a brand, it's not just about earnings and growth, but also and above all about values. It's about credibility and the ability to keep on developing. It's just like with people. A strong brand needs strong roots but also large wings to help it develop further.

SVEN SEIDEL

I agree. A brand needs an identity, customers expect something to guide them. These days, new brands are constantly coming onto the market. And it's no wonder that most of them disappear again.

MEI-POCHTLER

That's why brands have to provide effective added value in three ways. Firstly, functional added value: the performance of the brands must work. Then, social added value: my consumption reflects that I am part of a certain community. And finally, emotional added value: you're always also buying a certain feeling when you make a purchase.

SEIDEL

I've got another concrete example of what brands need to do. A strong brand also needs to be the first match in this age of voice recognition. Example: If you order batteries via Alexa these days, the first product on offer is Amazon's own brand. That gives competitors a hard time. The brand in 2nd place is the first loser.

One brand strategy is a major buzzword in terms of marketing. The mass appeal of an omnipresent brand.

M E I - P O C H T L E R
Yes, I call them the strong power brands. The imperialist brands that are clearly defined all over the world. Coca-Cola always used to be the brand named as an example of this. But these major mono-brands have been replaced by strong platform brands these days in terms of popularity. The latter are brands that are less about very sharp focus and more about being launchers. These platform brands manage to be open to a wide range of different products and services.

S E I D E L
Apple and Amazon are surely the first that come to mind. They have created an eco-system that is characterised above all by a special customer experience. However, one thing is also clear: we, i.e. the Otto Group as a whole, are not like that and are not likely to be in the near future. Nevertheless, with OTTO we have a generalist whom we are currently expanding into a platform. It has room for partners and services. There are also a lot of brands in the Otto Group that are very precisely aimed at a clear target group. Naturally, a Manufactum customer may also buy items from Sportscheck and find his or her needs are also covered at otto.de. But it's not the Otto Group's aim to superimpose one brand over the top of it all. We thrive on the diversity of the strong brands brought together under one roof.

M E I - P O C H T L E R
It's a sustainable strategy, targeting different consumer groups very precisely. It's based on a social process that we have been referring to for a long time as "microsegmentation". There are an increasing number of different milieus with quite different consumer habits. For many companies these days, it is not easy constantly keeping up with this ever-increasing diversity.

S E I D E L
We're experiencing that too. The undifferentiated centre ground is under pressure. That's why we at the Otto Group place so much value on diversity. I'm thinking of Sportscheck and the Witt Group as well as very specific offerings such as Frankonia.

What is the common factor for these very different brands brought together under the roof of the Otto Group?

S E I D E L
I can give you a very personal answer. I've been with the Otto Group for a year now. The work culture here was a major part of my decision to come and work here.
You can summarise it under one motto: heterogeneous talents, homogeneous values. It's all about values at the Otto Group. Of course, we want to earn money, but, and as a "newbie" I can clearly say it, there is more purpose behind it all than there is usually in the market. You can feel it at headquarters as well as in the Group companies. And the customers can feel it too.

"THOUGH TARGET GROUPS MAY DIFFER,

THERE IS ONE MAJOR TREND AND THAT IS PURPOSE."

Antonella Mei-Pochtler

M E I - P O C H T L E R
That's very interesting because one thing is clear: despite the difference and diversity in target groups today, there is one major trend and that is purpose. Consumption these days is increasingly purpose-driven. A brand functions like Maslow's hierarchy of needs. There's the base: quality and security. And then there's the top: a sense of promise and purpose. This top level is becoming more and more relevant because with the millennials we have a customer group that is searching for meaningfulness and world improvement when it comes to brands.

What is the value promise of the Otto Group?

S E I D E L
We are heavily involved in the creation and maintenance of production standards in the relevant countries of origin, as just one example. Yes, it costs money initially but it will pay off. We are firmly convinced of this because more and more consumers want to shop without a bad conscience.

SEIDEL

We're very aware of that too. If prices are too high, consumers will also choose the cheaper product. Tests have proven that very clearly over the years.

How does the trend towards purpose-driven consumption interact with the current supertrend: digitisation?

MEI-POCHTLER

Ultimately, we're talking about the different sides of one and the same phenomenon. We're dealing with the microsegmentation of the market – smaller and more specific target groups. The thing they often have in common is that the consumer decision needs to be purposeful, but this is all going on within a framework created by digital development. Information comes in a digital format. The defining sources here are the social networks, communities, and influencers. And now we have hit on a central point. Data needs to be handled intelligently in order to speak to these target groups. It's all about guiding customers even faster and more comfortably towards purpose-led and responsible consumerism. That must be an Otto Group promise. And I think there's a good tradition of that here. It was one of the first companies in the world to work with data analytics. Many of our customers didn't even know what that meant, but it had become standard practice here.

SEIDEL

At the end of the day, the smallest target group is the individual customer. Data intelligence is key when it comes to engaging this "segment one".

MEI-POCHTLER

On the subject of data, we're back at values again. We've reached a very interesting point now and things are changing pretty radically. Two, three years ago, data security and data privacy weren't even on customers' radars, to say the least. Two data scandals later and things look very different; the Otto Group can step up in a very authentic way here.

SEIDEL

The subject of data forms a fixed part of the Otto Group DNA in two ways. Firstly, because data analysis has long been part of our work and the standards apply here to all the Group companies. Secondly, because we have made a promise to handle data responsibly.

MEI-POCHTLER

That's a pretty strong value promise. Very Hanseatic too and that links up well with the tradition of the Otto Group. Funnily enough, however, a certain amount of reticence is also a very Hanseatic characteristic. It fits in with the observation that OTTO and the other Otto Group companies aren't exactly going around broadcasting their value promise. In my opinion, it needs to be announced a little louder.

SEIDEL

Yes, I think so too. We're far too quiet about it. Do good and talk about it – that should be part of it as well.

MEI-POCHTLER

One thing is clear though: although millennials are more post-materialistic than the older generations, they're increasingly looking to buy things with a good conscience. And yet market prices still play a part here. It's whoever manages to combine purpose and affordability that will win in the future. The actual trend is not just purpose-driven consumption, but also something that I call "affordable purpose products". Previously, the purpose-driven offers often came from small companies. Now it's all about scaling this to a different level. Major players like the Otto Group have a clear advantage here.

Does that mean that you will keep on expanding the digital channels at the Otto Group?

SEIDEL

You can't do without data analysis these days and the Otto Group has already gone a long way down that route. But our strategy of combining great diversity under one roof also means that there cannot just be one route. The digital channels at OTTO are constantly being developed further. Last December, we published the last edition of our main catalogue, which incidentally became a bestseller, a real collector's item. At the same time, the Witt Group is continuing to rely on its printed catalogue as the best way of reaching its customers.

MEI-POCHTLER

Customers are multichannel-orientated. Each of us has different requirements to be satisfied in different ways. That's why there are e-commerce companies that suddenly bring out catalogues. Or online players that go into the field or open pop-up stores.

SEIDEL

A multichannel approach also offers more options for making a brand more of a holistic experience, rather than a purely audiovisual channel. We're seeing a convergence of shopping, gastronomy, and event culture in the same place. That's an incredible opportunity for brands. There are many examples of this within the Otto Group. Crate and Barrel in the US now offers food and beverages in stores, making the visit even more of an experience.

MEI-POCHTLER

I find it all very exciting because that takes us back to the start of our conversation – the question of what a good strong brand is. In my opinion, the social and emotional added value of a brand is becoming more and more important today. But it also means that every brand has to be a medium or be run like a medium. It speaks directly to the customers. The content that is conveyed with a brand, the stories, the feelings and – behind it all – the purpose. That's what is becoming increasingly important. It takes a lot to set up a brand well these days. Yes, it takes technical expertise, particularly in terms of data analysis, but it also requires emotional intelligence. The main thing is for everything to be authentic. Customers will notice straightaway if something is fake.

"THERE ARE A LOT OF BRANDS IN THE OTTO GROUP THAT ARE VERY PRECISELY AIMED AT A CLEAR TARGET GROUP.

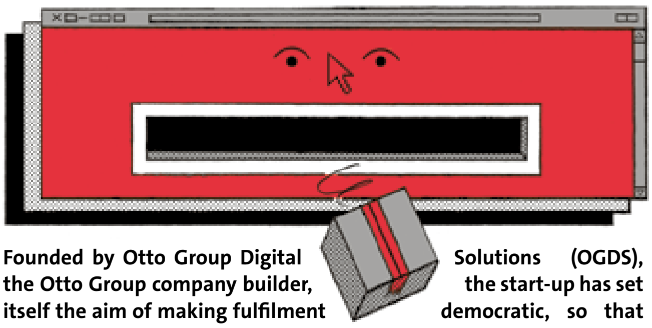
BUT IT'S NOT OUR AIM TO SUPERIMPOSE ONE BRAND OVER THE TOP OF IT ALL."

Sven Seidel

ONE FOR ALL

The Otto Group start-up odc (ondemandcommerce) offers e-commerce brands a smart and flexible complete solution for fulfilment and returns management. No matter how many parcels a company sends each day.

Odc has gained more than a hundred customers since it was set up. There's a reason why the start-up has been growing steadily for a year and a half. Odc offers small retailers a service that was previously only available to larger companies: complete logistics processing, including goods acceptance, storage, parcel packing, order dispatch, and returns management. What makes this special: at odc, you get all this even when you are just starting out as a new e-commerce provider only sending one parcel a day. While other fulfilment providers set their prices based on the quantity of goods to be shipped or charge horrendous onboarding fees, odc offers high-quality services and a fast go-live even for small or medium parcel quantities. This allows retailers to grow dynamically and focus on their core business.



Founded by Otto Group Digital Solutions (OGDS), the Otto Group company builder, the start-up has set itself the aim of making fulfilment democratic, so that small players can become or remain competitive. Here, odc relies on process digitisation and automation as well as a combination of smart cloud software and efficient warehouse and dispatch logistics. As a customer, you can manage your goods flow via an online portal so you always know where your goods are. Orders can be processed automatically, rather than having to be sent individually via email to the logistics provider. Thanks to odc, every customer, whether they are a small e-commerce start-up or a major retailer sending hundreds of parcels a week, has access to a flexible network of storage locations. There are currently five locations across Germany, with more to follow. Different product groups can already be handled with ease. As an additional service, every customer can also send parcels with their own branding, thereby building up their brand.
This flexible approach makes odc a major part of the platform strategy of OTTO as an online retailer. The company is developing its business model into a marketplace where other retailers and brands can sell their products via otto.de. Other partners will be on board soon. Some of them need support in order to make sure that those jeans, that bag or that vase get to the customer. Odc is their ideal partner.

A WORD WITH DR RAINER HILLEBRAND

He joined OTTO 28 years ago and worked in various functions over the years until 1999. He then became a Member of the Otto Group Executive Board – most recently responsible for Corporate Strategy, E-Commerce, and Business Intelligence. Now Rainer Hillebrand is moving to the Supervisory Board.

What are the most important lessons you've learned in your twenty years on the Executive Board?

Achieving success and remaining competitive all comes down to LSD more than ever – lead, speed, and data. And naturally the impulse behind Kulturwandel 4.0.

What do you mean by "lead" in this context?

"Lead" defines a mindset. It's about having the will to take control. It includes innovation leadership, meaning the resolution to keep your finger on the pulse and set trends, not just follow them. Leadership also means taking responsibility, setting the direction and taking courageous decisions. That was the case twenty years ago when we transformed the mail-order business while also building up the online business, and it applied when we founded About You too.

But what if the "speed" is missing?

Exponential growth in e-commerce and technological development means you have to be able to react quickly and permanently. We need to develop technologies and business models that are of use for our customers – preferably before their actual need arises. But "speed" also means stopping things quickly when we have made a mistake.

To what extent is the risk reduced when you know the customer, the keyword being "data"?

Data has long been absolutely vital when it comes to an individualised and promising customer approach. That's why we set up Business Intelligence, with corresponding units now available throughout the Group companies. For us, the responsible handling of customer data is the central currency of e-commerce and a major factor for success.

WOMEN OF TODAY

Women are still seriously underrepresented in IT and logistics. The Otto Group doesn't accept that. It is providing female employees with targeted support to get ahead in what are allegedly male domains – not least because everyone benefits from diverse teams. Four women speak about their careers, their daily work, their aims, and their successes. And about what men can learn from them.

ISABELLE EWALD

Digital Communications Consultant, Otto Group

"I'm a pretty good example of why women fail in technical careers. I've been fascinated by technology since I was a child and I started out studying engineering in the media technology field. I was the only woman among a good 60 men and was very intimidated. You usually only pass the course if you join study groups. I soon went in search of new paths to take because I couldn't find the right groups to join. Today at the Otto Group, I am driving forward the subject of 'Women in Tech' along with others as a member of the Otto female network PLAN F; among other things, we organise digital camps for women under the label develop<HER>. The response so far has been great. The aim was really only for everyone to write at least a few lines of code, but some really wanted to keep at it and are now changing over to a career in IT."

DR MICHAELA REGNERI

Senior Expert AI & Cognitive Computing, OTTO

"In general, it's true that women are under-represented in my field. It's a shame because the fact that I'm a woman has never played a part in my career to date. I've always worked in an environment where qualifications mattered more than gender. That was the case right from the start when I began studying. I studied computer linguistics, a mixture of linguistics and IT. At OTTO today, I look at how AI can deliver optimum results even with less data. In purely statistical terms, particularly in IT, there are definitely more women in roles associated with communication and social skills. However, in my experience that has nothing to do with basic talents: plenty of men carry out fantastic communicative work with a lot of social competence and empathy and plenty of women apply themselves with great analytical talents and passion for technical tasks. Neither opportunity nor ability are a question of gender to me."

KATRIN BEHRENS

Division Manager IT and Controlling, Bonprix

"I discovered my love of maths and IT early on. Studying business informatics was a logical step along the way. I was actually pretty much the only woman on my course. I always found that to be an advantage. I was noticed – and it particularly made me determined to prove my ability in a sporting way. At the Otto Group, I learned how to make valuable use of one of my further strengths: communication. In my current job in IT transformation with responsibility for central controlling, it's all about convincing people, including the occasional sceptic. I enjoy winning over my colleagues – who are still predominantly male – not just with technical arguments and analytical abilities, but also with empathy and personal attention, guiding us towards a common objective."

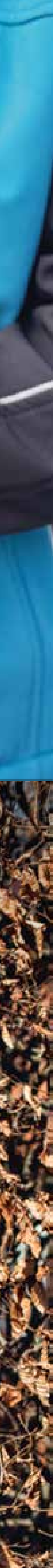
JASMIN STANISLAWSKI

Operation Logistic Manager, Hermes

"Before my studies, I trained with a freight forwarding company and tasted blood on the day I applied. The tension in the air, the speed: it was all mine. Of course, the stress level was high and the tone of conversation was often rough. That's just the way it is. I never had a problem. Quite the opposite, I was deliberately supported. I think that women are good for male-dominated teams. In my experience, women are prepared better for meetings. Men often focus only on the technical aspects – women know that it is always people who do the work."

OPENING DOORS

Hermes couriers like Carsten Stamer have recently started using a new scanner that makes their work a lot easier. They can use it to scan the parcels loaded from the warehouse onto their vans. The new device is smaller and easier to handle than the old one and has a much longer battery life.



Hermes has equipped all couriers in Germany with cutting-edge multilingual handheld scanners. While the customers benefit from more reliable and quicker delivery, it also helps with staff retention and the integration of couriers whose mother tongue is not German.

Trip 901 starts with a turnaround. The tablet on the dashboard of Hermes courier Carsten Stamer shows a street name and house number where he is meant to deliver the first parcel of the day. He looks around at the huge fenced-off industrial warehouse. Another case where the registration address and actual delivery location don't match. Stamer makes a U-turn in his electric van and enters a side street that leads behind the building. He gets out, hurries across a parking lot with the parcel in his hands, asks a van driver for advice and ends up in front of a half-open roller door. There at last. Scan the barcode, get a signature – and on we go. Another 61 parcels in the back and already just after ten in the morning.

Stamer, 57 years old, hair flecked with grey, usually organises trips for 45 employees at the Hermes Quickborn distribution centre. When his working day starts at 6 a.m. on the north side of Hamburg, he checks whether all the parcels are allocated correctly. Then they're loaded onto roll containers to make it quicker to load the vans. This task has been made easier recently by the device that he wears in a pouch attached to his waistband: a handheld scanner that he uses to record which parcels he loads onto his van and when he hands them over to the customer. Hermes has issued 18,000 of these electronic aids to couriers in Germany over the past year. They're smaller than the old ones but have a larger display and a far better battery life.

"Handling is far better and our couriers are faster and more efficient on the go," says Roland Lazina, Head of Process Design in the Operations division at Hermes headquarters in Hamburg. Lazina is responsible for the team that designed the requirements for the "Delta" delivery app that Stamer and his colleagues use to manage their trips on their handheld scanners. And he observes how they function in practice. "We're constantly optimising the app," he says. The aim is for Stamer and his colleagues to be able to use a pedestrian navigation system within the app too, so that even more flexible and intelligent route planning can be used to avoid detours like the one in the Norderstedt industrial area where he is today. The scanner already enables better planning, transparency and short-term re-routing.

Lazina and his developer team have paid particular attention to the fact that many of the Hermes couriers don't come from Germany – only three other native German speakers apart from Stamer work at the Quickborn distribution centre. The app therefore also works in Romanian, Bulgarian, Polish, Turkish, Russian, English, and French. Hermes considers it to be a vital social responsibility to integrate people from all over the world into the labour market – and wants to retain them in the long term. Many of the couriers are regularly courted by competitors, explains Lazina. Hermes needs to make their working conditions as attractive as possible in order not to lose them.

Carsten Stamer is also a fan of the app: "The menu navigation is so incredibly easy," he says. New colleagues – whether they're native German speakers or not – barely need any training anymore, because "Delta" is self-explanatory. Stamer particularly likes the fact that the app makes it easier to leave parcels with neighbours. A good half of the customers he went to during his journey around Norderstedt, which ended at 2 p.m., were not at home. Every time, the neighbours he spoke to were prepared to accept the delivery instead. Stamer normally would have lost a lot of time on this. He would have been standing in front of the door, scanning in a delivery card, entering the name of the neighbour and then getting them to sign it. Today, he ends his trip right on time because all the neighbours have to do is sign the touchscreen with their finger. He completes all the other necessary steps on the go, saves himself and the customers a lot of time, and successfully finishes trip 901.

WITH THESE INNOVATIONS, EVERYTHING CHANGES FOR THE CUSTOMERS.

THEY ARE NO LONGER JUST PACKAGE RECIPIENTS, BUT LOGISTICS MANAGERS.

The "Delta" delivery app can be used in eight languages. Most of Carsten Stamer's colleagues don't speak German as their mother tongue. Another feature: customers can sign directly on the scanner with their finger.

"UNIFORMITY IS BORING"

DR GESA HEINRICHS

Vice President Corporate Procurement & Facility Management, OTTO

Companies need to be open to all ways of life in order to be successful these days. Hardly anyone knows that better than Gesa Heinrichs. She has had an incredibly varied career at the Otto Group. The fact that she's a lesbian was never a secret. She represents the diverse world of work that is absolutely essential today, not least in her statement in the OTTO Factbook Diversity.

"I've been working for the Otto Group for nineteen years, and to be honest I was a representative for diversity right from the start. One reason for this was my career path, which is a bit unusual. I studied drama and general educational science, so not exactly the subjects you would associate with the business management field that I then chose to enter. I started out in HR at OTTO and then became an internal management consultant in various Group companies, the Managing Director of Otto Holland, worked in IT and now work in Corporate Procurement and Facility Management. I've never followed a clear pattern. You could say that I'm a role model for a diverse career path that doesn't follow the usual strict lines. I'm also a woman who has made it from consultant level to Vice President level, which isn't necessarily a given, even today. Some might consider me to be a role model because of that too. And finally, I'm a lesbian and openly so. My statement in the Factbook Diversity, which I made along with my wife who works as Division Manager in HR, highlighted that again. Openness like that wouldn't have been possible nineteen years ago, the company was far too conservative then. Today, however, applicants can tell us in their job interview that they're homosexual without fear that they won't get the job because of that.

We have really changed over the past few years. A wide range of different lifestyles are now accepted and valued. It no longer has to be about "a man with a wife at home, two children and a dog". Our company is actively shaping a process of change that is taking place across society as a whole. We're not as rigid as we used to be. It's not that we were openly intolerant per se, everyone was too well brought up. But today we are fresher, braver, more diverse. The culture of distance has changed.

It's a step forward for society too. When I think back to my childhood, there were hardly any role models for lesbian women, perhaps Martina Navratilova. It's different today. A lot of successful women have come out: Anne Will or actresses like Jodie Foster and Kristen Stewart. Nobody's shocked anymore when you say that you're a lesbian, although that doesn't mean that there's no longer any discrimination. Even amongst us. But it's a good sign that you can be true to your lifestyle and be taken seriously. It indicates a more open culture. This freedom is also important for me as a manager. I'm not afraid of speaking up if someone says something stupid or discriminatory about someone else in my presence. I don't want a long discussion about it, I simply like to make it clear that it's not OK. Today, everyone needs to understand that diversity is incredibly important. Not only for society, but for business success. It won't work if you only employ people who come from Hamburg with the best possible exam results and a certain subject speciality. It would be one-sided and boring. And a company that is dull on the inside is also dull on the outside. You run the risk of leaving rare potential untapped. Instead, you should incorporate all perspectives, all know-how, every type of thinking and creativity which exists in society into your actions. Introverts and extroverts, homosexual and heterosexual men and women, Germans and people from other cultures. It is only when we actively live out diversity as a company that we can really be successful today."

CHANGE THROUGH DIVERSITY

By Frans Johansson, CEO | The Medici Group
At the Medici Group, we partner with organisations to activate diversity to innovate, move faster, and transform their culture.

Google redefined access to knowledge. Facebook redefined human connectivity. Spotify redefined the music business. Each of these giants of the digital age are shaping the future of industries, of economics, of life on earth. But whether they continue to remain top players is not entirely a given. The same is true for other large companies. The tide of innovation that organisations like these unleashed on the global economy can undoubtedly be their undoing if they fail to recognise and act on one very important fact: diversity drives sustained growth.

The evidence for this is clear. Diverse teams outperform non-diverse teams. I find this consistently in the work that my firm, the Medici Group, has done with thousands of teams at companies around the world at the intersection of innovation and diversity. Our experience is also supported by research: a BCG study (The Mix That Matters, 2017) found that firms with women on their board of directors have higher returns on equity and higher market-to-book value than firms without women. Another study, published in Financial Management, found that companies who hire across the spectrum of race, sexuality and gender produce more patents and perform better than non-diverse companies during economic downturns.

Many leaders associate innovation with experts, technologists and R&D professionals whose job it is to grow the company. But the truth is that growth and innovation are about people. It's about the game-changing ideas they are able to create by coming together as diverse teams. In this piece, I provide insight as to why diversity is the new engine of long-term growth.

CREATE MORE UNLIKELY IDEAS

Ideas aren't created out of thin air. They're created by people—by teams of people. And when these teams are diverse along many dimensions—culture, ethnicity, gender, sexuality, age as well as experience, education, expertise—they are equipped to combine their influences to come up with more unusual, more unlikely ideas that have a higher potential for driving growth. Consider the following example: Some years ago, there was a hospital in Bristol, England that was having difficulty transferring patients from the surgical unit to the intensive care unit without making errors. There was confusion, lack of collaboration, and a handful of fatal errors. The obvious thing to do to fix these issues would have been to look at what experts at other hospitals were doing. But they didn't. They teamed up with McLaren Racing—the renowned Formula One team. They applied the techniques of a Formula One pit stop crew to their patient transfer model. And what happened? Their error rates declined dramatically. Instead of turning to the "experts," this hospital sought out a perspective that seemingly had nothing to do with healthcare. The results speak for themselves. Intersections like these are extremely powerful, and illustrate a few key things: First, we can borrow concepts from other fields to create truly innovative ideas. Secondly, sometimes experts aren't always the ones with the best answers. Thirdly, all new ideas are combinations of existing ideas. Collectively, these points highlight the core idea behind the Medici Effect. Think back to how the Italian Medici family brought sculptors, architects, philosophers, and inventors from all over Europe to Florence. Together these minds unleashed an explosion of creative ideas—one of the most creative eras in Europe's history: the Renaissance. You can ignite a modern-day Renaissance in your own organisation. But in order to do so, you must select which ideas to explore further, which brings me to my second point.

MAKE BETTER DECISIONS

It's one thing to create many ideas. But once you've done this, you must decide which ones to test and put more resources behind. When it comes to selecting ideas to try, diverse and inclusive teams make better decisions. The data collected by Cloverpop on its decision management platform, used by hundreds of companies, found that the more diverse the team (by gender, geography and age) the better the decision. James Surowiecki's book The Wisdom of Crowds also supports this idea. What the Medici Group has seen consistently in all our client engagements is that the more dimensions of diversity a team adds, the higher the chance they have at selecting better ideas, which directly translates into growth. This is because diversity of thought stretches a team in ways that can be uncomfortable, but effective. It raises their ambition level on what they believe is feasible, and redefines the parameters that they otherwise operate within when they're working in homogenous teams. Diversity in decision-making can also prevent teams from making bad decisions—ones that may alienate customers, harm the brand, or impede growth. Even though diverse and inclusive teams make better decisions, there still remains the most crucial step of all: actually bringing the ideas that they decide on to life.

BE BETTER AT MAKING INNOVATIVE IDEAS HAPPEN

Diverse teams have far more pathways to execute an idea, which enables them to grow the business faster and more cost-effectively. Diverse and inclusive teams are able to leverage the whole organisation's resources. They can manoeuvre the enterprise on a tight budget, and tap into team members' internal and external networks—networks some team members may not otherwise have explored on their own. Even more, if the network that the team is tapping into is also diverse, their surface area inside of the organization expands exponentially. This type of expansive, serendipitous collaboration is what drives fast action. One Disney World park achieved this type of fast action after working with the Medici Group for over a year to break down silos internally and externally with other Disney parks and divisions. They were able to reduce the time it takes to execute an idea from 40 weeks to 6 weeks, which is a game-changing improvement at any company in any industry.

Diversity and inclusion are paramount to driving a culture of innovation. It is essential for companies to understand this if they want to spur growth. Now, what does this mean for you right now?

HARNESS DIVERSITY TO DRIVE GROWTH WITHIN AN ORGANISATION

I'll leave you with three things you can do immediately to set your company up for increased growth.

1

Form diverse teams: **The companies that will determine the future of their industries will be the ones who act quickly, try many ideas, and adapt to change. The best way to do this is to form diverse teams. One easy way could be to include people with different viewpoints in your meetings.**

2

Reevaluate your idea of "expertise": **Remember that experts aren't always the ones with the right or best answers. In fact, the shelf-life of "expertise" is expiring more rapidly every day, and is only sped up by the rise of digitisation. Open yourself to the possibility that literally anyone, anywhere can catalyse your company's next big idea.**

3

Utilise your whole self: **Remember that you as an individual have a wealth of experiences, interests, and passions to drawn on. Use them. It may feel counterintuitive to think about what, for example, my interest in fishing has to do with helping a major corporation create their 2020 growth vision, but I'm consistently surprised and amazed by how much my personal experiences are able to jumpstart my thinking when it comes to my work.**

The world is changing rapidly, it's true, and the need for companies to focus on growth has never been greater. But my aim with this piece isn't to alarm. It's actually to inspire. Diversity is an abundant resource, able to be tapped into by any company, anywhere. All you have to do is make it a priority.

Digitisation leaves no area of present-day life untouched and changes us all. At the same time, our way of life and our way of doing business are having an impact on climate and nature that is simply no longer justifiable. There are huge challenges ahead. Companies can be part of the solution: for example, when they prepare their employees for the upheaval of digitisation or set strict ecological rules for their business, thus becoming aware of one thing: their responsibility.

RES PON SIBI LITY

THE VALUES OF THE FUTURE

Theory: digitisation will revolutionise our world. Fact: it did a long time ago. In 2009, Facebook had 337 million active users; ten years later, that figure is over two billion. Ten years ago, artificial intelligence was capable of playing chess or Jeopardy; today it creates adverts, helps generate treatment plans for cancer patients, and provides high-quality text translations. Algorithms are capable of increasingly precise analyses of collected data and transferring them into applications used by the general public, companies, and governments. These are powerful instruments we hold in our hands. They're efficient and make very few mistakes. But with power comes great responsibility. This technology allows a previously unheard-of level of control and monitoring of society as a whole, providing deep insights into our private lives. And it can be used to manipulate opinions and environments and cause division and inequality. The question is how to harness its power without restricting freedom, creativity, and innovation. It should be treated as an opportunity to create a better world, not a path to the apocalypse. The Otto Group therefore wants an interdisciplinary discussion of how to handle digitisation responsibly. After all, it's no less than a digital transformation that, at its best, will be of great use to people and open up a new chapter in this field. The three following contributions consider what this could look like and what is needed for it to become reality.

M.G.

MAJA GÖPEL

Secretary-General of the German Advisory Council Global Change

(WBGU)

Expert in climate policy

Digitisation is fundamentally changing social and economic relationships. We've known it for a long time, but the question of how we handle this change is far from being answered. I think a good approach would be to look at it from a value-conservative and structurally creative perspective. Meaning that a company should constantly be thinking about what values it wants to create with its economic activities – whether, for example, integrity, respect, social cohesion, and ecological sustainability are part of its DNA – and whether these will remain its anchor as relationships change. The challenge here is to adapt structures creatively instead of just throwing your values overboard in order to maintain business models. It's also important to make the ideologically charged discussion about the interaction between state and company more objective. After all, markets are also man-made structures. They should enable market players to act in a responsible and sustainable manner but should have nothing to fear about remaining competitive. However, these days, there are significant competitive advantages for companies that externalise the costs of pollution and social security. And markets have a tendency towards the concentration of power, as shown by research into complex systems and a simple glance at the digital market. The latter is controlled by only a few people who set the rules, such as how data will be handled or what direction the development of working standards will take. That's why we ultimately need a non-ideological discussion about how industrial policy, competition policy, fiscal policy, competition law, and labour law should look like in the 21st century, in order to steer innovation and investment energy towards sustainable solutions and business models. It won't work without state regulation. At the end of the day, someone has to decide who gets access to what and under what conditions. Deregulation primarily means that this decision-making authority is transferred from the state sphere to the private sphere. And naturally someone who is profit-orientated will act very differently compared to someone who is more interested in the common good. We are seeing a concrete example of this today in the way data is being handled. It is being described and treated as a resource or goods item, because it is profit-orientated companies in particular that are collecting mass data and making decisions about its use. But what data should belong to whom? Why and under what conditions? I can't keep track these days of who's doing what with my information where and for what price. And that's just one of many questions that we need new answers to, not only in terms of finances, but also in terms of ethical, social, and ecological consequences. I would welcome the creation of a space like the one the Otto Group is planning, where there can be open, honest, and transparent discussions between the state sector, civil society, and the private sector about the fact that we need to rethink regulation creatively in many areas in order to maintain our values in the global digital business.

CHRISTOPH BORNSCHEIN

From the wheel to the steam engine to AI: technological innovation is always more than just an update of current conditions at every level. It always also requires social, cultural and economic change – change for society as a whole. It requires every social player to take up a position: where do we stand in times of radical change? It’s long become a platitude, the fact that digitisation would be accompanied by such radical changes. But even experts these days are surprised by the established status quo that has crept up on us. Practical service providers, social networks, cloud companies, and trading platforms have gradually become a definitive part of digital infrastructure. Today, corporations that monopolise and commercialise the most private of data have a huge influence on the digital revolution and changes to companies. The value DNA of these companies, their conceptual anchoring in systems designed for maximum growth and control – China and the USA – must inevitably lead to conflict. Europe has long held back with its own designs for a digital future. It was too tempting to view digitisation primarily as a productivity-increasing update for the economy. It was too great a challenge to formulate a picture of the future for the many that offers more than risk avoidance and the hasty copying of strategies perceived to be successful. However, the current level of debate – from newspaper articles to Executive Boards to the European Parliament – makes it clear that acceptance of monopolising and commercialising data corporations has reached its limits. A need for viable, European alternatives has manifested itself. This is where companies such as the Otto Group can play a key role. Corporate Digital Responsibility understands how fundamentally digitisation is changing society as a whole. It takes a critical look at corporate roles and encourages social debate. The question “How will we live?” in relation to the opportunities and consequences of the digital revolution can only be answered if all the relevant political, cultural, and economic players come together to discuss it.

Space to explore new possibilities is also opening up in direct corporate action. Value-based, responsible digital business models could turn European value awareness into a real competitive factor. One major requirement here is a new sustainable concept of growth that places the wellbeing of society above quarterly profit across every generation.

From this position, we will be able to work out principles for how we each handle data-based services and products and come up with a joint design for a European digital market economy. Without wishing to trivialise the issues, it is ultimately a question of transformation performance. The will is there. A start has been made.

C. B.

Co-founder and Managing Director of the digital agency Torben, Lucie und die gelbe Gefahr

(TLGG)

CEO of the Otto Group

A. B.

ALEXANDER BIRKEN

Companies have to not only do their best to make a profit, but also be aware of their social responsibility. For decades, the history of the Otto Group has been shaped by the aim of making the environment and society a concrete part of corporate objectives and backing this up through major sustainable initiatives. Sustainability is at the heart of our idea of modern business. It applies to the way we treat our planet, our commitment to society, and, not least, to the way we treat our employees, who expect job security, fair treatment, and opportunities to unlock their potential. This fundamental attitude is more important than ever today. Not just because our climate is changing in an extremely worrying way, but also because digital transformation is causing an upheaval that is completely rewriting the rules of our lives and our business. But we are not just going to give up on our values. We are conservative in the classical sense. But we understand that this isn't enough. We need to work on creating new framework conditions for a social, digital market economy. It's important for our customers to feel safe, not as if they have to surrender their private information in order to receive good service. And other companies that sell their products on our platforms should be able to rely on the fact that we are a reliable partner who won't exploit our market power to their disadvantage by making conditions increasingly unfair. The only thing is: if we do that, it does not mean that other companies feel obliged to create a similar moral code. And this would give rise to the question of whether this shouldn't be mandatory for every company with a certain framework. After all, shouldn't the same rules apply to all? Rules that not only use the new technologies to generate high profits, more efficiency, and speed, but also benefit people and society as a whole. But it's not enough just to discuss if, how and when this is possible. That's why we recently set up a Corporate Digital Responsibility initiative with the aim of getting various players from the economic, academic, political, media, and civil sectors together to drive forward the digital socio-ecological market economy. We want to make the digitisation discussion more objective, leaving behind the scaremongering and clashes between state and business. It's about leveraging the opportunities of digitisation, minimising risks, and further advancing our free democratic social order within this framework. It must be possible to be innovative while still acting in line with reasonable philanthropic values. It's clear to us that we can't do this alone. That's why we want to join up with partners from – where possible – every European country to find a new way through this, ending up with a European form of a digital market economy. It's about time.

THE POWER OF MANY

The Otto Group has a long history of responsible business practices that always considers humans and nature. The company has always been a pioneer in this respect and opened up to partners who can help it implement future-oriented measures. After all, only broad commitment can have a sustainable effect. This is clear from the success of the Otto Group over the last 30 years.

ENVIRONMENTAL PROTECTION AS CORPORATE OBJECTIVE

1986

The year in which Prof Dr Michael Otto officially made environmental protection a corporate objective.

From this point on, sustainability is a fixed component of every decision and every process for all the major Group companies.

The Otto Group has since then worked closely with numerous partners for nature and a diverse and fair society.

NO MORE FUR

1988

0

The number of clothing items made from real fur in the current Otto Group product range.

By the end of the 1980s, the Otto Group was working closely with the WWF, removing real fur from its product range. Since 2014, the Otto Group has been part of the Fur Free Retailer Programme set up by the Fur Free Alliance, an international association of 40 animal protection organisations.

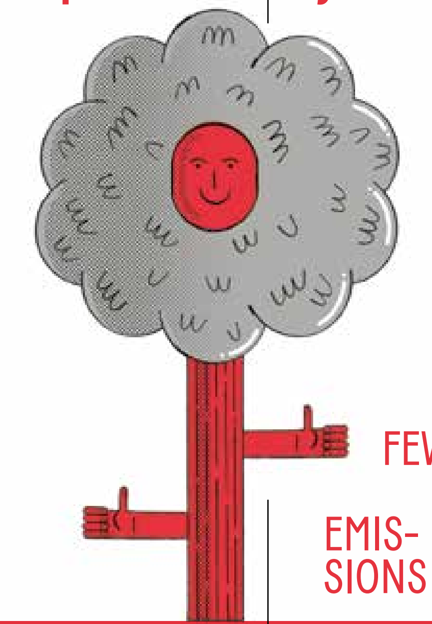
SUSTAINABLE WOOD

1990

67,497

The number of furniture items in the Otto Group product range that were made from FSC®-certified wood in 2018. This corresponds to 59 percent of all products. The aim: 100 percent by 2025.

The Otto Group began banning products made from tropical woods from its assortment in 1990 and already had FSC®-certified products on offer in 1999.



FOUNDATION OF ENVIRONMENTAL FOUNDATION MICHAEL OTTO

1993

26

years since the Umweltstiftung Michael Otto [Environmental Foundation Michael Otto] was founded in 1993.

The foundation works closely with various societies and conservation associations and supports a wide range of projects, including water protection, help for children and young people, and the protection of biodiversity. Its most recent project, F.R.A.N.Z., which aims to increase species protection, won the German Sustainability Award in 2018 [Deutscher Nachhaltigkeitspreis].

FEWER CO_2 EMISSIONS

1995

47%

reduction in Otto Group CO_2 emissions since 2006 thanks to environmentally-friendly transport.

The move from air freight to sea, rail, and road began in the 1990s.

96%

of our suppliers for our own brands have provided proof of compliance with social standards – and therefore our own Code of Conduct – for all the factories active for the Otto Group in 2018.

The Otto Group introduced its first Code of Conduct in 1996. It consists of the company's standards for working conditions and is mandatory for Otto Group employees, as well as all business partners and suppliers. It was last updated in 2018.

INTRODUCTION OF CODE OF CONDUCT

1996

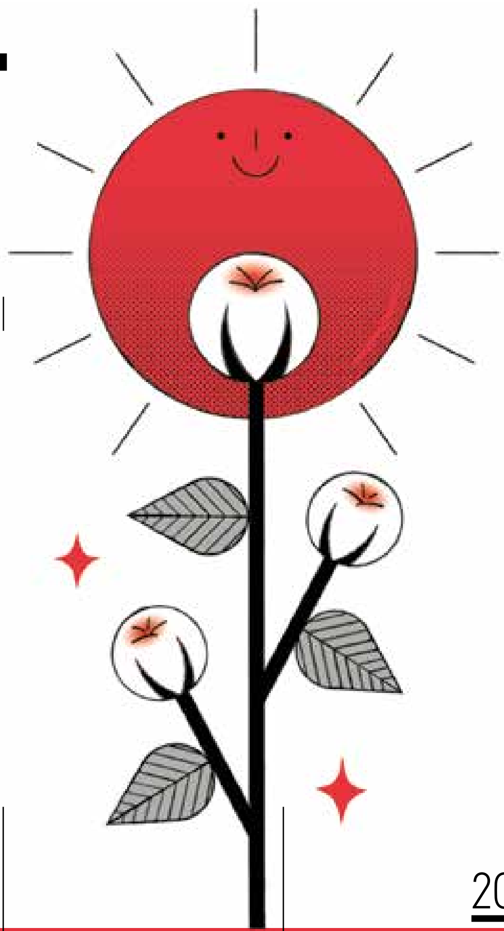
1 MILL.

small farmers in nine African countries were supported by the Cotton Made in Africa (CmiA) initiative in 2018.

CmiA has been developed by the Aid by Trade foundation set up by Prof D. Michael Otto in 2005 to help developing countries through trade rather than donations. More than 30 companies are CmiA partners, including Bonprix, Asos, Tchibo, and S.Oliver.

FOUNDATION OF AID BY TRADE

2005



2007

2°

The name of the foundation set up by Prof Dr Michael Otto, in which CEOs from a wide range of German companies joined forces for climate protection and came together for the first time in 2007 to discuss issues and network.

The objective of these companies, including Telekom, Deutsche Bahn, Puma, and EnBW, is to support the policy of establishing market economy framework conditions that facilitate corporate climate protection.

START OF THE 2° INITIATIVE

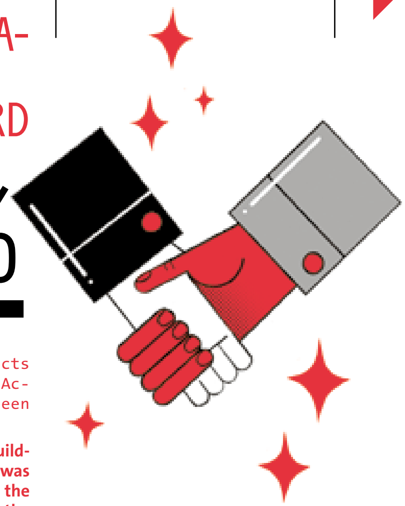
2013

BANGLADESH ACCORD

85%

of all safety defects initially found in Accord factories have been eliminated.

The 'Accord on Fire and Building Safety in Bangladesh' was established in 2013 after the Rana Plaza disaster, with the aim of ensuring that such catastrophes would never happen again in the Bangladeshi textile industry. The Otto Group played a major part in setting up the Accord and is also a signatory of the updated 2018 Accord.



1,300

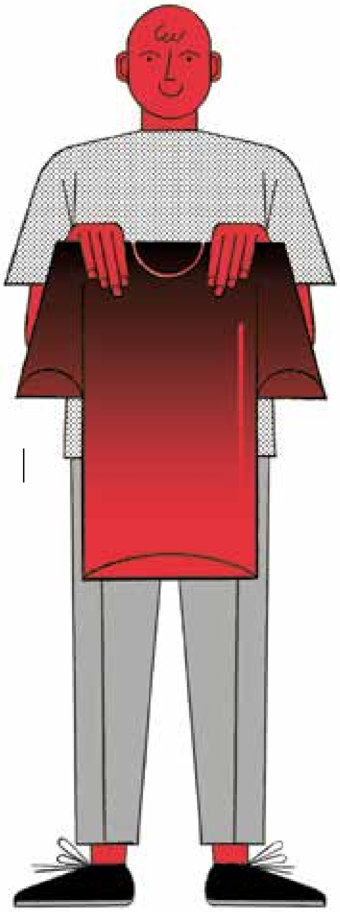
Number of measures that the members of the Textiles Partnership set up in 2014 and want to implement as mandatory. They include the gradual phasing out of 160 hazardous chemicals in production and the use of 35 percent sustainable cotton by 2020.

The Otto Group joined the 130 members from the economic, political, and civil sectors in 2015 with the aim of helping make the supply chains of the textile industry more eco-friendly, social, and fair.

JOINING THE TEXTILES PARTNERSHIP

2015

WATER-
FREE
DYEING



25

litres of water are saved per T-shirt by using the DyeCoo technology in the first factory for water-free dyeing in Vietnam.

As part of the CleanDye joint venture, the Group company Bonprix is working with a Taiwanese textile manufacturer and the fashion importers Jolo Fashion and Taste 21.

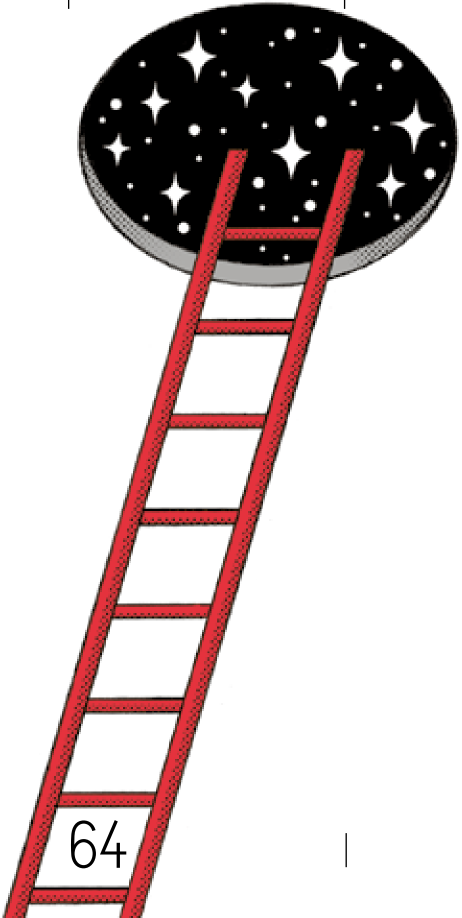
2017

2018

The year in which the Otto Group took its sense of responsibility to a new level.

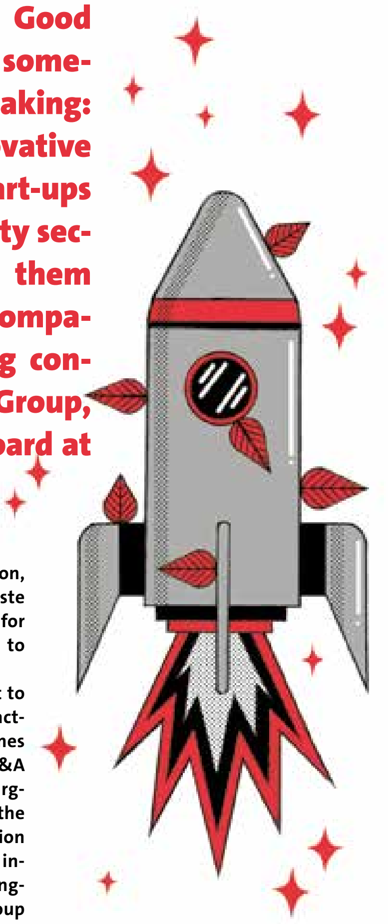
Building on the commitment of Prof Dr Michael Otto in the environmental and social sectors, the Otto Group is bringing together relevant stakeholders from the economic, political, and social sectors to work on concrete approaches and implementation measures for cutting-edge corporate digital responsibility.

START
OF THE
CDR
INITIATIVE



TOGETHER FOR GOOD

The Fashion for Good platform is doing something ground-breaking: bundling innovative concepts from start-ups in the sustainability sector and offering them to major textile companies. A pioneering concept for the Otto Group, which came on board at the end of 2018.



Textiles without exploitation, pollution or the senseless waste of resources: the Fashion for Good platform is stepping up to make this dream a reality.
The road is long – and it’s best to walk it together. And that’s exactly where Fashion for Good comes in. Originally set up by the C&A Foundation and the world’s largest accelerator Plug and Play, the platform has now become a union of major players in the textile industry and digital world. Alongside the Otto Group and its Group companies OTTO and Bonprix, others such as Adidas, PVH and Galeries Lafayette Group are on board. These groups are normally in competition with one another. At Fashion for Good they are in cooperation. The platform concept: networking between the different actors – brands, individual retailers, suppliers, non-profit organizations, developers, investors, and the general public – to work together to find solutions that will make fashion more sustainable.
A team of analysts looks for innovations across the various steps in textile manufacturing: cotton cultivation, the manufacture of synthetic fibres, fibre and textile production, surface treatment, dyes and washes, up to microplastic accumulation in household laundry. The best ideas are incorporated over the year into the quarterly funding programmes. Innovators receive training and coaching here where necessary and can present their ideas to members. And it’s not just manufacturers and retailers who are being targeted by Fashion for Good. The “Take Action. Change Fashion.” initiative is aimed at customers as well. They’re being encouraged to think more about quality than quantity when shopping, to pass on old clothes or to grill their favourite labels about their production conditions.
The decisive factor for all these efforts is that they are not just meant to be paying lip service to the idea. The initiative has set itself some ambitious targets: by 2022, the efforts of Fashion for Good are intended to have saved almost 15 million tonnes of CO_2.

FABIAN SCHÜTZ

Teamlead Competence Centre Collaboration, Otto Group

"Two years ago, the Executive Board tasked us with finding a collaboration tool for the entire Otto Group, in order to further improve collaboration between all companies. We chose Microsoft Office 365 and since then it has been my task to establish this new application throughout the entire Group while also changing the attitude of colleagues with regards to direct communication and connection. The challenge: the unique benefits of Office 365 are not immediately apparent. You start off being able to work in exactly the same way as before, nothing has initially changed. But when I then explain to people that they can use this tool in the same way as WhatsApp and connect to any other employee without any problem, they are interested, try it, and are enthusiastic about it. Until now, most Group companies have used different technologies, causing a digital divide. Our aim is for all the Group's employees to be connected via one platform within two years. That means there will no longer be any technological hurdles and we'll be collaborating on an entirely new level."

NEW OPPORTUNITIES

Jobs are changing and requiring new skills. We are working more flexibly, more independently, from any location. Some succeed better than others when it comes to these changes. That's why it's important for companies to help their employees to cope with the challenges of such a transformation. The Otto Group is initiating and supporting a wide range of extensive digital further education measures to ensure that no one is left behind, for example as initiative partner of the Ada Fellowship Programme, an education offensive across Germany for digital transformation. The internal e-learning programme 'Techucation' is helping employees expand their digital and technology skills. Bonprix offers seminars and coaching sessions so that employees can be better at opening up to an interdisciplinary and agile corporate culture. The Otto Group is also working with the "Neue Fische" start-up, which turns those changing careers into software developers, and is running an application with Office 365 that digitally connects all the Group companies. OTTO has set up the Mindful@otto programme, which supports employees in their efforts to remain self-resilient and healthy in these ever-changing times. And these are just a few examples of many.

ALEXA WEBER

Junior Software Developer, OTTO

"I've always been interested in the technology behind websites and apps and started learning coding privately. The only thing was that I didn't have much time for that alongside my job in online marketing. Then I found out about the 'Neue Fische' coding bootcamp and applied immediately. After an intensive selection process, I was accepted and began the very challenging three-month course. We studied the basics such as HTML and CSS, learned to code in Javascript, and also took a look at various back-end technologies. It was all at very high-speed and we all reached our limits at one point or another. But the cool thing was that we all supported each other when things got tough. You have to keep on learning in this job. I noticed that too when I started at OTTO after the camp. I work on the further development of otto.de and, most recently, on the app. I come up against new challenges all the time and, like at 'Neue Fische', I can count on the support of my team at any time."

ANDRÉ STRUNZ

Head of Health and Event Management, OTTO

"The worldwide increase in mental health issues is a worrying development. Every fifth member of the working population is affected in Germany alone. And the length of illness is three times that of other diagnoses. The complex challenges of the modern (working) world require a lot from employees and managers alike – both professionally and personally. As an employer, we have a duty to react. We do so at various levels with our Mindful@otto programme. For example, we run the 'Mindful Self-Management' training, which enables our people to engage with new patterns of thinking and courses of action. They learn how meditation can help with self-management and self-control as well as role flexibility and distance. Both dimensions are necessary in order to live an agile life while remaining present and true to yourself. By taking this approach, we are not only helping them safeguard their own health in a preventative manner, but are also making a valuable contribution to our business model and culture change as a whole."

The new electric delivery bikes are an emission-free delivery option, which can be used to distribute parcels from micro-depots.

E – MOBILE!

The new Hermes logistics centre handles 100,000 parcels a day. They will be allocated automatically to delivery areas.

Congested streets, poor air quality. Online retail is blamed for many of the problems in city traffic. Even if studies contradict this assumption, there are still things we can do to make city centre logistics more climate-friendly and fit for the future. Hermes is therefore placing increasing focus on electric mobility for parcel delivery. The new logistics centre in Hamburg-Billbrook shows just how serious the company is.

Deliver more and more parcels as fast as possible while still looking after the environment: can that even work? On the one hand, more and more people are shopping online. More than 80 percent of them want products to be delivered directly to their front door as quickly as possible as well as being able to return them easily if needs be.* On the other hand, according to the University of Hamburg, two-thirds of the German population consider climate change to be a serious or very serious problem** – as does the Otto Group. But, contrary to all assumptions, the two issues are not mutually exclusive. As a study by the CleanTech Institute shows, online shopping generates 30 percent less in CO_2 emissions than shopping in physical stores. Among other things, this is based on the energy needs of shops and shopping centres as well as the fact that not every customer is cycling to the shops. And mail-order shopping also plays far less of a part in city traffic jams than expected. Even if the number of parcel deliveries was to double, the proportional effect of this would be marginal. This has been confirmed by a study of the metropolitan areas in Hamburg, Berlin, Frankfurt, Dusseldorf and Munich, commissioned by Bundesverband E-Commerce und Versandhandel e. V. (bevh). But that's no reason to rest on our laurels.

"It's always been important to us to take a pioneering role in terms of sustainable action," says Kay Schiebur, Member of the Executive Board, Services, Otto Group. Annual CO_2 emissions for the Group are to be reduced by 50 percent by 2020 in comparison to 2006. The Group feels a particular responsibility towards the chronic congestion in major cities. Quick and reliable delivery that is also low in emissions is a challenge that Hermes is tackling with its "Urban Blue" initiative – and it was rewarded for this last year with the "Hanse Globe", an award for sustainable logistics. The aim: within six years, Hermes wants to be on the road entirely emission-free in the 80 largest cities in Germany. An ambitious project. But it has already reached its first milestone.

At the end of February 2019, Hermes opened a state-of-the-art logistics centre in Hamburg-Billbrook. Six of the total of nine scheduled new-builds in Germany are already completed. The one in Billbrook is the first in a major city and is intended to make transport entirely emission-free in future for the "last mile", i.e. transportation to your front door. Measuring 9,000 square metres, the centre is not only highly efficient, but is also setting new standards when it comes to environmental protection. "The right route has been chosen," said Peter Tschentscher, First Mayor of Hamburg, in his opening speech.

Around 300 guests attended the opening ceremony for the blue building, visible for miles around and intended to handle up to 250,000 parcels a day. The products are unloaded from large vans and sent along conveyor belts, sorted automatically into delivery areas and allocated to smaller vans. Couriers with almost 30 electric vans currently deliver the products emission-free from here to any city area particularly affected by traffic problems. More will follow once there is a reliable network of charging stations – a subject that the economic and political sectors still need to tackle together.

The fact is: things will only change when it comes to congestion problems in the major cities if there are fewer vehicles on the road at the same time in the city. The "Vampire Delivery" service is currently being tested in

* Study: "Social. Smart. Simple – How Retailers Increase Customer Experience via Social Media, Apps and Delivery Services", ECC Cologne in cooperation with Hermes Germany, 2018

** Source: Climate Matters (Blog of the University of Hamburg), 2019

Hermes is already using a variety of delivery bikes in several cities for parcel delivery on the "last mile".

several cities, with parcels being delivered at night when the streets are empty. A digital keyring allows the parcel couriers to enter the building without ringing the bell. When customers wake up the next morning, the products are outside their door. There are also plans for daytime routes: a new, entirely digital route planner ensures that Hermes is more efficient on the go during the day too. More than 11,000 devices have already been distributed to delivery agents across Germany. They are more precise than previous satnavs, react to the current traffic situation, and recommend alternative routes in good time if queues start building up.

Another idea for significantly reducing traffic is to set up more parcel shops. Every customer should be able to collect their parcel themselves in a maximum of five minutes in the major cities. If they already know that they won't be home for a delivery, they should ideally be able to plan this in advance and let Hermes know. That would prevent unnecessary trips.

The increased use of micro-depots – small warehouses at transport hubs – could be a useful lever. Large vans can head for them and store parcels temporarily for the couriers with electric delivery bikes to distribute. The company has already tried this out in a few cities and is now going to expand this from Hamburg. But the temporary storage of parcels and parking for delivery bikes needs space – and that's in short supply in the cities. The KoMoDo pilot project in Prenzlauer Berg in Berlin is a reaction to this, with Hermes working with other delivery services, thereby making maximum efficient use of the urban area. It's ultimately about the bigger picture here — and sometimes that means competitors need to team up.

Above: Kay Schiebur, Member of the Executive Board, Services, Otto Group, at the wheel of an e-sprinter during the opening of the logistics centre.

Below: Hermes transports parcels in metropolitan areas with electric vans.

"IT'S ALWAYS BEEN IMPORTANT TO US TO TAKE A PIONEERING ROLE IN TERMS OF SUSTAINABLE THINKING."

KAY SCHIEBUR
MEMBER OF THE EXECUTIVE BOARD, SERVICES

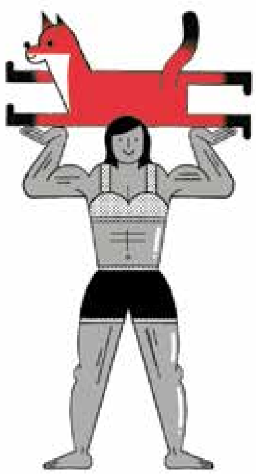
CHRONICLE

2018

MARCH

Into the cloud

About You integrates its first customer, the Witt Group, into its own e-commerce infrastructure "About You Cloud", which is made available to online retailers as a licensed product.



Endless sport

Sportscheck takes over the Hamburg start-up Fitfox. The platform offers users a wide range of sports activities and classes without any contractual obligations.

APRIL

The values of the future

On the occasion of the 75th birthday of the Chairman of the Supervisory Board, Prof Dr Michael Otto, the Otto Group hosts the "Zukunftswerte" [Future Values] symposium in Hamburg, covering topics such as climate protection, digitisation, and globalisation. The book published by Otto Group CEO, Alexander Birken – "Zukunftswerte: Verantwortung für die Welt von Morgen" [Future Values: Responsibility for the World of Tomorrow] is also presented at the event.

Diversity on stage

The Otto Group holds its Diversity Conference 2018 as part of re:publica in Berlin under the motto "Create a Fe:male Digital Footprint" and gives a platform to female experts from the digital and tech industry.

MAY

Intelligently on the go

Hermes Germany introduces a new, entirely digital route planner for parcel delivery in Germany. The new Android-based software ensures higher precision and productivity on the "last mile" and also helps reduce CO_2 emissions.

JUNE

New boss

The previous Management Board member Marc Opelt becomes the first Chairman of the four-person Management Board of OTTO.

JULY

Hamburg unicorn

About You attracts a new investor with Heartland A/S. The investment is made as part of a capital increase of around USD 300 million, based on a valuation of the About You business of over USD 1 billion. This makes About You the first so-called unicorn in Hamburg.

Less is more

On its way to becoming a platform, OTTO invests EUR 2.6 million in digital image technology, focusing more on 3D product images created with computer-generated imagery – they look exactly like traditional photos.

AUGUST

All you need is #Courage

Around 200 colleagues from the Otto Group companies attend the first #Courage Festival in Hamburg, intended to help drive forward the digital transformation at their workplace as part of the changes across the entire Group.

SEPTEMBER

One click is all it takes

The Otto Group joins the European netID Foundation with the aim of integrating the open log-in standard into its group company webshops as a single sign-on solution. The process simplifies website registration and log-in and the use of online services.

Next day, no problem

OTTO invests in a new logistics centre for large items in Ansbach in Middle Franconia, expanding its next day delivery service. The centre is scheduled to begin operations in 2020.

OCTOBER

Sharing is everything

The Otto Group sets up the barcamp #CDX18 (Culture Development Experience), a platform for discussing how to change corporate culture in the digital age. The 200 participants include 70 representatives from other companies such as Daimler, Deutsche Bahn, and Lufthansa Technik.

NOVEMBER

Hermes invests in the “last mile”

Hermes Germany announces that it will be investing over EUR 100 million in wages and personnel expenses in parcel delivery over the next five years. This will enable service partners working for Hermes to pay couriers an hourly rate of at least EUR 12.

Succession announced

As of 1 May 2019, Sebastian Klauke will become a Member of the Otto Group Executive Board, responsible for E-Commerce. The Chief Digital Officer will be taking over from Dr Rainer Hillebrand, who has reached retirement age for Executive Board members after 28 years of very successful work for the Group.

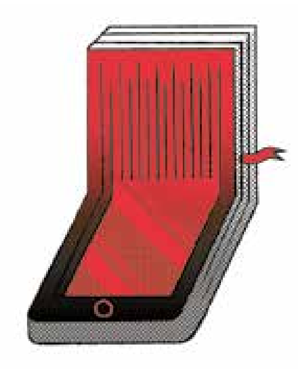
One platform for all

Otto Group Digital Solutions (OGDS) launches odc, a platform for fulfilment and returns. Small and medium-sized companies in particular will benefit from a wide range of enterprise services – with no monthly fee, no set-up costs and volumes starting at one parcel a day.

Honoured

The Otto Group receives the first ever sustainability management award at the Corporate Culture Awards in Frankfurt in the “Shared Value” category for its sustainability management process impACT, which successfully combines economic and social behaviour.

DECEMBER

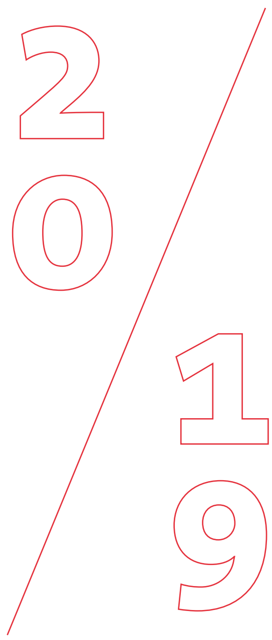


Goodbye

After 68 years, OTTO sends out its main catalogue for the last time under the motto “I’m off to the app” [“Ich bin dann mal App”] as part of the company’s switch-over to digital.

Major goals

The Otto Group becomes a signatory to the newly established “Fashion Industry Charter for Climate Action”, which is aiming to reduce greenhouse gas emissions by 30 percent by 2030. Under the umbrella of the United Nations, the company group is calling for climate protection to be intensified in order to achieve the targets of the Paris Climate Agreement.



JANUARY

Cashless

Working with the Otto Group and the Hanseatic Bank, OTTO is the first company in Germany to receive and process so-called instant payments. The Eos Group has been offering cashless payment via Apple Pay since December 2018.

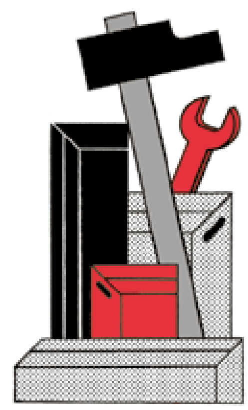
FEBRUARY

Smart shopping

Bonprix opens a new pilot store in Hamburg that combines the benefits of shopping in store and online shopping. Smart fitting rooms, easy payment by app, and a trend floor that looks like a showroom all add up to a fantastic digitally-supported shopping experience.

New warehouse

Hermes opens a new logistics centre in Hamburg-Billbrook. Costing EUR 55 million, the project serves as a model for emission-free parcel delivery in the city.



Building it together

Crate and Barrel is teaming up with the service provider Handy to enhance its customers’ shopping experience with a one-stop assembly and installation service.

SUSTAINABILITY AT THE OTTO GROUP

How the Otto Group lives change

Acting in a value-oriented manner is a matter of course for us. For more than 30 years, the Otto Group has associated its responsibility for people and nature with economic goals. Towards this purpose, we are constantly evolving and responding to change.

UNDERGOING CHANGES FOR MORE SUSTAINABILITY

There is a growing awareness of emerging sustainability issues worldwide – the importance of social and environmental challenges such as climate change is increasing within society. Governments however, keep shying away from their responsibilities and setting these important issues aside rather than taking necessary action. In this context, corporations such as the Otto Group are under an increasing obligation to address social and environmental aspects themselves. As an international trade and services group, we pursue sustainable development in all corporate areas. This is a central component of our corporate mission statement – we want to set global standards for human interaction, a healthy environment, and a diverse society. This is the only way we can reconcile our growth-oriented strategy in the long term with value-oriented sustainable handling and ensure quality of life for future generations. At the same time, we are constantly changing and facing new challenges and commitments. We are working on our new Corporate Responsibility strategy (CR strategy) in order to continue to set standards and meet the requirements of our stakeholders. Our new strategy will replace the CR strategy 2020, which ends next year, and will provide new incentives for the future. With dynamic goals, we are continuously adapting to changing circumstances and thus are able to react flexibly. The impACT management process forms the foundation for further strategic development.

impACT AS A MANAGEMENT PROCESS FOR RESPONSIBILITY

With the impACT management process, the Otto Group develops its strategy for exercising its responsibility for people and the environment. Consisting of the elements "Impact" and "Act", a three-stage process forms the basis for capturing all the effects of our business activities in order to address possible negative developments in a suitable manner. In the first step, key issues are identified and prioritized through quantitative and qualitative analyses. In order to address these issues, we develop measures in the second step and evaluate them on the basis of cost and benefit. The most efficient measures will be implemented under the umbrella of the CR strategy. In this way, we deploy our resources specifically where they have the greatest impact on sustainable development. As part of the development of the new CR strategy, we updated the analyses and surveys in 2018 (see page 77).

impACT FACT BASED CR MANAGEMENT

1. ANALYZE
2. EVALUATE
3. ACT

AWARD FOR FORWARD-LOOKING CORPORATE CULTURE

With impACT, the Otto Group makes the importance of sustainability visible and points out which additional values are generated through sustainable management. As a management issue, sustainable action has become a matter of course in this way and is deeply rooted in the organisation. Since impACT understandably combines the social and ecological with the economic, the process promotes exchange across departmental and hierarchical boundaries and has a cultural impact. For this, we were recently awarded the Corporate Culture Award* in the Shared Value category. This prize is awarded for the exemplary linking of economic and social benefits.

A SUCCESSFUL MANAGEMENT PROCESS: impACT WAS AWARDED THE CORPORATE CULTURE AWARD IN 2018.

* An initiative of the Serviceplan Group, the cultural analysis company Deep White, the HR and transformation consultancy firm Promerit, and the ZEIT publishing group.

Where the framework conditions are pointing

Societal trends, technological innovations, and political decisions have an impact on the Otto Group's business activities as well as on the actions of each individual. That's why we always have an eye on changes – for the company and beyond that, for society.

TAKING UP LEGAL REGULATIONS AT AN EARLY STAGE

Political regulations have a direct impact on the Otto Group's business activities. Responsibility aspects of business acitivities are becoming increasingly regulated in the European Union and in Germany. If the objectives of the National Action Plan (see Annual Report 2017/18, page 58), which are based on the principle of voluntary action, are not met, the coalition agreement stipulates that legal regulations are to be reviewed. To this end, Development Minister Gerd Müller has already submitted an initial proposal for a Supply Chain Law. According to these regulations, German companies would also be liable for violations of the law by business partners in supplier countries. On an environmental level, the Packaging Law, that came into effect in 2019, holds us accountable. The law sets out clear definitions of sales packaging and expands our obligations as a distributor. We assess the new law positively with focus on the objective of raising the recycling rate and increasing the incentive to use recyclable materials or environmentally friendly packaging (see also page 90).

SHAPING DIGITAL CHANGE

The effect of digitisation on the Otto Group's business activities is essential: This development is changing processes, roles and demands, and thus the business models of the group of companies. New opportunities for interaction, changed consumer behavior, and dealing with large amounts of data confront us with challenges. In order to also live up to our responsibility in the digital world and to use these changes as an opportunity, we are systematically addressing issues of digital responsibility: Over the past year we have discussed guidelines for the responsible use of data and artificial intelligence (AI) in cross-functional teams. In 2019, we intend to develop a Code of Ethics in this context that will define our internal guidelines. In addition, we are dedicated to providing our employees with ongoing training and further education so that they can continue to make value-adding contributions in the future. We are also discussing what influence the Otto Group can have on the training of necessary junior staff. Together with other companies, we are currently participating in a cross-industry round table on Corporate Digital Responsibility of the Federal Ministry of Justice and Consumer Protection (BMJV). In the financial year 2019/20 we will also be holding a dialogue event to discuss action relevant issues and encourage participants to take joint initiatives.

DIGITAL TRANSFORMATION CREATES AN ADDITIONAL SUSTAINABILITY ASPECT: DIGITAL RESPONSIBILITY, WHICH PRESENTS BOTH CHALLENGES AND OPPORTUNITIES.

MEETING GLOBAL CHALLENGES

With the Sustainable Development Goals (SDGs), the international community has adopted a roadmap for the future that applies equally to all countries. On this basis the Federal Government has revised its sustainability strategy in order to be able to contribute to the global sustainability goals. Companies in particular are called upon to achieve these goals. For example, the Otto Group aims to strategically embed the SDGs into the group-wide sustainability management in order to respond to global challenges. As part of the new strategy development, we will integrate the SDGs into our impACT management process: They are included in the evaluation of the effectiveness of measures and thus also in the setting of goals. Not only do we consider the 17 objectives, we also look at the 169 sub-objectives in a differentiated way. In this way measures can be developed which specifically address selected SDGs – thus accomplishing positive effects, while reducing negative impact. Today the CR strategy 2020 measures are already contributing to various SDGs and the Otto Group thus contributes to a sustainable development.

Sustainability strategically anchored

With its CR strategy the Otto Group* systematically embeds sustainable action in its processes. Our aim in doing so is to effectively and efficiently reduce negative effects on people and nature along the value chain.

STRATEGY FOR SUSTAINABLE ACTION

As part of the Group strategy the achievement of the goals of the CR strategy 2020 is directly reflected in the variable compensation of the Group's Executive Board members. In this way, the Otto Group firmly anchors sustainability in the Group. The CR strategy 2020 consists of five sub-strategies, each with specific goals – from the careful extraction and processing of raw materials, through compliance with social standards in factories, to improving the carbon footprint at our own sites and during transport.

The strategy applies to all major Group companies (annual external revenue of more than EUR 100 million) based in Germany and Austria. The Corporate Responsibility holding division is in constant contact with them and meets regularly at working group meetings to jointly develop and discuss content and make decisions regarding our sustainability activities. Since 2016, foreign companies such as Crate and Barrel (USA and Canada) and Freemans Grattan Holdings (UK) as well as Bonprix's foreign subsidiaries have also been integrated into the strategy. As a result of the subsequent implementation, these Group companies are pursuing a separate target path on which they are partly making significant progress. In 2018 for example, they purchased FSC®-certified catalogue paper in full (Crate and Barrel: 100%) or to a large extent (Freeman's Grattan Holdings: 88%).

RESPONSIBILITIES AND STRUCTURES

For a holistic management of sustainability, responsible individuals from various positions and Group companies are involved in the sustainability processes. In this financial year, the most important decision-making body – led by CEO Alexander Birken – was merged with another body: In this way the cross-hierarchical CR Board has been extended to include representatives of selected Group companies. This enables us to increasingly transfer our decision-making responsibility to the operational level.

The Corporate Responsibility holding division manages the group-wide sustainability activities of the Otto Group. This division develops goals and concepts and advises the Group companies. Due to the Otto Group's decentralized organisational structure, the managing directors of the individual Group companies hold responsibility for implementing the five sub-strategies of CR strategy 2020. They receive support from CR coordinators who are in constant contact with the Corporate Responsibility division.

IN CONSTANT EXCHANGE WITH OUR STAKEHOLDERS

For many years the Otto Group has engaged in dialog with its stakeholders and is actively involved in policy debates on protecting the environment and improving social standards. In addition to taking stakeholder requirements into account within the impACT management process, the exchange takes place through discussions, events, and industry initiatives. In this way, we ensure a constant transfer of knowledge and can meet expectations and requirements.

In order to strengthen international cooperation, in December 2018 we signed the newly founded "Fashion Industry Charter for Climate Action". The climate charter under the auspice of the United Nations aims to systematically reduce greenhouse gas emissions as part of industry-wide cooperation. In this way, we intend to intensify our climate protection activities. Since August 2018 the Otto Group has also been a member of the Sustainable Apparel Coalition (SAC) – an association of various stakeholders in the textile and footwear industry, working together on uniform standards for the assessment of sustainability. As part of a pilot phase, the Bonprix Group company is currently testing the long-term added value and ability to fit both to its own CR activities and the sustainability approach of the Otto Group.

* With regard to the CR strategy Otto Group represents the Group companies integrated into the strategy (see page 81).

Accord on Fire and Building Safety in Bangladesh member since 2013

Fashion for Good member since 2018

Foundation 2° – German Companies for Climate Protection initiation and participation by Dr. Michael Otto since 2007

Textile Exchange member since 2006

Social Accountability International, SAI founding member since 1997

amfori BSCI, Business Social Compliance Initiative founding member since 2003

Sustainable Textile Alliance member since 2015

Sustainable Apparel Coalition, SAC since 2018

SELECTED MEMBERSHIPS AND ALLIANCES

German Environmentally Sensitive Management Working Group (Bundesdeutscher Arbeitskreis für Umweltbewusstes Management – B.A.U.M.) Member since 1987

German Trade Association, HDE member since 2009

Forest Stewardship Council Germany, FSC® member since 2006

Fur Free Retailer, a programme of the FOUR PAWS organisation member since 2014

Carbon Performance Improvement Initiative, CPI2 founding member since 2012

Biodiversity in Good Company Initiative founding member since 2008

Cotton made in Africa (CmiA) Initiative founding member since 2005

Examples of stakeholder dialogue

Working Together to Achieve More: Highlights from this Year

Solutions for a climate-neutral economy

As part of the joint project "Path to the <2°economy", we have developed ideas and projects for a climate-neutral economy together with other companies. The Otto Group played a concrete role in developing solutions for environmentally friendly, needs-based mobility, and logistics in the cities. In another sub-project we played a key role in the development of an online platform to promote the cross-company exchange of best practice solutions for low-emission logistics in companies.

Changing the fashion industry together

In January 2019 the world's largest fair for sustainable fashion took place: At NEONYT in Berlin the focus was on change in the fashion industry. As part of the integrated Thinkathon, the "Think tank of the future", the Otto Group, as a challenge host, asked two interdisciplinary teams a question: How can a circular economy be made more attractive and more tangible for our customers? Within 48 hours participants from the fields of politics, business and initiatives developed innovative answers and creative ideas. In the future, we will try to embed these new impulses in our business model.

Promoting sustainable innovation

Our partnership with the "Fashion for Good" initiative started at the end of 2018, supports our goal of establishing opportunity-driven sustainability management in the Otto Group. The platform for sustainable innovation supports international start-ups in order to establish and promote a circular economy in the fashion industry. The Otto Group sees this as an opportunity to enter into cooperations, identify new solutions and test them in day-to-day business.

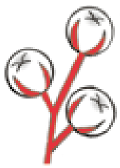
25 years of commitment to the environment and nature

Under the motto "We pave the way for environmental protection", the Michael Otto Foundation for Environmental Protection (UMO) has been pursuing the goal of preserving the natural foundations of life and preserving a sustainable planet for future generations for 25 years. The UMO sees itself as an innovator initiating own projects and promoting or supporting external projects in environmental, climate, and nature protection. With the F.R.A.N.Z. project for the protection of biological diversity in agriculture, the Foundation brings together stakeholders from the areas of nature conservation and agriculture. F.R.A.N.Z. is supported by both the Federal Ministry of Food and Agriculture and the Federal Environment Ministry and was awarded the German Sustainability Prize in the "Research" category in 2018. As part of their educational work the AQUA AGENTS are introducing elementary school students to the importance of water for people, nature and the economy - the offer is now active at eleven locations. With the Hamburg Talks of 2018 UMO has also provided impetus for the design of forward-looking and sustainable solutions for the protection of our waters and promoted social dialogue. With its "Aqua Projects" funding programme, the UMO has continued to support numerous activities for children and young people working to protect and conserve water resources in 2018.

Responsibility throughout the value chain

The Otto Group's sustainability management includes the entire value chain, from the cultivation and mining of raw materials, through their further processing, the manufacturing of the products and their transport, to the use phase and recycling of the products:

Our value chain using textile as an example



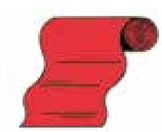
Extraction of raw materials

Raw materials must be extracted for the production of textiles. Cotton or synthetic fibers are often used.

The Otto Group has set itself the goal of using 100% sustainable cotton for its own and licensed brands (page 82). A large part comes from the Cotton made in Africa initiative (page 83).

Spinning, weaving and knitting

From cotton or synthetic fibers, yarns are spun in factories which are then woven or knitted into a fabric.



Refining the fabrics

The fabrics are refined by ironing, dyeing, or impregnating.

This is where the Otto Group's chemical management comes in. For a targeted improvement in the factories, we have developed the EMPact Detox qualification programme (page 87).

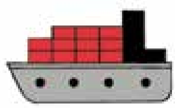
Sewing

The refined fabrics are sewn into clothing or home textiles such as towels.

Our Social Programme aims to achieve transparency and improve the working conditions of our business partners in high-risk countries (page 86).

Packaging

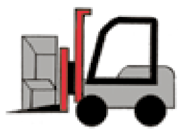
The finished product is packed for transport.



Transport

Textiles are transported from the production country to the sales market.

In order to reduce our ecological footprint, we are increasingly focusing on transport by sea freight as part of our Climate Strategy (page 88).



Storage

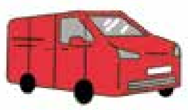
Until the textiles are ordered by our customers, both own and third-party brands are stored together.

The Otto Group's Climate Strategy is also taking effect at its own sites. CO_2 emissions have, for example, been reduced through the purchase of high-quality certified green power (page 88).

Distribution

Products are distributed through various channels: Online and in stores.

The differentiation of business models increases the importance of our platform partners and their product ranges. The new CR strategy will increasingly focus on them (page 87).



Delivery

After the order has been placed by the customers the products will be delivered.

We focus on reduction of pollutants and greenhouse gases as well as the increased use of e-mobility (page 89).

Usage

Textiles are worn, washed, dried and ironed by our customers.

Disposal/Recycling

After use, textiles are disposed of or recycled.

The clothing take-back system "Platz schaffen mit Herz" ("make space – with a heart") is a company owned initiative and provides the opportunity to donate clothes. The collected textiles are passed on (page 90). In this way we promote a circular economy.

How we position ourselves for the future

How do we manage to continue to act responsibly as a group of companies in the future? To answer this question, the Otto Group has further developed its impACT management process. This process will continue to form the basis for our strategic orientation in the future.

THE CORNERSTONE OF THE NEW STRATEGY: impACT

The Otto Group's impACT management process is designed to align its business processes with sustainability and follows the three steps of Analyze, Evaluate, Act. In the first step, we use the materiality analysis to determine the effects of our business activities on people and nature. In this way, we identify the key issues along the entire value chain. The combination of quantitative data and the qualitative assessment of our stakeholders enables us to carry out a comprehensive and well-founded evaluation. As part of the development of the new CR strategy, we further developed and updated our materiality analysis in the reporting year. In this way we ensure that in future we will be able to manage even better and address the relevant issues with greater flexibility.

A COMPREHENSIVE VIEW OF THE IMPACTS

In order to analyze the effects of our business activities in a more differentiated way in the future, the Otto Group has expanded the considered impact categories over the past year. The environmental impacts are identified in the six categories: pollutants, greenhouse gases, land use, water consumption, raw material efficiency and waste, as well as animal welfare. In the past social risks were only represented by one category. But now they are presented in four differentiated classifications: Forced and Child Labour, Occupational Safety, Working Hours and Pay, Freedom of Assembly, and Discrimination. In addition, two new impact categories were created: Awareness of Sustainability (integration of sustainability into the actions of different stakeholders throughout the value chain, e.g. among employees) and Positive Societal Effects (engagement beyond the business activities). This differentiated approach enables us to adapt our management in a targeted manner in order to react specifically to the effects.

UPDATED RESULTS: OUR FOOTPRINT AND STAKEHOLDER ANALYSIS

Within the framework of impACT, we have the possibility to quantitatively evaluate a large part of the impact categories along the value chain. For these individual topic areas (for example, "Greenhouse gases in the supply chain"), company data is linked to numerous external data sources.* The environmental impacts are converted into "incurred" external environmental costs. Social risk is presented in risk working hours. This enables us to measure the ecological and social impacts of our business activities: We depict the effects on the environment and people from the cultivation and mining of raw materials, through transport, to use and disposal. This gives us a realistic picture of our ecological and social footprint. This analysis also enables us to compare the respective impacts and thus derive priorities. Last year we performed such a quantitative analysis again. The graph on page 78 shows the results of the analysis during the reporting period. Together with the evaluation of external stakeholders (here we have used past, still valid evaluations), they form the effects on people and nature (y-axis) in our materiality matrix (see page 80).

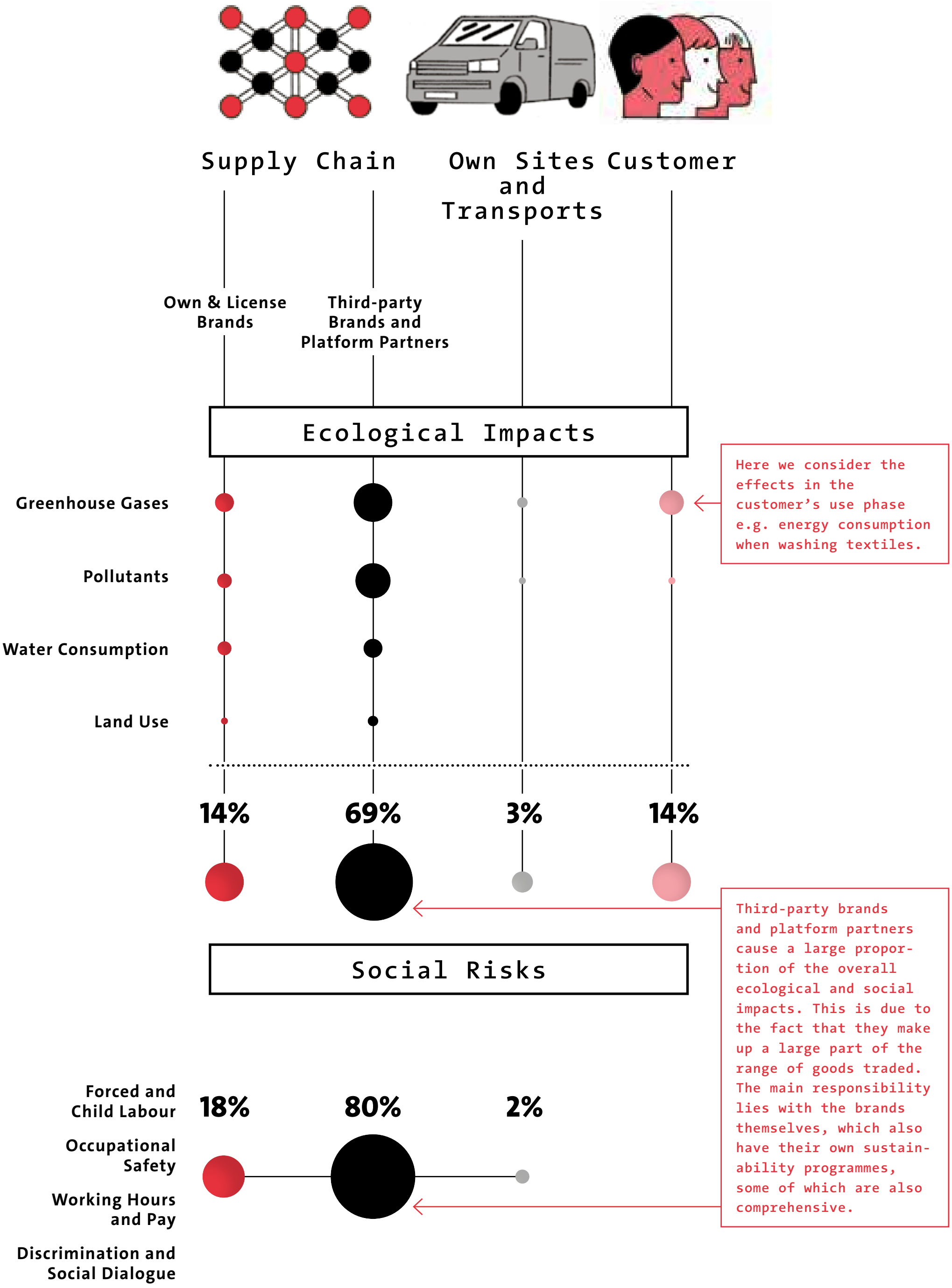
In addition, internal company experts evaluated the topics qualitatively with regard to three perspectives Reputation, Regulation, and Business Activity of the Otto Group (see page 79). Within the scope of the analysis, all business areas of the Otto Group were considered. The results are aggregated at the Group level and are shown in our materiality matrix as relevance for the Otto Group to take action (X-axis, see page 80).

WE ARE CONSTANTLY EVOLVING – AND SO IS OUR SUSTAINABILITY MANAGEMENT PROCESS impACT.

* For this purpose, the "estell" tool was used.

The effects of our business activities

As part of impACT Step 1 (Analyze), it is already possible for us to quantitatively determine the relevance of many topic areas. This is how we calculate our environmental and social footprint:



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

What’s next

Strategic development

Our new CR strategy is shaped by the guiding principles of cultural change in the Otto Group and our Group strategy – the Otto Group Path. It also remains part of the Group’s overall strategy. This is an expression of the fact that CR is an integral part of our corporate responsibility among employees and in society. The individual with his needs is at the center of our actions: As a social innovator, guarantor of success for our company, preserver of our natural resources, and creator of the future. With the guiding concept “Stay Human” we want to place this deep feeling at the center of our new CR strategy and give all our colleagues access to our company-wide basic orientation. The central, leading question we ask ourselves is: How can we make globalisation and the digitalisation of our economy and society human-friendly? This includes of course the question of preserving our natural livelihoods, ensuring fair working conditions, and a human-friendly organisation of a new digital society.

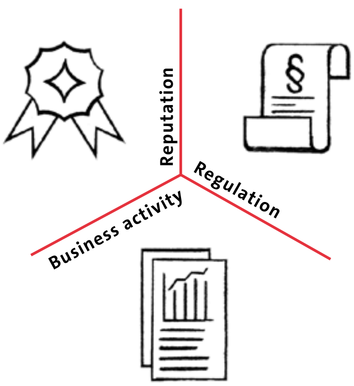
By implementing the CR strategy after 2020, we want to change our company but also have an impact on society and help shape its future. In other words, we look on the one hand, at our added value and the factors and opportunities that we can influence – especially in our supply chains. We also call this part “the work in the system”. In the concrete company-related design, we will build on the framework of the CR strategy 2020 and, together with our various Group companies, define ambitious goals with regard to our supply chains, locations and transports, products, employees, and customers.

On the other hand, we look at the framework conditions in our society and work together with other actors on the major transformational projects of our time. Here we are talking about “the work on the system”. These include, amongst others, decarbonisation, the fight against global poverty particularly in Sub-Saharan Africa, the promotion of fair and environmentally responsible supply chains, and the creation of a value-based and people-oriented digital market economy.

We are currently designing our new strategy. In 2020 we will implement it across the Group to ensure a seamless transition between the current and new strategy.

Relevance for the Otto Group – an analysis of internal stakeholder perspectives

In the context of impACT Step 1 (Analyze), we also demonstrate the relevance of sustainability issues from an internal stakeholder’s point of view. We analyze these issues from three perspectives.



Reputation

The Otto Group’s reputation opportunities and risks were assessed by colleagues from the Corporate Responsibility and Corporate Communications divisions with regard to the aforementioned topics. As a result, social risks in the supply chain, at the sites and in the context of transport, as well as raw material efficiency and waste were, among others, observed to have the highest relevance for reputation.

Regulation

In order to assess regulatory risks, the probability of the introduction of regulations was first determined and linked to the estimated expenses that would arise for the Otto Group if regulation was introduced.* From a regulatory point of view, the highest action relevance lies in the field of handling pollutants at the sites and during transport.

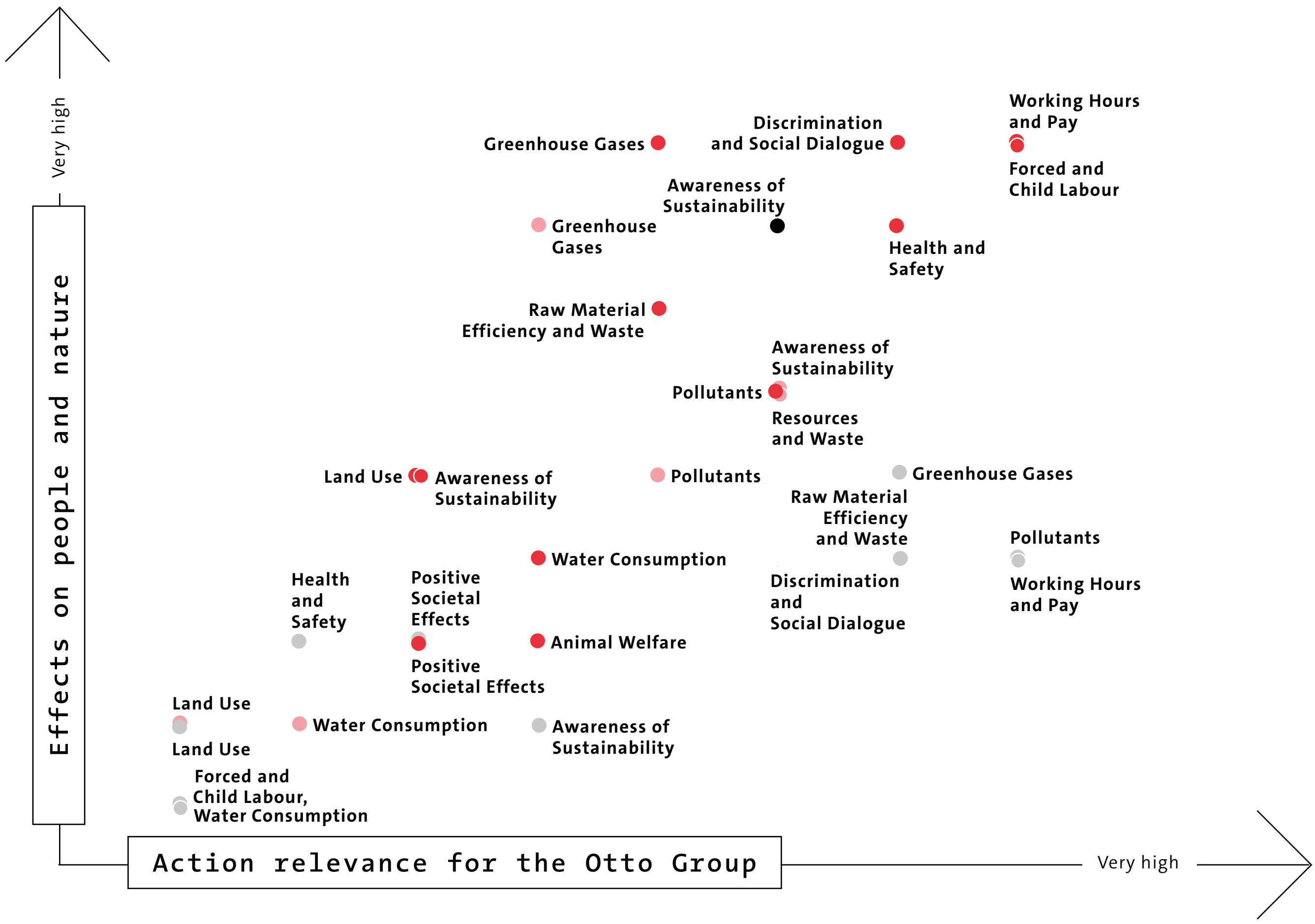
Business activity

The evaluation of the topics with regards to their relevance for the business activities of the Otto Group was carried out in the form of interviews with selected representatives of the Group Companies in the various business fields. Both potential financial risks and potential business opportunities were taken into account.

* The analysis was carried out in close cooperation with the Group’s own consulting company, Systain Consulting.

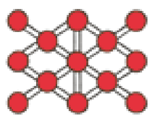
Materiality matrix

The materiality analysis results in the matrix with the relevance of all topic areas. The topic areas with the highest relevance form the basis for the focal points of our new CR strategy. The effects on people and nature (y-axis) are derived from the evaluation of external stakeholders combined with the quantified results. The action relevance for the Otto Group (x-axis) was determined by the internal evaluation with regard to regulation, reputation, and business activity.

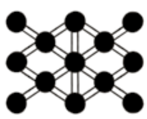


VALUE-ADDING STAGES

Supply Chain (own and license brands)

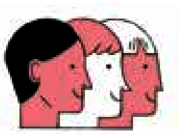


Supply Chain (third-party brands and platform partners)



Own Sites and Transports

Customer



IMPACT CATEGORIES

Ecological
- Pollutants
- Greenhouse Gases
- Land Use
- Water Consumption
- Raw Material Efficiency and Waste
- Animal Welfare

Social and Corporative
- Forced and Child Labour
- Occupational Safety
- Working Hours and Pay
- Discrimination and Social Dialogue
- Awareness of Sustainability
- Positive Societal Effects

The materiality matrix shows the most relevant sustainability issues for the Otto Group, from which the focal points of the strategy are derived. In the supply chain, social risks, in particular working hours and pay, are a major challenge. Pollutants that arise, for example through the use of chemicals in production, are also a relevant topic area. Locations and transports focus on the two categories of greenhouse gases and pollutants. With regard to customers, a high relevance in the field of greenhouse gases was also noted. As can be seen in the overview of the effects (see page 78), third-party brands and platform partners of the Otto Group also have high effects. Since we have no direct influence here, the results of our analysis are integrated in the Awareness of Sustainability category and indicate a high degree of action relevance for us. Raising and fostering the awareness of our platform partners for more sustainable offerings is a major challenge. Therefore this issue will play an important role within the new CR strategy.

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

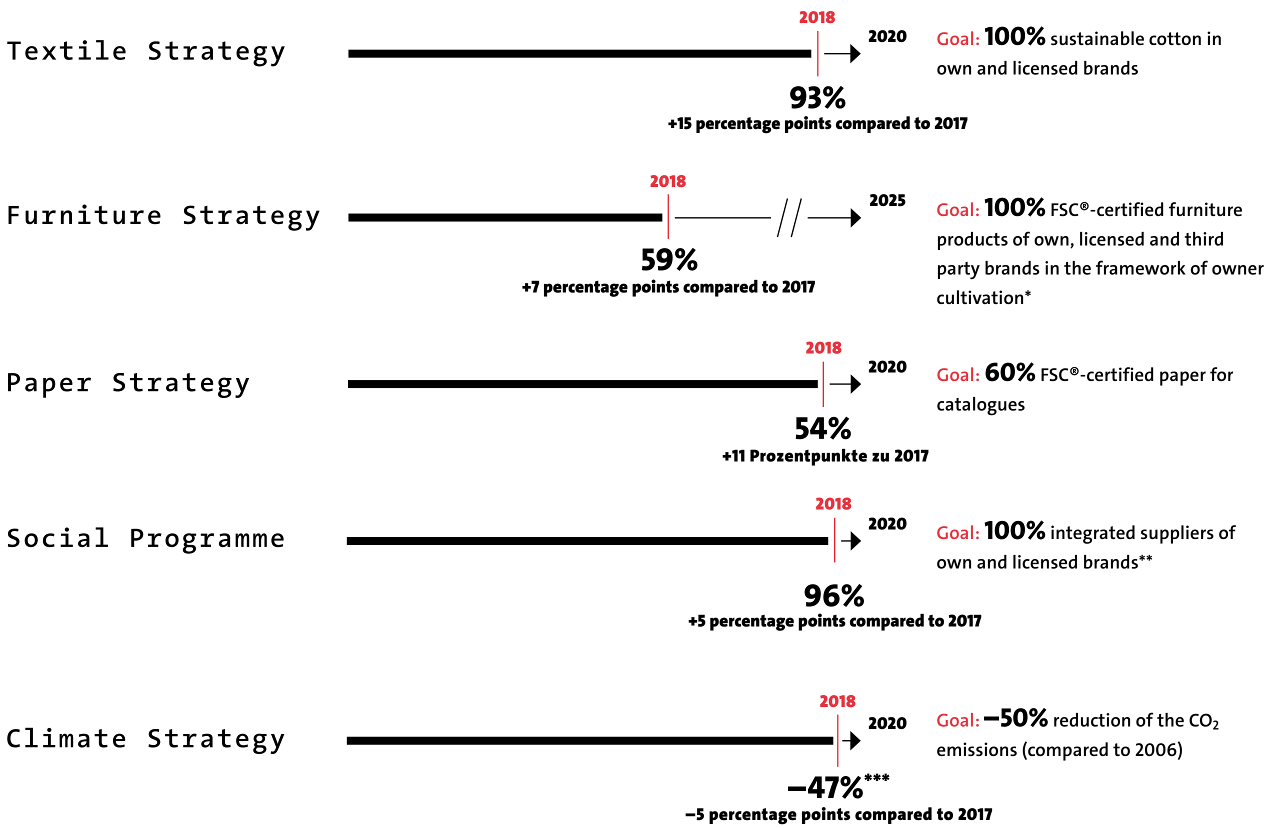
The goals we have set ourselves

The goals of the current CR strategy 2020 are also based on our impACT management process. As part of our five sub-strategies, we set concrete goals that we want to achieve by the end of 2020 – and thus live up to our responsibility for people and nature.

With its goals, the Otto Group bears responsibility for improving the social and environmental conditions in its business environment and beyond. The goals were defined on the basis of previous analyses and their results from our impACT management process – further information on this can be found in the Otto Group's Annual Report 2017/18.

The five KPIs were audited by the independent accounting firm Pricewaterhouse Coopers (PwC) in accordance with the International Standard on Assurance Engagements (ISAE) 3000. The following Group companies are included in the CR strategy 2020 since the very beginning: Baumarkt direkt, Baur, Bonprix, Eos, Frankonia, Heine, Hermes, Mytoys, OTTO, Schwab/Sheego, Sportscheck, Unito, and the Witt-Group. Information on the criteria for the inclusion of Group companies in the sub-strategies is provided in the Otto Group's Annual Report 2016/17 on page 61.

Goals in %



* In coordination with the relevant NGOs and the accounting firm PwC, the Otto Group has altered the target year for 100% FSC®-certified furniture from 2020 to 2025. This is due to a short supply of FSC®-certified wood-based materials (particle board/MDF) in the German market.

** Frankonia, Mytoys and Unito are integrated into the Social Programme, their achievement values however, are still listed separately and are not included in the target achievement value of the Otto Group.

*** Due to changes in the Hermes location network, a final validation of the CO_2 values for distribution (one-man handling) for the calendar year of 2018 is still pending, so this data was based on the previous year's values from the calendar year of 2017.

Promoting ethically and ecologically responsible production

The Otto Group develops and takes concrete measures for the reduction of the ecological footprint and social risks in the course of raw material extraction, production process, and suppliers. In this way we contribute to a sustainable utilisation of resources and promote fair working conditions.

Be it cotton harvesting, furniture production, or the use of paper – we are working intensively on the responsible handling of raw materials and promoting an environmentally friendly use of resources. However, due to complex procurement structures, the Otto Group often has little influence on the production process itself. That is why we seek close cooperation with our direct and indirect suppliers and are committed to alliances and initiatives. We take care of providing appropriate conditions in production and we ensure compliance with our Code of Conduct.

TOGETHER WITH OUR SUPPLIERS FOR MORE SUSTAINABILITY

With the internal Group Guideline "Sustainability in Procurement", the Otto Group determines the minimum social and ecological requirements for the procurement of goods. It applies to all Group companies and contains important guidelines concerning the use of animal and textile materials, transparency, working conditions and occupational safety in production facilities, as well as requirements regarding the use of chemicals. We have revised the guidelines during the reporting year in order to adapt it to current challenges. The use of the textile fiber mohair made from the wool of the angora goat, for example, has been added to the black list. With this measure, the Otto Group is responding to the violation of animal rights.

The Otto Group uses the "Supplier Declaration on Sustainability" to let suppliers confirm the compliance with these regulations as well. It was first sent to trade partners across the Otto Group in October 2018 and makes our suppliers aware of the requirements to be met. It is the basis for any business relationship with our suppliers for trade goods and contains all of the sustainability requirements of the Otto Group. A key component of the Supplier Declaration is the Code of Conduct determining our social standards, and rules on occupational safety and health and environmental protection. In order to contribute to greater uniformity in the industry, we started to use the Code of Conduct of the amfori Business Social Compliance Initiative (amfori BSCI) this fiscal year. It unites traders and producers aiming at an improvement of the working conditions in the supply chain.

TEXTILE STRATEGY:
OUR PROGRESS

As part of its Textile Strategy, the Otto Group is pursuing the goal of using 100% cotton from sustainable cultivation for its own and licensed brands by 2020. In 2018, we could significantly raise the share of sustainable cotton to 93% (2017: 78%). This trend can be attributed to the consistent pursuit of the goal and the established processes for cotton procurement from the Cotton made in Africa (CmiA) initiative. We additionally include the share of recycled cotton in the key figures of the Textile Strategy since last year.

Sustainable cotton* (in tons)

	2015	2016	2017	2018
Entire quantity of cotton	35,941	33,664	35,943	33,025
Organic cotton quantity	504	639	750	666
CmiA cotton quantity	9,225	15,913	27,156	30,077
Recycled cotton quantity	ns	ns	ns	73
Sustainable cotton proportion	**27%**	**49%**	**78%**	**93%**

* on the basis of the procurement quantity of raw cotton

What we have achieved with the Textile Strategy

We have been able to reduce ecological and social consequences through an intensive use of CmiA cotton.*

In 2018, a total of

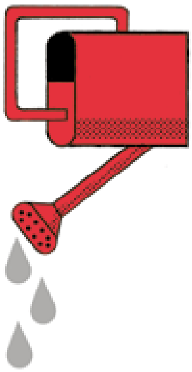
over 82 million

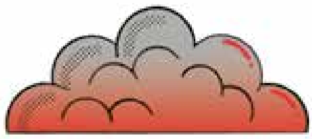
cotton articles were procured in compliance with the CmiA standard. Buying ca. 95% of the articles, Witt, bonprix and OTTO are the main customers.

Due to an exclusive use of rainwater for irrigation, the use of

over 63 billion

liters of fresh water could be avoided in 2018.





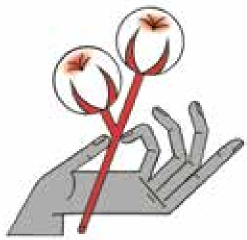
Due to the use of CmiA,

22,900 tons

of CO_2 could be avoided in 2018.

About 50,000**

small farmers benefited from the Otto Group's CmiA demand in 2018.



* CmiA's Life Cycle Assessment was used as the data basis.
** Measured by the share of the accepted quantity in the total CmiA production volume.

FOR A SUSTAINABLE COTTON CULTIVATION: COTTON MADE IN AFRICA (CMIA)

The initiative of the Aid By Trade Foundation, founded by Prof. Dr. Michael Otto, aims to contribute to an improvement of the working and living conditions of cotton farmers as well as factory workers in the cotton processing industry of Africa and to environmental protection. Instead of donations, it is building a global alliance of textile companies and brands using Cotton made in Africa (CmiA)-certified cotton. CmiA provides training for small farmers concerning sustainable cotton cultivation, promotes children's rights, fosters better working conditions, and strengthens the role of female small farmers in society and the cotton industry. CmiA excludes genetically modified seeding material, pesticides that are rated extreme and dangerous by the World Health Organization (WHO) and regulated by international conventions and the deforestation of primary forests. CmiA-certified cotton causes up to 40% less greenhouse gas emissions in comparison to conventional cotton and saves around 2,100 liters of water per kilogram compared to the rest of the world due to the exclusion of artificial watering. In 2018, around one million small farmers in nine African countries benefited from the initiative. They produced about 580,000 metric tons of sustainable cotton according to the CmiA standard, of which the Otto Group took an equivalent quantity of 30,077 tons according to the mass balance system. The credibility of the CmiA standard is ensured by the work of independent auditors who verify compliance with the criteria in cotton cultivation and ginning. The textile manufacturing market employees of the Otto Group are trained in the further increase of integration of certified cotton in the respective material flows via workshops and webinars. In the reporting year, we talked to African cotton producers in the framework of a meeting in Turkey and we could intensify the direct dialog with agents from the textile value chain.

FOR BETTER CONDITIONS IN THE TEXTILE INDUSTRY: SUSTAINABLE TEXTILES ALLIANCE

The Textile Alliance was founded in October 2014 on the initiative of the Federal Ministry for Economic Cooperation and Development responding to various accidents in textile factories in Bangladesh and Pakistan. The goal is to improve conditions in global textile production – from raw material production to disposal. During the reporting year, the Otto Group adopted its second roadmap, setting binding goals. This includes for example, the implementation of various awareness-raising measures for a more sustainable textile production in the supply chain. At the same time, we published a voluntary progress report to disclose our achievement concerning our goals during the last year. Since 2015, the Otto Group has been involved in the Textile Alliance focusing on social and chemical management as well as natural fibers. In the framework of the two alliance initiatives, we thus work with other companies on the improvement of working conditions in the textile and clothing industry in Tamil Nadu (India) and support a sustainable chemical and environmental management in the Asiatic region, for example, through common training videos and trainings. As one of four business representatives, Dr. Johannes Merck, Vice President for Corporate Responsibility at the Otto Group, is a member of the Textile Alliance's Control Committee.

Example synthetic fibres

Identify effective measures

In 2018, the Otto Group carried out a comprehensive evaluation of sustainable alternatives to textiles made from synthetic fibers such as polyester, polyamide, or viscose as part of its management process impACT (step 2). This concerns emission and energy expenditure during production, as well as microplastics released in the course of washing textiles and their recyclability at the end of the life cycle. In a two-step process, we identified targeted measures and evaluated them in more detail together with internal stakeholders. In doing so, we kept three perspectives in mind: The benefits for the environment and society, the benefits for the Otto Group, and the costs and feasibility of the measures. Looking at the benefits for the environment and society, we have identified not only the reduction of external costs but positive effects as well – we evaluate these by means of the Sustainable Development Goals (SDGs): We examined individual measures to see which of the 17 superordinate goals with a total of 169 subordinate goals can be addressed and with how much intensity. In this way we were able to identify the measures contributing most to the reduction of ecological and social consequences, increase of brand value, or have innovation potential when it comes to synthetic fibers. The results of this systematic cost-benefit analysis serve as an important decision aid for the Group companies and will be incorporated into the development of the new CR strategy in 2019.

IN THE FRAMEWORK OF impACT STEP 2, WE SYSTEMATICALLY ASSESS MEASURES WITH RESPECT TO COSTS AND BENEFITS – FOR THIS PURPOSE, WE ALSO INCLUDE THE SDGs.

FURNITURE STRATEGY:

OUR PROGRESS

As part of our Furniture Strategy, our goal is to switch to using articles from responsible forestry for our own, licensed and strategically relevant third party brands in the context of owner cultivation by 2025 – indicated by the certificate compliant with the standard of the Forest Stewardship Council® (FSC®). In 2018, we recorded an increase of the use of FSC®-certified wood within the Otto Group to 59% (2017: 52%). This increase can be deduced from the enlarged FSC®-certified furniture range of all Group companies involved in the Furniture Strategy, whereas OTTO is particularly relevant as the main supplier of furniture and furnishings.

In 2018, the use of FSC®-certified furniture of ca. 12% on average enabled the avoidance of external effects due to the land utilisation in the course of the furniture production.*

In addition, FSC makes a decisive contribution to diversity (biodiversity), which is why its use is increasingly demanded by our stakeholders/customers.

FSC®-certified furniture[**]
(number)

	2015	2016	2017	2018
Total furniture articles	49,694	58,527	62,270	115,203***
of which number of FSC®-certified articles in the product range	21,281	26,829	32,229	67,497
Proportion of FSC®-certified articles in full product portfolio	**43%**	**46%**	**52%**	**59%**

* This assessment has been conducted by the company-owned consulting firm Systain Consulting.
** Own, licensed, and third party brands in the framework of owner cultivation
*** The high increase in the total amount of furniture products is due to the expansion of product numbers.

FOR RESPONSIBLE FORESTRY: FSC®

The non-governmental organisation Forest Stewardship Council® (FSC®) pursues the goal of protective forest use and defines uniform global standards for this purpose. That way, uncontrolled deforestation, violations of human rights, or a major environmental impact are avoided and basic forest functions are preserved. The certification of the value chain from forests to retailers creates transparency and provides orientation for the customer. The Otto Group intensified its cooperation with FSC® in 2018 and fosters the exchange: Together, we consult furniture suppliers when it comes to a transition to FSC®-certification and we support higher availability and demand for FSC®-certified wood-based materials in Germany.

IN 2018 WE INTENSIFIED OUR STAKEHOLDER DIALOGUE WITH FSC® TO JOINTLY CREATE ADDED VALUE FOR SUSTAINABLE FOREST USE.

Example from practice

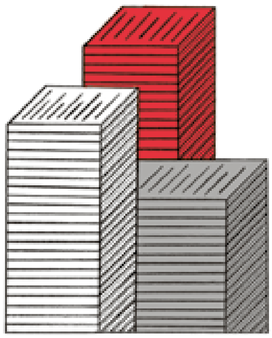
Climate protection within the supply chain

In addition to the former commitment to climate protection along the supply chain, e.g. through the free access to the self assessment online tool CPI2, the company-owned consulting firm Systain Consulting was conducting a training workshop in Vietnam together with the Otto Group, WWF, UN Global Compact, and companies in the textile industry. The goal here was to raise awareness of climate protection in the factories and to point out concrete solutions. With more than 80 producers and suppliers, the issue of climate protection within the supply chain was discussed for the first time in the framework of a multi-day workshop. Besides the central topics of energy efficiency and renewable energies, the systematic recording of CO_2 emissions was dealt with. For the Future, we aim at building on this measure and continuously expanding our commitment to climate protection within the supply chain.

PAPER STRATEGY:
OUR PROGRESS

Regarding the catalogues and advertising materials of the Otto Group, the Group's goal is an increase of the share of FSC®-certified paper to 55 % by 2019 and to 60 % by 2020. In 2018, the share of FSC® was 54 % (2017:43 %), which represents a considerable increase compared to the previous year. This development results from long-term agreements with our suppliers. In addition, the Otto Group also recorded slightly reduced paper consumption in 2018.

In 2018, 11% of the external effects due to land utilisation in the course of paper production could be avoided by the use of FSC®-certified paper*



Paper consumption for catalogues and advertising materials (in tons)

	2015	2016	2017	2018
Entire quantity	239,560	221,497	200,559	197,615
FSC® paper quantity	67,833	75,047	85,821	106,507
Proportion of FSC® paper	**28%**	**34%**	**43%**	**54%**

* This assessment has been conducted by the company-owned consulting firm Systain Consulting.

SOCIAL PROGRAMME:
OUR PROGRESS

Due to the various business models within the Otto Group, we have our goods produced in many different facilities. While we always order only small production volumes – accordingly, we often have a limited influence on the prevailing conditions. For this reason, ensuring social standards represents a particular challenge for us. With our Social Programme, we have set ourselves the goal of establishing transparency concerning working conditions in our supply chains. At the same time, we want to support our business partners and their factories in complying with human rights, and a continuous and sustainable improvement of working conditions. As a first step, suppliers are obliged to disclose to us every factory producing for the Otto Group and present us a valid and accepted social audit. We accept amfori BSCI audits, other independent external audits, and our own Otto Group Assessment. The corresponding distribution can be found in the table on page 87. This obligation applies to all suppliers of our own and licensed brands producing in risk countries* – the majority of our production takes place in China, Turkey and India (see figure). We end our cooperation with suppliers who do not provide the required transparency, while not being able to account for compliance with our requirements.

* According to the amfori BSCI classification (Country Risk Classification): https://www.amfori.org/resource/countries-risk-classification

During the reporting period, 96% of suppliers (2017: 91%) of all factories that were active for the Otto Group, have complied with our requirements and are thus integrated into the Social Programme.

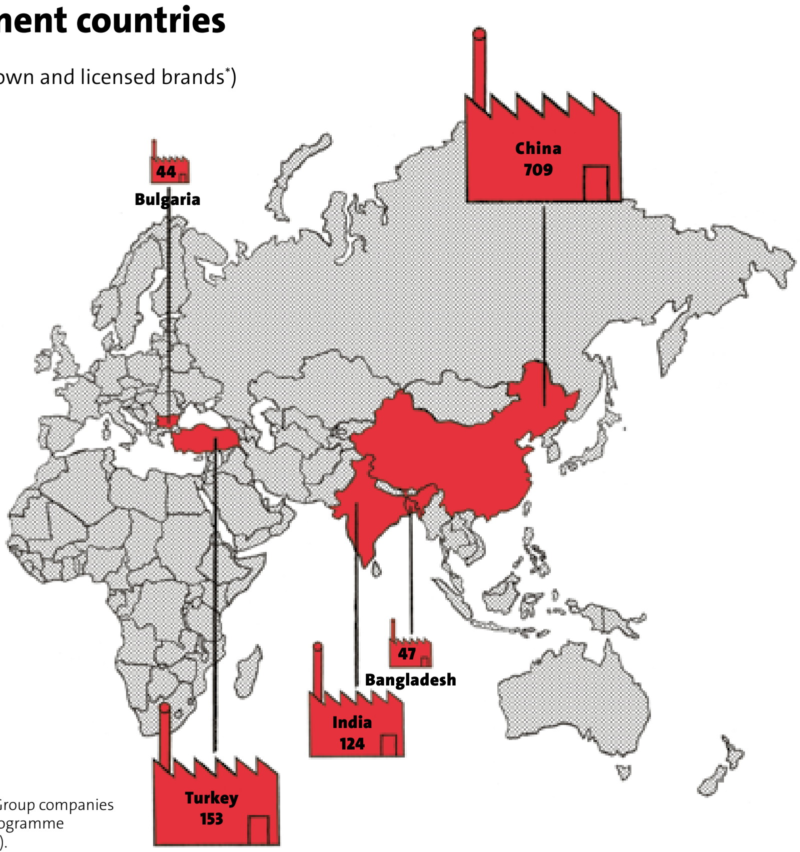
EMPOWERMENT TO ACT

EMPact

"EMPact" stands for the Otto Group's capacity building programme. It represents the continuation of our management process impACT and 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 business partners and 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 safety, and chemical management within the supply chain.

Main procurement countries

Number of factories (for own and licensed brands*)



* For own and licensed brands of Group companies that are included in the Social Programme (see Annual Report 16/17, page 61).

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

BSCI audit	83%
Otto Group Assessment	10%
SA8000 Certificate	6%
WRAP Certificate, ICS Audit, ICTI Audit	1%

In order to support our supplier's factories with the realisation of our requirements and the implementation of social management systems, we have been offering factory trainings in our main production countries for over five years now as an element of our programme EMPact Social. Over a period of around eight months, these should address solutions to their respective challenges – both by imparting systematic competences and with concrete content improvements. The training is thematically diverse. It reaches from a root cause analysis, i.e. the identification of the causes of a problem, to trainings in the area of health & safety, working time, or wages. The training programme is based on group workshops with factory representatives, which are focused not only on content delivery, but also on learning via open experience exchange within the group. In addition, the trainers visit each factory twice during the course of the programme. In this way, they ensure that fabric-specific topics can be improved as well. In the fiscal year 2018/19, we supervised 47 factories in China, India and Turkey in this way.
The Otto Group believes that a lot of challenges can be met only in collaboration with others. Accordingly, we collaborate with other stakeholders, e.g. companies, trade unions, and NGOs in the context of initiatives and alliances in order to find and implement industry-wide solutions. Currently, we mainly consider the ACCORD on Fire and Building Safety in Bangladesh, amfori BSCI and the Textile Alliance as relevant when it comes to the issue of social responsibility or human rights in the supply chain. The ACCORD, for example, includes besides inspections concerning building safety and fire protection, regular trainings for all factory employees.

MANAGEMENT OF CHEMICALS

Especially at the beginning of the value chain, chemicals are used in many cases. In the context of textile production, they serve 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 and promoting responsible application. In principle, we have only limited influence on the preliminary stages of our supply chains. Factories working with wet processes including dyeing, bleaching, washing and printing, hold the greatest potential for improvement. That's why we strive to achieve a higher transparency concerning production conditions. In the framework of cooperative relationships, we are intensively working on providing factories with important know-how to handle chemicals in a safe and environmentally friendly way. Additionally, we could support the factories in sustainably improving their utilisation of energy, water, and chemicals during the reporting year via a free access to the online self-assessment tool CPI2. Through initiatives and alliances, we observe the issue together with partners and other companies in order to share experiences, leverage synergies, and learn from each other.

THROUGH COLLABORATIVE AND PARTNERSHIP APPROACHES WE HELP FACTORIES REDUCE THEIR ENVIRONMENTAL AND SOCIAL FOOTPRINT.

In order to specifically improve the Chemical Management of our partners, we have developed the EMPact Detox Qualification Programme. It offers business partners and factories working with wet processes a diverse and freely available range of support: Among others, we raise awareness concerning the safe use of chemicals in factories through group workshops and on-site trainers. In the fiscal year 2018/19, we could support 46 factories in finding a more responsible way to handle, store, and dispose of chemicals in textile production.

OUR PARTNERS IN FOCUS

With the diversification of business models, the relevance of our third-party brands and platform partners increases. We will increasingly integrate them into the new CR strategy and develop effective measures. In this way we specifically promote sustainable product ranges and exclude ethically questionable products. In order to establish long-term and cooperative relationships, we place importance on fairness and transparency when dealing with our platform partners.

Making transport climate friendly

The Otto Group has a high level of influence when it comes to procurement, transports, storage, the operation of its facilities, and the delivery of goods. Transport-related emissions especially have a significant impact on the environment – we are countering this with our Climate Strategy.

Concerning transport, foreseeable legal regulations on the limitation of pollutant emissions increase the Otto Group´s need for action. For example, restricted access to city centers represents a challenge for trading companies and logistics service providers. That is why we are looking ahead and are already developing alternative concepts – Hermes, for example, plans to deliver goods without any emissions in the largest 80 cities of Germany by 2025.

CLIMATE STRATEGY:
OUR PROGRESS

With its Climate Strategy, the Otto Group aims to reduce CO_2 emissions caused by its transports and facilities. Towards this purpose, the Group sets a concrete goal and implementation framework, while the Group companies implement measures autonomously. That way, adjusted CO_2 emissions of the Group´s facilities, procurement and distribution transports, and business trips should be halved by 2020 compared to the base year of 2006. In 2018, CO_2 emissions were reduced to 155,827 tons (2017: 174,925 tons). Compared to the base year, the reduction is 47% (2017: 41%). This can be attributed to increased energy efficiency. Other reasons for a reduction of emissions are the shift of air freight to sea, road, and rail transport, and the purchase of high-quality certified green electricity by German Group companies (around 40% of the total electricity supply at the facilities).

ENVIRONMENTAL PROTECTION AT THE SITES

The Group companies implement their environmental management and concrete measures at individual facilities in a decentralized manner. Some of the core issues are the careful use of resources like water and packing materials, as well as the responsible handling of waste material. If waste cannot be avoided, it has to be deposed of properly. Currently, 29 of the facilities covered use an ISO 14001 certified Environmental Management System.

INTERACTION WITH SERVICEPARTNERS IN PARCEL DELIVERY

Ensuring satisfactory working conditions for parcel couriers employed by subcontractors is a major challenge for the entire delivery industry. Fair working conditions are the absolute prerequisite for collaboration with service partners in delivery for Hermes as a leading logistics service provider in Europe. The Federal Ministry of Labour and Social Affairs plans a law on subcontractor liability for the parcel industry. For the Otto Group, the following applies: We expressly welcome all measures which contribute to ensuring fair working conditions.

In order to meet the corresponding requirements, Hermes has been the only logistics provider in Germany to voluntarily implement an audit system in cooperation with the SGS Germany GmbH since 2012 and also with the DQS GmbH since 2018.

Hermes Service partners are audited on a regular basis – the focus of these audits are employment conditions and subcontractor management. The audit includes, among others, the payment of an hourly wage independent of quantity, which must at least correspond to the statutory minimum wage, the remuneration or leisure compensation of overtime, as well as the continuation of wage payment in case of sick leave. During the reporting period, Hermes conducted 371 audits on a total of 288 service partners. Since 2018, reports of potential abuse by service partners are investigated by means of internal forensic audits in the framework of the established whistleblower system.

CO_2 emissions (in tons)

	2006 (base year)	2016	2017	2018
Absolute in tons	296,200	231,679	222,386	202,231
Adjusted* in tons	296,200	189,028	174,925	155,827
Reduction of the adjusted CO_2 emissions compared to 2006	–	**–36%**	**–41%****	**–47%*****

* Represented relative to their performance units.
** Compared to the annual report 2017/2018, the value has changed from –42% to –41% due to updated site data.
*** Due to changes in the Hermes site network, a final validation of the CO_2 values for distribution (one man handling) for the calendar year of 2018 is still pending. Consequently, this data has been derived from the figures of the previous calendar year 2017.

Practical examples

Climate-friendly goods delivery

With the Urban Blue Strategy, Hermes Germany aims for emission-free goods delivery in the inner-city areas of the 80 biggest cities of Germany by 2025. After a pilot phase, the project operatively started at the beginning of 2019: Daimler handed over the first 20 electric vehicles to Hermes Germany. A total of 300 electric-powered transporters are on the road this year, while a total of 1,500 electric transporters are planned to be used across Germany by 2022. In addition, Hermes Germany and other parcel service providers launched a joint pilot test with electric bicycles at a central micro depot in Berlin. The field experiment called KoMoDo* with a duration of approximately one year intends to* test the efficient operative use of cargo bikes for parcel delivery. We are also carrying out other tests and projects concerning alternative delivery vehicles in various regions of Germany – for example Hamburg, Rostock, and Munich – and we are gradually expanding them this year.

WITH URBAN BLUE, HERMES GERMANY IS SHAPING THE MOBILITY OF THE FUTURE IN URBAN AREAS.

* Cooperative use of microdepots by the courier, express, and parcel industry for the sustainable use of cargo bikes in Berlin.

Experiencing sustainability

October 8, 2018 was all about sustainability for the Witt Group. More than 200 employees from different fields came together to learn about and discuss sustainable cotton, waste separation, CO_2 emissions, and the Otto Group's Social Programme. Besides this, a sustainability forum provided room for a lively discussion. The highlight of the day: In his presentation, Dr. Rüdiger Fox, CEO of Sympatex, gave an impressive explanation of the economic benefits of sustainable action. He pointed out that Sustainability should not only be a moral imperative, but it can also bring considerable economic benefits. Through this action, we could root the idea of sustainability in employees – as they are the pioneers and the drive of our responsible-minded orientation.

Promoting climate-neutral mobility

In order to reduce its transport-related ecological footprint, the BAUR Group is expanding its "Green Transport Fleet" – a total of three hybrid and six electric cars are provided by the company. BAUR fosters the utilisation of alternative drives among employees as well: Since 2018 they have been able to charge their private hybrid and electric cars at 14 charging points at selected locations. The modern charging stations have particularly high power, so that the vehicles can be fully charged within two hours at some places. The drivers of e-bikes were also taken into account: Lockable charging cabinets have been installed for them for free use. These initiatives of the BAUR Group contribute to the rise of environmental awareness in employees and the promotion of climate protection.

Fostering sustainable consumption

The Otto Group uses targeted measures to sensitize customers to sustainability when selecting and using products.

The environment is affected not only along the supply chain, at facilities, and during the course of transport. Greenhouse gases and pollutants are also released during use and withdrawal, further processing, or disposal of the product. The Otto Group is working on a more sustainable design of product ranges and on the sensitisation of consumers to products that are produced in an environmentally friendly and sustainable manner. This is why we label sustainable products on our online platforms. On the one hand, this applies to products showing only a small ecological and social footprint during production. On the other hand, this includes products causing less harmful effects when they are used. The label "GOODproduct", for example, represents a clip for all relevant seals and certificates with sustainable value added for the Group companies OTTO, Baur, Heine, Schwab, and Unito. Bonprix uses the label "Sustainable Product" aligning to similar principles, for products produced with materials or production processes fulfilling high requirements for the protection of man and the environment. In addition to focus on more sustainable products, the sharing service Otto Now goes one step further and has now also included furniture in its product range.

SUSTAINABLY PRODUCED PACKAGING

Requirements for packaging are growing, especially in online trade: Packaging must be stable to avoid damaging goods. At the same time, packaging should be produced in a sustainable manner in order to consume as little raw materials as possible. The Otto Group has addressed this issue and is developing solutions for packaging optimisation. Consequently, cardboard boxes from the Group company OTTO consist of FSC®-certified recycled materials. A regular inspection already enabled us to reduce the void volume of the cardboard boxes from 27.5% to 21.5% on average since 2012. A new imprint on the boxes additionally encourages customers to reuse the boxes to send clothes to the corporate initiative "Platz schaffen mit Herz" ("Make space – with a heart"). In addition, OTTO's shipping bag now consists of 80% recycled plastic and is labeled with the "Blue Angel" eco-label. That way, we preserve valuable oil resources and keep the materials in the cycle.

PROPERLY RECYCLED ELECTRICAL APPLIANCES

At the end of the product life cycle of electrical appliances, the Otto Group ensures their proper recycling. Every year we collect about 3% of the electronic waste generated in Germany. Regional waste disposal companies then remove the pollutants contained, such as refrigerants, and take care of their proper disposal. It is thereby important to us that the process is carried out in Germany. In the next step, the appliances are broken down to their individual material parts and recycled separately. In this way we directly contribute to the reduction of negative environmental impacts.

Example from practice

Sustainable Collection of Bonprix

Bonprix worked on its first sustainable collection in the past financial year and presented it from April 2019 onwards. The "Sustainable Collection" includes jeans produced in a water-saving manner and t-shirts dyed with natural dyes. In addition, organic cotton, recycled cotton, TENCEL™ lyocell, recycled polyester, and CmiA-certified cotton were used. With a share of 55%, Bonprix is already the biggest partner of CmiA within the Otto Group. In the future the collection will be launched twice a year.

Efficient large electrical appliances*

	2015	2016	2017	2018
Number of offered large electrical appliances	2.030**	2.734	3.058	3.975
Share of efficient large electrical appliances in the total range	32,3%**	37,7%	35,9%	36,6%

* Electrical appliances are considered efficient if they show a demonstrably higher energy-efficiency compared to the average energy consumption values of their product group (for example fridge freezers with energy class A+++).
** Criteria have been tightened in the second half of 2015 (for example from A++ to A+++) and data has been only collected for the second half of 2015.

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 52,558 employees and sales of EUR 13.4 billion in the 2018/19 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 7.7 billion, the Otto Group is one of the world's largest online retailers.

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

MULTICHANNEL RETAIL

- About You*
- Ackermann
- Baumarkt Direkt
- Baur
- Bonprix
- Crate and Barrel

- Eddie Bauer Japan
- Eventures*
- Freemans Grattan Group
- Frankonia
- Heine
- Küche & Co

- Lascana
- Manufactum
- Mytoys Group
- OTTO
- Otto Group Brazil

- Otto Group Russia
- Otto Japan
- Project A*
- Schwab
- Sheego
- Sportscheck
- Unito
- Universal
- Venus
- Witt Group

* investment companies

The **Financial Services** segment comprises the Otto Group's international financial service offerings such as receivables and liquidity management, as well as innovative financial services. The internationally active EOS Group has a major influence on this segment and, with its numerous companies, offers a broad portfolio of retail-related services with an emphasis on receivables management.

FINANCIAL SERVICES

- Cofidis*
- EOS Group
- Hanseatic Bank*

- Hanseatic Versicherungsdienst (HVD)
- Otto Group Digital Solutions (OGDS)

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 all services along the logistics value chain – from procurement through quality testing, transport, and warehousing up to delivery to private and business customers – and thus characterise the activities of the segment.

SERVICES

- Baur Fulfillment
- Hermes Europe

- Hermes Fulfilment
- Hermes Hansecontrol
- Hermes-OTTO International

THE FOLLOWING MAJOR GROUP COMPANIES AND SUB-GROUPS FORM PART OF THE OTTO GROUP'S PORTFOLIO:

Otto (GmbH & Co KG) – hereafter OTTO – is one of the leading online retailers in Germany. It operates the multi-award-winning online shop otto.de as well as other specialist online shops. At OTTO, the current focus is on the change from a pure online retailer to an e-commerce platform. Online sales[1] account for approximately 94% of OTTO's revenue.

The **Baur Group's** range of goods covers fashion, shoes, furniture and home accessories for customers with high expectations in terms of quality and service. The Group and its subsidiaries are active in several European countries. Online sales account for approximately 93% of revenue.

The **bonprix Group** is represented in 30 countries worldwide. The company markets its own fashion brands at an excellent price-performance ratio and in a wide variety of styles and sizes. The bonprix brand will be further developed into a strong fashion brand. Online sales account for approximately 86% of the bonprix Group's revenue.

The **Crate and Barrel Group** offers international houseware, furniture and home accessories for sophisticated tastes in the North American market. In addition to the Crate and Barrel brand, the Group also operates under the CB2 brand. Through online sales and catalogues as well as over 100 stores, the Crate and Barrel Group has firmly established itself as a multichannel retailer in the USA and Canada. Online sales account for approximately 48% of revenue.

The companies of the **Freemans Grattan Group** represents the Otto Group on the British market in the e-commerce segment. As a universal provider, Freemans Grattan Holdings operates a number of marketplaces for various target groups. Online sales account for approximately 84% of revenue.

With the **heine** brand, Heinrich Heine GmbH offers a classic yet modern fashion label for stylish, feminine women. Online sales account for approximately 67% of revenue.

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

SportScheck GmbH – hereafter SportScheck – is represented by 18 stores across the country and is one of Germany's leading sports retailers. Its product range is also available online, via mobile and via shopping app in Germany, Austria and Switzerland. Through its subsidiary Fitfox GmbH, SportScheck has expanded its sports retailing business to include a platform for sports events which it is using to build an online environment for customers wanting to pursue an active, sporty lifestyle. Online sales account for approximately 42% of revenue.

The **UNITO Group** markets textiles and hardware under the OTTO, Universal and Quelle brands in Austria, a number of other brands in Switzerland and the Quelle brand in Germany. Online sales account for approximately 92% of revenue.

The **Witt Group** is one of the leading multichannel companies for textiles for the 50+ target group. It reaches its customers through online shops, catalogues and approximately 130 retail stores. Online sales currently account for approximately 21% of revenue.

The **EOS Group** is one of the leading international providers of individual financial services, with an emphasis on receivables management. With the help of an international network of partner companies, the EOS Group has access to resources in over 180 countries worldwide.

Companies that supply all relevant retail-related logistics services operate under the **Hermes** umbrella brand. The Hermes Group is the only international service provider with its own networks in all major European 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.

GROUP STRATEGY

BUSINESS MANDATE AND MISSION STATEMENT

The shareholders' business mandate specifies the framework conditions and guiding principles within which the Otto Group's sustainably profitable business models are to be developed and operated.

At the beginning of the 2017/18 financial year, the Otto Group also created a joint mission statement. Under the guiding principle "Together we push the limits", the Otto Group has set expectations for itself in three thematic areas:

- **We inspire our customers – on both a human and technological level.**
- **We create and harness new opportunities for creativity – both independently and within wider networks.**
- **We develop important ideas for our future and for society – built on courage and long-term thinking.**

[1] The percentage of online sales in relation to revenue in this section relates to the 2018/19 financial year.

The business mandate and mission statement lay the basis for the further development and realisation of the Otto Group Path as well as for portfolio and investment management.

OTTO GROUP PATH

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

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

To achieve this objective, the Group is pursuing a differentiated strategy for its three segments. Targeted investments are being made in market-specific business models and in Group companies that are estimated to be capable of particularly strong performance with regard to yield while simultaneous maintaining high growth levels. Furthermore, the Otto Group places special emphasis on its overarching guiding principles: improving operational excellence; capitalising on the opportunities afforded by digitisation; harnessing the strength of the Group via networking and collaboration; recruiting, fostering and retaining talent; and actively driving progress on the “Culture change 4.0” initiative.

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

PORTFOLIO STRATEGY

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

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

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

In the 2017/18 financial year, the decision was made to encourage investors and strategic partners to acquire interests in ABOUT YOU GmbH. This decision was reached in the context of the opening up of the Otto Group’s business ecosystem. This strategy aims to support the growth of this successful business model by means of bringing in additional competencies. In the 2018/19 financial year, Heartland A/S, an investment holding company of Bestseller A/S, one of the largest European clothing companies, was brought in as a new investor in ABOUT YOU Holding GmbH. This collaboration provides a basis for the future growth of this very successful business model. These new investors will enable the company to expand its customer base, to gain additional market shares and to quickly break into new markets. The Otto Group retained its position as the majority shareholder throughout this process. The fashion and technology company ABOUT YOU GmbH are included in the Otto Group’s consolidated financial statements using the equity method.

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

MULTICHANNEL RETAIL

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

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

With regard to the Group’s other retail concepts, again the focus is on driving the ongoing transformation of the individual retail concepts towards greater levels of digitisation. It also includes

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

[3] For the development of the financial performance indicators with regard to the 2018/19 financial year, refer to the chapter “Reporting the Financial Services providers using the ‘at equity’ method”.

intensively building up further business intelligence in order to personalise the Group's offering to an even greater degree, with a clear focus on the customer journey and special emphasis on retail sales through various devices.

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

Furthermore, apart from benefiting from its own retail activities, the Otto Group also benefits from the development of digital retail-related services and the growth of third-party online retail and associated sectors. For example, services in the areas of data analytics, search functions and algorithms, and advertising marketing are already being marketed successfully to third parties.

FINANCIAL SERVICES

The Otto Group's strategy in the Financial Services segment is primarily focused on ensuring the responsible international development of the receivables management business. The EOS Group deserves special mention in this respect: the group has consistently expanded its services in recent financial years and now boasts a successful offering in over 25 countries.

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

SERVICES

Services are one of the most significant factors in business activities with end-consumers. Consequently, B2C and B2B services, which are grouped under the Hermes umbrella brand, represent a further focal point within the Otto Group's strategy. Besides speed, reliability and the transparency of the supply chain, the Hermes Group places particular importance on service quality at all points of contact with the end-consumer. Areas of focus here include parcel distribution, a sector in which the group operates successfully in the largest European e-commerce markets of Germany, France and the United Kingdom; the two-man delivery sector, where HERMES Einrichtungs Service GmbH & Co. KG is a clear market leader in Germany; and warehousing, which, due to Hermes Fulfilment GmbH, plays a key role in the Otto Group's retail activities.

CR STRATEGY 2020

The Otto Group's Executive Board is convinced that sustainability is the foundation of long-term economic success in business. The CR Strategy 2020 therefore forms an integral part of Group strategy. Moreover, since the 2014/15 financial year, the Executive Board's variable remuneration is now also linked to the achievement of the targets set out in the CR Strategy 2020. The principles of sustainable development are thereby firmly anchored in the Group organisation and its business processes. Concretely, the CR Strategy 2020 consists of five specific sub-strategies. These cover key areas of the business model that can be specifically influenced by the Otto Group: social responsibility within the supply chain, environmental protection at Group sites and during transport as well as environmental and resource protection in the manufacturing of textiles, furniture products, and catalogue paper. In order to reduce the ecological and social impact of the Otto Group's business activities in an effective and measurable way, Group-wide goals have been defined for each of the five sub-strategies right up to the year 2020.[4] A new CR strategy is currently being devised. In order to ensure a seamless transition between the current strategy and the new strategy, this new CR strategy will be implemented across the Group in 2020.

INNOVATION

Online retail is by far the Otto Group's largest distribution channel and the main future driver for the Group. In this fast-paced environment, innovation is essential to secure sustainable success. Several central departments were set up in the past few years in order to identify developments and technologies early on and to transfer these findings to all of the Otto Group's companies. As part of **Digital Excellence** division and its innovation radar initiative, innovation management involves monitoring and testing new technologies to determine their relevance for use within the Otto Group. Trends that are considered particularly relevant are implemented as prototypes and the findings that are obtained are made available to the entire Group. The overarching objectives of this are to secure competitiveness and to generate growth momentum for the Group companies.

At this point, the **Business Intelligence** team also joins in, using cutting-edge technologies to develop forward-looking e-commerce solutions. The interdisciplinary team of strategists, big data specialists and data scientists uses algorithms derived from the latest scientific research on artificial intelligence, such as deep learning, and state-of-the-art natural language processing techniques. In order to be able to make better use of the diverse knowledge of these experts in the Group headquarters and in the Group companies, the **Knowledge Management** team organises the networking of the knowledge holders at the various levels and ensures efficient and timely transfer of know-how.

[4] A more in-depth presentation of the CR Strategy 2020 and its five sub-strategies may be found in the chapter "Corporate Responsibility".

Some sample projects are presented below:

KITCHENS IN VIRTUAL REALITY

Planning kitchens using modern 3D tools has already been a standard feature of premium kitchen consulting for some time. Both planning and deciding to make a purchase require careful consideration. Küche&Co offer customers an innovative solution for exactly this purpose. Once the Kitchen Studio consultant has helped the customer to plan their dream kitchen using the 3D tools, the customer can explore the kitchen in virtual reality. For VR exploration, Küche&Co provides a Google Cardboard viewer customised for the brand; the viewer can be used to transform almost any smartphone into a virtual reality headset in just a few simple steps. This allows the customer to visualise their new kitchen in 3D either directly in the Studio, or later on in their own home, before they decide to make a purchase.

VOICE COMMERCE

Over 40% of Americans already own a smart speaker at least, and in recent years, ownership of these products has also continued to increase strongly in Germany. As the voice becomes an ever more important input interface, the range of smart solutions that can be used on these smart speakers or via virtual assistants on smartphones is also steadily growing. In addition to classic applications of voice technology such as ‘smart homes’, retailers are also exploring the exciting domain of ‘voice shopping’. A team of employees from the Otto Group have successfully carried out pioneering work in this field with the launch of the ‘OTTO Action’ app for the Google Assistant in September 2018. The first voice-shopping app of its kind in Germany, OTTO Action allows the user to make an entire purchase via a voice assistant.

AUGMENTED REALITY IN FURNITURE PURCHASING

Based on a few photos of a product, online customers must try to picture how an item of furniture might look in their own home and to guess – regarding the dimensions – whether it will fit in the space that they have chosen for it. Since last year, customers of the online specialist shop ‘yourhome’ have had access to the perfect solution to this problem: an augmented reality app for iPhone and Android smartphones. When the customer scans a room, their smartphone display shows the piece of furniture virtually in their home with just a few seconds. The app is so practical and easy to use that Apple has preinstalled it on iPhones in stationary Apple Stores worldwide.

ECONOMIC ENVIRONMENT

OVERALL ECONOMIC ENVIRONMENT

Over the course 2018, the development of the **global economy**, and consequently, the increase in the global gross domestic product – hereafter GDP – of 3.7% when adjusted for inflation was slightly less than the previous year’s figure of 3.9%. A high degree of uncertainty caused by trade conflicts and a large number of additional political risk factors contributed to this situation. Overall economic expansion was fairly heterogeneous in advanced economies, unlike the situation of 2017, when expansion displayed a similar strong upward trend in almost all large economies. While economic development slowed down in the Euro area and Japan, fiscal incentives induced an increased rate of expansion in the US. In emerging economies, economic growth came to a halt. Among other things, the slowdown in China’s high economic expansion rates had a negative impact on development in these countries. Economic recovery continued in Russia, although as in previous years, the pace was once again very slow. International trade showed strong growth at the beginning of 2018. However, over the course of the year, it lost momentum and towards year-end, it declined significantly. Consequently, the increase in global trade volume of 3.5% (2017: 4.5%) was noticeably lower than the previous year.

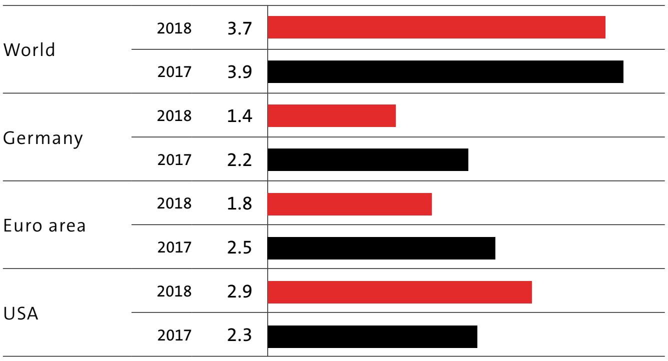
In the **German economy**, growth slowed down in 2018 and was characterised by a real GDP growth of 1.4% (2017: 2.2%). Stagnation of economic performance in the second half of the year contributed significantly to this development. Private-household consumption expenditure increased more slowly than in previous years, as a result of a rising private-household savings rate in particular. However, positive impetus was provided by employment growth, which has been increasing for years, as employment figures reached a new high once more. Furthermore, real wages increased again, as in the previous year. Corporate investment expanded at a similar rate as in 2017. When considered as a whole, foreign trade development was modest. Imports expanded at a significantly slower rate than the previous year and import growth declined with respect to all sales regions; the slowing of economic growth in major sales markets was a significant contributory factor. The stagnant state of overall economic expansion in the second half of the year was partially due to factors with a temporary negative impact, such as the low water level of the Rhine resulting from the extremely hot summer.

In the **Euro area** economic development was less dynamic in 2018 than the previous year. This was reflect in a rise of real GDP of 1.8% (2017: 2.5%). The overall economic expansion rate declined in comparison to the previous, particularly in the large countries in the Euro area. Imports were weakened by exceptional country-specific factors and the lack of stimuli from the international environment; this contributed significantly to the economic slowdown. As a result, development of exports from the Euro area was disproportionately low in comparison to global trade, unlike previous years.

Nevertheless, private-household consumption expenditure benefited from a rise in real wages and growth in employment. The ongoing positive development observed on the labour market since mid-2013 continued, with the annual average unemployment rate falling to 8.2% (2017: 9.1%). When considered as a whole, economic growth in the European Union countries outside of the **Euro area** also weakened. While economic growth continued to be strong in central and eastern European countries, such as Poland for example, economic expansion in the United Kingdom in particular was very modest. Uncertainty resulting from the Brexit situation had a very strong negative impact on overall economic development in the United Kingdom.

In the **USA**, overall economic output accelerated strongly in 2018 and was characterised by an inflation-adjusted increase in GDP of 2.9% (2017: 2.3%). Growth of this degree of strength was last observed in 2015. Private consumer spending expanded at a rapid rate similar to that of the previous year, whereas corporate investment increased at a clearly accelerated rate, with a supportive effect on economic growth. This was due to the tax reform agreed in the previous year, among other things. The US labour market delivered a robust performance in 2018 as well, resulting in continued growth in employment and a fall in average annual unemployment levels to 3.9% (2017: 4.4%). However, given that imports grew at a much faster rate then exports, foreign trade did not provide any positive impetus overall in 2018.

Change in real GDP
(in %)



SECTOR-SPECIFIC ENVIRONMENT

MULTICHANNEL RETAIL

In 2018, the entire **German retail sector** recorded a nominal rise in revenue of 2.9% compared to the previous year (2017: 4.3%). Adjusted for inflation, this corresponds to a rise of 1.2% (2017: 2.3%). This meant that for the ninth year in a row, German retailers recorded both nominal and inflation-adjusted sales increases compared to the previous year. The increase in retail sales can be explained by the continued strong growth of the German economy. The ongoing dynamic growth in employment witnessed over the past thirteen years continued in 2018, with employment figures reaching a new high. Low interest rates likewise provided positive stimuli. After the previous year's increase of 0.8%, real wages rose again even further by 1.3%. The average rise in consumer prices in 2018 was fairly strong at 1.9%, falling above the annual rates of inflation in preceding years. The rise in the cost of energy products, in particular, led to noticeable inflationary pressures. Against the background of this overall economic development, private-household consumption expenditure, adjusted for inflation, increased by 1.0% in the past year (2017: 1.8%).

The **German online and mail-order sales sector** increased its sales of goods by 9.6% in 2018 to EUR 68.1 billion (2017: EUR 62.2 billion). In the **e-commerce sector** especially, above-average sales increases of 11.4% were recorded, whereby sales of goods in pure online business amounted to EUR 65.1 billion (2017: EUR 58.5 billion). Commodity-driven e-commerce in Germany has now grown by approximately 52% since 2014. Clothing remained the best-selling class of products in 2018 in the e-commerce sector – followed by electronics and telecommunications products, computer equipment and games, and software products. A significant sales increase of 12.5% was recorded in the furnishings sector, with sales of household goods and appliances, furniture, lamps and decoration, and home textiles amounting to just under EUR 10 billion for the first time in 2018. Within the **e-commerce sector**, extremely dynamic growth was recorded for multichannel retailers in particular, i.e. retailers that sell their products across multiple distribution channels.

Internet usage via smartphones and tablets also increased further in 2018. In terms of sales, the percentage of orders of goods in the German e-commerce sector placed via the mobile Internet rose to 29.5% in 2018 (2017: 26.6%).

FINANCIAL SERVICES

The strong performance of the German economy in 2018 affected the **German financial services sector**. In the past year, the number of company insolvencies decreased for the ninth time in a row and declined by 3.9% to 19,302 cases compared to the previous year (2017: 20,093 cases). The number of company insolvencies thus reached its lowest level since the introduction of the German Insolvency Code in 1999. Creditors' claims arising from filed company insolvencies declined significantly to approximately EUR 21.0 billion (2017: EUR 29.7 billion) and the average claim amount per insolvency was EUR 1.1 million (2017: EUR 1.5 million). The disproportionately extreme decline in receivables in comparison to the decline in the number of company insolvencies is due to the fact that fewer economically significant companies had to file for insolvency in 2018 than in the previous year.

German companies' payment behaviour, which had already been at a very high level, saw a further improvement in 2018. Companies identified a high rate of payment default by their own customers, temporary liquidity bottlenecks, and taking advantage of supplier credit as the main reasons for not meeting payment obligations. On the other hand, low order volumes did not play a significant role.

The number of consumer insolvencies in 2018 likewise declined significantly in comparison to the previous year. With 67,597 cases, it was 6.0% below the corresponding figure for the previous year of 71,896 cases. An increase in the number of consumer insolvencies was last observed in 2010. Unchecked consumerism, personal over-indebtedness, intentional non-payment and temporary liquidity bottlenecks were given as the main reasons for consumers failing to meet payment obligations. On the other hand, job losses played only a minor role in light of the continued strong growth of the German economy. In 2018, it were primarily companies in the online and mail-order retail sectors, the energy sector and the craft sector that were affected by poor payment behaviour at consumer level.

SERVICES

In 2018, the **German transport and logistics industry** was characterised by the fact that, overall, goods transport was able to sustain the continued positive development witnessed since 2010 (with a slight decrease in 2012). Total freight volume rose by 1.0% on average over the year (2017: 1.9%). Consequently, the strong, albeit modestly dynamic performance of the German economy in 2018 also affected the transport sector.

In addition to the continuously intensely competitive market environment, crude oil prices and the development of wage costs in particular have a noticeable effect on the German transport and logistics sector. Overall, general cost levels in German goods transport displayed a slight upward trend in 2018. In addition to higher personnel expenses as a result of collective wage agreements and the wage adjustments needed due to the increasing impact of driver shortages in large urban areas, crude oil prices over the course of 2018 were slightly higher than in the previous year. However, the development of fuel costs did not have a significant negative impact on the German transport and logistics sector.

As a result of the dynamic growth in online and mail-order sales and the continuing sharp increase in the volume of parcel deliveries to private households, German parcel-services providers continued to invest heavily in logistics infrastructure and further digitisation in 2018 in order to accommodate the increased number of deliveries. At the same time, new approaches were developed and tested in order to respond to changing customer requirements, the noticeable driver shortages and the challenges of the traffic situation.

COURSE OF BUSINESS

As is evident from the consolidated income statement, the course of business in the 2018/19 financial year was influenced by a number of specific circumstances, which affected the reported revenue of the Otto Group in particular. These included the deconsolidation of ABOUT YOU GmbH, last year's harmonization of the financial year by a number of Group companies, currency rate effects and a new system for classifying revenue from contracts with customers (IFRS 15). As a result of these extraordinary circumstances, the Otto Group's revenue for the 2018/19 financial year as reported in the consolidated income statement was slightly less than that of the 2017/18 financial year, with revenues decreasing by 1.6% from EUR 13.7 billion to EUR 13.4 billion. To facilitate comparison between the two financial years, an assessment that has been adjusted to allow for the above-mentioned specific circumstances, including the elimination of currency effects is given below. In the remainder of the report, all references to the reported revenue will be accompanied by a relevant note.

The Otto Group continued its targeted growth strategy in the 2018/19 financial year and was able to increase revenue by 3.5% up to EUR 13.4 billion. Revenue showed positive development in all three segments. Online revenues in the Multichannel Retail segment were increased by 4.5% to approximately EUR 7.7 billion worldwide and by 5.2% to EUR 5.3 billion in Germany.

The growth in revenue forecast for the 2018/19 financial year in the 2017/18 Group Management Report could not be achieved. The unusually long and hot summer in Europe, which affected business in general, impacted the Otto Group's textile and furniture revenues, and consequently the financial performance as a whole. What's more, revenue growth was also negatively impacted by the deliberate withdrawal of certain brands from the Russian market.

In addition, earnings were affected by the planned heavy investments in the further development of the Group company OTTO and in the logistics infrastructure of the entire Group. Earnings before interest and tax (EBIT) in the amount of EUR 222.0 million declined compared to last year's EBIT figure of EUR 387.6 million.

Earnings before tax (EBT) in the amount of EUR 277.6 million decreased considerably compared to last year's EBT figure of EUR 622.4 million. The net financial result of the 2018/19 financial year was positive, largely due to the gains resulting from the fair-value assessment of some investments from venture activities conducted as part of the initial adoption of IFRS 9, and due to the deconsolidation of Zahnärztekasse AG. However, the previous year's net financial result is only comparable to a limited extent because of the high impact of the deconsolidation of the Group company ABOUT YOU GmbH. The latter deconsolidation had a very positive effect on the net financial result and, as a consequence, on the EBT as well.

The EBT forecast for the 2018/19 financial year in the 2017/18 Group Management Report, which was expected to be on a par with the strong earnings position achieved in the 2017/18 financial year on an operational level, i.e. without taking the effects of the portfolio optimisation process into account, was not fully achieved, primarily due to the above-mentioned effects.

Even under difficult conditions and a challenging market environment, the Otto Group remains profitable and continues to invest in sustainable business concepts and technologies. Following a consolidated annual profit of EUR 516.0 million in the 2017/18 financial year, the Otto Group recorded a consolidated annual profit of EUR 176.9 million.

THE GROUP'S FINANCIAL PERFORMANCE

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

Consolidated income statement (summary)

	2018/19	2017/18
	EUR Million	EUR Million
Revenue (as reported)	13,446	13,660
Earnings before interest, tax, depreciation and amortisation (EBITDA)	524	733
Earnings before interest und tax (EBIT)	222	388
Earnings before tax (EBT)	278	622
Profit for the year	**177**	**516**

Average revenue per employee declined slightly compared to last year, from EUR 263.8 thousand to EUR 255.8 thousand.

Overall, 75.6% of the revenue recorded in the consolidated income statement by the Otto Group was obtained from the sale of merchandise (EUR 10,170.5 million, 2017/18: 76.7%), 6.1% from revenue from financial services (EUR 815.6 million, 2017/18: 6.1%), and 18.3% from revenue from other services (EUR 2,460.4 million, 2017/18: 17.1%). The Group's development in terms of revenue in the 2018/19 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.

With a slightly increased share of 61.3% (2017/18: 60.6%) in the revenue recorded in the consolidated income statement by the Otto Group, Germany remained the Group's most significant regional sales market in the 2018/19 financial year. While 21.7% (2017/18: 21.6%) of revenue recorded in the consolidated income statement was derived from Europe (excluding Germany and Russia), the North America region contributed 13.8% (2017/18: 13.9%) to the revenue recorded in the Otto Group's consolidated income statement. Russia followed with 1.7% (2017/18: 2.4%) and Asia with 1.3% (2017/18: 1.4%). Revenue by region recorded in the consolidated income statement is as follows:

Revenue by region

	2018/19	2017/18	Change	adjusted
	EUR Million	EUR Million	in %	in %
Germany	8,244	8,271	−0.3	2.9
Europe (exlcuding Germany and Russia)	2,915	2,946	−1.1	7.5
North America	1,856	1,892	−1.9	3.7
Russia	230	324	−29.0	−10.5
Asia	180	191	−6.0	−5.2
Other regions	23	36	−36.1	−7.6
Group	**13,446**	**13,660**	**−1.6**	**3.5**
Domestic	8,244	8,271	−0.3	2.9
Foreign	5,202	5,389	−3.5	4.5

The decline in reported revenue in the Group's individual sales markets were affected by the above-mentioned specific circumstances. When adjusted for these circumstances, there was an increase in revenue in Germany and the rest of Europe (excluding Russia). However, this increase was restricted by the unusually long, hot summer. The increase in revenue amounted to 2.9% in Germany and 7.5% in the rest of Europe (excluding Russia). A revenue increase of 3.7% was achieved in North America. The decline in revenue in Russia was influenced by the withdrawal of certain Otto Group brands from the Russian market. In the future, the Otto Group will focus primarily on the brand bonprix in Russia.

The Group's gross profit margin amounted to 47.0% (2017/18: 48.3%), which was less than the previous year. In absolute terms, gross profit declined by EUR 277.9 million to EUR 6,324.0 million.

Other operating expenses were reduced by EUR 173.8 million. This reduction is largely due to the deconsolidation of ABOUT YOU GmbH at the end of the 2017/18 financial year. Since the 2018/19 financial year, high investments in the growth of ABOUT YOU GmbH, especially the high advertising expenditure have not just had a negative impact on the Otto Group's earnings, but has also been included, only proportionally as yet, in income (loss) from equity investment by means of reporting using the equity method. A reduction in income from equity investments of EUR 69.0 million was reported for the 2018/19 financial year, allotted primarily to ABOUT YOU GmbH. Furthermore, purchased goods and services, personnel expenses and other operating expenses include approximately EUR 100 million for the change in the business model of the Group company OTTO from a pure online retailer to an e-commerce platform. In addition, the reorganisation of the Hermes Group's logistics infrastructure in Germany also had significant adverse effects in the 2018/19 financial year, which are included under both personnel expenses and other operating expenses.

As a result of the above-mentioned effects, earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to EUR 524.4 million in the 2018/19 financial year, which was below last year's very strong EBITDA figure of EUR 732.6 million.

In the past financial year, depreciation, amortisation and impairments together fell by EUR 42.7 million to EUR 302.3 million. This decline is predominantly attributable to impairment losses. Amounting to a total of EUR 30.0 million, these were considerably lower than the previous year's figure of EUR 62.3 million. In the 2018/19 financial year, impairment losses on intangible assets and on property, plant and equipment were attributable to acquired software and software developed in-house, and land and buildings, and predominantly related to a Russian Group company from the Services segment, and, to a smaller extent, to two German retailers and one Japanese retailer in the Multichannel Retail segment. The amortisation of intangible assets and of property, plant and equipment declined by EUR 10.3 million.

Primarily as a result of the above-mentioned effects, earnings before interest and tax (EBIT) declined to EUR 222.1 million in the 2018/19 financial year (2017/18: EUR 387.6 million). Due to the more severe reduction in EBIT in proportion to revenue, the EBIT margin decreased to 1.7% compared to 2.8% in the previous year.

The Group's net financial result in the 2018/19 financial year was EUR 55.5 million, which is significantly lower than the previous year's figure of EUR 234.8 million. Net interest income (expense) amounted to EUR –119.1 million (2017/18: EUR –102.9 million), which was close to the previous year's figure, whereas other net financial income (expense) is reporting a very significant decline. It amounted to EUR 174.5 million compared to EUR 337.7 million in the previous year. In the 2018/19 financial year, other net financial income (expense) primarily consists of gains resulting from the fair-value assessment of some investments from venture activities conducted as part of the initial adoption of IFRS 9 and from the positive effects of the deconsolidation of Zahnärztekasse AG and associated companies of the Blue Yonder Group. In the 2017/18 financial year, the deconsolidation of the Group company ABOUT YOU GmbH had an exceptionally positive effect on the net financial result, and consequently on the EBT as well.

Earnings before tax (EBT) in the amount of EUR 277.6 million represent a significant decline in comparison to last year's figure of EUR 622.4 million.

The income tax expense for the 2018/19 financial year amounted to EUR 100.7 million and thus fell below the previous year's income tax expense of EUR 106.4 million. The reduction in tax expenses resulted from the significant reduction in current income tax, particularly internationally, and a significant increase in deferred tax.

The profit for the year experienced a decline of EUR 339.2 million to EUR 176.9 million (2017/18: EUR 516.0 million). Of the profit for the year, EUR 100.7 million (2017/18: EUR 437.0 million) was attributable to the owners of the parent company, EUR 64.3 million (2017/18: EUR 73.7 million) to non-controlling assets, and EUR 11.9 million (2017/18: EUR 5.3 million) to publicly listed equity and participation certificates.

FINANCIAL PERFORMANCE OF THE SEGMENTS

Revenue/EBIT

	Revenue		EBIT	
	2018/19 EUR Million	2017/18 EUR Million	2018/19 EUR Million	2017/18 EUR Million
Multichannel Retail	10,320	10,548	25	144
Financial Services	824	841	322	338
Services	2,302	2,271	–33	–6
Holding/consolidation	–	–	–92	–88
Group	**13,446**	**13,660**	**222**	**388**

MULTICHANNEL RETAIL

In the 2018/19 financial year, the Multichannel Retail segment achieved reported revenue of EUR 10,320.3 million (2017/18: EUR 10,547.5 million) and contributed 76.8% (2017/18: 77.2%) to the Otto Group's revenue. On a comparable basis, revenue in this segment increased by 2.7%. The primary contributors to this increase were Group companies that were the subjects of targeted investments as part of the focused growth strategy. In the Multichannel Retail segment, apart from the Group company OTTO, these companies include the bonprix Group, the Crate and Barrel Group, the Witt Group and the myToys Group. ABOUT YOU GmbH is also one of the targeted companies within the growth strategy, however it is not included the Otto Group's revenue because of the use of the equity method for recognition and consequently is not included in the information below.

In the 2017/18 Group Management Report, an increase in revenue almost equal to the strong revenue growth after overall adjustment achieved in the 2017/18 financial year was forecast for the Multichannel Retail segment on a comparable basis. However, primarily as a result of reduced textile and furniture revenues due to the unusually long, hot summer in Europe, it was not possible to achieve this target.

Online retail, the distribution channel with the strongest growth, characterised segment development once again in the past financial year. E-commerce revenue increased noticeably by 4.5% to EUR 7,637.7 million. The segment's share in revenue amounted to 74.0% and stands clearly above the corresponding figure for the previous year of 69.3%. The Otto Group therefore continued to benefit noticeably from the very dynamic growth in the online retail market.

The above-mentioned companies targeted in the Multichannel Retail segment represent revenue growth of 5.4% in the 2018/19 financial year overall. In this segment, Group company OTTO's performance in particular was exceptionally positive. Revenue rose considerably by 8.3%. Growth was achieved across all categories, partially as a result of the successful expansion of the number of active customers. The bonprix Group increased revenues by 3.4%. This Group achieved excellent growth in East European markets in particular. The Witt Group's revenue remained stable at the previous year's figure. An 8.0% revenue increase was achieved by the myToys Group, which specialises in the target groups of family and women. In this Group, the retail service Limango in particular proved to be a growth driver, developing into a central platform for family shopping. For the Crate and Barrel furnishings and lifestyle group, which operates in the USA and Canada, revenues increased by 3.5%.

The decline in revenue reported in the Multichannel Retail segment and the Group company OTTO's expenses contained in purchased goods and services for the shift in its business model from a pure online retailer to an e-commerce platform lead to a significant decrease in gross profit by EUR 222.9 million. In the 2018/19 financial year, the gross profit margin was 47.7%, which was below the previous year's figure (2017/18: 48.8%). Overall, the segment's financial performance was significantly influenced by the reporting change for ABOUT YOU GmbH. The associated high advertising costs are only partially accounted for in the income from equity investments. At the same time, as explained above, earnings were affected by Group company OTTO's expenses of approximately EUR 100 million in relation to its change in business model. The above-mentioned factors primarily lead to a decline in the EBIT figure for the Multichannel Retail segment in the 2018/19 financial year from EUR 144.1 million to EUR 25.2 million.

FINANCIAL SERVICES

The Financial Services segment, which is driven by the business operations of the internationally operating EOS Group to a great extent, achieved revenue growth of 4.2%, with the EOS Group actually achieving revenue growth of 9.6%. However, reported revenue from this segment decreased marginally from EUR 841.4 million to EUR 823.6 million. In the past financial year, the EOS Group benefitted once again from the continued purchase of receivables packages as part of the expansion of receivables management activities, which has had a significantly positive effect on revenue figures. A contrary effect was recorded regarding revenue from the Group company 3 SUISSES DE RE S.A., which, due to a decline in business performance, caused restricted growth in the entire segment.

In the Group Management Report for last year, revenue levels after overall adjustment for the 2018/19 financial year were forecast to be slightly above the revenue figures for the previous year. This forecast may be considered to have been met in full, as an increase in revenue of 4.2% was achieved. The segment's contribution to the Group's reported revenue was 6.1%, which was slightly lower than the previous year (2017/18: 6.2%).

The Financial Services segment's EBIT figure decreased by EUR 16.0 million to EUR 322.1 million in the 2018/19 financial year. The high profitability of the EOS Group contributed the excellent EBIT in this segment. The decline in earnings in this segment is largely as attributable to the activities of Otto Group Digital Services GmbH, as start-up losses were recorded as predicted in relation to the start-up activities of this company.

SERVICES

In the Services segment, an increase in reported external revenue of EUR 2,270.9 million to EUR 2,302.5 million was recorded, which represents growth of 1.4%. This segment showed significant growth, achieving a revenue increase of 7.1%.

This overall positive increase in revenue fully corresponds with the figure forecast in the 2017/18 Group Management Report for the 2018/19 financial year, which projected a considerable increase but one that was still lower than the revenue increase achieved in the previous year, a figure which was slightly below double digits. The share in the Group's reported revenue rose from 16.6% to 17.1%. Reported external revenue from customers outside the Group contributed 65.4% of the total revenue of the Services segment.

The segment is primarily characterised by the internationally operating Group companies under the Hermes umbrella brand. These benefit from the rise in e-commerce revenue and the increase in retail-related services in the service area in connection therewith. Compared to the previous year, the Hermes Group was therefore able to achieve a significant increase in revenue in the three major e-commerce markets of Germany, France and the United Kingdom in the 2018/19 financial year.

The Hermes Group's growth in revenue was accompanied by, among other expenses, an increase in personnel expenses. Furthermore, in Germany, a combination of a high volume of packages for delivery and an increasing shortage of delivery agents in urban areas in particular lead to a significant increase in wage costs, especially as regards delivery to end-consumers. Moreover, advances continue to be made in the restructuring of the logistics infrastructure, which resulted in extraordinary charges of EUR 28.7 million in Germany. These charges are included under personnel expenses and other operating expenses. In the previous year, these factors had a negative impact of a similar amount on the Services segment in Germany. Primarily as a result of the effects described, the segment's EBIT figure decreased from EUR −5.9 million to EUR −33.3 million in the 2018/19 financial year.

HOLDING/CONSOLIDATION

Apart from the effects of inter-segment consolidation, the holding/consolidation item reported inter-divisional costs of Group functions amounting to EUR 92.0 million (2017/18: EUR 88.8 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)

	2018/19 EUR Million	2017/18 EUR Million
Cash flow from operating activities	−10	168
Cash flow from investing activities	−203	75
Free cash flow	**−213**	**243**
Cash flow from financing activities	80	−96
Net increase in cash and cash equivalents	**−133**	**147**
Changes in cash and cash equivalents due to foreign exchange rates	1	−8
Cash and cash equivalents at beginning of period	518	379
Cash and cash equivalents at end of period	**386**	**518**

Cash flow from operating activities for the 2018/19 financial year amounted to EUR −9.7 million, which was significantly below the previous year's figure of EUR 167.6 million. Furthermore, as a result of the EBIT being lower in comparison to the previous year, gross cash flow was reduced. In addition, working capital was increased again, resulting in a negative impact. The expansion of working capital is attributable in particular to the ongoing purchase of receivables packages in the case of the EOS Group within the scope of expanding receivables management activities. Cash flow was also affected by the increase in trade receivables and inventories for the large Group companies in the Multichannel Retail segment, which is predominantly a result of the expansion of operational activities in these Group companies.

Cash flow from investing activities in the 2018/19 financial year was mainly influenced by the ongoing high level of investment in the IT and logistics infrastructures of various Group companies from the Multichannel Retail and Services segments. The following had a particularly significant effect: the expansion of the Hermes Group's logistics infrastructure (in Germany and the United Kingdom); the Group company OTTO's shift to an e-commerce platform; and the investments in IT infrastructure and over-the-counter retail stores associated with the strong operational performance of the Crate and Barrel Group. Other equity investments were also made by the EVC Group. Cash inflow from the sale of Swiss-based Zahnärztekasse AG and the offsetting of the purchase price receivable towards GFH Gesellschaft für Handelsbeteiligungen m.b.H. that arose within the scope of the sale of shares in ABOUT YOU GmbH had a contrary, positive effect on cash flow from investing activities in the past financial year. In the previous year, cash flow from investing activities included a high payment in the form of the settled purchase price receivables resulting from the sale of shares in Cofidis.

In the 2018/19 financial year, cash flow from financing activities was influenced by the payment of dividends, in particular dividends to minority shareholders, as well as by the issue of a hybrid bond in the amount of EUR 300 million. The latter has been included in the consolidated balance sheet as equity. Cash flow from financing activities was also affected by the increase in the Group's net financial debt. Overall, there was a net increase in the Otto Group's cash and cash equivalents in the 2018/19 financial year.

EQUITY AND FINANCING

As at 28 February 2019, the Otto Group's consolidated balance sheet discloses total equity and liabilities of EUR 9,624.3 million. This represents an increase of 3.5% compared to the previous year. All provisions and liabilities of disposal groups presented in accordance with IFRS 5 as at 28 February 2019 have been reclassified as current provisions and liabilities ('Liabilities held for sale'), and consequently, it is only possible to compare the breakdown of non-current and current provisions and liabilities with the previous year to a limited extent.

Financing

	28.02.2019		28.02.2018	
	EUR Million	in %	EUR Million	in %
Equity	1,706	17.7	1,515	16.3
Non-current provisions and liabilities	3,845	40.0	3,770	40.6
Deferred tax	96	1.0	85	0.9
Current provisions and liabilities	3,977	41.3	3,928	42.2
Total equity and liabilities	**9,624**	**100.0**	**9,297**	**100.0**

The significant increase in equity amounting to EUR 191.5 million is due in particular to issue of a hybrid bond in the amount of EUR 300 million. The obligations under this bond are subordinate to the Otto Group's other liabilities, and the payment of interest is at the issuer's discretion. The hybrid bond has been included accordingly in the Otto Group's consolidated balance sheet as equity. In addition, the profit for the year achieved in the 2018/19 financial year amounting to EUR 176.9 million contributed to the increase in equity. Equity growth was negatively impacted by the payment of dividends, in particular to minority shareholders.

Non-current provisions and liabilities increased by EUR 75.2 million, corresponding to 2.0%, to EUR 3,845.2 million in comparison to the previous year. Against a background of long-running investment projects, long-term bank liabilities increased considerably. The reclassification of two bonds that fell due in the 2018/19 financial year under current provisions and liabilities had a contrary effect. Furthermore, there was an increase in provisions for pensions, which is essentially a result of increased provision allocations for vesting reasons.

Current provisions and liabilities increased slightly by EUR 49.6 million, corresponding to 1.3%, to EUR 3,977.4 million in the 2018/19 financial year. The reclassification of two bonds from non-current provisions and liabilities that will fall due in the 2019/20 financial year and the reclassification of all provisions and liabilities of disposal groups presented in accordance with IFRS 5 as at 28 February 2019 as current provisions and liabilities caused an increase. The decrease in short-term bank liabilities had a contrary effect. Short-term financing was repaid by means of cash inflow resulting from long-term loans and the hybrid bonds.

NET FINANCIAL DEBT

The Otto Group's net financial debt increased by EUR 230.2 million to EUR 2,739.0 million in the 2018/19 financial year. This represents an increase of 9.2%.

Large operational retail activities continued to generate significant liquidity. However, the Group company OTTO was an exception from this trend; as expected, it had higher liquidity needs due to its shift from online retailer to an e-commerce platform. The main drivers for the increase in the net financial debt figure are the significant debt purchases connected to the growth of the EOS Group and the high levels of investment in the restructuring of the Hermes Group's IT and logistics infrastructure. The payment of dividends, predominantly to minority shareholders, also contributed to the increase in the net financial debt figure.

Overall, net financial debt has developed as follows in the past two financial years:

Net financial debt

	28.02.2019 EUR Million	28.02.2018 EUR Million
Bonds and other notes payable	1,457	1,439
Bank liabilities	1,510	1,327
Other financing liabilities	158	261
Financial debt	**3,125**	**3,027**
Less securities	−18	0
Less cash and cash equivalents	−369	−518
Net financial debt for the Group	**2,739**	**2,509**
Less net financial debt for Financial Services	−1,086	−915
Net financial debt for Retail and Services	**1,653**	**1,594**

ASSET STRUCTURE

The Otto Group's total assets increased by EUR 327.4 million to EUR 9,624.3 million in the 2018/19 financial year. This represents an increase of 3.5%. All assets of disposal groups presented in accordance with IFRS 5 as at 28 February 2019 have been reclassified as current assets ('Assets held for sale'), and consequently, it is only possible to compare the breakdown of non-current and current assets with the previous year to a limited extent.

Assets

	28.02.2019 EUR Million	in %	28.02.2018 EUR Million	in %
Fixed assets	2,993	31.1	3,434	36.9
Other non-current assets	1,731	18.0	1,208	13.0
Deferred tax	123	1.3	140	1.5
Current assets	4,778	49.6	4,514	48.6
Total assets	**9,624**	**100.0**	**9,297**	**100.0**

Overall, non-current assets in the 2018/19 financial year amounted to EUR 4,723.6 million, which is slightly higher than the previous year's figure of EUR 4,642.8 million, and of which 117.5% (2017/18: 113.8%) is covered by long-term capital. Intangible assets and property, plant and equipment showed an increase, which is primarily attributable to ongoing high levels of investment in the IT and logistics infrastructures of various Group companies from the Multichannel Retail and Services segments. There were also shifts between fixed assets and other non-current assets within non-current assets as a result of splitting the shares in ABOUT YOU Holding GmbH into ordinary shares and preference shares (see Notes to the consolidated financial statements as at 28 February 2019, Note (18) "Investments in associated companies and joint ventures and other financial investments"), resulting in a significant decrease in fixed assets overall of around EUR 440.9 million. This decrease in fixed assets was also due to the reclassification of investments from disposal groups presented in accordance with IFRS 5 (this relates to two Group companies from the EVC Group in this context) as current assets. Ongoing purchases of receivables packages by the EOS Group also resulted in an increase other non-current assets.

Current assets increased by EUR 263.3 million, the equivalent of 5.8%, in the 2018/19 financial year. The inventories of large Group companies in the Multichannel Retail segment increased as a result of the expansion of their business operations. The above-mentioned reclassification of all assets from disposal groups presented in accordance with IFRS 5 resulted in an increase in current assets.

INVESTMENT

Capital expenditure on intangible assets and property, plant and equipment in the 2018/19 financial year amounted to EUR 413.4 million, which is slightly higher than the previous year's high figure. This expenditure mainly relates to the IT and logistics infrastructure of the various Group companies in the Multichannel Retail and Services segments.

The Hermes Group continued to invest in the expansion of its logistics infrastructure and upgrading its software landscape in both Germany (Hermes Germany GmbH) and the United Kingdom (Hermes Parcelnet Limited) in order to further increase capacity and respond to continually increasing demand. At the Group company OTTO, the focus during the 2018/19 financial year was on the change from a pure online retailer to an e-commerce platform. Its IT landscape in particular was the subject of high levels of investment, to adapt it to changing customer requirements and to automate the process of onboarding new partners on the platform. Moreover, the company forged ahead with extensive modernisation works at the Hamburg-Bramfeld site. Against a background of strong business performance, the Crate and Barrel Group in the USA and Canada invested in IT infrastructure as well as in existing and new over-the-counter retail stores. Furthermore, additional Group companies from the Multichannel Retail segment invested in further digitisation of their business models.

A total of EUR 20.0 million (2017/18: EUR 16.2 million) was attributable to additions in the area of finance leases.

Investment by segment

	2018/19 EUR Million	2017/18 EUR Million
Multichannel Retail	228	197
Financial Services	42	29
Services	143	154
Group	**413**	**380**

FUNDS COMMITTED BY SEGMENT

In the 2018/19 financial year, the funds committed by the Otto Group continued to be characterised primarily by the Multichannel Retail and the Financial Services segments.

Funds committed by segment

	28.02.2019 in %	28.02.2018 in %
Multichannel Retail	54.9	58.4
Financial Services	32.1	30.0
Services	13.0	11.6
Group	**100.0**	**100.0**

REPORTING THE FINANCIAL SERVICES PROVIDERS USING THE "AT EQUITY" METHOD

The following presentation shows, additionally, the Otto Group's balance sheet based on reporting the Group companies in the Financial Services segment using the equity method – hereafter "FS at equity"– instead of by full consolidation, as is the case in the consolidated financial statements as at 28 February 2019. This approach presents the Otto Group's Multichannel Retail and Services segments excluding the banking-type structures in the Financial Services segment. The presentation chosen permits a valid comparison with retail companies that do not have such financial services activities.

The key financial figures and indicators in "FS at equity" show that the Otto Group's retail and services sectors continue to have a very sound financing structure. Total assets rose slightly to EUR 8,060.8 million from EUR 7,907.6 million in the previous year. This represents an increase of 1.9%. All assets of disposal groups presented in accordance with IFRS 5 as at 28 February 2019 have been reclassified as current assets ('Assets held for sale'), and consequently, it is only possible to compare the breakdown of non-current and current assets with the previous year to a limited extent. Furthermore, within non-current assets, a shift occurred between fixed assets and other long-term assets as a result of the shares in ABOUT YOU Holding GmbH being split into ordinary shares and preference shares (see Notes to the consolidated financial statements as at 28 February 2019, Note (18) "Investments in associated companies and joint ventures and other financial investments"). When adjusted for the above effects, this results in an increase in fixed assets, which is also a major factor in the increase in total assets. This can be largely attributed to sustained high levels of investment in the IT and logistics infrastructure of various Group companies in the Multichannel Retail and Services segments.

The Group equity ratio amounts to 20.4% compared to a figure of 18.4% last year. Apart from profit for the year in the amount of EUR 166.4 million, the main reason for this was the issue of a EUR 300 million hybrid bond which had to be designated as equity in accordance with IFRS rules. However, equity growth was negatively impacted by the payment of dividends, in particular to minority shareholders.

In the "FS at equity" presentation, the net financial debt increased slightly by EUR 59.1 million to EUR 1,653.0 million. Large operational retail activities continued to generate significant liquidity. However, the OTTO Group company experienced higher liquidity needs as a result of expanding the e-commerce platform, as did the Hermes Group as a result of investing in the restructuring of its IT and logistics infrastructure. The payment of dividends, predominantly to minority shareholders, also contributed to the increase in the net financial debt figure.

Theoretically, it would take 3.5 years to fully pay off the net financial debt using results from operations (EBITDA). The leverage ratio declined slightly to 1.0.

Otto Group "FS at equity"

	2018/19	2017/18
Group equity ratio in %	20.4	18.4
Net financial debt in EUR Million	1,653	1,594
Debt service ratio in years (net financial debt/EBITDA)	3.5	2.3
Leverage ratio in years (net financial debt/Group equity)	1.0	1.1

Balance sheet structure "FS at equity"

	28.02.2019		28.02.2018	
	EUR Million	in %	EUR Million	in %
Assets				
Fixed assets	3,424	42.5	3,775	47.7
Other non-current assets	639	7.9	293	3.7
Deferred tax	137	1.7	153	1.9
Current assets	3,862	47.9	3,688	46.7
Total assets	**8,061**	**100.0**	**7,908**	**100.0**
Financing				
Equity	1,648	20.4	1,453	18.4
Non-current provisions and liabilities	3,073	38.1	3,114	39.4
Deferred tax	72	0.9	63	0.8
Current provisions and liabilities	3,267	40.6	3,278	41.4
Total equity and liabilities	**8,061**	**100.0**	**7,908**	**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. 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 minimising 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 RMS enables risks to be identified and monitored at an early stage, so that targeted measures can be taken directly where possible in order to 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 relevant process implemented for this comprises the following steps:

- **Identification and quantification**
  Each year, the Group Controlling division carries out an inventory of risks across the whole Group. In order to ensure comprehensive identification of all relevant risks, a risk inventory is carried out based on defined operational and functional risk categories and fields as well as checklists. Risks reported by the respective Group companies and/or divisions are assessed in terms of likelihood of occurrence and possible impacts over the three-year planning period. This assessment is carried out both in gross terms before risk control measures, and in net terms after risk mitigation measures. Risks are included in reporting according to individually established materiality limits or possible scope of loss, which is dependent on company size. The risks reported in the annual risk inventory are updated during the year for the meetings of the Advisory Boards of Group companies. Moreover, ad-hoc risk reporting ensures that the Group's Executive Board is immediately informed should new material risks occur at any other time than the official reporting times named.

Management and monitoring

The results of the risk inventory are presented in a risk matrix. This classifies all risks by their probability of occurrence and their economic effects and thus ensures that the Otto Group's risk situation remains transparent. Group companies and/or functions safeguard the commercial success of their business operations by specifying countermeasures to avoid or mitigate risks, or to transfer risks to a third party through an insurance policy, for example. Risks that have been classified as relevant because they are at least moderately likely to occur and have major implications for earnings and liquidity, as well as indicators relevant to the risk, are subject to more intensive monitoring.

The Executive and Supervisory Boards are informed of relevant developments in risk management. 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, implementation of, adherence to and regular monitoring of the compliance management system ensures that the relevant legal requirements and internal company regulations are complied with also.

Coordinated corporate communication is a central component of risk management at the Otto Group. There are binding regulations concerning the measures to be initiated in the event of an identified crisis. In addition, the Otto Group helps obviate potential risks to its reputation by regularly issuing confidence-building PR communication on relevant Corporate Responsibility matters. The RMS is under constant development by the management division organisationally responsible, in cooperation with Group Controlling, and is reviewed by Group Internal Audit.

OPPORTUNITIES AND RISKS ARISING FROM MARKET DEVELOPMENTS

As an internationally operating retail and service group, the Otto Group is dependent on the overall development of the economies relevant to it, and on the resulting effects on consumer behaviour. The global economic outlook for 2019 is characterised by the expectation of a sharp contraction in the rate of economic expansion. As before, there is still a number of potential risk factors and economic uncertainties influencing the performance of the global economy; these stem from past and pending decisions relating to economic, trade and monetary policy, the impact of the development in crude oil prices and ongoing geopolitical crises. In particular, trade policy conflicts and protectionist measures emanating from the US administration, risks arising from the possibility of a disorderly Brexit as well as uncertainty over the extent of the economic slowdown in China are affecting the global economic outlook.

In comparison to the previous year, the advanced economies (Germany, the Euro area and the USA, in particular) are expected to grow at a slower pace in 2019, mirroring the slower growth rates of overall economic output. However, growth in private consumer spending in the German economy is expected to continue, which is likely to be helped by a further increase in real wages as well as continued growth in employment. Employment in the Euro area is also expected to rise again. Despite the decline in economic growth, this increase will have a positive impact on private-household consumer spending. In the USA, consumer spending is also set to remain strong, supported by rising real incomes and a drop in unemployment rates. On the whole, however, this provides the Otto Group with an opportunity whereby the rise in private consumer spending in major sales markets in Europe and North America, despite weak economic growth in these countries, will have a positive effect on business performance.

In the emerging economies, overall economic output in 2019 is set to grow at a slower pace than in the previous two years. Even though there has been a halt to the weak economic performance observed in these countries over the past number of years, a noticeable upturn in the economic climate is not expected to materialise in 2019. Growth in these emerging economies is likely to be hampered by the sustained economic slowdown in China in particular. In Russia, overall economic recovery is set to continue at a moderate pace. However, a sustained improvement in the Russian economy is still held to be unlikely. Household consumption is expected to be supported by a significant drop in the rate of inflation and a sustained increase in real wages.

The very intense competition on the retail side continues to be a crucial competitive factor for the Otto Group. High price sensitivity in the European and North American retail sector in particular had a noticeable impact on the development in these sales markets. The Otto Group's longstanding competitive edge from its instalment purchasing/credit business is steadily becoming less significant as a result of equivalent offers from other competitors. It is also expected that cotton prices, which have been rising steadily, and crude oil prices, which are at least expected to stabilise at current levels, will have an neutral effect on business performance overall. However, factor costs in manufacturing countries, primarily in Asia, will continue to rise in the long term. Developments are continuously monitored and analysed to ensure that appropriate measures can be identified, such as the potential relocation to other procurement markets. They are also taken into account within the framework of the continued development of Group strategy and the renewal of offerings to customers.

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 supports the successful implementation of strategic goals. As part of an annual analysis of the Group portfolio, the potential of each Group company is evaluated and, where applicable, the portfolio is adjusted. Noticeable improvements have already been achieved, thanks to the measures already taken. A key component of the portfolio optimisation process included the sale of shares in ABOUT YOU GmbH and the resulting deconsolidation of the company in the 2017/18 financial year. There was also an increase in the number of investors during the 2018/19 financial year. Going forward, this will ensure that the high levels of investment needed to fund the company’s growth are supported by multiple parties, and that the company’s significant potential is fully realised. Additional portfolio optimisation measures are set to be implemented in the coming financial years. These may present opportunities as well as risks. Such risks arise primarily from the possibility of an unsuccessful turnaround in individual Group companies and the negative impact of the disposal of Group companies on liquidity and earnings.

In the **Multichannel Retail** segment, the Otto Group envisages significant growth opportunities in the continuous further development of e-commerce.

In this context, digitisation represents an important factor for success in the development of growth opportunities. In terms of using digital services and processing transactions, end users are using an increasing number of different end devices. In this respect, digital end devices with voice control functions such as Smart Speaker have become especially relevant. The challenge for companies is to ensure that they are adequately represented across all existing end devices as well as new end devices, that the services they offer can be fully enhanced and utilised, and that users of such services are afforded an optimal user experience. As part of its “Beyond Touch” initiative, the Otto Group is developing solutions that will allow existing services, such as service requests or order processing, to be enabled for voice control, as well as the development of entirely new digital services such as online chat features.

Group company OTTO is one of Germany’s leading e-commerce companies. In an effort to consolidate this market position in the long term, OTTO’s focus for the 2018/19 financial was the ongoing shift in their business model from a pure online retailer to an e-commerce platform. Thanks to its online platform, its diverse product and brand offering for existing and new customers and its role as a service provider, OTTO has succeeded in maintaining its strong, competitive position in the B2B sector. OTTO’s restructuring as an e-commerce platform allowed it to capitalise on the significant increase in e-commerce sales across Germany. As part of the platform transition process, a diverse range of new brand and product providers were already brought on board last year. The skills and processes required to enable this expansion were also established within the organisation. As a result of these efforts, and the successful implementation of various sales campaigns, OTTO once again succeeded in growing both its revenue and its number of customers during the 2018/19 financial year.

Online store aboutyou.de, which is owned by ABOUT YOU GmbH, continued the success story that it started in 2014 by recording a strong performance yet again in the past financial year. The fashion and technology company succeeded in achieving high double-digit revenue growth in the 2018/19 financial year once again and remains one of Europe’s fastest growing fashion tech startups. The company’s international expansion also continued during the 2018/19 financial year and included the addition of the Czech Republic as the seventh European market in which ABOUT YOU has an online presence. In addition, efforts continued on the development of new lines of business, such as the licensing of the company’s own e-commerce infrastructure ABOUT YOU CLOUD, for example. As part of a successful funding round, ABOUT YOU GmbH secured additional capital to finance its continued expansion. The investment by Heartland A/S, the investment holding company of one of Europe’s largest clothing companies, is an important factor here. The Otto Group remains the largest shareholder in ABOUT YOU GmbH and has included the fashion tech company in the consolidated financial statements based on the equity method. For the Otto Group, the significant ongoing increase in e-commerce business continues to represent clear growth opportunities for the company.

Backed by its very loyal customer base, the Witt Group is also performing very strongly. High levels of investment in IT and the digitisation of its business model and logistics system are important factors in validating its claim that it is the leading provider of women’s fashion for the 50+ market. The Witt Group is also placing increased focus on new, younger target groups. One of its aims is to counter the rising average age of its customers. This will be accompanied by entry into more competitive market segments with differing customer behaviour. The Witt Group is therefore also undergoing a transition phase whereby catalogue sales are giving way to a greater focus on online sales. These measures will create new opportunities for the Witt Group to win new target groups and achieve further revenue growth.

Further opportunities for growth are also evident in the bonprix Group. This is driven by the considerably stronger focus that the bonprix Group’s US subsidiary Venus Fashion, Inc. is placing on online customers and on improving customer service. Within the European market, the bonprix Group is preparing for an increasingly competitive market situation and is focused on achieving operational excellence across all operations. Currently, this focus is directed towards Eastern Europe in particular, where the Polish market especially has recorded strong sales growth. The Group’s visibility within the core German market is expected to be enhanced by its innovative new “Next Generation Retail” strategy, which saw the opening of its first physical store in central Hamburg in February 2019.

The Crate and Barrel Group’s business in the USA and Canada continued to record positive growth in the 2018/19 financial year. The CB2 brand performed exceptionally well here, achieving very significant revenue growth both from its online business and its physical retail outlets. This growth trend is expected to continue into the 2019/20 financial year. To achieve this, the Crate and Barrel Group are working on a range of different measures, such as ongoing optimisation of its product ranges, expansion of its physical CB2 retail outlets as well as a number of projects aimed at enhancing customer experience both –online and offline–. Other measures of note include investment in its IT infrastructure and logistics system. Opportunities are therefore expected to arise from the increase in the number of active customers and rise in sales that will be achieved as a result. External risks may occur as a result of increased competition, economic trends and trade policy decisions taken by the US administration.

In the United Kingdom, the mail-order sector continued to face challenging market conditions in the 2018/19 financial year. Despite this, the Freemans Grattan Group –hereafter FGH– succeeded in continuing its growth trajectory –largely as a result of a sustained increase in online sales–. The ongoing uncertainty around the United Kingdom's future relationship with the European Union represents a major risk. If the United Kingdom leaves without an interim agreement, restrictions relating to the free movement of goods, such as custom duties and delays at custom borders, for example, are likely to result in a sharp decline in demand and further devaluation of the British pound in the coming financial years. A cross-divisional Brexit project team has already implemented a number of preliminary measures aimed at limiting the potentially negative effects for FGH and the Otto Group. These measures are also reviewed on an ongoing basis for necessary changes. However, the conclusion of a comprehensive interim agreement between the European Union and the United Kingdom is likely to limit the impact of the negative effects on the Otto Group's business operations. Nonetheless, uncertainty remains in relation to the specific implications of the structure of the long-term relationship between the United Kingdom and the European Union on expiry of the transition period.

In Russia, the business performance of all of the Otto Group's activities is influenced by the overall economic conditions as well as fluctuations in the Russian rouble. The resulting risks have been mitigated by means of structural measures, among other measures, which has since included the withdrawal of certain Otto Group brands from the Russian market. In addition, the Russian mail-order and online retail sector is rapidly becoming more competitive, and customer requirements are constantly growing. In order to face off these challenges, and fully capitalise on the long-term growth opportunities presented by the Russian market, Otto Group Russia's main focus in the future will be the largest bonprix brand.

Market opportunities for profitable growth continue to be seen in the **Financial Services** segment. For the EOS Group in particular, it is expected that its very strong performance will continue both in Germany and internationally and that the high level of investment in debt purchasing and property can be sustained. In addition, the expansion of secured receivables purchasing has opened up a new business segment in which further growth is expected. Given the Group's experience with the valuation and recovery of property, property portfolios are another asset class that present opportunities for the EOS Group. On the other hand, the potential tightening of legal conditions presents a risk for business operations. Furthermore, competitive pressures resulting from persistently low interest rates in the EOS Group's major markets remain strong.

Both existing and new B2B business models for the digital retail domain have been grouped together under the umbrella of Otto Group Digital Solutions GmbH. These business models are developed via the Group's company builders. Thus, the Otto Group's goal is to use innovative technologies to develop new marketable brands right across the Group portfolio's value chain, and to fully capitalise on the continuously growing opportunities in digitisation. For instance, a receivables management solution based on artificial intelligence is being developed further via collect Artificial Intelligence GmbH. The latest spin-off is ondemandcommerce GmbH, a full-service provider of fulfillment and returns solutions for the e-commerce market. The developments in these business models will allow the Otto Group to continue to maximise on existing potential within the Group and also benefit from external growth in e-commerce.

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

As in previous years, significant growth rates are expected in the main e-commerce markets in which Hermes provides its services. This concerns the major European retail markets of Germany, France and the United Kingdom in particular. An increase in cross-border business is also expected. Given its position in the major European retail markets, Hermes is also well poised to significantly benefit from this increase. In addition, the services provided by Hermes address the growing demand for the transcontinental transport of e-commerce goods from and to China and other manufacturer and consumer markets. In this context, the possibility of a disorderly Brexit carries the risk of having an adverse effect on cross-border transport from and to the United Kingdom. If the UK economy were to experience a sustained slowdown coupled with a decline in consumer sentiment, this would likely have long-term negative consequences.

Hermes is facing specific challenges, as is the competitive landscape as a whole. In particular, these challenges relate to the growing shortage of delivery agents for distribution logistics, especially in urban areas. This shortage of delivery agents has made hiring personnel more difficult and has resulted in higher wage costs, and thus a higher last mile unit cost. The proactive response of Hermes Germany GmbH to this situation was largely focused on the implementation of significant price increases for customers during the 2018/19 financial year. This has naturally increased the basic risk of losing customers to the competition.

Maintaining social standards is also an important factor for the Otto Group. To this end, Hermes has signed up to the Otto Group's code of conduct, and has had its own supplementary code of practice in place since 2011. It defines Hermes' basic employment standards and regulates issues such as worker protection, working conditions and minimum wages for service partners involved in last-mile distribution. The code of practice forms an integral part of each contract underlying our business relationship with all contractual partners. In terms of long-distance travel, Hermes voluntarily signed up to the FairTruck code in 2016. The aim of this code is to establish fair working conditions for all professional drivers. Working with an auditing company, Hermes also operates a comprehensive auditing system that provides for the regular, repeated 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.

Strong levels of competition and legal requirements are creating challenges for digitisation and mobility. Hermes is responding to these challenges on an ongoing basis. Constantly evolving, it is optimising and expanding digital services for end customers, for example, as well as route planning to secure even greater efficiencies. In an effort to counter the increasing threat of driving bans in major cities due to nitrogen oxide and fine dust pollution, Hermes is investing heavily in e-mobility.

FINANCIAL RISKS

The Otto Group's worldwide orientation 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 ("special regulation for finances") provides a framework for the handling of financial risks.

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

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

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

The financial management system ensures that the Otto Group's liquidity is maintained at all times. This ensures that the Otto Group has sufficient funds at its disposal for its operations and investments. Financing instruments may include money market products as well as leasing and factoring. A balanced banking portfolio together with sufficient free credit lines would guarantee the Otto Group's liquidity at all times, even in a crisis-beset general economic environment. Due to good ratings and close, long-term relationships with banks, the Otto Group remains in a position to hedge its liquidity through additional credit lines at any stage, even in a volatile financial market environment. No financial covenants are in place for the contracts concluded as part of central Group financing activities. However, a risk may arise from the ongoing tightening of banking sector regulations. This may lead to banks offering fewer credit options and being less willing to grant credit in the future. This risk was taken into account with the bonds issued and the Group's ability to access the capital market was demonstrated. With an issue volume of more than EUR 2.4 billion, the Otto Group has been one of the largest unrated issuers since 2009. Since 2013, the EMTN programme has provided the Otto Group with a platform for the flexible issuing of bonds, which the Group can use to take full advantage of opportunities on the capital market. In the 2018/19 financial year, the Otto Group took advantage of favourable capital market conditions to issue a hybrid bond in the amount of EUR 300 million. The obligations under this bond are subordinate to the Otto Group's other liabilities, and the payment of interest is also at the issuer's discretion. The hybrid bond has been included accordingly in the Otto Group's consolidated balance sheet as equity. Since the 2016/17 financial year, the Otto Group has also had access to a commercial paper programme for the issuing of short-term securities. This enables the company group to also cover short-term financing requirements through the capital market in addition to the use of existing credit lines with banks. The Otto Group's liquidity needs are based on a rolling monthly liquidity budget with a twelve-month horizon, and a daily budget with a horizon of four weeks or more. Both types of budget are regularly reviewed for variances.

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

Regarding the concentration of financial risks, refer to the Notes to the consolidated financial statements (see Notes to the consolidated financial statements as at 28 February 2019, Note (37) Financial instruments).

OPPORTUNITIES AND RISKS FROM CORE PROCESSES

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. Failure to deliver, delays and poor quality can undermine the trust that customers place in the Group's ability to process their orders reliably, and thus negatively impact e-commerce revenue. To counter these risks, the Otto Group practices professional purchasing management, with special emphasis on the selection of its suppliers. Potential quality deficits are minimised through close collaboration with suppliers and manufacturers and through constant quality controls. This systematic approach will also have a positive impact in light of the stricter legislation relating to placing textiles with chemical substances on the market, allowing risks to be minimised. The Otto Group also places particular emphasis on ensuring socially acceptable working conditions by means of a social management system and the inclusion of suppliers of own brands and licensed brands in the social programme.

Apart from this, appropriate systems have been installed to support the purchasing processes. System support and purchasing processes are constantly fine-tuned to ensure that goods are readily available at all times – even in times of temporary shortages. Digital innovations are harnessed to develop and deploy data-driven, agile, and fast processes.

The logistics area occupies a key position within the Otto Group. Highly advanced processes and systems are employed here, from merchandise pick-up and goods movement to intelligent route planning for the Group's own parcel-services providers. Based on the Group's many years of experience providing logistics services, the staff that it retains are also able to handle the usual seasonal peaks. However, modified business models for intra-Group customers are leading to new logistical challenges. For example, next-day delivery and extreme peaks in volume must be managed by the Otto Group's logistics companies. For this reason, logistical and IT changes must be made to existing systems, and these challenges must also be addressed in personnel deployment planning. Risks include the growing shortage of delivery agents for distribution logistics in urban areas. In order to ensure that intra-Group customers' different types of business model continue to be successfully supported in the future, the Group's existing warehouse logistics system is currently being adapted to accommodate company-specific logistics sites. Moreover, expanded capacity and new logistics centres in Germany are contributing to further improvements in delivery times and product ranges for end-consumers.

The monitoring of developments in the raw materials market and rigorous cost control in the form of continual evaluation of the stock position using digital modules ensure an optimal stock structure across all product groups.

OPPORTUNITIES AND RISKS FROM SUPPORT PROCESSES

The Otto Group's IT systems are subject to continuous development in order to respond to constantly changing conditions and to the technical requirements of the business models and markets. The goal here is to ensure that the Otto Group's IT department is in a position to provide the best possible support to Group companies in terms of digitisation. By making IT customer relationships more professional and by strengthening the market focus of IT services, the Otto Group's IT departments are enabling Group-wide IT customers to focus on their respective core businesses. The Otto Group sees this as an opportunity to safeguard the future online growth of the Group in as optimal a way as possible. Together, OTTO, Baur Versand (Gmbh & Co KG) and SCHWAB VERSAND GmbH have implemented a custom Cross-selling function (whereby the goods of one Group company are offered in the online stores and catalogues of other Group companies) in the new IT environment. This will ensure that advantages associated with volume bundling and inventory control will continue to be reaped in the future also. Other strategies are being developed by the German group on the basis of cooperative models in an attempt to offset the fall-off in traditional cross-selling.

Given the increasing strategic importance of e-commerce and in order to create greater technology-based efficiencies, a technology strategy has been developed for the purposes of reinforcing synergies within the Otto Group. This involves a greater level of standardisation both in relation to B2C-specific systems such as online stores, customer relationship management systems and online functionality as well as the corresponding back-end processes (sales, order management, purchasing, accounting and finance). This will create opportunities to profit even further from the growing e-commerce sector.

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

Since 25 May 2018, data protection law within the European Union has been governed directly and uniformly by the EU General Data Protection Regulation – hereafter GDPR. There are a number of decisions pending from the European Court of Justice in relation to areas that are relevant to the Otto Group and have the potential to have both positive and negative consequences for its individual business models. To date, very few if any of these decisions have been made. Within its Group companies, the Otto Group has rolled out a comprehensive course of action and has implemented the provisions of the GDPR through numerous on-site workshops and regular self-assessment initiatives. Since May 2018, implementation of these measures has been validated and monitored by an intensive risk control process which includes monthly reporting to the Executive Board. This rigorous level of monitoring allows the Otto Group to identify any residual risk as early as possible and take appropriate action. The increased restrictions in online marketing arising from the implementation of the GDPR across business operations must be accepted and offset by targeted measures in other areas.

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. 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 strategic restructuring of the data centres was successfully completed at the start of the 2019/20 financial year. This work involved the construction of an externally operated co-location as a primary data center as well as the modernisation of data centre operations at the Hamburg-Bramfeld site for use as a secondary data centre. In addition, all back-end network components and infrastructure at the Hamburg-Bramfeld site have been redesigned and are now fully redundant. The external co-location as well as the new network back-end infrastructure corresponds to the highest tier 3+ standards.

The IT emergency management procedure that has been put in place, which includes optional integration into the crisis management procedure, also provides for the ongoing development of IT emergency precautionary measures. Regular emergency exercises are carried out in order to test the performance of the extensive security measures, both individually and as a group. Existing methods of communication have been expanded to include O365 Teams and SMS Ticker, a cloud-based incident blog.

With a view to minimising risks, all system developments are carried out in separate environments; before going into current operation, they are subjected to a comprehensive range of tests and then released by a management team comprising experts from the respective specialist departments and IT. The majority of German SAP systems are hosted at the data centres of a strategic partner which is regularly audited – both in terms of their processes and service performance – in accordance with defined criteria. These include an audit by Group Internal Audit. The Otto Group's IT division has been certified as a SAP Customer Center of Expertise (CCoE), which attests to its technical and functional expertise as well as its excellence in terms of process.

CONTRACT RISKS

Legal risks, compliance risks along the supply chain (procurement and logistics), competition issues and IP rights are assessed based on a comprehensive analysis of all the relevant issues, with third-party experts consulted as needed. Contracts are then drawn up in such a way as to minimise these risks. Warranty risks are transferred to suppliers to the greatest possible extent, on the basis of contractual stipulations. For any remaining risks, the Group maintains appropriate insurance coverage to minimise the scope of losses or to completely exclude any liability for damages.

At any given time, individual Group companies may be involved in litigation related to their operations. The Otto Group has taken out insurance to minimise liability risks from these processes. At present there are no unusual legal disputes to report.

OTHER RISKS

Other risks are identified within the framework of the central Risk Management System. They are analysed as to their relevance and evaluated and steered with appropriate measures

The 2018/19 financial year showed that the effect on revenue of extreme weather conditions, such as the long hot summer in Europe, cannot be underestimated. Extreme weather conditions in the future will also have the potential to impact business in the short term. Flexible purchasing and optimised processes for managing off-season periods help to offset unplanned factors that impact revenue while also reducing inventory and margin risks.

NO DISCERNIBLE OVERALL RISK TO THE GROUP

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

CORPORATE RESPONSIBILITY

EMPLOYEES

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

The Otto Group employed an average of 52,558 staff – calculated on a full-time equivalent basis – in the 2018/19 financial year (2017/18: 51,785).

Employees

	2018/19	2017/18	Change
	number	number	in %
Multichannel Retail	24,789	24,619	0.7
Financial Services	7,074	6,612	7.0
Services	20,274	20,153	0.6
Holding	421	401	5.0
Group	**52,558**	**51,785**	**1.5**

The continuous professional development and training of staff has always been a matter of great importance to the Otto Group. Against the backdrop of the digital revolution, demographic and social change, and the shortage of skilled workers that is still apparent, there is a continued need for a successful HR management strategy. One of the core objectives of the group-wide HR strategy is therefore to support and develop existing employee potential by ensuring that the right framework conditions and services are in place.

As a signatory to the "Diversity Charter" (https://www.charta-der-vielfalt.de/en), the Otto Group is committed to providing equal opportunities to each and every employee, regardless of gender, nationality, ethnic background, religion or world view, physical ability, age, sexual orientation and identity. As official partners of Hamburg Pride 2018, the Otto Group once again demonstrated its active commitment to tolerance, acceptance and visibility. Diversity is also important in order to harness the complexity of the digital revolution in innovative ways. For this reason, Group-wide Diversity Management focuses on the individual perspectives and capabilities of all employees. To support this effort, the Group companies' own specific diversity goals are continuously monitored and supported using Group-wide diversity assessment measures.

In this age of digitisation, diversity within the digital sector is now more important than ever. Having heterogeneous teams is an important factor for success – an issue to which the Otto Group is devoting ever more attention. It is clearly in the interest of both business and society to increase the percentage of women working in the technology sector. Digital transformation is a cultural revolution that gives women a great opportunity to experience success in the digital sector. In the past financial year, various initiatives continued to focus on ways of attracting female talent to tech and digital roles. In addition, the "Boost Your Career" programme was specifically developed to promote the careers of up-and-coming female executives. This programme is part of the Otto Group Academy's strategic range of Group-wide development programmes and was successfully run for the sixth time in 2018.

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

A decisive factor for the successful growth of the Group and its future human resources strategy is and continues to be the "Culture change 4.0" initiative, which has been running since 2015 with great success. In order to facilitate this change, full involvement of and discussion with all colleagues will be crucial. Against this background, August 2018 saw the Otto Group organise the #Mut-Festival ("Courage Festival") in Hamburg, an event focused on driving digital change and attended by around 200 employees. Designated by the Group as the "Jahr des Muts" ("Year of Courage"), 2018/19 was a year in which the Group's internal focus remained firmly fixed on this socially topical issue, a focus that will continue into 2019/20 also. The objective of this initiative is to encourage employees to continue to drive the Group's digital transformation as part of their day-to-day activities.

Furthermore, the systematic integration of changes in HR tools is a key factor for ensuring that this change will be effective in the long term. At its annual meeting in March 2018, the Executive Board decided on a new overarching strategy for digital HR within the Otto Group. This strategy is to provide the strategic vision for HR managers within the Group companies in their response to the demands of HR digitisation. This strategy has since been made a reality as a result of a collaborative process led by the Otto Group's HR team· The Otto Group's digital HR strategy is rooted in its mission statement. When combined with external factors, three key themes emerge: Customer experience of HR, skills-based organisation of work and workforce analytics. The group-wide availability of basic training courses as well as the Otto Group Academy's development programmes for executives and professionals which are systematically geared towards the needs of the Group also form an essential pillar of the Otto Group's HR 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. For example, the compact training course on agile coaching offered by the Otto Group Academy is aimed at teaching participants how to initiate and support agile change processes.

SUSTAINABILITY

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

CR STRATEGY 2020

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

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[5,6]. Together, these companies generate close on 60% of Group revenue (for the 2018/19 financial year) and are responsible for approximately 80% of the Group's adverse environmental impacts.

ARGET-ACHIEVEMENT STATUS AND FORECASTS FOR THE SUB-STRATEGIES

All key indicators defined in the CR Strategy 2020 showed positive development in the past year. Thus, the individual forecasts for development in 2018 have been achieved. The Otto Group expects this positive overall development to continue in 2019. It is currently expected that the targets set within the individual sub-strategies will be fully met or almost met by 2020.

The **Textile Strategy** promotes the sustainable production of cotton: By 2020, sustainable cotton is to be exclusively used for the Group companies' own and licensed brands. In terms of sustainably grown cotton, focus will be placed on the use of organic cotton and recycled cotton, and in particular, cotton from the "Cotton made in Africa" initiative – hereafter "CmiA". The share of sustainable cotton used increased to 93% in 2018 (2017: 78%). This projected sharp increase is largely attributable to the Group's consistent pursuit of this target as well as the processes that have been put in place for the procurement of cotton within the scope of the CmiA initiative. Group companies OTTO and bonprix Handelsgesellschaft mbH, as well as Group companies of the Witt Group, played a key role in this. As a result of the continuing increase in the volume of CmiA cotton procured, the share of sustainable cotton is expected to rise again in 2019.

The goal of the Otto Group's **Furniture Strategy** is to ensure that by 2025 all products in its range of wooden furniture are derived from responsible forestry certified by the Forest Stewardship Council® – hereafter "FSC". In 2018, FSC-certified wood as a percentage of the total wooden furniture product range accounted for 59% (2017: 52%), which is slightly higher than the forecasted increase. This is the result of long-term agreements concluded in previous years between the Group companies and major furniture suppliers. A significant increase in the share of FSC-certified wood used in the wooden furniture product range is expected in 2019.

The **Paper Strategy** aims to increase the share of FSC-certified paper used in catalogues to at least 60% by 2020. This applies to catalogue paper printed using the gravure process as well as the offset process. In 2018, the share of FSC-certified paper in use increased to 54% (2017: 43%). This forecasted significant increase was due to long-term agreements negotiated with suppliers by Group company OTTO, which coordinates the procurement of the majority of catalogue paper within the Group. As a result of these supply agreements, the percentage of FSC-certified paper used in catalogues is expected to increase slightly once again in 2019.

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

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

Value-adding stage	Sub-strategy	Target	Actual 2017	Forecast 2018	Actual 2018	Forecast 2019
			in %		in %	
Raw Materials and Processing	Textile	100% sustainable cotton in own and licensed brands	78	clear rise	93	slight rise
	Furniture	100% FSC®-certified furniture products (by 2025)*	52	slight rise	59	clear rise
	Paper	60% FSC®-certified catalogue paper**	43	clear rise	54	slight rise
Final Production	Social Programme	100% integration of suppliers of own and licensed brands in the social porgramme	91	slight rise	96	slight rise
Trade	Climate	50% reduction of CO_2 emissions***	–41****	clear reduction	–47*****	slight reduction

* As the volume of FSC-certified wood materials (particle board/MDF) available in Germany was insufficient to meet market demand, the target year was changed from 2020 to 2025 in consultation with the relevant NGOs and the auditing company PwC.
** The target for the Paper Strategy has been increased to 60%.
*** This target refers to adjusted CO_2 emissions in comparison with the base year of 2006.
**** Based on updated site data, this figure was changed with respect to the 2017/18 annual report from –42% to –41%.
***** As a result of changes in Hermes' network of sites, final validation of the 2018 CO_2 figures for distribution (one-man delivery) is still outstanding; as such, the figures from the previous year, 2017, were used for this data.

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[7] are to be integrated into this programme. A supplier is deemed to be integrated if, at the time of production, they can provide valid and accepted evidence of social audits or certificates for all active factories. In 2018, this applied to 96% of suppliers (2017: 91%). The Otto Group anticipates a further slight increase in the integration rate in 2019. This forecast is based on the ongoing optimisation of technical and management processes and the continued systematic termination of relationships with suppliers who do not meet our requirements.

The goal of the **Climate Strategy** is to reduce CO_2 emissions at the value chain level of trade. By 2020, adjusted[8] CO_2 emissions at the Group's own sites as well as in goods-procurement and goods-distribution transport are to be halved in comparison to the base year of 2006. In 2018, absolute (unadjusted) CO_2 emissions fell in comparison to 2017 from 222,386 t to 202,231 t. During the same period, adjusted CO_2 emissions fell from 174,925 t to 155,827 t. This corresponds to a reduction of 47% in relation to the base year of 2006. (2017: –41%). This development is in line with the significant reduction that was forecast for 2018. This is partly attributable to further improvements in energy efficiency as well as to the continuing shift away from air freight towards less CO_2-intensive forms of transport such as maritime, road and rail transport in the procurement of goods from producing countries. The increase in high-quality, certified green energy purchased by German Group companies (accounting for approximately 40% of the total volume of electricity) also contributed to the reduction in CO_2 emissions. A further slight reduction in total CO_2 emissions is also expected in 2019.

A new CR strategy is currently being devised. In order to ensure a seamless transition between the current strategy and the new strategy, this new CR strategy will be implemented across the Group in 2020.

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

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

OUTLOOK

OVERALL ECONOMIC DEVELOPMENT

According to estimates by the Kiel Institute for the World Economy (Institut für Weltwirtschaft), the **global economic growth** is set to see a price-adjusted increase in global GDP of 3.3% in 2019 (2018: 3.7%). The global pace of economic growth is thus expected to slow down further as ongoing uncertainty in economic policy, among other factors, is likely to place considerable strain on the global economy. However, there is no expectation of an impending economic collapse. In the advanced economies, production output in 2019 is set to continue to increase at a moderate pace overall. In the Euro area, overall economic output, after adjusting for country-specific temporary factors, which had a negative impact on economic growth in 2018, is expected to increase moderately. Over the forecasting period, economic output in the emerging economies is expected to grow at a somewhat slower pace than in the previous two years. As was the case last year, growth in this group of countries is likely to be especially hampered by the sustained slowdown in the Chinese economy. Due to its significant contribution to global output and its importance as an engine of growth, a slowdown in the growth of the Chinese economy will have a direct decelerating effect on overall economic expansion in the rest of the world. The forecast is for a significant drop in the expansion of global trade. Global trade volumes are expected to increase by just 1.0%, which falls considerably short of last year's 3.5%.[9]

In the forecasting period, growth in both worldwide production and global trade volumes is likely to experience considerable upheaval. Potential risk factors for the forecasting period are mainly associated with the many uncertainties arising from economic, trade and monetary policy decisions, the impact of the development in crude oil prices and ongoing geopolitical crises. In particular, the protectionist measures taken by the US administration and the consequences of these measures are likely to continue to have a significant negative impact on global economic growth in the short-to-medium term. Major risks also arise from the continuing possibility of a disorderly Brexit.[10]

The increase in overall economic output in the **German economy** is expected to slow down further in 2019. When adjusted for inflation, this corresponds to a GDP increase of 1.0% (2018: 1.4%). However, in comparison to the previous year, private household spending is expected to rise again at a faster rate. This increase is likely to benefit from a further rise in real wages and continued growth in employment. However, a slowdown in the increase of corporate investment rates is forecast. Economic activity in Germany's export markets, which grew at a slow pace in 2018, is expected to expand again to some extent. As a result, exports are expected to record stronger growth rates; however, due to the projected slowdown in the global economy, they are unlikely to reach the levels recorded in 2017. Since forecasted imports are expected to grow at an even stronger rate than exports, foreign trade is not likely to have a positive impact on growth during the forecasting period. The easing of temporary pressures, which were a significant factor in the stagnation observed in German economic performance in the second half of 2018 (pressures such as low water levels in the Rhine as a result of the extremely hot summer) is likely to have a positive impact on economic growth in Germany.[11]

In the **Euro area**, a slight slowdown in economic growth is expected overall in 2019, with price-adjusted GDP set to increase by 1.2% (2018: 1.8%). Overall economic development during the forecasting period is expected to benefit from the elimination of exceptional dampening factors in Germany and France, for example. Private-household consumption expenditure is also likely to benefit from this and expand further thanks to the continuing upswing in the labour market and the relative increase in real wages. The employment situation in the Euro area should improve further in the forecasting period, leading to a drop in the average annual unemployment rate to 7.6% (2018: 8.2%). Corporate investment is also set to increase further on the back of a persistently favourable financing environment and the continuing increase in capacity utilisation. This will have a clear impact on the expansion of overall economic output. Furthermore, most Euro area countries can be expected to continue implementing expansionary fiscal policies. However, the external economic environment is likely to give rise to significant dampening factors. In the other **European Union** countries, a slowdown in the expansion of overall economic output is expected in the forecasting period. In the United Kingdom in particular, the ongoing uncertainty in relation to the EU withdrawal process is expected to continue to weigh heavily on economic performance.[12]

[9] Kiel Institute for the World Economy: "World Economic Outlook, Spring 2019".

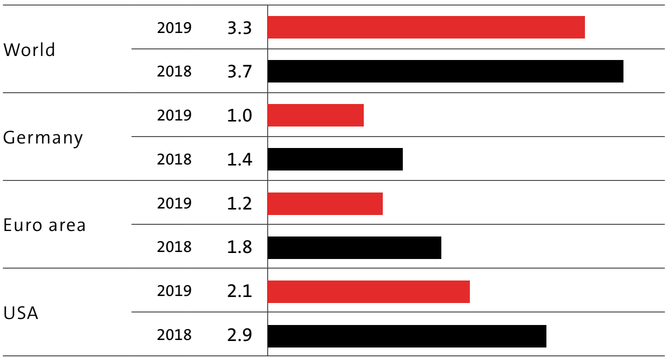
[10] Kiel Institute for the World Economy: "World Economic Outlook, Spring 2019".

[11] Kiel Institute for the World Economy: "German Economic Outlook, Spring 2019".

[12] Kiel Institute for the World Economy: "Euro Area Economy, Spring 2019".

In the **USA**, overall economic development in 2019 is expected to grow at a slightly slower pace than in the previous year, resulting in a price-adjusted GDP increase in the amount of 2.1% over the forecasting period (2018: 2.9%). Strong consumer spending, supported by rising incomes and continuously improving employment rates, is expected to have a positive impact. The annual average rate of unemployment is expected to reach 3.8%, just below the previous year's figure of 3.9%. However, given that fiscal stimulus measures have come to an end and monetary policy is no longer as expansive it was, corporate investment rates are set to slow down compared to the previous year. As in prior years, foreign trade is not expected to have a positive impact on the expansion of overall economic output.[13]

Forecast of change in real GDP
(in %)



SECTOR DEVELOPMENT

MULTICHANNEL RETAIL

Positive growth is expected to continue in the overall **German retail sector** in 2019, with a projected nominal increase of 2.0%[14] in sales (2018: 2.9%). Due to the forecasted increase in real wages and the anticipated continued growth in employment, private-household consumption expenditure in Germany is set to rise by 2.7% in nominal terms in 2019 (2018: 2.6%). This corresponds to a price-adjusted increase of 1.3% (2017: 1.0%).[15] As in previous years, and despite weaker growth levels, economic conditions are expected to result in an increase in private consumer spending.

The German E-Commerce and Distance Selling Trade Association (Bundesverband E-Commerce und Versandhandel [bevh])[16] is forecasting a continuation of the successful performance seen in **German online and mail-order sales** in previous years. According to these projections, sales of goods are set to reach EUR 74.0 billion in 2019 (2018: EUR 68.1 billion), corresponding to an increase of 8.6% (2018: 9.6%).

The **e-commerce sector** in particular will continue to see strong momentum in the forecasting period, with a projected increase in revenue of 10.5% (2018: 11.4%); this is, however, lower than the previous year. Pure online revenue is expected to rise to approximately EUR 71.9 billion (2018: EUR 65.1 billion). It is also expected that classes of products in the furnishing sector, such as household goods and appliances, furniture, lighting and decoration as well as home textiles, will continue to record significant increases in revenue in the e-commerce sector in 2019. In addition, shifts between channels – such as more orders being placed via the mobile Internet using smartphones and tablets – are set to continue. Assistant technology is also expected to play an increasingly important role.

FINANCIAL SERVICES

The forecasted development in the German economy in 2019 will also have an effect on the **German financial services sector**. Despite the uncertainty and slowdown in growth characterising the economic climate, the federal association of German debt collection companies (Bundesverband Deutscher Inkasso-Unternehmen, BDIU)[17] is still anticipating that the payment behaviour of companies and consumers will remain at the same positive level as last year. However, in addition to the risks associated with economic growth, other risks exist such as those relating to the scope of legal changes arising from the harmonisation of insolvency law within the European Union. It is expected that the sustained drop in company insolvencies since 2010 will continue in the forecasting period. The market for receivables management is nonetheless expected to continue to remain attractive in 2019. Against this backdrop, market leaders in this sector have invested heavily in recent years and expanded considerably.

SERVICES

Following the mid-term forecast of the German Federal Office for Goods Transport[18], the **German transport and logistics sector** is anticipating an upward trend across all transport-intensive sectors in 2019. Total goods transport is set to grow by 1.7% in the forecasting period (2018: 1.0%). The slowdown in economic growth in Germany as well as the minimal increase in global trade volumes are expected to have only a marginal negative impact on the German transport and logistics sector.

Alongside overall economic development, both crude oil prices and wage costs in particular will have an influence on the future development of the German transport and logistics sector. Wage costs are expected to grow in view of the wage agreements concluded in 2018

[13] Kiel Institute for the World Economy: "World Economic Outlook, Spring 2019".

[14] Press release, German Retail Association (Handelsverband Deutschland, HDE) 31 January 2019.

[15] German Federal Ministry for Industry and Energy: "Annual Economic Report 2019".

[16] Press release, German E-Commerce and Distance Selling Trade Association (bevh) 22 January 2019.

[17] Press release, Bundesverband Deutscher Inkasso-Unternehmen (BDIU) 22 November 2018.

[18] German Federal Office for Goods Transport: "Rolling Mid-Term Forecast for Goods and Passenger Traffic – Winter 2018/19".

and those planned for 2019. In addition, the continued shortage of driver agents is expected to have an impact in major metropolitan areas. It will make hiring new employees more difficult and will lead to an ongoing rise in real wages. In terms of crude oil, it is expected that crude oil prices will reduce slightly or at least stabilise during the forecasting period, and that the German transport and logistics sector will therefore not be faced with a hike in fuel prices.

Given the continued strong increase in revenue from online and mail-order sales expected for 2019, German parcel-services providers will also face serious challenges during the forecasting period in terms of handling the increasing number of deliveries sent by companies to private households. This will continue to require a high level of investment, in particular when it comes to expanding the logistics infrastructure and further digitisation. At the same time, work on the development of new (digital) solutions will continue in 2019 in order to accommodate the increasing number of deliveries, in spite of changes in customer requirements, the increasing impact of driver shortages and the escalating traffic situation.

DEVELOPMENT OF THE OTTO GROUP

The “Culture change 4.0” programme will remain a key element of the development of the Otto Group in the coming years. Digital transformation in work environments both within and outside Group companies requires a rethinking of traditional work practices and behaviours, an area in which the Otto Group has already made a lot of progress. Customer focus and efficiency are the yardsticks by which all culture change initiatives are measured. In addition to actively driving this change in culture, the Otto Group remains focused on its values, which are centered on respectful cooperation with one other as well as with nature and the environment. For example, the start of the 2019/20 year saw the Otto Group issue its first sustainability bond. This bond is targeted at specific institutional and private investors that attach importance to certified sustainability papers. The Otto Group will be using the proceeds of this bond to purchase sustainable cotton from the Cotton made in Africa initiative in addition to FSC®-certified furniture. The issue of this bond represents another important step in the Otto Group’s sustainability strategy.

The focused growth strategy will be continued across all segments in the coming financial years. Although the adjusted growth in revenue for the past 2018/19 financial year fell slightly short of its ambitious target, the Otto Group is set on achieving EUR 17 billion in revenue by 2022/23 – on a comparable basis with the 2016/17 consolidated financial statements–. Notable measures for the forecast year and the coming financial years include targeted investments in promising business models, a broad expansion of the customer base as well as opening up the Group to external partners.

The starting point for the forecasted development of the Otto Group and its segments in the 2019/20 financial year is based on the expectations for overall economic development and sector development. In the relevant sales markets, i.e. Germany, the rest of Europe and the USA, the forecasted overall economic conditions appear challenging due to the slowdown in economic growth, however private consumer spending in these sales markets is expected to rise. Nonetheless, the forecast is supported by the expected sector growth. Furthermore, the information and conclusions presented for the Otto Group and its segments are based on the assumption that business performance will not be influenced by currency rate effects.

Revenue from the **Multichannel Retail** segment rose adjusted by 2.7% in the 2018/19 financial year. For the 2019/20 financial year, the Group is expecting an increase in revenue based on a considerably higher rate of growth than in the previous financial year. For example, Group company OTTO plans to continue investing heavily in the expansion of its e-commerce platform – as it has done over the previous twelve months – in order to significantly increase the range of products and items on offer. Opening up the online marketplace otto.de to new partners and markets will be a particular area of focus here. By 2020, customers should be able to access products from up to 3,000 new partners. So the revenue growth planned by the Otto Group for Group company OTTO and each of the key bonprix, Crate and Barrel and Witt Group brands exceeds the growth level for the overall segment.

The **Financial Services** segment is influenced to a large extent by the EOS Group. In the coming financial years, the EOS group will continue to be the main focus in the area of debt purchasing. In comparison to previous years, secure debt purchasing will play an increasingly important role here. Given the Group’s experience with the valuation and recovery of property, property portfolios are another asset class that present opportunities for the EOS Group. In addition, further retail-related services in the Financial Services segment will be grouped together under the Otto Group Digital Solutions Group. In the 2018/19 financial year, the Financial Services segment recorded adjusted revenue growth of 4.2%. For the 2019/20 financial year, the revenue levels projected by the Otto Group for this segment, on a comparable basis, are slightly higher than the previous year.

With adjusted external revenue growth of 7.1%, the **Services** segment continued to record significant gains in the 2018/19 financial year. Strong growth in external revenue is also expected for the 2019/20 forecast year. However, the projected increase is not likely to reach the adjusted growth level achieved in the previous year. Significant contributors to this growth include Hermes Germany GmbH in Germany, Hermes Parcelnet Limited in the United Kingdom and Mondial Relay S.A.S in France, in particular.

The Hermes Group, which plays a major role in the Services segment, will continue to focus on distribution in the future. One of the reasons for this is the increasing significance of personalised, tailor-made delivery solutions for customers – such as next-day and same-day delivery, and on-demand delivery – and the associated services, which are much more challenging. Other areas of focus include the expansion of the international, cross-border parcel business, ongoing digitisation and the establishment of a network of Hermes parcel collection hubs across Europe. In the area of parcels delivery, Hermes Germany GmbH will be investing heavily in wages and personnel expenses in the coming years.

At **Group level**, the Otto Group achieved adjusted revenue growth of 3.5% overall in the 2018/19 financial year. Compared to the previous year, the Group is aiming for a slightly higher rate of revenue growth for the 2019/20 forecast year on a comparable basis.

Brands with an international focus, especially the Witt Group, Crate and Barrel Group and the bonprix Group, are also planning strong or very strong EBT contributions for the 2019/20 forecast year. The EOS Group is expected to make a significant contribution to the earnings of the Otto Group once again; however, the expansion of the e-commerce platform is also likely to continue to weigh heavily on Group company OTTO's contribution to EBT. Otto Group Digital Solutions GmbH, which focuses primarily on start-ups in the logistics, e-commerce and fintech sectors, will have the effect of reducing the Otto Group's EBT, as planned. Within the Hermes Group, Hermes Germany GmbH is also expected to have an adverse impact on EBT as a result of the activities described above.

Taking into account the above-mentioned factors, the Group-level EBT figure expected for the 2019/20 financial year will, on an operational level, represent a slight improvement on the figure achieved in the previous financial year. In addition, opening up the Otto Group to external partners, which is already underway, is likely to have both a positive and negative impact on EBT.

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

Our focused growth strategy will allow us to continue to make targeted investments in selected Group companies in the future. This strategy is focused on long-term growth and profitability. Within the Multichannel Retail segment, these selected Group companies are OTTO, the bonprix Group, the Crate and Barrel Group, the Witt Group, the myToys Group and the investment company ABOUT YOU GmbH. Within the Services segment, our growth strategy will focus on Hermes Europe, while in the Financial Services segment, it will focus on the EOS Group. In addition, sustainability will continue to be a key element of the Otto Group's strategic orientation, across all segments. In addition, taking responsibility for all of its business operations, in other words; taking into account the entire value chain, will continue to be an important area of focus for the Executive Board in the coming years.

The Culture change programme will continue to be rolled out across the entire organisation with the full backing of the Executive Board.

The Executive Board considers the Otto Group to be on the right track in terms of revenue and earnings for the forecast years and the coming financial year. Even after substantial investment in various segments is taken into account, the Otto Group will achieve profitable growth.

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

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

Hamburg, 6 May 2019

The Executive Board

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 MARCH 2018 TO 28 FEBRUARY 2019

	2018/19	2017/18*
	EUR 000	EUR 000
Profit for the year	**176,865**	**516,031**
Items that may be reclassified subsequently to profit or loss		
Gains and losses arising from translation of financial statements in foreign currencies	35,911	−62,107
Gains and losses on remeasuring fair values of available-for-sale securities after tax	0	10,185
Gains and losses in other comprehensive income	0	18,499
Gains and losses reclassified to profit or loss	0	−8,314
Gains and losses arising from changes in fair values of derivatives held as cash flow hedges after tax	14,987	−18,812
Gains and losses in other comprehensive income	23,724	−30,710
Gains and losses reclassified to profit or loss	−8,737	11,898
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method after tax	25,406	6,391
Items that will not be reclassified to profit or loss		
Gains and losses arising from changes in other financial investments after tax	1,718	0
Remeasurements of the net defined benefit liability after tax	−52,247	−22,903
Share of income and expenses not affecting profit and loss of associates and joint ventures accounted for using the equity method (net defined benefit liability)	−5,465	15
Other comprehensive income for the year	**20,310**	**−87,231**
Total comprehensive income for the year	**197,175**	**428,800**
Total comprehensive income attributable to the owners of Otto (GmbH & Co KG)	121,608	349,754
Total comprehensive income attributable to non-controlling interests	63,646	73,703
Total comprehensive income attributable to publicly listed equity and participation certificates	11,921	5,343

* Prior year adjusted

CONSOLIDATED INCOME STATEMENT

1 MARCH 2018 TO 28 FEBRUARY 2019

	Note	2018/19	2017/18*
	[No.]	EUR 000	EUR 000
Revenue and income from customer financing	[6]	**13,611,059**	**13,788,412**
Revenue		13,446,382	13,659,807
Income from customer financing		164,677	128,605
Other operating income	[7]	647,403	645,072
Change in inventories and other internal costs capitalised		41,761	51,096
Purchased goods and services	[8]	−7,287,038	−7,186,469
Personnel expenses	[9]	−2,414,394	−2,386,282
Other operating expenses	[10]	−4,089,821	−4,263,668
Income (loss) from equity investments	[11]	15,438	84,457
Income from associates and joint ventures		13,504	82,034
Income from other equity investments		1,934	2,423
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**524,408**	**732,618**
Depreciation and amortisation	[12]	−272,334	−282,655
Impairment losses	[13]	−29,975	−62,335
Earnings before interest and tax (EBIT)		**222,099**	**387,628**
Interest and similar income	[14]	20,898	36,195
Interest and similar expenses	[14]	−139,955	−139,121
Other net financial income (expense)	[14]	174,534	337,742
Earnings before tax (EBT)		**277,576**	**622,444**
Income tax	[15]	−100,711	−106,413
Profit for the year		**176,865**	**516,031**
Profit attributable to the owners of Otto (GmbH & Co KG)		100,660	436,967
Profit attributable to non-controlling interests		64,284	73,721
Profit attributable to publicly listed equity and participation certificates		11,921	5,343

* Prior year adjusted

CONSOLIDATED BALANCE SHEET

AS AT 28 FEBRUARY 2019

Assets

	Note	28.02.2019	28.02.2018*	01.03.2017*
	[No.]	EUR 000	EUR 000	EUR 000
Non-current assets				
Fixed assets		2,993,002	3,433,909	3,146,293
Intangible assets	[16]	744,723	708,404	799,812
Property, plant and equipment	[17]	1,439,562	1,368,135	1,467,602
Investments in associated companies and joint ventures	[18]	706,450	1,078,923	582,184
Other financial investments	[18]	102,267	278,447	296,695
Trade receivables	[20]	167,405	167,644	155,996
Receivables from financial services	[20]	1,064,178	878,812	677,148
Receivables from related parties	[21]	0	56,152	60,751
Other assets	[22]	498,969	106,295	85,290
Other financial assets		484,294	82,169	64,903
Miscellaneous other assets		14,675	24,126	20,387
		4,723,554	**4,642,812**	**4,125,478**
Deferred tax	[15]	**123,234**	**139,911**	**122,295**
Current assets				
Inventories	[19]	1,778,038	1,667,928	1,443,432
Trade receivables	[20]	1,341,343	1,368,607	1,348,274
Receivables from financial services	[20]	377,667	419,679	406,714
Receivables from related parties	[21]	74,290	117,830	45,491
Income tax receivables		43,254	33,401	36,028
Other assets	[22]	356,062	388,708	759,627
Other financial assets		128,194	133,242	435,402
Miscellaneous other assets		227,868	255,466	324,225
Securities		17,537	443	942
Cash and cash equivalents		368,728	517,615	379,042
Assets held for sale	[5c]	420,609	0	0
		4,777,528	**4,514,211**	**4,419,550**
Total assets		**9,624,316**	**9,296,934**	**8,667,323**

* Prior year adjusted

Equity and liabilities

	Note	28.02.2019	28.02.2018*	01.03.2017*
	[No.]	EUR 000	EUR 000	EUR 000
Equity				
Equity attributable to the owners of Otto (GmbH & Co KG)		673,913	716,564	419,357
Capital provided by the limited partners in Otto (GmbH & Co KG)		820,000	820,000	820,000
Consolidated retained earnings		804,968	727,809	345,031
Net cost in excess of net assets acquired in step acquisitions		−223,532	−215,626	−217,097
Accumulated other comprehensive income		−740,088	−630,737	−543,859
Accumulated other equity		12,565	15,118	15,282
Non-controlling interests		609,186	681,000	756,571
Publicly listed equity and participation certificates		422,984	116,985	116,984
	[23]	**1,706,083**	**1,514,549**	**1,292,912**
Non-current provisions and liabilities				
Profit and loss participation rights	[24]	24,001	25,710	23,900
Provisions for pensions and similar obligations	[25]	1,477,998	1,416,795	1,357,436
Other provisions	[26]	151,363	144,135	141,452
Bonds and other notes payable	[27]	954,569	1,272,413	884,238
Bank liabilities	[27]	858,209	555,073	569,593
Other financing liabilities	[28]	52,024	47,581	114,821
Trade payables		34,232	32,604	39,707
Liabilities to related parties	[29]	739	464	16,441
Other liabilities	[30]	292,028	275,186	356,957
Other financial liabilities		187,271	173,622	235,339
Miscellaneous other liabilities		104,757	101,564	121,618
		3,845,163	**3,769,961**	**3,504,545**
Deferred tax	[15]	**95,706**	**84,693**	**89,196**
Current provisions and liabilities				
Profit and loss participation rights	[24]	2,189	1,851	3,476
Other provisions	[26]	174,765	151,770	142,158
Bonds and other notes payable	[27]	502,460	166,810	367,188
Bank liabilities	[27]	651,937	771,631	539,435
Other financing liabilities	[28]	106,050	213,340	205,151
Trade payables		1,594,304	1,623,692	1,540,815
Liabilities to related parties	[29]	44,836	41,447	29,430
Income tax liabilities		40,100	53,500	47,564
Other liabilities	[30]	776,282	903,690	871,039
Other financial liabilities		383,109	479,180	414,989
Miscellaneous other liabilities		393,173	424,510	456,050
Liabilities classified as held for sale	[5c]	84,441	0	34,414
		3,977,364	**3,927,731**	**3,780,670**
Total equity and liabilities		**9,624,316**	**9,296,934**	**8,667,323**

CONSOLIDATED CASH FLOW STATEMENT

1 MARCH 2018 TO 28 FEBRUARY 2019

	2018/19	2017/18*
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	222,099	387,628
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets and property, plant and equipment	300,966	337,169
Profits (–)/losses (+) from associated companies and joint ventures	–13,505	–82,034
Dividends received from associated companies and joint ventures	10,328	7,194
Increase (+)/decrease (–) in allowances on loans, receivables and inventories	105,902	159,890
Gains (–)/losses (+) on disposals of items in intangible assets and property, plant and equipment	–27,349	–8,408
Pension payments exceeding (–)/less than (+) pension expense	–4,649	–12,771
Other non-cash income (–) and expenses (+)	383	455
Gross cash flow from operating activities	**594,175**	**789,123**
Increase (–)/decrease (+) in working capital	–519,548	–561,766
Decrease (+)/increase (–) in inventories (gross)	–92,120	–340,570
Decrease (+)/increase (–) in trade receivables (gross)	–203,303	–243,684
Decrease (+)/increase (–) in receivables from financial services (gross)	–275,859	–272,067
Increase (+)/decrease (–) in provisions	22,530	–17,323
Increase (+)/decrease (–) in trade payables	121,678	196,918
Increase (+)/decrease (–) in receivables due from related parties/in payables due to related parties	19,169	–25,377
Changes in other assets/liabilities	–111,643	140,337
Net cash generated from operating activities	**74,627**	**227,357**
Income tax paid	–96,080	–99,244
Interest received	11,166	38,409
Cash inflows/outflows from non-current financial assets and securities	627	1,125
Cash flow from operating activities	**–9,660**	**167,647**

* Prior year adjusted

	2018/19	2017/18*
	EUR 000	EUR 000
Cash flow from operating activities	**–9,660**	**167,647**
Capital expenditures on purchases of intangible assets and property, plant and equipment	–385,461	–361,787
Capital expenditures on purchases of other financial investments	–105,964	–105,162
Proceeds from disposals of intangible assets and property, plant and equipment	63,811	112,511
Proceeds from disposals of consolidated subsidiaries	49,292	–9,707
Proceeds from disposals of other financial investments	174,963	439,060
Cash flow from investing activities	**–203,359**	**74,915**
Free cash flow	**–213,019**	**242,562**
Dividends paid	–212,766	–203,481
Interest paid and bank charges	–141,034	–157,757
Proceeds from additions to equity	301,350	0
Payments for step acquisitions in subsidiaries	–4,925	0
Payments (net) for repurchases of profit and loss participation rights	–1,854	–339
Payments of principal on finance lease	–19,656	–20,858
Proceeds from assumption of other financial liabilities	375,338	522,776
Repayments of other financial liabilities	–216,034	–236,286
Cash flow from financing activities	**80,419**	**–95,945**
Cash and cash equivalents at beginning of period	517,745	379,171
Net increase in cash and cash equivalents	–132,600	146,617
Changes in cash and cash equivalents due to foreign exchange rates	807	–8,043
Cash and cash equivalents at end of period (please refer to Note 33)	**385,952**	**517,745**

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 on remeasuring fair values of available-for-sale securities	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	EUR 000
2018/19						
01.03.2018	**820,000**	**727,809**	**−215,626**	**−158,974**	**136,393**	**−13,504**
Changes in accounting according to IFRS 9	–	86,094	–	–	−136,393	–
01.03.2018 (adjusted)	**820,000**	**813,903**	**−215,626**	**−158,974**	**–**	**−13,504**
Total comprehensive income	–	100,660	–	35,637	–	16,332
Profit for the year	–	100,660	–	–	–	–
Other comprehensive income for the year	–	–	–	35,637	–	16,332
Capital increase/repayment	–	–	–	–	–	–
Changes in entities consolidated	–	−7,757	2,050	–	–	–
Step acquisitions/partial disposals	–	–	−9,956	–	–	–
Dividends paid	–	−91,759	–	–	–	–
Other changes recognised directly in equity	–	−10,080	–	–	–	–
28.02.2019	**820,000**	**804,967**	**−223,532**	**−123,337**	**–**	**2,828**
2017/18						
01.03.2017	**820,000**	**353,839**	**−217,097**	**−97,906**	**126,222**	**12,282**
Changes in accounting according to IFRS 9 and IFRS 15	–	−8,808	–	–	–	−5,956
01.03.2017 (adjusted)	**820,000**	**345,031**	**−217,097**	**−97,906**	**126,222**	**6,326**
Total comprehensive income	–	436,967	–	−61,068	10,171	−19,830
Profit for the year	–	436,967	–	–	–	–
Other comprehensive income for the year	–	–	–	−61,068	10,171	−19,830
Changes in entities consolidated	–	−3,983	1,471	–	–	–
Dividends paid	–	−49,079	–	–	–	–
Other changes recognised directly in equity	–	−1,127	–	–	–	–
28.02.2018	**820,000**	**727,809**	**−215,626**	**−158,974**	**136,393**	**−13,504**

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
−603,775	**–**	**9,123**	**15,118**	**716,564**	**681,000**	**116,985**	**1,514,549**
–	4,154	–	–	−46,145	−30,747	–	−76,892
−603,775	**4,154**	**9,123**	**15,118**	**670,419**	**650,253**	**116,985**	**1,437,657**
−52,094	781	20,292	–	121,608	63,646	11,921	197,175
–	–	–	–	100,660	64,284	11,921	176,865
−52,094	781	20,292	–	20,948	−638	–	20,310
–	–	–	–	–	1,350	300,000	301,350
1,939	–	–	2	−3,766	2,730	–	−1,036
–	–	–	–	−9,956	5,031	–	−4,925
–	–	–	–	−91,759	−115,085	−5,922	−212,766
–	–	–	−2,555	−12,635	1,263	–	−11,372
−653,930	**4,935**	**29,415**	**12,565**	**673,911**	**609,188**	**422,984**	**1,706,083**
−581,638	**–**	**3,137**	**15,282**	**434,121**	**756,832**	**116,984**	**1,307,937**
–	–	–	–	−14,764	−261	–	−15,025
−581,638	**–**	**3,137**	**15,282**	**419,357**	**756,571**	**116,984**	**1,292,912**
−22,472	–	5,986	–	349,754	73,703	5,343	428,800
–	–	–	–	436,967	73,721	5,343	516,031
−22,472	–	5,986	–	−87,213	−18	–	−87,231
335	–	–	–	−2,177	−214	–	−2,391
–	–	–	–	−49,079	−149,060	−5,342	−203,481
–	–	–	−164	−1,291	–	–	−1,291
−603,775	**–**	**9,123**	**15,118**	**716,564**	**681,000**	**116,985**	**1,514,549**

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

2018/19

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

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

CONSOLIDATED STATEMENT OF CHANGES IN FIXED ASSETS

2017/18

	Historical cost					
	01.03.2017	Additions	Disposals	Reclassi-fications	Foreign currency translation	28.02.2018
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets						
Internally generated intangible assets	378,989	27,233	−26,713	29,400	−11,112	397,797
Purchased intangible assets	678,301	48,170	−33,411	80,743	−15,059	758,744
Goodwill	483,286	925	−23,079	–	−34,699	426,433
Advance payments on intangible assets	111,731	59,248	−4,396	−109,766	−2,614	54,203
Intangible assets under finance lease	7	–	–	2,709	−1	2,715
Total	**1,652,314**	**135,576**	**−87,599**	**3,086**	**−63,485**	**1,639,892**
Property, plant and equipment						
Land, land rights and buildings	1,720,663	32,750	−202,338	21,062	−71,768	1,500,369
Technical plant and machinery	587,221	52,580	−58,488	19,104	866	601,283
Other plant, operating and office equipment	794,426	104,789	−77,338	20,260	−32,281	809,856
Advance payments and construction in progress	62,536	37,985	−1,507	−60,803	−944	37,267
Assets under finance lease	172,540	16,247	−19,166	−2,709	−2,089	164,823
Total	**3,337,386**	**244,351**	**−358,837**	**−3,086**	**−106,216**	**3,113,598**

	Accumulated depreciation, amortisation and impairments								Carrying amount	
	01.03.2017	Disposals	Depreciation and Amortisation	Impairments	Reclassifications	Reversals of Impairment losses	Foreign currency translation	28.02.2018	28.02.2018	28.02.2017
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
	−261,598	16,920	−37,696	−9,288	1	–	8,887	−282,774	115,023	117,391
	−460,501	27,895	−70,503	−30,552	–	9	11,078	−522,574	236,170	217,800
	−130,391	−420	–	−67	–	–	6,189	−124,689	301,744	352,895
	−5	−438	–	−241	–	442	1	−241	53,962	111,726
	−7	–	−903	–	−301	–	1	−1,210	1,505	–
	−852,502	**43,957**	**−109,102**	**−40,148**	**−300**	**451**	**26,156**	**−931,488**	**708,404**	**799,812**
	−798,360	93,890	−64,173	−4,089	−6	7,007	53,683	−712,048	788,321	922,303
	−399,149	55,853	−29,703	−7,016	1	–	−1,271	−381,285	219,998	188,072
	−572,669	68,699	−65,116	−9,155	4	38	25,613	−552,586	257,270	221,757
	−360	−284	–	–	–	325	–	−319	36,948	62,176
	−99,246	14,592	−14,561	−1,927	301	–	1,616	−99,225	65,598	73,294
	−1,869,784	**232,750**	**−173,553**	**−22,187**	**300**	**7,370**	**79,641**	**−1,745,463**	**1,368,135**	**1,467,602**

SEGMENT REPORTING

	Multichannel Retail		Financial Services	
	2018/19	2017/18*	2018/19	2017/18*
	EUR 000	EUR 000	EUR 000	EUR 000
Revenue and income from customer financing	10,484,944	10,676,082	823,592	841,406
External revenue	10,320,267	10,547,477	823,592	841,406
Income from customer financing	164,677	128,605	0	0
Internal revenue (inter-segment)	14,444	1,040	22,385	28,656
Purchased goods and services	−5,573,555	−5,528,393	0	0
Gross profit	**4,925,833**	**5,148,729**	**845,977**	**870,062**
Operating income and expenses	−3,450,994	−3,531,212	−305,107	−320,231
Personnel expenses	−1,228,369	−1,275,425	−283,664	−281,311
Income (loss) from equity investments	−59,658	8,287	75,958	76,170
Income from associates and joint ventures	−61,582	6,168	75,948	75,866
Income from other equity investments	1,924	2,119	10	304
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**214,430**	**389,690**	**345,877**	**357,326**
Depreciation and amortisation	−173,642	−191,546	−20,731	−19,132
Impairment losses	−15,571	−54,009	−3,000	0
Earnings before interest and tax (EBIT)	**25,217**	**144,135**	**322,146**	**338,194**
Segment assets	**5,014,608**	**5,047,178**	**2,941,840**	**2,589,114**
Of which attributable to investments in associated companies and joint ventures	133,028	498,080	583,539	592,323
Capital expenditure on intangible assets and property, plant and equipment	**227,744**	**197,107**	**42,508**	**28,845**
Gross cash flow from operating activities	**319,728**	**477,299**	**300,554**	**310,998**
Employees (average number)	**24,789**	**24,619**	**7,074**	**6,612**

* Prior year adjusted

Services 2018/19	Services 2017/18*	All Segments 2018/19	All Segments 2017/18*	Holding/Consolidation 2018/19	Holding/Consolidation 2017/18*	Group 2018/19	Group 2017/18*
EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
2,302,523	2,270,924	13,611,059	13,788,412	0	0	13,611,059	13,788,412
2,302,523	2,270,924	13,446,382	13,659,807	0	0	13,446,382	13,659,807
0	0	164,677	128,605	0	0	164,677	128,605
1,219,909	1,125,602	1,256,738	1,155,298	−1,256,738	−1,155,298	0	0
−1,865,089	−1,808,277	−7,438,644	−7,336,670	151,606	150,201	−7,287,038	−7,186,469
1,657,343	**1,588,249**	**7,429,153**	**7,607,040**	**−1,105,132**	**−1,005,097**	**6,324,021**	**6,601,943**
−751,065	−732,688	−4,507,166	−4,584,131	1,064,748	965,535	−3,442,418	−3,618,596
−850,663	−780,270	−2,362,696	−2,337,006	−51,698	−49,276	−2,414,394	−2,386,282
−862	0	15,438	84,457	0	0	15,438	84,457
−862	0	13,504	82,034	0	0	13,504	82,034
0	0	1,934	2,423	0	0	1,934	2,423
56,104	**74,440**	**616,411**	**821,456**	**−92,003**	**−88,838**	**524,408**	**732,618**
−77,961	−71,977	−272,334	−282,655	0	0	−272,334	−282,655
−11,404	−8,326	−29,975	−62,335	0	0	−29,975	−62,335
−33,261	**−5,863**	**314,102**	**476,466**	**−92,003**	**−88,838**	**222,099**	**387,628**
1,185,219	**1,002,226**	**9,141,667**	**8,638,518**	**−575,412**	**−395,399**	**8,566,255**	**8,243,119**
1,362	0	717,929	1,090,403	−11,479	−11,480	706,450	1,078,923
143,139	**153,975**	**413,391**	**379,927**	**0**	**0**	**413,391**	**379,927**
65,283	**89,931**	**685,565**	**878,228**	**−91,390**	**−89,105**	**594,175**	**789,123**
20,274	**20,153**	**52,137**	**51,384**	**421**	**401**	**52,558**	**51,785**

NOTES

ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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 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 2019.

(1) PRINCIPLES

The consolidated financial statements for the year ended 28 February 2019 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) 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. Available-for-sale financial assets and derivatives, which are measured at their respective fair values on the balance sheet date, are excepted herefrom. In addition, assets and liabilities held for sale are measured at the lower of the carrying amount and fair value less cost to sell.

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 aquisitions. For such transactions, no undisclosed reserves and charges are recognised and no goodwill is reported.

In the event of a loss of control in subsidiaries over which Otto (GmbH & Co KG) still exercises significant influence, these subsidiaries' assets and liabilities, as well as any non-controlling interests in these subsidiaries, are derecognised. The fair value of the remaining shares also represents the initial recognition value for subsequent reporting using the equity method.

Expenses and income and also 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. In the 2017/18 financial year, individual Group companies' previously different financial years were harmonised across the Group to the greatest extent possible in order to match the Group's financial year-end date. This resulted in a one-off increase in revenue of approximately two and a half percentage points in the 2017/18 financial year.

(b) TRANSLATION OF FINANCIAL STATEMENTS IN FOREIGN CURRENCIES

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

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

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

	Average rate		Closing rate	
1 Euro in foreign currencies	2018/19	2017/18	28.02.2019	28.02.2018
US dollar (USD)	1.167	1.157	1.142	1.221
Russian ruble (RUB)	75.041	67.024	75.089	68.754
British pound (GBP)	0.884	0.881	0.858	0.884
Japanese yen (JPY)	128.821	128.847	126.440	130.720
Polish zloty (PLN)	4.284	4.227	4.309	4.178
Canadian dollar (CAD)	1.526	1.487	1.504	1.561
Brazilian real (BRL)	4.356	3.707	4.269	3.962
Hong Kong dollar (HKD)	9.149	9.027	8.961	9.560
Swiss franc (CHF)	1.150	1.127	1.134	1.152

(3) ACCOUNTING POLICIES

(a) INTANGIBLE ASSETS

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

Acquired intangible assets are measured at cost.

With the exception of goodwill and recognised trademark rights and domains in the Multichannel Retail segment totalling EUR 26,197 thousand (28 February 2018: EUR 26,211 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

(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.

Leased assets that are economically owned by the Otto Group (finance lease) are recognised at the lower of their fair value or the present value of the minimum lease payments and are depreciated on a straight-line basis. The present value of the minimum lease payments is recognised as a liability.

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
Assets under finance lease	Lease term

If it is reasonably certain that ownership of the leased asset under a finance lease will pass to an Otto Group company at the end of the lease term, the asset is depreciated over its useful life.

(c) IMPAIRMENT LOSSES ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Impairment losses on intangible assets, including goodwill, and on property, plant and equipment 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 1.00%. Projected net cash flows are discounted on an after-tax basis using a risk-adjusted, country-specific interest rate. Other parameters are taken from standardised industry data. Discount rates of between 5.88% and 8.83% (28 February 2018: 6.91% to 11.29%) were used for the impairment tests.

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

(d) FINANCIAL INSTRUMENTS

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

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

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

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

Financial assets and financial liabilities are derecognised if either the rights to cash flows generated from the assets expire, or substantially all risks are transferred to third parties in such a manner that meets the criteria for derecognition. The Otto Group sells receivables with terms of up to three years in the form of ABS (asset-backed securities) transactions. Regardless of whether such receivables have been legally transferred to the transferee, the Otto Group must continue to recognise them as long as any Group company substantially retains all the risks and rewards of ownership under the terms of the contract concerned. As long as the receivable is still recognised by the Group, any funds the Group company receives from the sale are treated as a liability until the customer has settled the receivable sold in full. Another aspect of ABS transactions concerns the Otto Group's obligation to service the receivables sold. Appropriate provisions amounting to EUR 5,109 thousand (28 February 2018: EUR 5,241 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.

(i) FINANCIAL ASSETS MEASURED AT AMORTISED COST

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

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

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

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

In the 2018/19 financial year, no changes were made to significant assumptions concerning value allowance estimates.

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

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

(iii) INVESTMENTS IN EQUITY INSTRUMENTS

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

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

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

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

(iv) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING RELATIONSHIPS

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

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

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

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

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

(v) NET INVESTMENT IN A FOREIGN OPERATION

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

(vi) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

(e) INVENTORIES

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

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

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

(f) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

(g) OTHER PROVISIONS

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

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

(h) 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.

(i) RECOGNITION OF INCOME AND EXPENSE

If the performance obligation is fulfilled as a result of control of the goods or services being transferred to the customer, revenue is recognised in accordance with IFRS 15, which is to be applied for the first time in the current financial year.

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 30 days (2017/18: 30 days) after delivery. Financed purchases based on market interest rates are offered based on a term of up to 68 months. Payments received before the contractual service is provided are recognised as contractual liabilities and 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 under revenue once payment is received. Revenue corresponds to payment receipts from purchased receivables, reduced by the repayment amounts determined using the effective interest method.

In the Services segment, revenue is primarily generated through transport and fulfillment services and is recognised in the period in which it is generated. The customer benefits from these services as they are being performed. Revenue is therefore recognised in line with the degree to which the performance obligation is met. Transport revenue corresponds, for example, to the distance travelled compared to the overall distance. In the case of revenue from private end-consumers, payment is received when the transport goods item is handed over to the delivery company. The payment is recognised as a liability based on the degree to which the performance obligation is met. In the B2B sector, payment terms of up to 100 days (2017/18: 120 days) are granted. Most payments are generally received before the end of this term.

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

In all three segments, the Otto Group divides contractual liabilities into outstanding performance obligations with a term of up to one year and outstanding performance obligations with a term of more than one year. The latter primarily include customer loyalty programmes, customer vouchers and extended warranties. In the case of customer loyalty programmes and customer vouchers, the revenue is recognised at the time of redemption. Redemption typically occurs between 2 and 12 months (2017/18: 3 and 9 months) after purchase of the voucher, or between 1 and 12 months (2017/18: 1 and 12 months) after the bonus points were earned. In the case of warranty extensions, the revenue is recognised over the remaining term on a straight-line basis. Other performance obligations that have not yet been fulfilled have a term of up to one year and are not reported separately through application of the simplified options.

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

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

Income from sale and leaseback transactions is immediately recognised through profit or loss if the leasing contract is classified as an operating lease and the selling price corresponds to the fair value of the related asset.

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. Lease payments from operating leases are expensed in the period the leased objects are used. 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 multichannel retail.

Interest is recorded as 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.

(j) 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.

(k) 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.

(l) EQUITY LISTED ON CAPITAL MARKETS AND PROFIT AND LOSS 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.

(m) 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.

(n) 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.

(o) 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.

(p) USE OF ESTIMATES AND ASSUMPTIONS

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

In particular, material estimates and assumptions were made in determining uniform depreciation and amortisation periods for the Group on property, plant and equipment and intangible assets (Notes (16) and (17)), the valuation of investments within the framework of venture activities (Note (18)), allowances for merchandise and receivables (Notes (19) and (20)), return rates for measuring delivery claims from expected returns (Note (6) and (22)), the parameters for measuring pension provisions (Note (25)), determining the fair value of obligations under put/call options and share-based remuneration (Note (31)) and the likelihood that deferred tax assets can be utilised (Note (15)). The measurement of intangible assets and property, plant and equipment in connection with impairment testing under IAS 36 was based on budget data for forecasting cash flow and standardised sector information for determining discount rates.

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).

(q) NEW IASB PRONOUNCEMENTS

The standards that are required to be applied for the first time in the 2018/19 financial year had no material effects on the presentation of the Group's financial position or financial performance, with the exception of IFRS 9 and IFRS 15. The effects of the first-time application of IFRS 9 and IFRS 15 are explained in Note (3)(r).

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

		Applies from
IFRS 16	Leases	1 January 2019
IFRS 9	Prepayment Features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
IFRIC 23	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
Diverse	Improvements to IFRSs (2015 – 2017)	1 January 2019
IAS 19	Uncertainty over Income Tax Treatments	1 January 2019
Conceptual• Framework	Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
IFRS 3•	Business Combinations (Amendments to IFRS 3)	1 January 2020
IAS 1/IAS 8•	Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 17•	Insurance Contracts	1 January 2021

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

IFRS 16, which covers the future recognition of leases, replaces IAS 17 and the associated IFRIC 4, SIC 15 and SIC 27 interpretations, and introduces a uniform financial reporting model whereby lessees will no longer be required to distinguish between finance lease agreements and operating lease agreements. With the introduction of IFRS 16, the lessee recognises the right-of-use asset arising from a lease in its balance sheet as well as a liability (lease liability) representing its lease payment obligation. This does not include the exceptions made for lease agreements for short-term leases and leases for low-value assets. The regulations from IAS 17 remain largely unchanged for lessors. A lease is still classified as a finance lease for lessors if it transfers all the risks and rewards incidental to ownership. All other leases are classified as operating leases. Furthermore, IFRS 16 contains additional regulations relating to recognition, disclosures, and sale and leaseback transactions.

The Otto Group is obliged to implement IFRS 16 for the first time as of the 2019/20 financial year, and will do so using the modified retrospective method. With the modified retrospective method, no adjustment of the previous year's comparative figures takes place. In addition, the Group will recognise the right-of-use assets at the time of adoption based on the corresponding lease liabilities. For existing finance leases under IAS 17, the existing residual carrying amounts for the asset and liability were used at the time of adoption.

The Otto Group assessed the estimated implications of applying IFRS 16 for the first time. The actual implications of applying this standard for the first time may differ, as neither the Group-wide project for implementing IFRS 16 nor the deployment of a Group-wide IT solution for lease recognition has been fully finalised as yet.

Items identified as important leases in the Otto Group include the leasing of retail space (chain stores), particularly by Group companies in the Multichannel Retail segment in Germany, the USA and Japan, and the leasing of swap bodies, transport vehicles and trucks by Group companies 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.

On the basis of existing leases, the Otto Group anticipates that both a right-of-use asset and a lease liability must be recognised in the consolidated balance sheet. Furthermore, the Group plans to exercise the exceptions that apply to short-term leases and leases for low-value assets. Based on leases concluded to date, the Otto Group expects total consolidated equity and liabilities to increase by approximately EUR 1.3 billion as a result of the adoption of IFRS 16 for the first time. This increase will be accompanied by a decline in the consolidated equity ratio as at 1 March 2019. A change in presentation was made to the consolidated income statement. Up to now, expenses from operating leases have been presented under other operating expenses. In future, depreciation of right-of-use assets as well as interest expenses for the lease liabilities will be recorded instead. This change in presentation has a marginal impact on earnings before tax (EBT). Furthermore, in the consolidated cash flow statement, there has been a shift between cash flow from operating activities and cash flow from financing activities, as the lease payments from operating leases will no longer affect cash flow from operating activities.

(r) ADJUSTMENT OF COMPARATIVE INFORMATION

The Otto Group applied the new financial reporting standards set by IFRS 9 and IFRS 15 for the first time in the 2018/19 financial year. The changes to the previous year's figures recorded in the consolidated balance sheet, the consolidated income statement and the consolidated statement of comprehensive income are presented below. With regard to the consolidated cash flow statement, there were no significant implications for the 2017/18 financial year.

In accordance with IAS 8, the effects of the retrospective adjustments to the consolidated balance sheet are as follows:

	28.02.2018 As reported previously	Restatement IFRS 9	Restatement IFRS 15	28.02.2018 Restated
	EUR 000	EUR 000	EUR 000	EUR 000
Inventories	1,616,718	0	51,210	1,667,928
Current trade receivables	1,228,126	0	140,481	1,368,607
Current miscellaneous other assets	260,471	0	−5,005	255,466
Deferred tax assets	134,891	0	5,020	139,911
Consolidated retained earnings	739,621	4,472	−16,284	727,809
Accumulated other comprehensive income	−625,396	−4,472	−869	−630,737
Non-controlling interests	681,319	0	−319	681,000
Current trade payables	1,426,845	0	196,847	1,623,692
Current liabilities to related parties	24,516	0	16,931	41,447
Current miscellaneous other liabilities	430,822	0	−6,312	424,510
Deferred tax liabilities	82,981	0	1,712	84,693

	01.03.2017 As reported previously	Restatement IFRS 9	Restatement IFRS 15	01.03.2017 Restated
	EUR 000	EUR 000	EUR 000	EUR 000
Inventories	1,403,377	0	40,055	1,443,432
Current trade receivables	1,187,563	0	160,711	1,348,274
Current miscellaneous other assets	328,203	0	−3,978	324,225
Deferred tax assets	118,155	0	4,140	122,295
Consolidated retained earnings	353,839	5,956	−14,764	345,031
Accumulated other comprehensive income	−537,903	−5,956	0	−543,859
Non-controlling interests	756,832	0	−261	756,571
Current trade payables	1,335,904	0	204,911	1,540,815
Current liabilities to related parties	17,093	0	12,337	29,430
Current miscellaneous other assets	461,915	0	−5,865	456,050
Deferred tax liabilities	84,626	0	4,570	89,196

The following adjustments to comparative information apply to the consolidated income statement:

	2017/18 As reported previously	Restatement IFRS 9	Restatement IFRS 15	2017/18 Restated
	EUR 000	EUR 000	EUR 000	EUR 000
Revenue	13,652,891	0	6,916	13,659,807
Income from customer financing	0	0	128,605	128,605
Purchased goods and services	−7,184,480	−12,539	10,550	−7,186,469
Other operating expenses	−4,263,641	0	−27	−4,263,668
Other operating income	795,920	0	−150,848	645,072
Earnings before interest and tax (EBIT)	404,971	−12,539	−4,804	387,628
Other net financial income (expense)	326,949	10,793	0	337,742
Earnings before tax (EBT)	628,994	−1,746	−4,804	622,444
Income tax	−109,899	263	3,223	−106,413
Profit for the year	519,095	−1,483	−1,581	516,031
Profit attributable to the owners of Otto (GmbH & Co KG)	439,970	−1,483	−1,520	436,967
Profit attributable to non-controlling interests	73,782	0	−61	73,721

The following adjustments to comparative information apply to the consolidated statement of comprehensive income:

	2017/18 As reported previously	Restatement IFRS 9	Restatement IFRS 15	2017/18 Restated
	EUR 000	EUR 000	EUR 000	EUR 000
Profit for the year	519,095	−1,483	−1,581	516,031
Gains and losses arising from translation of financial statement in foreign currencies	−61,240	0	−867	−62,107
Gains and losses arising from changes in fair values of derivates held as cash flow hedges after tax	−20,295	1,483	0	−18,812
Gains and losses in other comprehensive income	−967	−29,743	0	−30,710
Gains and losses reclassified to profit or loss	−19,328	31,226	0	11,898
Total comprehensive income for the year	431,248	0	−2,448	428,800
Total comprehensive income attributable to the owners of Otto (GmbH & Co KG)	352,141	0	−2,387	349,754
Total comprehensive income attributable to non-controlling interests	73,764	0	−61	73,703

Due to the adoption of IFRS 15 for the first time, the Otto Group has revised its rules for recognising revenue and has applied the changes to the consolidated financial statements using the full retrospective method, which resulted in an adjustment of the previous year's figures.

From now on, revenue in the Multichannel Retail segment will be recognised at the time at which the respective performance obligation is fulfilled. The application of IFRS 15 for the first time has led to a retrospective reduction in consolidated retained earnings as at 1 March 2017 in the amount of EUR 15,025 thousand, a reduction in trade receivables and an increase in inventories. Previously, expected reversals of receivables due to returns were offset against receivables. Return obligations are now reported as liabilities. As a result of implementing IFRS 15, the Otto Group now reports interest income from customer financing separately in the income statement. In the Financial Services segment, the implementation of IFRS 15 has not resulted in any significant changes to the balance sheet. In the Services segment, the application of IFRS 15 has resulted in revenue being recognised at the time the performance obligations are fulfilled. This does not have any significant implications for the consolidated financial statements of the Otto Group.

In all three segments, the Otto Group will divide the contract 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, received prepayments and extended warranties.

The Otto Group has adjusted the consolidated financial statements in accordance with the provisions of IFRS 9 on a modified retrospective basis, with the exception of the regulations for hedge accounting, which will be adopted in full retrospectively for hedging relationships with currency options. Excluding the exception for hedge accounting, which resulted in an adjustment of the previous year's figures, an adjustment was therefore made to the opening balance of the consolidated balance sheet as at 1 March 2018.

As a result of the new requirements relating to the classification and measurement of financial assets, the Otto Group evaluated all investments in equity instruments in existence at the time of the transition on a case-by-case basis in terms of their recognition at fair value through profit or loss (FVPL) or at fair value through other comprehensive income (FVOCI). Investments that do not correspond to the definition of an equity instrument outlined in IAS 32 – such as shares in limited partnerships, for example – must be classified based on FVPL. Similarly, equity instruments that are not held for strategic purposes must be recognised through profit or loss. In general, it was possible to measure all other investments at fair value either through profit or loss or through other comprehensive income. Decisions in relation to how investments should be classified were made on a case-by-case basis. In addition, subsidiaries that are not included in the consolidated financial statements due to their minor significance were measured at fair value through profit or loss. This did not result in any changes to carrying amounts during the transition period. With the transition to IFRS 9, interest-bearing securities that were classified as available for sale and measured at fair value through other comprehensive income in accordance with IAS 39, are now recorded at amortised cost. This had no effect on measurement. As a result of adopting IFRS 9 for the first time, the convertible notes included under Other financial assets and earn-out arrangements are recorded separately and measured at fair value through profit or loss. This did not have any effect on measurement either.

Other changes to the classification of financial assets did not result in any significant effects for the Otto Group. Similarly, there were no changes in the Group in relation to the classification of financial liabilities. Only the terms used to describe the measurement categories were adjusted.

IFRS 9 introduced a new impairment model based on expected credit losses. This model may be applied to all financial assets that are measured at amortised cost or at fair value through other comprehensive income. In accordance with IAS 39, only losses that have actually occurred are recognised as an impairment for financial assets; however the new recognition method includes information relating to the future as well as information relating to past defaults. Allowances are reported for expected credit losses. At each closing date, the expected credit losses are updated based on the information available. As a result of the transition, the Otto Group made adjustments to allowances on trade receivables as at 1 March 2018 in the amount of EUR 400 thousand, of which EUR 60 thousand was alloted to deferred tax.

The Otto Group did not exercise the option to continue to apply the hedge accounting requirements of IAS 39 during the transition period. The Group has applied the provisions of IFRS 9 for hedge accounting. With the application of the new standard, the fair value component of hedging relationships with currency options was retrospectively recognised as hedging costs by adjusting the comparison period for Accumulated other comprehensive income and was directly incorporated into the amortised costs of the non-financial asset when it was recognised. In accordance with IAS 39, this component was accounted for through profit or loss within the Otto Group.

In terms of the interest component of forward exchange transactions, the option to recognise this component under Other comprehensive income for the year in accordance with the designated spot component was exercised.

The following table reconciles the categories and carrying amounts of the derivative and non-derivative financial instruments with the corresponding IFRS 9 rules:

	Measurement categories of		Carrying amount consolidated balance sheet			
	IAS 39	IFRS 9	01.03.2018 As reported previously	After adjustment for measurement category of IFRS 9	After adjusmentment for assessment criteria of IFRS 9	01.03.2018 Restated
			EUR 000	EUR 000	EUR 000	EUR 000
Trade receivables	Loans and receivables (LAR)	Amortised cost	1,395,770	0	–400	1,395,370
Receivables from financial services	Loans and receivables (LAR)	Amortised cost	1,298,491	0	0	1,298,491
Receivables from related parties	Loans and receivables (LAR)	Amortised cost	173,982	0	0	173,982
Other financial assets	Loans and receivables (LAR)	Amortised cost	196,382	–9,885	0	186,497
Other financial assets	Loans and receivables (LAR)	Fair value through profit or loss	0	8,356	0	8,356
Cash and cash equivalents	Loans and receivables (LAR)	Amortised cost	517,615	0	0	517,615
Other financial investments	Held to maturity (HTM)	Amortised cost	153	0	0	153
Other financial investments	Available-for-sale financial assets (AFS)	Fair value recognised in equity	278,294	–181.725	0	96.569
Other financial investments	Available-for-sale financial assets (AFS)	Fair value through profit or loss	0	183.254	0	183.254
Securities	Held to maturity (HTM)	Amortised cost	313	130	0	443
Securities	Available-for-sale financial assets (AFS)	Fair value recognised in equity	130	–130	0	0
Derivatives not designated as hedging instruments	Financial assets at fair value through profit or loss (AFV)	Fair value through profit or loss	7,875	0	0	7,875
Cash flow hedges	Hedge Accounting	Fair value recognised in equity	11,155	0	0	11,155
Financial assets			**3,880,160**	**0**	**–400**	**3,879,760**

	Measurement categories of		Carrying amount consolidated balance sheet			
	IAS 39	IFRS 9	01.03.2018 As reported previously	After adjustment for measurement category of IFRS 9	After adjusment-ment for assess-ment criteria of IFRS 9	01.03.2018 Restated
			EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	Other liabilities	Amortised cost	27,561	0	0	27,561
Bonds and other notes payable	Other liabilities	Amortised cost	1,439,223	0	0	1,439,223
Bank liabilities	Other liabilities	Amortised cost	1,326,704	0	0	1,326,704
Other financing liabilities	Other liabilities	Amortised cost	196,244	0	0	196,244
of which, finance lease liabilities	Other liabilities	Amortised cost	64,676	0	0	64,676
Trade payables	Other liabilities	Amortised cost	1,459,449	0	0	1,459,449
Liabilities to related parties	Other liabilities	Amortised cost	24,980	0	0	24,980
Other financial liabilities	Other liabilities	Amortised cost	550,318	0	0	550,318
Other financial liabilities	Financial liabilities at fair value through profit or loss (LFV)	Fair value recognised in equity	49,212	0	0	49,212
Derivatives not designated as hedging instruments	Financial liabilities at fair value through profit or loss (LFV)	Fair value through profit or loss	23,827	0	0	23,827
Cash flow hedges	Hedge Accounting	Fair value recognised in equity	29,445	0	0	29,445
Financial liabilities			**5,126,963**	**0**	**0**	**5,126,963**

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:

	28.02.2019	28.02.2018
Fully consolidated subsidiaries		
Germany	175	175
Other countries	184	173
Total	**359**	**348**
Associates and joint ventures reported under the equity method		
Germany	10	8
Other countries	14	16
Total	**24**	**24**

In the 2018/19 financial year, 9 companies were merged within the Otto Group (2017/18: 15 companies).

The consolidated financial statements include 14 companies (28 February 2018: 14) 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 March 2018, the Otto Group acquired 50% of the shares in Otto International Scan-Thor ApS, Herning, Denmark. This company in turn holds all shares in a number of subsidiaries in Europe and Africa, which focus on the procurement of fashion products, home textiles and furniture. Due to company contractual regulations that are in place with seller and joint partner Scan-Thor Group A/S, Herning, Denmark, the Otto Group will have the ability to exercise control over Otto International Scan-Thor ApS. The acquisition of the above-mentioned companies resulted in goodwill in the amount of EUR 9,315 thousand. The companies are assigned to the Services segment.

In the 2018/19 financial year, additional companies were consolidated for the first time which in total are of only subordinate significance for the financial position and financial performance of the Otto Group.

(b) DECONSOLIDATIONS

Within the scope of a contract signed 20 December 2018, the Otto Group sold to an investor its controlling interest in Zahnärztekasse AG, Wädenswil, Switzerland, and all its shares in EOS Health Honorarmanagement Aktiengesellschaft, Hamburg, Germany. The sales contract for the shares in EOS Health Honorarmanagement Aktiengesellschaft was not yet in effect as at the balance sheet date, and consequently, this company was classified as held for sale (see Note (5)(c)). Zahnärztekasse AG was deconsolidated as at 28 February 2019, as the shares had already been transferred to the new owner as at the balance sheet date. This company was assigned to the Financial Services segment.

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

	2018/19
	EUR 000
Assets	
Fixed Assets	1,713
Receivables from financial services	24,242
Other receivables and assets	3,988
Cash and cash equivalents	9,122
Deferred Tax	485
Provisions and liabilities	
Provisions for pensions and similar obligations	2,635
Other provisions	34
Trade payables	12,970
Other liabilities and assets	3,443

In the past financial year up to the time of its deconsolidation, the deconsolidated company generated revenue of EUR 13,456 thousand; with earnings before tax amounting to EUR 3,919 thousand.

The deconsolidation of the above-mentioned company resulted in an overall gain of EUR 30,206 thousand, which is reported under other net financial income (expenses).

In addition, further companies were deconsolidated in the 2018/19 financial year, which in total are only of subordinate significance for the OttoGroup's financial position and financial performance.

(c) DISPOSAL GROUPS

Within the scope of a contract signed 20 December 2018, the shares in EOS Health Honorarmanagement Aktiengesellschaft, Hamburg, Germany were sold. As part of the ownership control procedure, the regulatory approvals needed to transfer control of the shares were outstanding as at the closing date. These regulatory approvals were issued on 17 April 2019. The assets have been derecognised during the first quarter of the 2019/20 financial year. The company together with the associated company Refinanzierungsgesellschaft SPV Health Finanzierungs-GmbH, Berlin, Germany, are presented as a disposal group as at the balance sheet date, as per IFRS 5. Both companies are assigned to the Financial Services segment.

The assets and liabilities for the disposal group as at 28 February 2019 were as follows:

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

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

On 28 February 2019, an agreement was concluded in relation to the sale of 51% of eVenture Fonds 2 GmbH & Co. KG, Hamburg, Germany and BV eVenture Fund II L.P., Wilmington, USA. This agreement provides for the transfer of control of these companies in the 2019/20 financial year. As at the closing date, the regulatory approvals required to transfer control of the shares were still outstanding. Accordingly, the companies are presented as a disposal group pursuant to IFRS 5. The companies are assigned to the Multichannel Retail segment.

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

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

The reclassification as a disposal group resulted in an impairment of EUR 15,267 thousand.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

(6) REVENUE AND INCOME FROM CUSTOMER FINANCING

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

	Multichannel Retail		Financial Services		Services		Total	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Germany	6,815,382	6,860,853	87,571	70,353	1,035,231	1,033,205	7,938,184	7,964,411
Europe (excluding Germany and Russia)	1,352,945	1,358,900	129,196	207,006	1,206,464	1,182,273	2,688,605	2,748,179
North America	1,794,963	1,840,124	34,504	36,429	12,302	8,068	1,841,769	1,884,621
Russia	203,377	309,901	122	274	2,897	3,787	206,396	313,962
Asia	130,603	143,575	0	0	38,811	41,728	169,414	185,303
Other regions	22,997	34,124	0	0	0	1,863	22,997	35,988
Revenue from contracts with customers (IFRS 15)	**10,320,267**	**10,547,477**	**251,393**	**314,062**	**2,295,705**	**2,270,924**	**12,867,365**	**13,132,464**
Revenue from customer financing	164,677	128,605	–	–	–	–	164,677	128,605
Other revenue according to IFRS 9	–	–	572,199	527,344	6,818	0	579,017	527,343
Revenue according to IFRS 9	**164,677**	**128,605**	**572,199**	**527,344**	**6,818**	**0**	**743,694**	**655,948**
Revenue and income from customer financing	**10,484,944**	**10,676,082**	**823,592**	**841,406**	**2,302,523**	**2,270,924**	**13,611,059**	**13,788,412**

In the consolidated income statement of the Otto Group, revenue from contracts with customers in accordance with IFRS 15, and other revenue in accordance with IFRS 9, were combined into one revenue figure in the amount of EUR 13,446.382 thousand (2017/18: EUR 13,659,807 thousand). Revenue from customer financing in the amount of EUR 164,677 thousand (2017/18: EUR 128,605 thousand) is shown separately and exclusively results from interest revenue from instalment credit business.

Revenue from e-commerce in the Multichannel Retail segment amounted to EUR 7,637,721 thousand (2017/18: EUR 7,682,811 thousand), which includes revenue from brokerage services in the amount of EUR 73,380 thousand (2017/18: EUR 56,753 thousand). Revenue in the Services segment amounted to EUR 2,103,931 thousand (2017/18: EUR 2,037,932 thousand) from transportation services and EUR 148,106 thousand (2017/18: EUR 114,856 thousand) from fulfilment.

(7) OTHER OPERATING INCOME

Other operating income is made up as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Advertising subsidies	103,110	96,283
Income from debt collection services	92,101	95,541
Income from ancillary business	76,350	73,147
Income from costs recharged to related parties and third parties	67,182	59,522
Income from reversal of provisions and liabilities	37,733	47,025
Income from amortised receivables	34,725	37,376
Income from disposal of assets	31,795	22,772
Income from reversal of allowances on receivables	19,779	11,085
Income from leases	14,798	20,223
Income from charges to suppliers	14,421	15,180
Miscellaneous	155,409	166,918
Other operating income	**647,403**	**645,072**

Miscellaneous operating income includes income from factoring settlements with the Hanseatic Bank GmbH & Co KG (see Note (40)).

(8) PURCHASED GOODS AND SERVICES

Purchased goods and services breaks down as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Costs of merchandise	5,421,191	5,364,792
Costs of services received	1,846,723	1,801,800
Packing and shipping materials	19,124	19,877
Purchased goods and services	**7,287,038**	**7,186,469**

(9) PERSONNEL EXPENSES

Personnel expenses are composed as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Wages and salaries	1,988,783	1,967,896
Social security contributions	361,093	366,040
Retirement benefit costs	64,518	52,346
Personnel expenses	**2,414,394**	**2,386,282**

Wages and salaries include expenses of EUR 22,194 thousand (2017/18: EUR 14,927 thousand) resulting from termination and compensation agreements within the framework of intra-Group reorganisations, particularly in the Services segment.

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

In the 2018/19 financial year, the average number of employees in the Otto Group calculated on a full-time equivalent basis was 52,558 (2017/18: EUR 51,785 thousand). 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:

	2018/19	2017/18
	EUR 000	EUR 000
Catalogue and advertising costs	1,542,288	1,660,360
Shipping costs	384,611	390,859
Leasing expenses	374,395	364,726
Costs of contract staff	267,189	278,355
Maintenance and repairs	215,595	204,547
Order processing, warehousing and picking costs	160,668	146,257
Derecognitions and changes in allowances on receivables	125,320	144,246
Ancillary building costs	119,440	117,275
Commissions and fees	111,220	120,781
Legal expenses and audit fees	105,547	104,342
Office and communication costs	95,799	100,673
IT consultancy	82,147	93,337
Vehicle costs	64,979	55,010
General consulting costs	64,947	64,602
Other	375,676	418,298
Other operating expenses	**4,089,821**	**4,263,668**

Leasing expenses relate to leases for property, plant facilities, office and operating equipment and motor vehicles.

(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.

The share of earnings from associated companies reported for the Otto Group under income from equity investments using the equity method was primarily attributable to COFIDIS PARTICIPATIONS, Villeneuve-d'Ascq, France, in the amount of EUR 62,170 thousand (2017/18: EUR 64,740 thousand), and to ABOUT YOU Holding GmbH, Hamburg, and ABOUT YOU GmbH, Hamburg, in the amount of EUR –63,311 thousand (2017/18: EUR 0 thousand). Unrecognised losses from ABOUT YOU Holding GmbH and ABOUT YOU GmbH amounted to EUR –7,488 thousand (2017/18: EUR 0 thousand).

On a 100% basis, COFIDIS PARTICIPATIONS achieved revenue in the amount of EUR 1,352,438 thousand (2017/18: EUR 1,317,112 thousand), profit for the year in the amount of EUR 211,738 thousand (2017/18: EUR 220,488 thousand) and other comprehensive income in the amount of EUR –2,582 thousand (2017/18: EUR 3,093 thousand).

Revenue from ABOUT YOU Holding GmbH and ABOUT YOU GmbH amounted to EUR 457,093 thousand on a 100% basis (2017/18: EUR 283,240 thousand). Thanks to significantly increased revenues, the start-up company's net loss for the year decreased slightly to EUR –114,647 thousand (2017/18: EUR –115,319 thousand).

(12) DEPRECIATION AND AMORTISATION

Depreciation and amortisation relate to:

	2018/19	2017/18
	EUR 000	EUR 000
Amortisation of internally generated intangible assets	40,750	37,696
Amortisation of other intangible assets	64,572	71,406
Depreciation of property, plant and equipment	167,012	173,553
Depreciation and amortisation	**272,334**	**282,655**

(13) IMPAIRMENT LOSSES

	2018/19	2017/18
	EUR 000	EUR 000
Impairment losses on goodwill	0	67
Impairment losses on other intangible assets	13,658	40,081
Impairment losses on property, plant and equipment	16,317	22,187
Impairment losses	**29,975**	**62,335**

Goodwill is written down on the basis of annual impairment tests. As a rule, the discounted net cash flows from the value in use were used to determine the recoverable amount for the measurement of impairment losses.

In the 2018/19 financial year, impairment losses on other intangible assets and on property, plant and equipment were primarily attributable to software developed in-house as well as purchased software, in addition to land and buildings. They mainly concern a Russian Group company in the Services segment as well as two German Group companies and one Japanese Group company in the Multichannel Retail segment. The impairment losses affecting the previous year were primarily attributable to software developed in-house and acquired software, as well as acquired customer lists and operating equipment. They mainly related to two German Group companies from the Multichannel Retail segment and a French insurance broker. The future value in use was the basis for determining the impairment loss due to the inadequate development of earnings.

(14) NET FINANCIAL RESULT

The net financial result is made up as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Interest income from loans and securities	11,235	24,650
Income from interest rate derivatives	8,023	7,665
Interest income from bank deposits	967	3,641
Other interest income	673	239
Interest and similar income	**20,898**	**36,195**
Interest expense for bank liabilities and bonds	−62,050	−65,754
Net interest expense on defined benefit plans	−26,209	−30,464
Expenses from interest rate derivatives	−8,295	−9,217
Interest on finance leases	−1,239	−1,663
Other interest expense	−42,162	−32,023
Interest and similar expenses	**−139,955**	**−139,121**
Net interest income (expense)	**−119,057**	**−102,926**
Income from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	252,723	541,704
Expenses from financial investments and securities and from the disposal of shares in consolidated and associated companies and joint ventures	−11,154	−90,302
Bank charges	−59,479	−67,671
Foreign currency gains and losses	−7,948	−44,336
Miscellaneous financial income (expense)	392	−1,653
Other net financial income (expense)	**174,534**	**337,742**
Net financial result	**55,477**	**234,816**

Income from financial investments and securities and from the disposal of shares in consolidated companies, associated companies and joint ventures resulted from the deconsolidation of subsidiaries (see Note (5)(b)). In addition, in the current financial year, as a result of the initial adoption of IFRS 9, changes to the measurement of equity instrument investments measured at fair value were also recognised through profit or loss for the first time. The gains resulting from the change to fair value mostly affect venture activities.

(15) INCOME TAX

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

Income tax expense is classified by origin as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Current income tax, Germany	29,221	39,918
Current income tax, other countries	44,965	70,736
Current income tax	**74,186**	**110,654**
Deferred tax, Germany	6,060	−8,655
Deferred tax, other countries	20,465	4,414
Deferred tax	**26,525**	**−4,241**
Income tax	**100,711**	**106,413**

Income tax includes income taxes for prior years amounting to EUR 5,010 thousand (2017/18: EUR 4,023 thousand), of which EUR 3,827 thousand (2017/18: EUR 7,497 thousand) results from current income tax for the previous year and deferred tax for previous years amounting to EUR 1,183 thousand (2017/18: EUR –3,474 thousand).

In the 2018/19 and 2017/18 financial years, existing tax loss carry-forwards amounting to EUR 37,975 thousand and EUR 143,935 thousand respectively were utilised.

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:

	2018/19	2017/18
	EUR 000	EUR 000
Earnings before tax from continuing operations (EBT)	277,576	622,443
Tax rate for Otto (GmbH & Co KG)	15%	15%
Pro forma income tax expenses	**41,636**	**93,366**
Corrections in deferred taxes	64,119	109,044
Non-deductible expenses	17,943	15,276
Income taxes for prior years	2,557	4,023
Foreign withholding tax	822	336
Effects of consolidation adjustments recognised in income	–6,907	–51,149
Change in applicable tax rate	–2,134	6,342
Additions and deductions for trade tax	–3,235	2,107
Non-taxable income	–63,544	–42,576
Permanent differences	–1,509	–62,747
Differences in tax rates	50,270	32,963
Other	693	–572
Total differences	**59,075**	**13,047**
Income tax	**100,711**	**106,413**

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

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

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

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

Corrections in deferred taxes essentially relate to deferred taxes on the loss carry-forwards of domestic and foreign companies.

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

	28.02.2019		28.02.2018	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	EUR 000	EUR 000	EUR 000	EUR 000
Intangible assets	6.294	80.004	12.139	71.216
Property, plant and equipment	20.964	67.170	19.959	64.344
Inventories	4.571	9.458	5.739	5.133
Receivables and other assets	23.310	41.206	25.629	32.183
Securities and financial investments	333	2.053	732	3.637
Provisions	152.213	37.904	149.043	31.869
Liabilities	51.088	7.563	40.715	6.525
Temporary differences	**258.773**	**245.358**	**253.956**	**214.907**
Loss carry-forwards	14.113	0	16.169	0
Offset	−149.652	−149.652	−130.214	−130.214
Total	**123.234**	**95.706**	**139.911**	**84.693**

Accumulated other comprehensive income and expenses contains tax expenses from changes in temporary differences for FVOCI financial instruments amounting to EUR −983 thousand (2017/18: available-for-sale EUR 307 thousand), tax expenses from changes in the temporary differences for cash flow hedge derivatives amounting to EUR 2,069 thousand (2017/18: EUR −3,814 thousand) and tax expenses from changes in temporary differences for provisions for pensions amounting to EUR −2,503 thousand (2017/18: EUR −18,308 thousand).

Deferred tax assets are recognised for tax loss carry-forwards only if it appears sufficiently likely that they can be realised in the near future. No deferred tax assets were recognised for tax loss carry-forwards of EUR 3,355,877 thousand and EUR 3,105,354 thousand in the 2018/19 and 2017/18 financial years respectively. Of these tax loss carry-forwards, EUR 3,311,727 thousand and EUR 3,046,400 thousand respectively can be carried over indefinitely; EUR 34,432 thousand and EUR 53,767 thousand respectively can be carried over subject to a useful life of between five and ten years; and EUR 9,718 thousand and EUR 5,187 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 84,192 thousand and is based on specific forecasting for the tax group. The surplus of deferred tax assets was recognised as at the closing date to the extent that it is expected to be usable in the coming years.

Deferred tax expenses from the occurrence and reversal of temporary differences amount to EUR 24,338 thousand (2017/18: EUR −36,290 thousand).

In the year under review, an interest carry-forward of EUR 73,837 thousand (2017/18: EUR 76,656 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).

NOTES TO THE CONSOLIDATED BALANCE SHEET

(16) INTANGIBLE ASSETS

Advance payments on intangible assets include EUR 35,957 thousand (28 February 2018: EUR 37,201 thousand) for internally-generated intangible assets which are still in development.

In the 2018/19 financial year, there were no borrowing costs capitalised on qualified assets as per IAS 23 (28 February 2018: EUR 88 thousand). The underlying capitalisation rate as at 28 February 2018 was 2.45%.

Of the goodwill recognised under intangible assets, EUR 180,303 thousand (28 February 2018: EUR 166,677 thousand) is attributable to companies in the Multichannel Retail segment, EUR 113,534 thousand (28 February 2018: EUR 113,731 thousand) is attributable to companies in the Financial Services segment and EUR 29,114 thousand (28 February 2018: EUR 21,336 thousand) is attributable to companies in the Services segment.

There are contractual obligations for the acquisition of intangible assets amounting to EUR 22,034 thousand (28 February 2018: EUR 4,652 thousand).

(17) PROPERTY, PLANT AND EQUIPMENT

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

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Property	2,230	2,337
Technical plant	41,617	44,599
Computers and other IT equipment	28,020	14,974
Other business and office equipment	1,634	3,688
Property, plant and equipment under finance leases	**73,501**	**65,598**

Contractual obligations for the acquisition of property, plant and equipment (purchase commitments) amounted to EUR 19,355 thousand (28 February 2018: EUR 20,143 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%):

	2018/19	2017/18
	EUR 000	EUR 000
Non-current assets	8,983,683	8,366,018
Current assets	4,226,701	4,258,458
Non-current liabilities	5,336,666	5,904,768
Current liabilities	6,286,307	5,050,963
Net assets	**1,587,411**	**1,668,745**
Group's share of carrying amount	**466,064**	**489,944**

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

At the end of the 2017/18 financial year, the Otto Group relinquished control of the previously fully consolidated subsidiary ABOUT YOU GmbH, Hamburg, which had been included in the consolidated financial statements using the equity method since 28 February 2018. As part of the previous year's transitional consolidation, shares in ABOUT YOU GmbH were measured at fair value based on a shareholding of 68.26%, which was determined on the basis of shares sold as well as financing rounds relating to the company's further growth. Despite this majority share, the Group did not have the ability to exercise control, as contractual agreements require the company to be jointly controlled with at least one other shareholder.

In the 2018/19 financial year, shares in ABOUT YOU GmbH were allocated as contributions in kind in exchange for the issue of new shares in ABOUT YOU Holding GmbH, Hamburg. ABOUT YOU Holding GmbH has two different classes of share – ordinary shares and preference shares. For recognition based on the equity method, only ordinary shares are relevant as preference shares do not establish a pro-rata claim on the net assets and results of ABOUT YOU Holding GmbH. The preference shares, which carry a fixed, preferential, yearly interest rate as well as voting rights, are accounted for pursuant to IFRS 9 and reported as other long-term financial assets. Initial recognition and subsequent measurement were carried out at fair value on the basis of existing company planning. Future changes in value are reported under other comprehensive income for the year.

Alongside other share transactions, the inclusion of another strategic investor led to a dilution of the Otto Group's (overall) voting shares, bringing it to 50.29%. The relevant shareholding for ordinary shares used for recognition based on the equity method was 44.91%.

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

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

	2018/19	2017/18
	EUR 000	EUR 000
Non-current assets	17,732	14,107
Current assets	277,704	93,204
Non-current liabilities	157	65
Current liabilities	118,174	74,435
Net assets	**177,105**	**32,811**
Proportional equity (calculated)	79,538	22,397
Negative difference allocated to individually identifiable assets and liabilities and resutling from transitional consolidation after deferred tax – in particular brand• (before depreciation/reversal)••	53,534	53,534
Negative difference allocated to goodwill and resulting from transitional consolidation	341,154	341,154
Breakdown into ordinary shares and preference shares	−411,631	–
Dilution of shares and other share transactions/Other	−62,595	–
Group's share of carrying amount	**0**	**417,085**

• After final purchase price allocation
•• After planned depreciation/reversal, and breakdown into ordinary shares and preference shares, an amount of EUR 5,237 thousand remained as at 28 February 2019.

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:

	2018/19		2017/18	
	Joint ventures	Associated companies	Joint ventures	Associated companies
	EUR 000	EUR 000	EUR 000	EUR 000
Carrying amount of the investment	18,295	222,091	1,573	170,321
Loss/Profit for the year	–5,984	56,749	–15,845	54,060
Other comprehensive income for the year	99	–70	249	16,102
Total comprehensive income for the year	**–5,885**	**56,679**	**–15,596**	**70,162**

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:

	28.02.2019
	EUR 000
Fair Value, FVOCI	80,085
Fair Value, FVPL	22,182
Other financial investments	**102,267**

In the 2018/19 financial year, dividends from shares in companies measured at FVPL were reported at EUR 1,706 thousand. No investments were disposed of during the current financial year.

As at 28 February 2018, shares in companies that were not consolidated or included based on the equity method, and for which financial instruments included under other financial investments in the available-for-sale category that still existed in the 2017/18 financial year, were measured at fair value, or where this could not be reliably determined, at amortised cost:

	28.02.2018
	EUR 000
Fair Value	263,541
At cost	14,906
Other financial investments	**278,447**

Other financial instruments, which in the previous financial year were allocated to the available-for-sale category in accordance with IAS 39 and subsequently measured at amortised cost, correspond to financial investments in non-listed equity instruments for which no active market existed. Assessing the fair value of these financial investments would not have yielded any essential additional information.

(19) INVENTORIES

Inventories are composed as follows:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Merchandise	1,756,901	1,647,616
Raw materials, consumables and supplies	17,523	17,144
Finished goods and services and work in progress	3,614	3,168
Inventories	**1,778,038**	**1,667,928**

Inventory stock includes obsolescence allowances amounting to EUR 207,227 thousand (28 February 2018: EUR 204,735 thousand).

(20) TRADE RECEIVABLES AND RECEIVABLES FROM FINANCIAL SERVICES

These receivables are composed as follows:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Trade receivables, gross	1,653,914	1,692,708
Allowances on trade receivables	−145,166	−156,457
Trade receivables	**1,508,748**	**1,536,251**
Receivables from financial services, gross	1,432,030	1,306,716
Revaluation of receivables from financial services according to IFRS 9	18,188	0
Allowances on receivables from financial services	−8,373	−8,225
Receivables from financial services	**1,441,845**	**1,298,491**

Receivables from financial services also include receivables purchased from third parties in the amount of EUR 1,409,907 thousand (28 February 2018: EUR 1,215,814 thousand). Reversals of impairment losses arising from subsequent measurement at amortised cost in accordance with the measurement rules outlined in IFRS 9 were reported for the first time for receivables from financial services.

Remaining terms of receivables as at 28 February 2019 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	1,341,343	167,405	0	**1,508,748**
Receivables from financial services	377,667	753,768	310,410	**1,441,845**

As at 28 February 2018, the remaining terms of receivables were as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Trade receivables	1,368,607	167,644	0	**1,536,251**
Receivables from financial services	419,679	609,703	269,109	**1,298,491**

Value allowances recognised on existing trade receivables developed as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Allowances as at 1 March	156,457	147,291
Adjustments concerning IFRS 9	400	0
Allowances as at 1 March (adjusted)	**156,857**	**147,291**
Exchange rate changes	653	−729
Changes to the scope of consolidation	−143	−4,134
Utilisation	−104,505	−114,890
Reversals	−19,516	−10,336
Additions	111,820	139,255
Allowances as at 28 February	**145,166**	**156,457**

As at 28 February 2019, a default risk was determined in accordance with IFRS 9 for the first time. No adjustments were made to the previous year's figures.

The individual value allowances for existing receivables from financial services changed as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Allowances as at 1 March	**8.225**	**6.730**
Exchange rate changes	17	−149
Changes to the scope of consolidation due to IFRS 5	−767	0
Utilisation	−7,212	−2,430
Reversals	−263	−747
Additions	8,373	4,821
Allowances as at 28 February	**8,373**	**8,225**

The risk of default from trade receivables was primarily assessed on the basis of arrears information. As at 28 February 2019, the gross carrying amounts of these receivables were broken down into the following arrears bands:

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

In the previous financial year, the age structure of trade receivables which are not impaired but overdue is as follows:

	Less than 30 days	30 to 90 days	More than 90 days	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Balance as at 28 February 2018	56,536	621	14,904	**72,061**

The designation of receivables as overdue has no impact on their recoverability. Based on an assessment of the default risk, the receivables are recoverable in full despite being overdue.

(21) RECEIVABLES FROM RELATED PARTIES

Receivables from related parties are composed as follows:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Receivables from unconsolidated subsidiaries	19,520	16,099
Receivables from associated companies and joint ventures	48,444	72,539
Receivables from other related parties	6,326	85,344
Receivables from related parties	**74,290**	**173,982**

In the current financial year, receivables from associated companies and joint ventures have primarily resulted from receivables from ABOUT YOU GmbH, Hamburg, and from the settlement of goods and services. In the previous year, receivables from other related parties included the sums receivable from GFH Gesellschaft für Handelsbeteiligungen m.b.H., Hamburg, from the sale of shares in ABOUT YOU GmbH, Hamburg, as well as receivables from the sale of property to evoreal GmbH, Hamburg.

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

	2018/19	2017/18
	EUR 000	EUR 000
Allowances as at 1 March	**9,011**	**7,852**
Disposals	−1,808	−613
Additions	638	1,772
Allowances as at 28 February	**7,841**	**9,011**

Remaining terms as at balance sheet date are as follows:

	28.02.2019 EUR 000	28.02.2018 EUR 000
Remaining term of up to 1 year	74,290	117,830
Remaining term of more than 1 to 5 years	0	56,152
Remaining term of more than 5 years	0	0
Receivables from related parties	**74,290**	**173,982**

(22) OTHER ASSETS

Other assets consist of the following:

	28.02.2019 EUR 000	28.02.2018 EUR 000
Deposits	48,443	51,082
Amounts owed by suppliers	36,109	38,281
Derivatives at fair value	26,738	19,030
Receivables from employees	2,184	2,169
Other	499,014	104,849
Other financial assets	**612,488**	**215,411**
Prepaid expenses	78,169	68,347
Expected returns of merchandise	67,869	77,714
Receivables from other taxes	64,901	89,100
Other	31,604	44,431
Miscellaneous other assets	**242,543**	**279,592**
Other assets	**855,031**	**495,003**

The legal right to recover expected returns of merchandise to the amount of EUR 67,869 thousand (28 February 2018: EUR 77,714 thousand) corresponds to the purchase costs of the delivered goods expected to be returned, less the cost of processing the returns and any losses incurred during disposal. Other financial assets includes an amount of EUR 411,631 thousand (28 February 2018: EUR 0 thousand), which is allotted to preference shares in a company accounted for in the consolidated financial statements using the equity method (see Note (18)).

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

	Remaining term of up to 1 year EUR 000	Remaining term of more than 1 to 5 years EUR 000	Remaining term of more than 5 years EUR 000	Total EUR 000
Balance as at 28 February 2019	128,194	63,660	420,634	**612,488**
Balance as at 28 February 2018	133,242	67,470	14,699	**215,411**

Allowances to the amount of EUR 1,202 thousand (28 February 2018: EUR 5,031 thousand) were recognised for other assets.

(23) EQUITY

An essential objective of the Otto Group's capital management is to ensure the sustained availability of long-term capital. The main control measure used here is the debt coefficient (net financial debt in relation to Group equity). Given the different capital requirements of financial services and retail activities, the coefficient is calculated in a different manner for these activities. Here, management draws on the consolidated financial statements in which the financial services companies are accounted for in accordance with the equity method (see Note (39)). With regard to the characteristics of these figures, the reader is referred to the Group Management Report.

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

(a) LIMITED PARTNERS' CAPITAL

In accordance with IAS 32, the limited partners' shares in Otto (GmbH & Co KG) are to be classified as puttable instruments. In accordance with the partners' agreement, the following amounts – which are determined under German commercial law – comprise the limited partners' capital:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	83,869	100,702
Puttable financial instruments	**903,869**	**920,702**

Given the prevailing partnership structure, characterised by an indirect allocation of all shares to members of the Otto family and the Michael Otto Foundation, to which the majority of Otto (GmbH & Co KG) shares were allocated during the 2014/15 financial year, the puttable financial instruments have a virtually unlimited holding period. Given the absence of market transactions and the Foundation's intention to retain the shares as long-term foundation assets, it is impossible to provide a reliable assessment of fair value at the balance sheet date.

(b) CONSOLIDATED RETAINED EARNINGS

Consolidated retained earnings include the profit or loss generated by companies included in the consolidated financial statements, unless these amounts have been distributed. Offsets for goodwill undertaken in the consolidated financial statements under the German Commercial Code (HGB) up to 28 February 2002 and retained pursuant to IFRS 1 have a reducing effect.

In compliance with legal requirements and the articles of association, an amount of EUR 36,872 thousand (28 February 2018: EUR 37,096 thousand) of consolidated retained earnings was not available for distribution as at 28 February 2019.

(c) NET COST IN EXCESS OF NET ASSETS ACQUIRED IN STEP ACQUISITIONS

The adjustment item contains differences arising from the step acquisition of shares in companies in which the Otto Group already had the power of control. Such acquisitions are to be treated as transactions at partner level.

The effects of changes in investments in subsidiaries which have not led to the loss of control are listed below:

	2018/19	2017/18
	EUR 000	EUR 000
Consideration paid (–) or received (+)	–4,926	0
Increase (–)/decrease (+) in non-controlling interests	–5,030	0
Changes in net cost in excess of net assets acquired in step aquisitions	**–9,956**	**0**

(d) ACCUMULATED OTHER EQUITY

Accumulated other equity is composed as follows:

	28.02.2019	28.02.2018
	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	−1,038	1,515
Accumulated other equity	**12,565**	**15,118**

(e) NON-CONTROLLING INTERESTS

The non-controlling interests in equity primarily relate to external shareholders in ARGOSYN, Croix, France, and its subsidiaries, based on a non-controlling interest of 46.32% (taking into account treasury shares), as well as FORUM Grundstücksgesellschaft m.b.H., Hamburg, Germany, based on a non-controlling interest of 100%, and its subsidiaries.

The summarised financial information for the Argosyn Group and Forum Group (based on 100%, before offsetting within the Group) is presented below:

	Forum Group*		Argosyn Group	
	2018/19	2017/18	2018/19	2017/18
	in TEUR	in TEUR	in TEUR	in TEUR
Non-current assets	414,129	427,414	484,882	517,543
Current assets	86,645	67,512	217,830	340,503
Non-current liabilities	183,772	143,208	2,196	2,298
Current liabilities	70,850	80,979	47,701	58,465
Net assets	**246,152**	**270,739**	**652,815**	**797,283**
of which, attributable to non-controlling interests	245,779	270,366	302,360	369,271
Revenue	0	105	10,939	48,375
Profit for the year	15,352	23,139	63,865	75,234
of which, attributable to non-controlling interests	15,235	23,116	29,580	34,845
Other comprehensive income for the year	−1,669	1,388	−215	534
Total comprehensive for the year	**13,683**	**24,527**	**63,650**	**75,767**
of which, attributable to non-controlling interests	13,567	24,504	29,480	35,093
Net increase (decrease) of cash and cash equivalents	**0**	**0**	**−117,190**	**164,343**
Dividends paid to non-controlling interests	37,588	22,757	58,839	109,623

* 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.

In June 2006 and in August 2009, EOS Holding GmbH, Hamburg, issued participation certificates totalling EUR 55,000 thousand. Following the repurchase of shares, EUR 45,000 thousand remains outstanding. In February 2016, bonprix Handelsgesellschaft mbH, Hamburg, issued participation certificates totalling EUR 70,000 thousand. These participation certificate transactions are classified as equity under IAS 32 due to their characteristics.

As at 28 February 2019, the as yet unpaid remuneration on the equity components named amounting to EUR 7,984 thousand (28 February 2018: EUR 1,984 thousand) is likewise included in this item.

(24) PROFIT AND LOSS PARTICIPATION RIGHTS

The Otto Group offers employees at selected Group companies in Germany a capital participation plan in the form of participation rights. Each year, each employee at these companies has the option of buying a package that may comprise up to 20 profit-sharing rights at a par value of EUR 250.00 each. Under the terms and conditions governing profit and loss participation rights dated 10 April 2007, these rights share in all Group profits and losses based on the IFRS consolidated financial statements of Otto (GmbH & Co KG). However, in some cases the loss allocation is limited to 30% of the par value of the profit and loss participation rights. In principle, these packages are to be held for a period of at least six years, with the participation right recognised as non-current corresponding to the proportion attributable to this period.

As at 28 February 2019, 28,950 packages worth EUR 26,190 thousand (28 February 2018: 29,583 packages worth EUR 27,561 thousand) had been subscribed to.

(25) PENSIONS AND SIMILAR OBLIGATIONS

Occupational pensions in the Group take the form of both defined contribution plans as well as defined benefit plans. The expenses of defined contribution obligations and defined benefit obligations are included in personnel expenses, except for net interest income. The compounding of the net pension obligation acquired in prior years is reported in net financial result. The retirement plans are organised in compliance with the legal, tax and economic conditions prevalent in the respective countries.

Under defined contribution pension plans, Otto Group companies make payments to external pension institutions and have no further benefit obligations to the beneficiaries. Expenses for defined contribution pension plans, excluding payments made to statutory pension plans, amounted to EUR 14,294 thousand in the 2018/19 financial year (2017/18: EUR 12,866 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 38,096 thousand as at 28 February 2019 (28 February 2018: EUR 75,779 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:

	28.02.2019	28.02.2018
	in %	in %
Discount rate	2.1	2.2
Salary trend	1.4	1.4
Pension trend	1.8	1.8
Inflation	1.9	1.8
Fluctuation	8.0	8.0

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

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Defined benefit obligation, unfunded plans	1,452,491	1,387,683
Defined benefit obligation, funded plans	624,487	605,361
Reversals with regard to IFRS 5	−536	0
Present value of pension obligations	**2,076,442**	**1,993,044**

The net defined benefit liability has developed as follows:

	Defined benefit obligations		Plan assets		Provisions for pensions	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Status as at 1 March	**1,993,044**	**1,975,723**	**587,559**	**618,287**	**1,405,485**	**1,357,436**
Current service cost	24,250	23,440	0	0	24,250	23,440
Past service cost	22,313	15,190	0	0	22,313	15,190
Effects of plan curtailments and settlements	−66	−1,413	0	0	−66	−1,413
Interest income (expense)	42,257	44,690	16,048	14,226	26,209	30,464
Changes recognised in profit or loss	**88,754**	**81,907**	**16,048**	**14,226**	**72,706**	**67,681**
Actuarial gains and losses						
arising on demographic assumptions	17,215	−38,916	0	0	17,215	−38,916
arising on financial assumptions	10,295	66,411	0	0	10,295	66,411
arising on experience adjustments	17,490	1,605	0	0	17,490	1,605
Return on plan assets less interest income	0	0	−10,076	−12,111	10,076	12,111
Foreign exchange rate changes	18,607	−25,964	17,255	−22,080	1,352	−3,884
Changes recognised in other comprehensive income	**63,607**	**3,136**	**7,179**	**−34,191**	**56,428**	**37,327**
Payments to beneficiaries	−58,445	−65,086	−26,288	−32,793	−32,157	−32,293
Transfers	75	−237	0	0	75	−237
Contributions from employer	0	0	22,430	22,030	−22,430	−22,030
Changes to the scope of consolidation	−10,057	−2,399	−8,484	0	−1,573	−2,399
Reversals with regard to IFRS 5	−536	0	0	0	−536	0
Other changes	**−68,963**	**−67,722**	**−12,342**	**−10,763**	**−56,621**	**−56,959**
Status as at 28 February	**2,076,442**	**1,993,044**	**598,444**	**587,559**	**1,477,998**	**1,405,485**
of which provisions for pensions					1,477,998	1,416,795
of which net defined benefit asset					0	−11,310

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

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Securities	487,355	511,889
Property	35,845	45,101
Cash and cash equivalents	13,747	11,989
Loans	4,194	4,072
Other	57,303	14,508
Plan assets	**598,444**	**587,559**

The costs of managing the plan assets diminish the income for the plan assets. The remaining administrative costs are not deducted from the income from plan assets.

In the 2019/20 financial year, the Group expects to pay EUR 22,575 thousand into the defined benefit plans and also anticipates that EUR 59,751 thousand will be paid out from these plans.

The weighted average term of the present value of the defined benefit obligation is 19.0 years (28 February 2018: 19,5 years).

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

		2018/19	2017/18
		in %	in %
Discount rate	+ 0.5%	− 8.7	− 9.0
	− 0.5%	9.9	10.2
Pension trend	+ 0.25%	2.2	2.5
	− 0.25%	− 2.1	− 2.3
Life expectancy	Increase of one year	1.7	1.7
	Decrease of one year	− 1.8	− 1.9

There is no material dependence of the plans on salary. Approximately 98% by volume of the obligations was taken into account in calculating the sensitivities. Each change in one of the material actuarial assumptions was analysed separately. Interdependencies were not taken into account.

(26) OTHER PROVISIONS

Other provisions are composed as follows:

	01.03.2018	Exchange rate changes/reclassifications/changes in the scope of consolidation	Utilisation	Reversals	Additions	Compounding	28.02.2019
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Restructuring obligations	52,968	315	− 17,228	− 7,664	27,146	487	56,024
Personnel expenses	72,039	1,053	− 3,499	− 5,907	5,596	289	69,571
Operational provisions	34,771	162	− 1,864	− 556	16,509	1,987	51,009
Contractual provisions	31,227	110	− 2,297	− 3,894	5,893	7	31,046
Other	104,900	1,833	− 8,653	− 12,289	32,575	112	118,478
Other provisions	**295,905**	**3,473**	**− 33,541**	**− 30,310**	**87,719**	**2,882**	**326,128**

The provisions for personnel expenses mainly comprise top-up amounts for partial retirement obligations as well as anniversary bonus entitlements.

Provisions for restructuring obligations include expected severance payments and other restructuring-related personnel expenses incurred based on programmes to avert hardship for employees affected by downsizing and collective bargaining agreements in Germany, France and England, for example. These provisions additionally include anticipated expenses in connection with the premature termination of lease agreements owing to restructuring measures.

Operational provisions mostly consist of provisions for asset removal or site restoration as well as provisions for claims relating to warranties and customer goodwill payments. Provisions for asset removal and site restoration, which apply especially to leasehold improvements, were recognised at the present value of the anticipated costs. These costs were correspondingly capitalised as a component of the purchase or production costs of the assets at the time the obligation was incurred. Provisions for warranties and customer goodwill payments are recognised for the probable total claim amounts, for warranties established by law or contract or undertaken voluntarily, and for customer warranty claims on delivered merchandise.

Obligations arising from ongoing or anticipated legal disputes are reported under contractual provisions, among others.

The other provisions refer to a large number of identifiable individual risks and contingent liabilities that are included on the basis of an amount determined by their probable occurrence.

The remaining terms of other provisions are broken down as follows as at 28 February 2019:

	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	36,152	19,872	0	**56,024**
Personnel expenses	593	56,831	12,147	**69,571**
Operational provisions	23,700	16,327	10,982	**51,009**
Contractual provisions	31,008	38	0	**31,046**
Other	83,312	35,166	0	**118,478**
Other provisions	**174,765**	**128,234**	**23,129**	**326,128**

(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 2019 are broken down as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Bonds and other notes payable	502,460	607,000	347,569	**1,457,029**
Bank liabilities	651,937	632,626	225,583	**1,510,146**

The 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	166,810	677,451	594,962	**1,439,223**
Bank liabilities	771,631	390,851	164,222	**1,326,704**

The principal bonds outstanding as at 28 February 2019 have the following nominal values, interest rates and maturities:

Company	Financing commitment	Utilisation until 28.02.2019	Nominal interest rate	Re-offer yield	Maturity
		EUR 000			
Otto (GmbH & Co KG)	Bearer bond (XS0847087714)	300,000	3.875%	4.000%	01.11.2019
Otto (GmbH & Co KG)	Bearer bond (XS0978146271)	20,000	3.376%	3.376%	13.12.2019
Otto (GmbH & Co KG)	Bearer bond (XS0972058175)	225,000	3.750%	3.875%	17.09.2020
Otto (GmbH & Co KG)	Bearer bond (XS1031554360)	50,000	Euribor + mark-up	Euribor + mark-up	18.02.2021
Otto (GmbH & Co KG)	Bearer bond (XS1123401579)	45,000	Euribor + mark-up	Euribor + mark-up	05.11.2021
Otto (GmbH & Co KG)	Bearer bond (XS1567447609)	40,000	1.500%	1.500%	08.03.2022
Otto (GmbH & Co KG)	Bearer bond (XS1433512891)	250,000	2.500%	2.625%	16.06.2023
Otto (GmbH & Co KG)	Bearer bond (XS1625975153)	300,000	1.875%	1.950%	12.06.2024
Otto (GmbH & Co KG)	Bearer bond (XS1660709616)	50,000	Euribor + mark-up	Euribor + mark-up	24.08.2026

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 2019, the total volume of bonds issued within the framework of the ETMN programme amounted to EUR 980,000 thousand (28 February 2018: EUR 980,000 thousand).

In addition, a commercial paper programme has been in place since the 2016/17 financial year which has a total value of EUR 1,000,000 thousand. As at 28 February 2019, the total volume of outstanding commercial paper amounts to EUR 166,000 thousand (28 February 2018: EUR 150,000 thousand).

As at 28 February 2019, there are the following material liabilities to various German and foreign banks (in order of maturity):

Segments	Currency	Utilisation until 28.02.2019	Interest rate	Maturity
		EUR 000		
Multichannel Retail	EUR	327,271	1.0 – 6.0%	2019 – 2024
	EUR	132,166	Euribor + variable mark-up	2020 – 2039
	EUR	166,889	1.5 – 6.9%	2024 – 2041
Financial Services	EUR	30,000	Euribor + variable mark-up	2019 – 2025
	EUR	68,433	1.6 – 2.7%	2021 – 2023
	EUR	130,000	1.4 – 1.5%	2025 – 2027
Services	EUR	57,975	1.7%	2023 – 2027

These are broken down based on segment allocation based on fixed or variable interest rates, and by maturity – of up to five years (28 February 2024) or over five years (as of 1 March 2024).

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

(28) OTHER FINANCING LIABILITIES

Other financing liabilities consist of the following:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
ABS liabilities	82,632	189,087
Finance lease liabilities	69,646	64,676
Loans payable	4,441	4,546
Bills payable	1,355	2,612
Other financing liabilities	**158,074**	**260,921**

Remaining terms as at 28 February 2019 are as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
ABS liabilities	82,632	0	0	**82,632**
Finance lease liabilities	17,622	50,654	1,370	**69,646**
Loans payable	4,441	0	0	**4,441**
Bills payable	1,355	0	0	**1,355**
Other financing liabilities	**106,050**	**50,654**	**1,370**	**158,074**

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	189,087	0	0	**189,087**
Finance lease liabilities	17,095	45,780	1,801	**64,676**
Loans payable	4,546	0	0	**4,546**
Bills payable	2,612	0	0	**2,612**
Other financing liabilities	**213,340**	**45,780**	**1,801**	**260,921**

Finance lease liabilities as at 28 February 2019 may be reconciled as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Lease payments outstanding	18,910	52,240	1,374	**72,524**
Interest component	1,288	1,586	4	**2,878**
Principal component	**17,622**	**50,654**	**1,370**	**69,646**

Finance lease liabilities as at the closing date of the comparative period were reconciled as follows:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Lease payments outstanding	18,295	49,316	1,818	**69,429**
Interest component	1,200	3,536	17	**4,753**
Principal component	**17,095**	**45,780**	**1,801**	**64,676**

(29) LIABILITIES TO RELATED PARTIES

Liabilities to related parties consist of the following:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Liabilities to unconsolidated subsidiaries	16,500	17,873
Liabilities to associated companies and joint ventures	26,308	18,799
Liabilities to other related parties	2,767	5,239
Liabilities to related parties	**45,575**	**41,911**

The remaining terms were as follows:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Remaining term of up to 1 year	44,834	41,447
Remaining term of 1 to 5 years	277	0
Remaining term of more than 5 years	464	464
Liabilities to related parties	**45,575**	**41,911**

(30) OTHER LIABILITIES

The other liabilities are composed as follows:

	28.02.2019 EUR 000	28.02.2018 EUR 000
Liabilities to employees	251,820	259,888
Liabilities to puttable equity interest	104,697	95,445
Debtors with credit balances	88,561	93,000
Negative fair values of derivatives	38,069	53,273
Obligation to acquire equity interests	27,989	49,212
Other	59,244	101,984
Other financial liabilities	**570,380**	**652,802**
Contractual Liabilities	214,302	199,290
Liabilities for other taxes	146,193	185,449
Deferred income	107,096	110,909
Social security liabilities	17,686	17,552
Liabilities for other charges	9,900	9,266
Other	2,753	3,608
Miscellaneous other liabilities	**497,930**	**526,074**
Other liabilities	**1,068,310**	**1,178,876**

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):

	28.02.2019 EUR 000	28.02.2018 EUR 000
Remaining term of up to 1 year	383,110	479,181
Remaining term of more than 1 to 5 years	170,340	169,427
Remaining term of more than 5 years	16,930	4,194
Other financial liabilities	**570,380**	**652,802**

Contractual liabilities changed as follows:

	2018/19	2017/18
	EUR 000	EUR 000
Contractual Liabilities as at 1 March	**199,290**	**196,215**
Additions	189,645	176,360
Revenues realized in the reporting period	−177,608	−173,285
Exchange rate changes	2,975	0
Contractual Liabilities as at 28 February	**214,302**	**199,290**

As at 28 February 2019, the total value of unfulfilled performance obligations that are expected to be fulfilled in more than 12 months amounted to EUR 19,347 thousand (28 February 2018: EUR 13,245 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, this programmes are classified as a 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	−40,554	−28,969	51,260	0.00	95.41
2015	148,860	−54,592	−32,220	47,485	0.00	100.11
2016	157,770	−63,295	−22,735	40,539	23.36	79.40
	1,325,405	**−371,381**	**−767,164**	**139,284**		

The plan launched in the 2017/18 financial year allows for a maximum of 300,000 appreciation rights to be issued. Movements in employee share option plan amounts are summarised as follows:

Year granted	Number of rights granted	Number of forfeitures	Number of rights paid	Number of rights vested	Value of right at date granted in USD	Change of value in comparison to date granted in USD
2017	56,920	−34,960	0	0	99.22	1.97
2018	25,440	−19,840	0	0	110.66	3.12
	82,360	**−54,800**	**0**	**0**		

Taking into account the vesting period pursuant to IFRS 2, a liability of EUR 12,147 thousand was recognised for both employee participation programmes as at balance sheet date (2017/18: EUR 16,309 thousand), owing to the performance of the value. Expenses amounting to EUR 3,076 thousand arose the reporting year (2017/18: EUR 8,201 thousand).

In the 2018/19 financial year, payments of EUR 14,245 thousand were made to former employees for rights that had already vested when they left the company (2017/18: EUR 6,104 thousand).

In addition, virtual put options were granted to senior members of staff at a German Group company in the 2017/18 financial year. Under IFRS 2, these put options are classified as a cash-settled share-based payment. The transaction currency for grants and repurchases is the euro. It was possible for the put options to be exercised at different predetermined times. They were exercised during the 2018/19 financial year.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(32) DEFINITIONS

In the Otto Group gross cash flow is an internal control measure for managing the 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:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Cash	368,728	517,615
Securities with maturities of three months or less	17,224	130
Cash and cash equivalents	**385,952**	**517,745**

Of the cash and cash equivalents reported in the consolidated cash flow statement, EUR 4,098 thousand have been deposited as collateral (28 February 2018: EUR 11,014 thousand). The limited availability is primarily due to contractual agreements in connection with ABS transactions.

(34) NON-CASH TRANSACTIONS

Material non-cash financing and investment transactions in the 2018/19 financial year relate to the closing of finance lease contracts to the amount of EUR 19,967 thousand (2017/18: EUR 16,247 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 harmonises segment reporting with internal reporting to the relevant primary decision makers, which contains information presented to these decision makers in the course of regular reporting that is then used to allocate resources for the divisions within the Group. In accordance with the Group's internal management structure, segment reporting is based on the Group's business segments.

To supplement the business segments, additional information is provided on the geographical regions.

(a) BUSINESS SEGMENTS

The Otto Group conducts business in the following business segments:

Multichannel Retail
The Multichannel Retail segment includes all of the Group's operations that involve selling consumer goods to retail customers. Business is conducted by means of a multichannel strategy that covers online and distance selling as well as over-the-counter retail, whereby e-commerce sales form the main focus of this segment.

Financial Services
The Financial Services segment includes receivables and liquidity management services.

Services
The Otto Group's Services segment comprises logistics and purchasing services. Logistics services include a wide range of activities, from procurement and transport services through to home deliveries to end customers and services related to delivered merchandise.

(b) GEOGRAPHICAL REGIONS

In addition to Germany and Russia, the Otto Group is especially active in other European countries, as well in North America and Asia. Other regions covers operations in all remaining regions.

(36) SEGMENT INFORMATION

Segment data is determined on the basis of accounting and measurement policies used for preparing the consolidated financial statements, with the exception of leasing agreements within the Group, which are reported as operating leases. Receivables, expenses and income resulting from transactions between the individual segments are eliminated in the Holding/consolidation column. Such transactions are conducted on normal market terms. The Holding/consolidation column also includes expenses for central corporate functions that cannot be reliably assigned to individual segments.

Third-party revenue results from the sale of merchandise and the provision of services including financial services. Internal revenue relates to the exchange of products and services between segments.

Earnings figures show the segments' contribution to the Group's earnings. Here, EBITDA represent earnings before taking the net financial result, income tax and depreciation and amortisation into account. Taking into account the depreciation and amortisation sustained, EBIT constitutes earnings before interest and before income taxes.

Segment assets include non-current assets for the relevant segment, i.e. intangible assets (including goodwill), property, plant and equipment, 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:

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Segment assets	**8,566,255**	**8,243,119**
Other financial investments	90,706	269,897
Receivables and other assets	54,783	126,392
Cash and cash equivalents	368,728	517,615
Deferred tax assets	123,234	139,911
Assets held for sale	420,609	0
Consolidated assets	**9,624,315**	**9,296,934**

For geographical information, revenue 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 and property, plant and equipment:

	Revenues from third parties		Non-current assets	
	2018/19	2017/18	28.02.2019	28.02.2018
	EUR 000	EUR 000	EUR 000	EUR 000
Germany	8,243,568	8,271,115	1,377,628	1,312,651
Europe (excluding Germany and Russia)	2,914,738	2,945,743	398,411	354,678
North America	1,855,722	1,892,154	356,703	345,674
Russia	229,668	323,735	1,693	14,596
Asia	179,690	191,072	48,819	48,123
Other regions	22,996	35,988	1,032	816
Group	**13,446,382**	**13,659,807**	**2,184,286**	**2,076,538**

OTHER DISCLOSURES

(37) FINANCIAL INSTRUMENTS

(a) NON-DERIVATIVE FINANCIAL INSTRUMENTS

The Otto Group uses a wide range of financial instruments in its various lines of business.

The tables below list the financial assets and liabilities in accordance with the categories of financial instruments outlined in IFRS 9. Cash flow hedges are recognised separately.

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. There were no reclassifications between the various categories of financial instruments in the 2018/19 financial year.

Other financial liabilities include various put options. These are categorised under Level 3 in the fair value hierarchy, as the measurement parameters are not based on observable market data. Accumulated other comprehensive income includes EUR 970 thousand (28 February 2018: EUR 2,486 thousand) from foreign currency translation.

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their classification in the fair value hierarchy, as at 28 February 2019. It does not contain any information about the fair value of financial assets and liabilities which were not measured at fair value if the carrying amount represents an adequate approximation of the fair value. Finance lease liabilities are calculated in accordance with IAS 17 and are therefore not assigned to any measurement category in the table as per IFRS 9. The fair value for finance lease liabilities is not shown, as calculating the fair value would not yield any significant additional information.

Assets	Measurement according to IFRS 9					Fair value hierarchy			
	Carrying amount	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI)	Fair value recognised in equity (FVOCI) without recycling	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Other financial investments	102,267	0	22,182	0	80,085	102,267	0	102,267	0
Trade receivables	1,508,748	1,508,748	0	0	0	0	0	0	0
Receivables from financial services	1,441,845	1,441,845	0	0	0	0	0	0	0
Receivables from related parties	74,290	74,290	0	0	0	0	0	0	0
Other financial assets	585,750	173,724	395	0	411,631	411,631	0	411,631	0
Securities	17,537	403	17,134	0	0	17,134	17,134	0	0
Cash and cash equivalents	368,728	368,728	0	0	0	0	0	0	0
Derivatives not designated as hedging instruments	5,792	0	5,792	0	0	5,792	0	5,792	0
Cash flow hedges	20,945	0	0	20,945	0	20,945	0	20,945	0

Liabilities	Measurement according to IFRS 9				Fair value hierarchy			
	Carrying amount	Amortised cost (AC)	Fair value through profit or loss (FVPL)	Fair value recognised in equity (FVOCI)	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	26,189	26,189	0	0	0	0	0	0
Bonds and other notes payable	1,457,029	1,457,029	0	0	1,474,414	1,103,865	370,549	0
Bank liabilities	1,510,146	1,510,146	0	0	1,554,711	0	1,554,711	0
Other financing liabilities	88,428	88,428	0	0	0	0	0	0
of which, finance lease liabilities	69,646	69,646	0	0	0	0	0	0
Trade payables	1,628,536	1,628,536	0	0	0	0	0	0
Liabilities to related parties	45,575	45,575	0	0	0	0	0	0
Other financial liabilities	532,312	504,323	0	27,989	27,989	0	0	27,989
Derivatives not designated as hedging instruments	10,555	0	10,555	0	10,555	0	10,555	0
Cash flow hedges	27,514	0	0	27,514	27,514	0	27,514	0

As at the closing date of the comparative period, in accordance with IAS 39, the carrying amounts and fair values of financial assets and liabilities together with their corresponding classification in the fair value hierarchy were as folllows:

Assets	Measurement according to IAS 39				Fair value hierarchy			
	Carrying amount	Amortised cost	Fair value through profit or loss	Fair value recognised in equity	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Trade receivables	1,536,251	1,536,251	0	0	0	0	0	0
Receivables from financial services	1,298,491	1,298,491	0	0	0	0	0	0
Receivables from related parties	173,982	173,982	0	0	0	0	0	0
Other financial assets	196,382	196,382	0	0	0	0	0	0
Cash and cash equivalents	517,615	517,615	0	0	0	0	0	0
Loans and receivables (LAR)	**3,722,721**	**3,722,721**	**0**	**0**	**0**	**0**	**0**	**0**
Other financial investments	153	153	0	0	0	0	0	0
Securities	313	313	0	0	0	0	0	0
Held to maturity (HTM)	**466**	**466**	**0**	**0**	**0**	**0**	**0**	**0**
Other financial investments	278,294	14,753	0	263,541	263,541	0	263,541	0
Securities	130	0	0	130	130	130	0	0
Available-for-sale financial assets (AFS)	**278,424**	**14,753**	**0**	**263,671**	**263,671**	**130**	**263,541**	**0**
Derivatives not designated as hedging instruments	7,875	0	7,875	0	7,875	0	7,875	0
Financial assets at fair value through profit or loss (AFV)	**7,875**	**0**	**7,875**	**0**	**7,875**	**0**	**7,875**	**0**
Cash flow hedges	**11,155**	**0**	**0**	**11,155**	**11,155**	**0**	**11,155**	**0**

Liabilities	Measurement according to IAS 39				Fair value hierarchy			
	Carrying amount	Amortised cost	Fair value through profit or loss	Fair value recognised in equity	Fair value	Level 1	Level 2	Level 3
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	27,561	27,561	0	0	0	0	0	0
Bonds and other notes payable	1,439,223	1,439,223	0	0	1,589,329	1,117,672	471,657	0
Bank liabilities	1,326,704	1,326,704	0	0	1,437,359	0	1,437,359	0
Other financing liabilities	196,244	196,244	0	0	0	0	0	0
of which, finance lease liabilities	64,676	64,676	0	0	0	0	0	0
Trade payables	1,656,296	1,656,296	0	0	0	0	0	0
Liabilities to related parties	41,911	41,911	0	0	0	0	0	0
Other financial liabilities	550,318	550,318	0	0	0	0	0	0
Financial liabilities measured at amortised cost (OL)	**5,302,933**	**5,302,933**	**0**	**0**	**3,026,688**	**1,117,672**	**1,909,016**	**0**
Other financial liabilities	49,212	0	0	49,212	49,212	0	0	49,212
Derivatives not designated as hedging instruments	23,827	0	23,827	0	23,827	0	23,827	0
Financial liabilities at fair value through profit or loss (LFV)	**73,039**	**0**	**23,827**	**49,212**	**73,039**	**0**	**23,827**	**49,212**
Cash flow hedges	**29,445**	**0**	**0**	**29,445**	**29,445**	**0**	**29,445**	**0**

Net gain/loss from financial instruments is broken down according to the individual IFRS 9 categories as follows:

	28.02.2019		
	Recognised in equity	Recognised in income	Total
	EUR 000	EUR 000	EUR 000
Financial investments measured at amortised cost	0	776,488	776,488
Financial liabilities measured at amortised cost	0	−892	−892
Financial investments measured at fair value through profit or loss	0	153,362	153,362
Financial liabilities measured at fair value through profit or loss	0	−30,068	−30,068
Financial investments measured at fair value recognised in equity without recycling	6,641	0	6,641
Net gain/net loss	**6,641**	**898,890**	**905,531**

The net gain/loss comprises the effects of allowances, currency translation, measurement at fair value and the sale of financial instruments. Furthermore, third-party revenue from the Financial Services segment totalled EUR 823,592 thousand.

The financial instruments mentioned above were recognised in revenue, other operating income and expenses, in income from equity investment and in other net financial income (expense) depending on their effects on income.

As at 28 February 2019, no assets from ABS transactions were recognised (28 February 2018: EUR 104,177 thousand).

In the previous year, the net gain/loss from financial instruments was broken down in accordance with the individual IAS 39 categories as follows:

	28.02.2018		
	Recognised in equity	Recognised in income	Total
	EUR 000	EUR 000	EUR 000
Loans and receivables (LAR)	0	715,600	715,600
LAR excluding financial services	0	−125,806	−125,806
Receivables from financial services	0	841,406	841,406
Available-for-sale financial assets (AFS)	10,185	11,671	21,856
Financial assets at fair value through profit or loss (AFV)	0	6,831	6,831
Financial liabilities measured at amortised cost (OL)	0	−1,872	−1,872
Financial liabilities at fair value through profit or loss (LFV)	0	−21,175	−21,175

The net gain/loss in the previous year included the effects of allowances, currency translation, measurement at fair value and the disposal of financial instruments. Furthermore, third-party revenue from the Financial Services segment totalling EUR 841,406 thousand was reported, which also fell under the LAR category.

(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 Otto Group companies 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 specify responsibilities, areas of authority, reporting requirements, and the strict separation of trading, settlement and control functions. According to this guideline, trading transactions with derivative financial instruments may be entered into only with banks of sufficient creditworthiness.

The Otto Group uses foreign currency forwards, currency swaps and currency options to hedge completed or forecasted business transactions. As part of the Group's interest rate hedging, risks are minimised through interest rate derivatives in the form of interest rate swaps.

The derivative transactions that the Otto Group accordingly enters into are reported to a trade repository pursuant to the provisions of the European Market Infrastructure Regulation (EMIR). Compliance with EMIR is regularly verified and confirmed by an auditing company.

(i) CURRENCY RISK

Within the Otto Group, risks arise from foreign currency transactions for receipts and payments denominated in currencies other than the functional currency of the companies included in the consolidated financial statements. These concern variable 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. In accordance with Group rules, up to 100% of the estimated foreign currency risk associated with highly probable future transactions is hedged on an ongoing basis. Foreign currency risk is hedged using foreign exchange transactions that are generally classified as cash flow hedges. An overview of the movements of currencies that have a material 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. As a general principle, interest-rate risk exposures are hedged up to 100%.

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	577,154	101,907	0
Total	**577,154**	**101,907**	**0**
Liabilities			
Currency derivatives	686,230	263,241	0
Interest rate derivatives	24,636	167,559	599,607
Total	**710,866**	**430,800**	**599,607**

In the previous year, the nominal values and fair values of interest rate derivatives and foreign exchange derivatives were composed as follows:

	Nominal value	Fair value
	EUR 000	EUR 000
Assets		
Currency derivatives	799,791	16,291
Interest rate derivatives	265,000	2,739
Total	**1,064,791**	**19,030**
Liabilities		
Currency derivatives	1,292,317	42,446
Interest rate derivatives	348,395	10,826
Total	**1,640,712**	**53,272**

The Otto Group recognises certain derivatives that meet the hedging relationship requirements of IFRS 9 as cash flow hedges.

The following hedging instruments meet the requirements of IFRS 9 for classification as cash flow hedges:

	Nominal value	Fair value assets	Fair value liabilities
	EUR 000	EUR 000	EUR 000
Currency derivatives			
Revenue	264,528	2,446	3,819
Refinancing	100,053	0	1,023
Inventories	475,860	18,500	1,944
Interest rate derivatives			
Interest rate swaps	779,166	0	20,728
Derivatives in cash flow hedges	**1,619,607**	**20,946**	**27,514**

Positive fair values are recorded under other assets and securities (see Note (22)), while negative fair values are recorded under other liabilities (see Note (30)).

As at 28 February 2018, the following hedging instruments fulfilled the requirements of IAS 39:

	Nominal value	Fair value
	EUR 000	EUR 000
Assets		
Currency derivatives	429,757	8,417
Interest rate derivatives	265,000	2,739
Total	**694,757**	**11,156**
Liabilities		
Currency derivatives	664,460	18,876
Interest rate derivatives	318,014	10,569
Total	**982,474**	**29,445**

As at 28 February 2019, 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 (reported in income statement under revenue)	840	0	−4,371	943	0	−356
Refinancing (reported in income statement under other net financial income (expense))	371	0	−177	−738	0	0
Inventories	34,779	−5,971	0	5,452	1,267	0
Interest rate derivatives						
Interst rate swaps	−13,340	0	0	0	0	0
Total	**22,650**	**−5,971**	**−4,548**	**5,657**	**1,267**	**−356**

Amounts from foreign exchange derivatives reclassified as profit or loss are recorded under revenue (see Note (6)) or other net financial income (expense) (see Note (14)).

The ineffective portions of hedging relationships in the case of foreign exchange derivatives amount to EUR −54 thousand and relate to refinancing exclusively. These are included under other net financial income (expense) (see Note (14)). Furthermore, hedge ineffectiveness has also occurred for interest rate derivatives in the amount of EUR 220 thousand. These are recorded under net interest income (expense) (see Note (14)).

As at 28 February 2019, a change in value for the hedged underlying transaction in the amount of EUR 27,659 thousand was recorded for foreign exchange derivatives, and a change in value in the amount of EUR 16,981 thousand was recorded for interest rate derivatives. The hedged underlying transaction serves as a basis for recording the ineffectiveness of the hedging relationship. In the case of foreign exchange derivatives, as at 28 February 2019, the remaining balance of the cash flow hedge reserve for hedging relationships for which the recording of hedging transactions is no longer applied amounted to EUR 3,880 thousand.

The following table shows the risk categories of the equity components and the corresponding analysis of the items under other comprehensive income for the year after tax that result from cash flow hedge accounting.

	Designated risk component	Cost of hedging Forward exchange transaction	Cost of hedging Option transactions
	EUR 000	EUR 000	EUR 000
Fair value of derivatives in cash flow hedges as at 1 March	**−9,032**	**0**	**−4,472**
Changes in fair values			
Currency derivatives – inventories	33,136	6,291	−840
Currency derivatives – revenue	840	943	0
Currency derivatives – refinancing	371	−738	0
Interest rate derivatives – interest rate swaps	−13,340	0	0
Reclassified to profit or loss			
Currency derivatives – revenue	−4,371	−356	0
Currency derivatives – refinancing	−177	0	0
Interest rate derivatives – interest rate swaps	0	0	0
Reclassified to cost of inventory			
Currency derivatives – inventories	−5,971	−4,339	5,606
Fair value of derivatives in cash flow hedges	**1,456**	**1,801**	**294**
Fair value of derivatives in cash flow hedges attributable to non-controlling interests	2,063	−84	0
Fair value of derivatives in cash flow hedges attributable to the owners of Otto (GmbH & Co KG) before tax	**3,519**	**1,717**	**294**
Deferred tax effects	−1,719	−840	−143
Fair value of derivatives in cash flow hedges as at 28 February	**1,800**	**877**	**151**

The hedging costs concern transaction-related hedged underlying transactions.

The hedged underlying transactions eventuate in a period of up to five years in the case of foreign exchange derivatives and up to 21 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 72,697 thousand (28 February 2018: EUR 28,104 thousand) for foreign exchange derivatives, and EUR 316,802 thousand (28 February 2018: EUR 388,395 thousand) for interest rate derivatives as well as planned transactions. For recognised underlying transactions for a hedging relationship with foreign exchange derivatives, the sum of EUR 2,158 thousand (28 February 2018: EUR 190 thousand) from accumulated other comprehensive income was reclassified to cost of inventory. Of this figure, EUR 1,297 thousand relates to the designated risk component, and EUR 861 thousand relates 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:

	28.02.2019			28.02.2018		
	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	26,738	8,711	18,027	19,030	13,461	5,569
Financial liabilities						
Interest rate and currency derivatives	38,069	8,711	29,358	53,273	13,461	39,812

(c) FINANCIAL RISKS

Due to its international positioning, the Otto Group is exposed to financial risks. These include in particular the effects of fluctuations in foreign exchange and interest rates. These risks are reduced through existing treasury and risk management processes.

All material interest rate fluctuation and foreign exchange risks are fundamentally limited by refinancing in the same currency and/or with the same maturity. Any remaining risks from open foreign currency and interest rate positions are further reduced by the use of derivatives such as foreign exchange forward transactions and interest rate swaps.

Owing to the nature of its business activities, the Otto Group is essentially exposed to currency risks arising from fluctuations in the US dollar, the Hong Kong dollar and the Swiss franc. In calculating the sensitivities presented below, a hypothetical revaluation/devaluation of the euro against all currencies by +/- 10% was carried out as at 28 February 2019. All other variables remain unchanged. Under these conditions, the major effects on the earnings before tax (EBT) and equity of the Otto Group would have been as follows:

		EBT		Equity	
		2018/19	2017/18	2018/19	2017/18
		EUR 000	EUR 000	EUR 000	EUR 000
Fluctuation in USD	+ 10%	12,849	−7	−30,049	−45,728
	− 10%	−12,794	−3,532	31,445	50,533
Fluctuation in HKD	+ 10%	−1,951	−95	953	−4,471
	− 10%	1,943	96	−942	4,485
Fluctuation in CHF	+ 10%	1,241	−490	18,081	21,018
	− 10%	−1,224	496	−18,020	−20,971
Total effects	+ 10%	**12,139**	**−592**	**−11,015**	**−29,181**
	− 10%	**−12,075**	**−2,940**	**12,483**	**34,047**

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 which were concluded to hedge operating cash flows, but are not accounted for according to hedge accounting. These derivatives are mainly associated with planned but not yet concluded contracts where 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	
		2018/19	2017/18	2018/19	2017/18
		EUR 000	EUR 000	EUR 000	EUR 000
Shift in level of interest	+ 50 bp	10	2,552	22,958	11,398
	− 50 bp	−10	−2,693	−23,970	−13,366

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 is not significant. For assets recognised in the balance sheet the carrying value corresponds to the maximum default risk.

Trade receivables and receivables from financial services are essentially due from private customers and are normally not hedged by special instruments, with the exception of the usual retention of title typical for the retailing business. Because receivables are widely spread, only small amounts are actually allotted to individual customers. The risk of maximum default is thus highly improbable.

Deposits at banks and financial assets are only ever held with partners that have a sufficient credit rating on a par with rankings from an internationally recognised rating agency.

Overdue loans and receivables are monitored intensively in the various lines of business. In Multichannel Retail and for financial services companies, credit management is a crucial element in operational processes.

The determination as to whether or not the default risk of a financial asset has increased significantly is based on a regular assessment of the probability of default, which takes into account external rating information as well as internal information relating to the credit quality of the financial asset.

There are only very few receivables with a remaining term of up to one year which have only not been classed as impaired or overdue because of subsequent negotiations and overdue financial instruments which are not impaired. There are no objective indications that the debtors are unable to meet their obligations. Receivables are automatically written-down in a standardised process when there are delays in payment.

The Group uses an impairment matrix to measure the expected credit losses of receivables from trade receivables. Default rates are largely calculated using the roll rate method, which is based on the probability that a receivable will enter into arrears in successive stages. The expected default rates are based on the default history over the 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 which are classed as overdue but not impaired. Receivables purchased generally relate to receivables classed as impaired which are already overdue.

In the Financial Services segment, the main default risks result from the purchase of payment-impaired receivables. From a risk management perspective, methods have therefore been developed in order to systematically manage these risks. Important considerations when managing risk include contractual arrangements, analyses of portfolio structures and investment calculations as part of due diligence procedures as well as the regular calculation of actual costs. The payment history of debtors is also monitored continuously so that structural changes can be identified early and taken into account.

The calculation of actual costs serves to test and, where necessary, adapt the forecast quality of the receivables management systems on an ongoing basis. Furthermore, structural changes in payment history are monitored by Debt collection and reported to Risk management on a continuous basis. This ensures that timely adjustments can be made to the underlying measurement assumptions and that this information can be taken into account when analysing future purchases. The adjustment of underlying measurement principles ensures that default risks within the scope of existing accounting and measurement guidelines are already included in the carrying amounts of the purchased receivables.

Because of the high number of individual receivables in the respective portfolios of purchased payment-impaired receivables, the risk of default is not tied to a small number of debtors.

A number of these purchased payment-impaired receivables are materially secured. Property is disposed of through sale on the open market or through foreclosure, however this does not always result in full settlement of the receivable in question. The disposal of property through foreclosure plays a role in supporting collection expectations.

The carrying amount of the individual receivables packages purchased are regularly tested using a standardised measurement model. This measurement model is based on the estimated net cash receipts from the respective receivable package over the remaining term as at the measurement date. Future net cash receipts are discounted using the original effective interest rate.

Expected credit losses are determined based on the respective portfolio level that applied on purchase. In this respect, there have been no changes to the instrument summary.

(e) LIQUIDITY RISK

The Otto Group's financial management system ensures that the Group's liquidity is maintained at all times. It also ensures that the Otto Group has sufficient funds at its disposal for its operations and investments. Minimising financing costs is an essential ancillary condition for effective financial management. The basic principle is to match open positions through natural hedging. Financing instruments may include money and capital market products such as loans, bonds or ABS (asset-backed securities), as well as guarantees, leasing, sale and lease back, and factoring. The requisite underlying data is generated as a rolling monthly liquidity budget with a 12-month planning horizon, and a daily budget with a horizon of at least four weeks. Both types of budget are regularly reviewed for variances. There is no risk concentration relating to the above-mentioned liquidity risks.

The following table shows the outflow of funds in the form of repayment and interest payments for financial liabilities fixed by contract as at 28 February 2019:

	Remaining term of up to 1 year	Remaining term of more than 1 to 5 years	Remaining term of more than 5 years	Total
	EUR 000	EUR 000	EUR 000	EUR 000
Bonds and other notes payable	521,688	673,529	357,956	**1,553,173**
Bank liabilities	716,651	680,945	253,579	**1,651,175**
Trade payables	1,594,304	34,232	0	**1,628,536**
Other financial liabilities	501,181	161,863	16,930	**679,974**
of which, derivative financial instruments	16,490	34,170	–499	**50,161**

As at 28 February 2018, 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	186,475	766,352	620,732	**1,573,559**
Bank liabilities	787,008	437,706	183,282	**1,407,996**
Trade payables	1,471,391	32,604	0	**1,503,995**
Other financial liabilities	688,085	181,168	4,301	**873,554**
of which, derivative financial instruments	33,363	10,568	−297	**43,634**

(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				
	01.03.2018	Cash changes	Effects from changes of the scope of consolidation	Effects from exchange rate changes	Effects from conclusion of new lease contracts	Effects from reclassifications	28.02.2019
	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000	EUR 000
Profit and loss participation rights	27,561	−1,372	0	0	0	0	26,189
Current bonds and other notes payable	166,810	16,170	0	0	0	319,480	502,460
Non-current bonds and other notes payable	1,272,413	1,636	0	0	0	−319,480	954,569
Current bank liabilities	771,631	−121,468	−40,170	912	0	41,032	651,937
Non-current bank liabilities	555,073	344,168	0	0	0	−41,032	858,209
ABS liabilities	189,087	−84,134	−22,330	9	0	0	82,632
Finance lease liabilities	64,676	−19,656	0	294	24,332	0	69,646
Other financing liabilities	7,158	−1,425	0	64	0	0	5,797
Liabilities from financing activities	**3,054,409**	**133,919**	**−62,500**	**1,279**	**24,332**	**0**	**3,151,439**

(39) 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 2019.

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 2018 TO 28 FEBRUARY 2019

	2018/19	2017/18*
	EUR 000	EUR 000
Revenue and income from customer financing	**12,787,794**	**12,948,169**
Revenue	12,623,117	12,819,564
Income from customer financing	164,677	128,605
Other operating income	625,605	636,611
Change in inventories and other internal costs capitalised	29,049	38,459
Purchased goods and services	−7,287,311	−7,186,535
Personnel expenses	−2,130,730	−2,104,971
Other operating expenses	−3,785,355	−3,964,727
Income (loss) from equity investments	231,455	321,128
Income from associates and joint ventures	229,531	319,009
Income from other equity investments	1,924	2,119
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**470,507**	**688,133**
Depreciation and amortisation	−251,603	−263,523
Impairment losses	−26,975	−62,335
Earnings before interest and tax (EBIT)	**191,929**	**362,276**
Interest and similar income	32,372	30,195
Interest and similar expenses	−132,086	−131,025
Other net financial income	138,995	301,039
Earnings before tax (EBT)	**231,210**	**562,484**
Income tax	−64,828	−59,771
Profit for the year	**166,383**	**502,713**
Profit attributable to the owners of Otto (GmbH & Co KG)	100,660	436,967
Profit attributable to non-controlling interests	55,872	62,475
Profit attributable to publicly listed equity and participation certificates	9,850	3,271

* Prior year adjusted

FINANCIAL SERVICES AT EQUITY CONSOLIDATED BALANCE SHEET AS AT 28 FEBRUARY 2019

	28.02.2019	28.02.2018*
	EUR 000	EUR 000
ASSETS		
Non-current assets		
Fixed assets	3,423,919	3,774,648
Intangible assets	571,468	533,152
Property, plant and equipment	1,401,777	1,342,672
Investments in associates and joint ventures	1,351,635	1,623,538
Other financial investments	99,039	275,287
Trade receivables	167,405	167,644
Receivables from related parties	0	56,152
Other assets	471,035	69,151
Other financial assets	456,870	45,988
Miscellaneous other assets	14,165	23,164
	4,062,359	**4,067,596**
Deferred tax	**136,655**	**152,529**
Current assets		
Inventories	1,594,527	1,548,486
Trade receivables	1,213,989	1,243,001
Receivables from related parties	61,285	98,640
Income tax receivables	37,287	30,889
Other assets	320,320	348,333
Other financial assets	107,729	113,881
Miscellaneous other assets	212,591	234,452
Securities	17,447	353
Cash and cash equivalents	300,038	417,818
Assets held for sale	316,846	0
	3,861,739	**3,687,519**
Total assets	**8,060,753**	**7,907,644**

* Prior year adjusted

	28.02.2019	28.02.2018*
	EUR 000	EUR 000
EQUITY AND LIABILITIES		
Equity		
Equity attributable to the owners of Otto (GmbH & Co KG)	673,913	716,564
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	820,000
Consolidated retained earnings	804,968	727,809
Net cost in excess of net assets acquired in step acquisitions	−223,532	−215,626
Accumulated other comprehensive income	−740,088	−630,737
Accumulated other equity	12,565	15,118
Non-controlling interests	596,868	665,245
Publicly listed equity and participation certificates	377,590	71,590
	1,648,370	**1,453,400**
Non-current provisions and liabilities		
Profit and loss participation rights	24,001	25,710
Pensions and similar obligations	1,404,060	1,345,225
Other provisions	135,879	140,438
Bonds and other notes payable	667,523	918,514
Bank liabilities	464,943	329,633
Other financing liabilities	52,009	47,518
Trade payables	34,232	32,604
Liabilities to related parties	739	464
Other liabilities	290,020	273,689
Other financial liabilities	185,281	172,223
Miscellaneous other liabilities	104,739	101,465
	3,073,405	**3,113,793**
Deferred tax	**72,026**	**62,753**
Current provisions and liabilities		
Profit and loss participation rights	2,189	1,851
Other provisions	150,327	116,897
Bonds and other notes payable	351,366	120,414
Bank liabilities	411,137	492,531
Other financing liabilities	23,336	103,325
Trade payables	1,550,808	1,543,983
Liabilities to related parties	43,939	41,244
Income tax liabilities	29,836	41,477
Other liabilities	702,916	815,975
Other financial liabilities	329,829	416,452
Miscellaneous other liabilities	373,087	399,523
Liabilities classified as held for sale	1,097	0
	3,266,951	**3,277,698**
Total equity and liabilities	**8,060,753**	**7,907,644**

FINANCIAL SERVICES AT EQUITY CONSOLIDATED CASH FLOW STATEMENT 1 MARCH 2018 TO 28 FEBRUARY 2019

	2018/19	2017/18*
	EUR 000	EUR 000
Earnings before interest and tax (EBIT)	191,929	362,276
Depreciation, amortisation and impairment losses/reversal of impairment losses on intangible assets and property, plant and equipment	277,242	318,052
Profits (–)/losses (+) from associates and joint ventures	−229,531	−319,009
Dividends received from associates and joint ventures	155,261	280,634
Increase (+)/decrease (–) in allowances on loans, receivables and inventories	86,508	142,385
Gains (–)/losses (+) on disposals of items in intangible assets and property, plant and equipment	−27,553	−8,650
Pension payments exceeding (–)/less than (+) pension expenses	−5,849	−13,687
Other non-cash income (–) and expenses (+)	317	426
Gross cash flow from operating activities	**448,324**	**762,427**
Decrease (+)/increase (–) in working capital	−174,922	−294,808
Decrease (+)/increase (–) in inventories (gross)	−27,631	−265,673
Decrease (+)/increase (–) in trade receivables (gross)	−185,558	−236,638
Increase (+)/decrease (–) in provisions	21,542	−21,241
Increase (+)/decrease (–) in trade payables	131,293	171,906
Increase (+)/decrease (–) in receivables due from related parties/in payables due to related parties	35,067	−5,530
Changes in other assets/liabilities	−149,635	62,369
Net cash generated from operating activities	**273,401**	**467,618**
Income tax paid	−59,441	−53,691
Interest received	22,648	20,705
Cash inflows/outflows from non-current financial assets and securities	628	1,125
Cash flow from operating activities	**237,237**	**435,757**

* Prior year adjusted

	2018/19	2017/18*
	EUR 000	EUR 000
Cash flow from operating activities	**237,237**	**435,757**
Capital expenditures on purchases of intangible assets and property, plant and equipment	−342,990	−334,783
Payments for acquisition of subsidiaries	−600	0
Capital expenditures on purchases of other financial investments	−251,366	−253,485
Proceeds from disposals of intangible assets and property, plant and equipment	61,707	112,323
Proceeds from disposals of consolidated subsidiaries	0	−29,707
Proceeds from disposals of other financial investments	200,285	181,250
Cash flow from investing activities	**−332,964**	**−324,403**
Free cash flow	**−95,727**	**111,354**
Dividends paid	−200,849	−193,879
Interest paid and bank charges	−134,752	−150,760
Proceeds from additions to equity/payments for reductions in equity	301,350	0
Proceeds/payments (net) for issues and repurchases of profit and loss participation rights	−1,706	−310
Payments of principal on finance lease	−19,546	−20,752
Proceeds from assumption of other financial liabilities	249,242	562,496
Repayments of other financial liabilities	−198,973	−171,031
Cash flow from financing activities	**−5,234**	**25,764**
Cash and cash equivalents at beginning of period	417,858	286,846
Net increase in cash and cash equivalents	−100,962	137,117
Changes in cash and cash equivalents due to foreign exchange rates	275	−6,106
Cash and cash equivalents at end of period	**317,172**	**417,857**

(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)

	2018/19				
	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	**13,611,059**	**−845,977**	**22,712**	**0**	**12,787,794**
Revenue	13,446,382	−845,977	22,712	0	12,623,116
Income from customer financing	164,677	0	0	0	164,677
Other operating income	647,403	−26,472	4,674	0	625,605
Changes in inventories and other internal costs capitalised	41,761	−12,712	0	0	29,049
Purchased goods and services	−7,287,038	0	−273	0	−7,287,311
Personnel expenses	−2,414,394	283,664	0	0	−2,130,730
Other operating expenses	−4,089,822	331,579	−27,112	0	−3,785,355
Income (loss) from equity investments	15,438	−75,959	0	291,976	231,455
Income from associates and joint ventures	13,505	−75,949	0	291,976	229,531
Income from other equity investments	1,934	−9	0	0	1,924
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**524,408**	**−345,877**	**0**	**291,976**	**470,507**
Depreciation and amortisation	−272,334	20,731	0	0	−251,603
Impairment losses	−29,975	3,000	0	0	−26,975
Earnings before interest and tax (EBIT)	**222,099**	**−322,146**	**0**	**291,976**	**191,929**
Interest and similar income	20,898	−4,827	16,301	0	32,372
Interest and similar expenses	−139,955	24,170	−16,301	0	−132,086
Other net financial income	174,534	−35,539	0	0	138,995
Earnings before tax (EBT)	**277,576**	**−338,342**	**0**	**291,976**	**231,210**
Income tax	−100,711	35,883	0	0	−64,828
Profit for the year	**176,865**	**−302,459**	**0**	**291,976**	**166,383**
Profit attributable to the owners of Otto (GmbH & Co KG)	100,660	−262,618	0	262,618	100,660
Profit attributable to non-controlling interests	64,284	−37,770	0	29,358	55,872
Profit attributable to publicly listed equity and participation certificates	11,921	−2,071	0	0	9,850

(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)

	28.02.2019				
	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	2,993,001	−798,055	0	1,228,972	3,423,919
Intangible assets	744,723	−173,488	0	233	571,468
Property, plant and equipment	1,439,562	−37,785	0	0	1,401,777
Investments in associates and joint ventures	706,450	−583,539	0	1,228,724	1,351,635
Other financial investments	102,267	−3,242	0	15	99,039
Trade receivables	167,405	0	0	0	167,405
Receivables from financial services	1,064,178	−1,064,178	0	0	0
Receivables from related parties	0	−2,284	385,458	−383,173	0
Other assets	498,969	−27,934	0	0	471,035
Other financial assets	484,294	−27,424	0	0	456,870
Miscellaneous other assets	14,675	−511	0	0	14,165
	4,723,553	**−1,892,451**	**385,458**	**845,799**	**4,062,359**
Deferred tax	**123,234**	**−11,948**	**25,369**	**0**	**136,655**
Current assets					
Inventories	1,778,038	−183,511	0	0	1,594,527
Trade receivables	1,341,343	−127,354	0	0	1,213,989
Receivables from financial services	377,667	−377,667	0	0	0
Receivables from related parties	74,290	−326,077	1,008,236	−695,165	61,285
Income tax receivables	43,254	−5,967	0	0	37,287
Other assets	356,062	−35,759	18	0	320,320
Other financial assets	128,194	−20,465	0	0	107,729
Miscellaneous other assets	227,867	−15,294	18	0	212,591
Securities	17,537	−90	0	0	17,447
Cash and cash equivalents	368,728	−68,690	0	0	300,038
Assets held for sale	420,609	−103,764	0	0	316,846
	4,777,528	**−1,228,878**	**1,008,254**	**−695,165**	**3,861,739**
Total assets	**9,624,315**	**−3,133,278**	**1,419,081**	**150,635**	**8,060,753**

	28.02.2019				
	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)	673,913	−423,099	0	423,099	673,913
Capital provided by the limited partners in Otto (GmbH & Co KG)	820,000	0	0	0	820,000
Consolidated retained earnings	804,968	−451,062	0	451,062	804,968
Net cost in excess of net assets acquired in step acquisitions	−223,532	−4,041	0	4,041	−223,532
Accumulated other comprehensive income	−740,088	32,968	0	−32,968	−740,088
Accumulated other equity	12,565	−964	0	964	12,565
Non-controlling interests	609,186	−227,792	0	215,474	596,868
Publicly listed equity and participation certificates	422,984	−45,394	0	0	377,590
	1,706,083	**−696,285**	**0**	**638,573**	**1,648,370**
Financing the investments outside the segment	**0**	**−590,421**	**0**	**590,421**	**0**
Non-current provisions and liabilities					
Profit and loss participation rights	24,001	0	0	0	24,001
Pensions and similar obligations	1,477,998	−73,938	0	0	1,404,060
Other provisions	151,363	−15,484	0	0	135,879
Bonds and other notes payable	954,569	0	0	−287,046	667,523
Bank liabilities	858,209	−193,333	0	−199,933	464,943
Other financing liabilities	52,024	−15	0	0	52,009
Trade payables	34,232	0	0	0	34,232
Liabilities to related parties	739	−383,173	385,458	−2,284	739
Other liabilities	292,028	−2,008	0	0	290,020
Other financial liabilities	187,271	−1,989	0	0	185,281
Miscellaneous other liabilities	104,757	−18	0	0	104,739
	3,845,163	**−667,951**	**385,458**	**−489,264**	**3,073,405**
Deferred tax	**95,706**	**−49,049**	**25,369**	**0**	**72,026**
Current provisions and liabilities					
Profit and loss participation rights	2,189	0	0	0	2,189
Other provisions	174,765	−24,438	0	0	150,327
Bonds and other notes payable	502,460	0	0	−151,094	351,366
Bank liabilities	651,937	−64,004	0	−176,796	411,137
Other financing liabilities	106,050	−82,714	0	0	23,336
Trade payables	1,594,304	−43,497	0	0	1,550,808
Liabilities to related parties	44,836	−747,728	1,008,038	−261,207	43,939
Income tax liabilities	40,100	−10,264	0	0	29,836
Other liabilities	776,281	−73,582	216	0	702,916
Other financial liabilities	383,109	−53,496	216	0	329,829
Miscellaneous other liabilities	393,173	−20,085	0	0	373,087
Liabilities classified as held for sale	84,441	−83,344	0	0	1,097
	3,977,364	**−1,129,571**	**1,008,254**	**−589,097**	**3,266,951**
Total equity and liabilities	**9,624,315**	**−3,133,278**	**1,419,081**	**150,635**	**8,060,753**

(40) 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:

	2018/19	2017/18
	EUR 000	EUR 000
Income Statement		
Revenue	172,482	72,856
Other operating income	40,546	16,422
Purchased goods and services	6,735	4,443
Personnel expenses	15,158	12,962
Other operating expenses	34,682	14,770
Net financial income (expense)	2,663	18,740

	28.02.2019	28.02.2018
	EUR 000	EUR 000
Balance Sheet		
Receivables from related parties	74,290	173,982
Cash and cash equivalents	10,622	8,217
Pension obligations to related parties	59,040	58,183
Liabilities to related parties	45,575	41,911

(a) TRANSACTIONS WITH ASSOCIATED COMPANIES AND JOINT VENTURES

Revenues from associated companies and joint ventures in the 2018/19 financial year amount to EUR 162,210 thousand (2017/18: EUR 60,697 thousand) and result from revenues from ABOUT YOU GmbH, Hamburg, in the amount of EUR 108,310 thousand (2017/18: EUR 0 thousand) as well as from income from factoring settlements with Hanseatic Bank GmbH & Co KG in the amount of EUR 45,498 thousand (2017/18: EUR 50,127 thousand).

Other operating income amounts to EUR 17,974 thousand in the 2018/19 financial year (2017/18: EUR 1,191 thousand), of which EUR 14,862 thousand (2017/18: EUR 0 thousand) results from transactions with ABOUT YOU GmbH, Hamburg.

Various Group companies in the Multichannel Retail segment sell trade receivables to Hanseatic Bank GmbH & Co KG, Hamburg. The receivables are transferred on normal market conditions and are fully derecognised from the balance sheets of the selling companies. In the 2018/19 financial year, receivables totalling EUR 1,696,672 thousand (2017/18: EUR 1,607,409 thousand) were sold. The value of these receivables as at the closing date was EUR 1,353,390 thousand (28 February 2018: EUR 1,299,780 thousand. As at 28 February 2019 the cash and cash equivalents held at Hanseatic Bank GmbH & Co KG, Hamburg, amounted to EUR 10,622 thousand (28 February 2018: EUR 8,217 thousand).

Information regarding the amount of the receivables and liabilities from associated companies and joint ventures is set out in Notes (21) and (29). The receivables and liabilities result mainly from transactions in goods and services between Otto Group companies and associated companies and joint ventures, and from short-term financing between companies.

(b) RELATED PARTY TRANSACTIONS WITH PARTNERS

As at 28 February 2019 and as at 28 February 2018, there were no loans granted to partners of Otto (GmbH & Co KG).

(c) RELATED PARTY TRANSACTIONS WITH OTHER COMPANIES

Otto Group companies have concluded various agreements under normal market terms for the leasing of properties and land that are owned or managed by subsidiaries of ECE Projektmanagement G.m.b.H. & Co. KG, Hamburg, or that are owned or managed by property development company evoreal GmbH, Hamburg. In the 2017/18 financial year, land and buildings leased to Group companies were sold to evoreal GmbH, Hamburg. The purchase price was EUR 23,895 thousand.

In the previous year, GFH Gesellschaft für Handelsbeteiligungen m.b.H., Hamburg, which is controlled by Benjamin Otto, acquired shares in ABOUT YOU GmbH, Hamburg. The Otto Group granted a loan in the amount of EUR 56,152 thousand to GFH Gesellschaft für Handelsbeteiligungen mbH. Based on normal market terms. As at 28 February 2019, the loan was paid back in full.

There were no further material transactions with related party companies during the financial year.

(d) RELATED PARTY TRANSACTIONS WITH INDIVIDUALS

The total remuneration of the Executive Board of Otto (GmbH & Co KG) in the 2018/19 financial year amounts to EUR 11,121 thousand (2017/18: EUR 8,294 thousand), of which EUR 10,343 thousand (2017/18: EUR 8,294 thousand) is due in the short term, and EUR 778 thousand (2017/18: EUR 0 thousand) is due in the long term. The total remuneration is comprised of a fixed element amounting to EUR 3,415 thousand (2017/18: EUR 3,516 thousand), and a variable element amounting to EUR 7,706 thousand (2017/18: EUR 4,778 thousand). In the 2017/18 financial year, a long-term incentive agreement was concluded for Otto directors (GmbH & Co KG). This agreement comes into effect on 1 March 2018 and has a term of three years. It consists of a combination of two variable components, which are based on a fixed threshold value and then increased linearly. The sales and ROCE of the Otto Group serve as benchmarks here. The amounts set aside for the long-term incentive scheme in the current financial year amount to EUR 778 thousand (2017/18: EUR 0 thousand). As at the balance sheet date, a liability was recorded for this.

The pension obligations to members of the Executive Board amount to EUR 12,846 thousand (28 February 2018: EUR 11,365 thousand). Allocations to pension provisions amount to EUR 1,194 thousand (2017/18: EUR 1,449 thousand).

The remuneration of former members of the Executive Board and their survivors amounts to EUR 2,843 thousand (2017/18: EUR 3,219 thousand). Provisions of EUR 46,194 thousand (28 February 2018: EUR 46,818 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 2018/19 financial year amounts to EUR 280 thousand (2017/18: EUR 278 thousand).

(41) CONTINGENT LIABILITIES

The Otto Group's contingent liabilities are composed of guarantees and other obligations that, together, amount to EUR 2,639 thousand (28 February 2018: EUR 29,327 thousand).

(42) OPERATING LEASES

The lease instalments paid under operating leases during the year under review amounting to EUR 373,925 thousand (2017/18: EUR 364,726 thousand) were recognised in the income statement. Of this, EUR 3,587 thousand relates to contingent rent payments (2017/18: EUR 3,425 thousand).

Obligations from non-cancellable operating leases mainly relate to leases for property, plant facilities, office and operating equipment and motor vehicles.

Future payments for operating leases are due 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
Future payments for operating leases	322,508	818,349	492,873	**1,633,730**

Receipts of EUR 1,301 thousand (2017/18: EUR 398 thousand) are expected from sublease agreements.

Future operating lease payments of EUR 1,487,574 thousand (2017/18: EUR 1,487,288 thousand) relate to the renting of properties.

(43) AUDITORS' FEES

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

	2018/19	2017/18
	EUR 000	EUR 000
Fees for auditing the financial statements	2,228	2,215
Fees for other auditing services	75	55
Fees for tax consultancy services	190	316
Fees for other services	332	496
Auditors' fees	**2,825**	**3,082**

Of other services, EUR 10 thousand (2017/18: EUR 12 thousand) relate to the previous year.

(44) LIST OF SHAREHOLDINGS

The list of Otto Group shareholdings as at 28 February 2019, 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 thousand.

The general partner has the following executive bodies:

Supervisory Board

Prof Dr Michael Otto, Hamburg	Chairman, Businessman
Alexander Otto, Hamburg	Chairman of the Management Board ECE Projektmanagement G.m.b.H & Co. KG
Benjamin Otto, Hamburg	Shareholder, Businessman
Karl-Heinz Grussendorf, Hamburg•	Deputy Chairman, Member of the Works Council, Otto (GmbH & Co KG), until 28 February 2019
Annette Adam, Kahl/Main•	Deputy Chairwoman of the Works Council, SCHWAB VERSAND GmbH, until 15 May 2018
Thomas Armbrust, Reinbek	General Manager Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.
Frederic Arndts, Hamburg	Member of the Board GSV Aktiengesellschaft für Beteiligungen, as of 01 March 2019
Anita Beermann, Ahrensburg	Employee Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co.
Horst Bergmann, Michelau•	Chairman of the Works Council, Baur Versand (GmbH & Co KG)
Olaf Brendel, Hamburg•	Member of the Works Council, Hermes Fulfilment GmbH
Dr Thomas Finne, Hamburg	General Manager Kommanditgesellschaft CURA Vermögensverwaltung G.m.b.H. & Co., until 28 February 2019
Petra Finnern, Jesteburg•	Chairwoman of the Works Council, EOS Region Germany
Thorsten Furgol, Magdeburg•	Regional Specialist ver.di Trade Union, as of 15 May 2018
Michael Häberle, Karlsruhe•	Deputy Chairman of the Works Council Heinrich Heine GmbH, as of 15 May 2018
Heike Lattekamp, Hamburg•	ver.di Trade Union Secretary Commerce
Dr Wolfgang Linder, Hamburg	General Manager (retired)
Stefan Najda, Glienicke•	ver.di Trade Union Secretary, until 15 May 2018
Heinrich Reisen, Grevenbroich•	Chairman of the General Works Council Hermes Germany GmbH, as of 15 May 2018
Lars-Uwe Rieck, Hamburg•	Regional Specialist ver.di Trade Union Secretary Post and Logistic
Birgit Rössig, Hittbergen•	Group Works Council Chairwoman Otto (GmbH & Co KG), as of 01 March 2019
Hans-Otto Schrader, Hamburg	General Manager (retired)
Dr Winfried Steeger, Hamburg	Attorney
Monika Vietheer-Grupe, Barsbüttel•	Chairwoman of the Works Council, bonprix Handelsgesellschaft mbH, until 15 May 2018
Sandra Widmaier-Gebauer, Hamburg•	Executive employee/Group Vice President Human Resources
Prof Dr Peer Witten, Hamburg	Chairman of the Board GSV Aktiengesellschaft für Beteiligungen

• Employee representative

Executive Board

Alexander Birken, Hamburg	Chairman of the Executive Board and Chief Executive Officer (CEO)
Dr Rainer Hillebrand, Hamburg	Vice Chairman of the Executive Board Otto Group, Member of the Executive Board, Corporate Strategy, E-Commerce & Business Intelligence Otto Group, until 30 April 2019
Dr Marcus Ackermann, Hamburg	Member of the Executive Board, Multichannel Distance Selling Otto Group
Sebastian Klauke, Reinbek	Member of the Executive Board E-Commerce, Technology, Business Intelligence and Corporate Ventures Otto Group, as of 01 May 2019
Petra Scharner-Wolff, Hamburg	Chief Financial Officer (CFO), Member of the Executive Board, Finance, Controlling, Human Resources Otto Group
Kay Schiebur, Hamburg	Member of the Executive Board, Services Otto Group
Sven Seidel, Talheim	Member of the Executive Board, Multichannel Retail Otto Group

(46) EVENTS AFTER THE REPORTING PERIOD

No events of major significance to the Otto Group occurred after the balance sheet date of 28 February 2019.

Hamburg, 6 May 2019

The Executive Board

INDEPENDENT AUDITOR'S REPORT

To Otto (GmbH & Co KG), Hamburg

OPINIONS

We have audited the consolidated financial statements of Otto (GmbH & Co KG), Hamburg, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 28 February 2019, and the consolidated statement of comprehensive income, the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows as well as the consolidated segment reporting from 1 March 2018 to 28 February 2019, 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 2018 to 28 February 2019.

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 2019, and of its financial performance for the financial year from 1 March 2018 to 28 February 2019, 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 for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. 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, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

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 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 or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with the German Generally Accepted Standards for 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, 9 May 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Becker	Prof Dr Zieger
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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